

50,000
7½% CUMULATIVE REDEEMABLE PREFERENCE DD SHARES
(Par Value IL. 21,000 per Share)

PROSPECTUS

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL LIMITED

(A Limited Company Registered 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.

ALL PERMITS, APPROVALS AND LICENSES REQUIRED UNDER ISRAEL LAW FOR THE PUBLICATION OF THE PROSPECTUS HAVE BEEN GRANTED. A COPY OF THIS PROSPECTUS HAS BEEN FILED FOR REGISTRATION WITH THE REGISTRAR OF COMPANIES IN ISRAEL.

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

Shares	Price to Public	Underwriting Discounts and Commissions	Proceeds to Registrant
Per Share	\$1000	\$75	\$925
Total	\$50,000,000	\$3,750,000	\$46,250,000

- (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 of March 31, 1980 12,744 shares had been sold.
- (2) In addition the Bank has agreed to indemnify the Underwriter against certain liabilities, including liabilities under the Securities Act of 1933, as amended.

The Bank was organized by the State of Israel and other financial institutions. The State owns approximately 24.4% of the outstanding voting rights of the Bank, entitling it to appoint 25% of the Directors. The Bank's policies are coordinated with the development policies of the Government of Israel (See "Important Factors To Be Considered—Relationship of the Bank to the Israel Government.") This offering may have a special appeal to persons with an interest in Israel, rather than the general public.

As of April 2, 1980 the representative rate of exchange as published by the Bank of Israel was U.S. \$1.00=IL. 41.68 and on the 31st of December, 1979, was IL.=35.35. Figures in this prospectus stated in U.S. Dollars converted from Israeli Pounds, have been converted at the said exchange rate in effect on December 31, 1979.

On February 23, 1980 a new currency unit, the Israeli Sheqel (IS.), was introduced as legal tender on the basis of 1 IS.=10 IL.

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

CAPITAL FOR ISRAEL, INC.

The date of this Prospectus is May 26, 1980.

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

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REGISTRATION STATEMENT

Industrial Development Bank of Israel Limited has filed with the Securities and Exchange Commission, Washington, D.C., a registration statement (herein together with all amendments thereto called the "Registration Statement") under the Securities Act of 1933, as amended, with respect to 50,000 7½% Cumulative Redeemable Preference DD Shares ("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 thereto.

THE BANK

The Industrial Development Bank of Israel Limited (the "Bank") was incorporated under the laws of the State of Israel on October 7, 1957, under the name "The Israel Industrial Institution Limited". The present name of the Bank was adopted on July 23, 1959. It commenced business on November 24, 1957.

The Bank's offices, which are held on rental, are located in "Asia House", 2 Dafna Street, Tel-Aviv, and its telephone number is Tel Aviv 217111.

The incorporation of the Bank was as a result of efforts by the Government of Israel, Bank Leumi le-Israel B.M., Bank Hapoalim, B.M., Israel Discount Bank Ltd., Histadruth General Federation of Labour in Israel, and the Manufacturers' Association of Israel. None of these organizations has received or is entitled to receive anything of value for their services as organizers of the Bank. However, representatives of each of these organizations are represented on the Bank's Board of Directors. (See "Management and Control".)

The Bank was organized to serve as an instrument to encourage and assist in the establishment and expansion of industrial enterprises in Israel.

IMPORTANT FACTORS TO BE CONSIDERED

Relationship of the Bank to the Israel Government

At December 31, 1979, the Government of Israel was the owner of approximately 34.2% of the outstanding share capital of the Bank, which entitles it to 24.4% of the Bank's voting rights. This ownership entitles the Government to appoint 25% of the Directors of the Bank. (See "Management and Control".)

Additionally, the Bank acts as agent for the Government in processing applications for payment of grants by the Government under the Law for the Encouragement of Capital Investments. Representatives of the Ministries of Finance and Industry, Trade and Tourism are members of the Board of Directors. The Government also, from time to time, guarantees loans issued by the Bank, where the Government believes it is in the best interests of the Government to cause such loans to be made.

The Bank's policies are based upon general policies of the Government of Israel, in accordance with the Government's Program for the Development of Israel's Industry. These policies are coordinated with the Ministries of Finance and Industry, Trade and Tourism.

In addition, the Government has made deposits with the Bank which on December 31, 1979 aggregated IL. 4.2 billion (\$118.0 million) in general deposits and approximately IL. 4.4 billion (\$124 million) in special deposits for the granting of loans. The Government also has made a perpetual deposit with the Bank aggregating IL. 1,114 million (\$31.5 million) as at December 31, 1979.

Enforcement of Liabilities

The Bank is an Israeli corporation and only three of its Directors are residents of the United States. It may be difficult for investors to effect service within the United States upon its directors or officers who are non-residents of the United States or to realize against them in the United States on judgments of courts of the United States predicated upon civil liabilities under the Securities Act of 1933 or the

Securities Exchange Act of 1934. Finley, Kumble, Wagner, Heine & Underberg with an office address at 425 Park Avenue, New York, New York has been designated as agent for service of process on the Bank. The Bank has been advised by S. Horowitz & Co., special counsel to the Bank for this issue, and Mordechai Rottenberg, its Israel counsel, that there is doubt as to the enforceability in Israel, in original actions, of remedies predicated solely upon such Acts, but that the courts of Israel have jurisdiction to enforce valid final judgments whereby any sum of money is made payable if rendered by courts of competent jurisdiction in the United States and provided that such judgments are not contrary to Israel law or public policy and provided further that the courts in the United States would enforce similar Israeli judgments. Finley, Kumble, Wagner, Heine & Underberg, special counsel to the Bank, have advised that, in their opinion, in the absence of a special ground for impeaching a foreign judgment, such as fraud, prejudice or public policy, United States courts will recognize and enforce judgments of the courts of foreign nations, including Israel.

Under the provisions of the Securities Law of the State of Israel enacted in 1968, any person signing a prospectus and any expert giving an opinion or report therein may be liable thereunder, subject to certain limitations for any misleading statement or the omission of a material statement in the prospectus or in the opinion or report, as the case may be, to a person who acquires securities from the offeror under the prospectus.

State Regulations and Control

As stated above, the Government of Israel is the owner of 34.2% of the outstanding share capital of the Bank entitling it to 24.4% of the voting power of the Bank which in turn entitles the Government to appoint 25% of the Directors of the Bank. For further particulars see "Management and Control".

Accordingly certain provisions of the Government Companies Law 5735-1975 (the "Law") apply to the Bank. The following is a brief summary of some of the important provisions of the Law and does not purport to be a complete statement of such provisions. Reference should be made to the full text of the Law which is set forth as an exhibit to the Registration Statement.

Pursuant to the Law the Bank is defined as a "Mixed Company" inasmuch as the Government owns less than 50% of its voting power entitling it to appoint less than 50% of the Directors. The power of the Government under the Law is exercised by the "Responsible Ministers". The Law provides that subject to its own provisions, the provisions of the Israeli Companies Ordinance apply. It further provides that the Memorandum and Articles of Association cannot derogate from the said Law.

The Directors representing the State in the Bank (State Directors) are appointed by the Ministers of Finance and Industry, Trade and Tourism (the "Responsible Ministers") after consultation with the Government Companies Authority. Sec. 17 of the Law provides that certain persons are not eligible to serve as State Directors, including Ministers, Bank employees (other than the Managing Director) and "persons drawn from the public at large whose other activities, in the opinion of the Responsible Ministers, are likely to cause a conflict of interests" with their duties as directors of the Bank. As is more particularly described in pages 36-41 hereafter, of the twelve State Directors of the Bank eight are State employees; the Executive Vice-Chairman, and the Managing Director are State Directors, and two directors are drawn from the public at large. Any one or more of the State Directors may be removed under the Law by the Responsible Ministers if in their opinion he is unable to, or does not, properly fulfill his function. Any State Director who is a Government employee ceases to be a director

upon termination of his employment with the Government but may be re-appointed by the Responsible Ministers. The Responsible Ministers appoint the representative of the State for participating in general meetings and voting thereat, in respect of the shares held by the State. Two weeks' notice must be given to the Government Companies Authority of the date of such meeting except if the Authority agrees to a shorter period. The Responsible Ministers may, after consultation with the Authority, direct the Government appointee as to the manner of his voting at general meetings.

The Bank is a banking institution within the meaning of the laws of Israel and is subject to supervision, regulations and examination by the Bank of Israel and the examiner of Banks.

Development of Trading Market

The Bank will apply for listing of the Shares on the Tel-Aviv Stock Exchange after the completion of the offering, but not earlier than July 31, 1981, and has also received the approval of the Tel-Aviv Stock Exchange that, until such listing, the Shares will be traded in the hall of the said Stock Exchange, and their quotation will be published in the Blue List, in pursuance of Section 18, Sub-Section 4 of the Tel-Aviv Stock Exchange regulations. After 13,500 Shares have been sold the Bank will request publication of the Shares in the said Blue List. As of March 31, 1980, 12,744 Shares had been sold.

The Government of Israel, the owner of a substantial number of shares of the Bank, has agreed that if any of the shares are offered for sale on the Tel Aviv Stock Exchange at any time during the twenty years following the completion of the offering, it will cause the purchase of such shares at a price of 90% of their offering price of \$1,000. Commencing with the 21st year after the completion of the offering, the Government will cause such shares sold on the Tel Aviv Stock Exchange to be purchased at a price of 100% of their offering price.

There is no assurance that the market which will develop will be an active market for the Shares.

Economic Conditions in Israel

A. Political Factors in the Area: Since the establishment of the State of Israel, the hostility between Israel and her neighboring countries has resulted in a number of armed conflicts, the most recent of which occurred in October, 1973, with a cease-fire being implemented on October 23, 1973. In March 1978, armed conflict arose between Israel and Palestinian guerillas in Southern Lebanon, which resulted in Israel occupying certain portions of Southern Lebanon. United Nations forces have taken positions between the combatants in an effort to avoid further conflict in the area.

On March 26, 1979, a peace treaty was signed between Egypt and Israel. Under the terms of the treaty, Israel is to withdraw from the Sinai Peninsula in two phases: the first to be completed within nine months after the ratifications of the treaty and the second to be completed within three years. The first phase was completed on February 26, 1980, with the Israeli and Egyptian Ambassadors having presented their credentials in Cairo and Jerusalem respectively. Additional negotiations are now in progress in an effort to resolve other outstanding problems in the area. There is no way of determining what the results of these negotiations will be.

B. Economic Implications and Policies: The political-military uncertainty dictates continuing high defense expenditures, and, as a result, the resources available for economic development and other national purposes are severely limited. See "Conditions in Israel" starting on page 42.

The objectives of government policy have been to reduce imports, increase exports and increase transfers of capital to Israel. Programs have been aimed at reducing private consumption, thereby freeing resources for exports and defense preparation. To achieve these objectives, the Israel pound has been devalued steadily and subsidies have been reduced on certain items. The Government has also continued a policy of credit restraint.

The Government, elected in May 1977, is putting major emphasis on expanding the role of the private sector and concurrently reducing the role played by the Government.

C. The 1977 Economic Reform: On October 28, 1977, the Government introduced a reform in Israel's foreign exchange policy. Controls were reduced to a minimum. The liberalization of foreign exchange controls included:

1. Removal of a great number of the restrictions on the transaction by Israelis in foreign exchange;
2. The unification of exchange rates, and the abolition of export incentives and substantial elimination of import levies;
3. The floating of the exchange rate with only limited intervention intended to counteract disruptive swings in the rate.

Following the reform, the Israel Pound depreciated by 46.4%, and was established at the level of IL. 15.20 per U.S. dollar on October 31, 1977, as compared with IL. 10.38 per U.S. dollar on October 28, 1977. As a result of the new policy, the effective rate for imports (after the reduction of import levies) increased by approximately 28%, and for exports (after the abolition of export incentives) by an average of about 12%. Since October 1977, the Israel Pound has continued to depreciate. As of April 2, 1980 the representative rate as published by the Bank of Israel was IL. 41.68 per U.S. dollar.

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

D. Current Economic Conditions: As at December 31, 1979 Israel's outstanding foreign debt amounted to U.S. \$15 billion, as compared to a gross national product for 1979 of some U.S. \$16.4 billion (at the average representative rate of exchange prevailing during 1979.) About 18% of the debt was to holders of Israel Bonds, 36% to the United States Government, and the remaining 46% to various financial and government institutions..

The Israel current account deficit totalled U.S. \$4.3 billion in 1979, an increase of U.S. \$850 million over 1978 and U.S. \$250 million above the previous peak in 1975. This is a result of the rapid growth of imports, primarily due to the increase in oil prices and the relatively slower growth of exports. Imports increased by U.S. \$2.2 billion in 1979, following an increase of U.S. \$1.9 billion in 1978 compared to increases in exports of U.S. \$1.3 billion in 1979 and U.S. \$1 billion in 1978.

The deficit was financed by gross capital imports, exceeding U.S. \$5 billion in 1979. Of these, 54% of the capital imports were in the form of unilateral transfers (including institutional transfers, U.S. government grants, West German reparation payments and private transfers), and 42.5% were

long and medium term loans (including the sale of Israel Bonds, loans in connection with U.S. government and, loans from international organizations, and commercial loans.) The remaining 3.5% were investments.

Total utilization of U.S. government aid funds in 1979 is estimated at U.S. \$2.3 billion, of which 54% has been in the form of grants and the remainder as loans (see Balance of Payment summary table, Page 48).

High rates of inflation have been experienced over the last few years. The average annual index of consumer prices in Israel has risen as follows (annual average figures, 1976=100.0):

1977.....	134.6	1978.....	202.7	1979.....	361.4
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From December 1978 to December 1979 the percentage increase in the consumer price index was approximately 111.4%.

This inflation is considered to be the result of both external and internal influences. Several of the external factors which have led to the high inflation rates include the sharp rise in international prices, particularly those of oil and the frequent devaluations of the Israeli Pound. Significant internal factors include both large Government deficits caused by the heavy defense burden and substantial social service expenditures required to absorb past and current immigration and to protect the lower income segment of the community. The continual increases in indirect taxes, coupled with the decrease in price subsidies in order to limit the budget deficits, has directly encouraged recent price increases. For a more detailed information see "Conditions in Israel." Other changes in tax system pertinent to the Bank are explained in the Section "Business of the Bank—Israel Taxes."

On November 19, 1979, the government implemented a number of measures intended to reduce inflation and to improve the general economic situation. Among these measures were:

1. Reduction of public expenditures through the freezing of the size of the public sector labor force and the development budget;
2. A 10% deposit levied on imports;
3. Abolishment of subsidies on most staple goods and basic subsidies, and a sharp reduction in their level on remaining subsidized items.

At the same time, the Bank of Israel imposed a credit ceiling and increased interest rates on export credit.

On February 23, 1980, a new currency unit, the Israeli Sheqel (IS.) was introduced as legal tender on the basis of 1 IS.=10 IL.

TERMS OF OFFERING

The Shares are being offered hereby only to non-residents of the State of Israel at a price of U.S. \$1,000 per Share. The purchase price is payable either in United States dollars or by State of Israel Bonds (Second, Third, Fourth, Fifth, and Reconstruction and Development Issues, Development Investment Issue or Second, Third, Fourth, or Fifth Development Investment Issues), provided, in the case of the Development Issues, such Bonds are at least five years old. The value of the Bonds so tendered shall be their nominal values together with interest on Coupon Bonds and appreciation on Savings Bonds credited through the last day of the month preceding the month in which the Bonds are delivered to the Underwriter. In the case of Coupon Bonds, the Bonds must have attached thereto all interest coupons which mature after the date of delivery of the Bonds to the Underwriter.

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

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

Arrangements have been made to purchase at the issue amount of U.S. \$1,000 per Share, 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 but no such repurchase shall be made more than two years from the date of death, subject to certain discretionary exceptions.

Commencing August 1, 1982 the State of Israel, at the request of any Employee Benefit Fund resident outside of Israel, will purchase, 180 days after the request, for U.S. \$1,000 the Shares under the following conditions:

- 1) The fund must be the original registered owner of the Shares and must have held the Shares for not less than thirty-six (36) months, and
- 2) The original subscription for the Shares must have been for a minimum purchase of ten (10) Shares.

For purposes hereunder, Employee Benefit Fund shall mean any trust or other fund established to provide benefits to a group or class of employees, whether administered by a labor union, an employer, a group or association of employers or labor unions, or jointly by one or more labor unions and one or more employers, or by independent trustees or managers.

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.

APPLICATION OF PROCEEDS

The proceeds from the sale of the Shares being offered hereby, to the extent received, will be deposited in a U.S. Dollars account with the Ministry of Finance of the Government of Israel. Such deposit will be on terms substantially identical to the Bank's obligations in respect of the Shares. The Government has agreed to deposit with the Bank, from time to time in conformity with the Government's plans, and programs for the development of industry, with the approval of the Minister of Finance and Finance Committee of the Knesset and in accordance with budget laws, an equivalent amount in Israel Pounds, for use by the Bank for purposes agreed to by the Government.

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

Since there is no firm underwriting commitment, there is no assurance as to the extent of the proceeds to be received from this offering. As at March 31, 1980, 12,744 shares had been sold and if this offering had been completely sold as at that date, the Shares would have represented approximately 60% of the total shareholders' equity of the Bank. Notwithstanding the foregoing. Holders of Shares cannot exercise any control over the Bank. (See "Capitalization and Outstanding Securities of the Bank—The Shares—Voting Rights.")

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL LIMITED STATEMENT OF INCOME

The following statement of income presents the results of operations of the Bank for the five years ended December 31, 1979, examined by Somekh, Chaikin, Citron & Co., Certified Public Accountants (Israel), whose report thereon appears elsewhere in this Prospectus. The statement of income and the notes thereto should be read in conjunction with the financial statements of the Bank and the related notes included elsewhere in this Prospectus. These financial statements are presented in accordance with Israel accounting principles and with the instructions of the Controller of Banks in Israel, as explained in note (a) to the statement of income. The Israel accounting principles used in the preparation of the following Statement of Income do not differ from those generally accepted in the United States, except in that an adjustment to the provisions for taxes on income affecting prior years, as a result of an agreement between banks and the tax authority reached in 1979, was required to be reflected retroactively by way of restating prior years' results rather than including the change in 1979, the year of the agreement, as required by United States generally accepted accounting principles, and except in that years prior to 1979 the cost of property and equipment was fully written off upon acquisition. The effect on the results of prior years of not using United States generally accepted accounting principles as described above is not material and would have resulted in changes to net earnings of less than 1%, except in 1978, in which the percentage increase in net earnings was approximately 15.7%. See Note (a) to Statement of Changes in Retained Earnings.

The Bank is an Israeli corporation and its financial statements are expressed in Israel Pounds. Solely for convenience of the reader, and as a matter of arithmetical computation only, the income statement for the year ended December 31, 1979, has been translated into U.S. dollars at the rate of 35.35 IL. equal to U.S. \$1.00, which was the representative rate of exchange in effect on December 31, 1979. Such translation does not constitute a part of the financial statements and should not be construed as a representation that the applicable amounts actually represent, or have been or could be converted into U.S. dollars. Furthermore such translation does not give effect to any changes in currency exchange rates which occurred during the said year.

Since December 31, 1979 there have been further changes in the rate of exchange of the Israel pound, and as of March 31, 1980 the representative exchange rate was U.S. \$1.00=IL. 41.48. The exchange rates as of December 31, 1975, 1976, 1977 and 1978 were IL. 7.10, IL. 8.75, IL. 15.39 and IL. 19.02 respectively to U.S. \$1.00. For the calendar years 1975, 1976, 1977, 1978 and 1979, the percentage increases in the average level of the consumer price index in Israel for each year were 39.3%, 31.3%, 34.6%, 50.9% and 78.3% respectively.

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL LIMITED—STATEMENT OF INCOME

	Year ended December 31,					1979 IL.000	Translated to \$000
	1975	1976	1977	1978	1979		
	IL.000	IL.000	IL.000	IL.000	IL.000		
OPERATING INCOME							
Income from loans and deposits	231,926	371,644	714,213	1,270,193	2,384,188	67,445	
Interest							
Linkage increments and exchange differences on principal sums	33,562	20,356	715,497	567,970	2,910,156	82,324	
	265,488	392,000	1,429,710	1,838,163	5,294,344	149,769	
Recoveries from (refunds to) the Israel Treasury of interest differentials (net)	33,519	30,553	2,842	(86,579)	(272,594)	(7,711)	
	299,007	422,553	1,432,552	1,751,584	5,021,750	142,058	
	10,135	10,526	14,603	28,513	61,408	1,737	
	309,142	433,079	1,447,155	1,780,097	5,083,158	143,795	
Commissions							
	2,432	4,190	3,497	78,890	244,642	6,921	
Income from security investments							
Income from Israel Government loans	4,390	3,603	12,320	18,312	51,301	1,451	
Equity in net earnings of a 50% owned company	428	478	687	596	889	25	
Dividends from other companies	7,250	8,271	16,504	97,798	296,832	8,397	
	3,526	4,341	4,527	10,779	21,849	618	
	319,918	445,691	1,468,186	1,888,674	5,401,839	152,810	
Other income							
OPERATING EXPENSES							
Expenses on debentures, loan bonds and deposits	183,114	257,672	483,678	722,129	1,273,213	36,017	
Interest and commissions	119,993	159,181	2,637,350	1,738,370	6,814,452	192,771	
Linkage increments and exchange differences on principal sums	303,107	416,853	3,121,028	2,460,499	8,087,665	228,788	
Recoveries from the Israel Treasury of interest differentials, linkage increments and exchange differences on the Bank's liabilities	133,047	206,421	2,119,705	1,442,802	4,645,748	131,421	
	179,060	210,432	1,001,323	1,017,697	3,441,917	97,167	

Notes

(b)

(c)

Expenses on special deposits for the granting of loans	14,472	64,814	190,707	403,844	668,386	18,908
Interest	3,895	6,761	53,991	36,258	285,028	8,063
Linkage increments and exchange differences on principal sums	18,367	71,575	244,698	440,102	953,414	26,971
	6,629	4,924	10,147	10,628	10,400	294
Allowance for possible loan losses	416	602	2,308	1,977	134	4
Write off of property and equipment	11,911	19,344	31,361	55,640	104,835	2,965
Salaries and employees' benefits	4,173	5,803	7,556	16,991	28,399	803
General expenses	211,556	312,680	1,297,393	1,543,035	4,539,099	128,406
Operating earnings before taxes on income and other items	108,362	133,011	170,793	345,639	862,740	24,406
Provision for taxes on income	65,665	80,425	99,629	193,460	460,000	13,013
Earnings before other items	42,697	52,586	71,164	152,179	402,740	11,393
Other items, net of related income taxes						
Participation of the Israel Treasury in linkage increments on dividends	11,187	15,607	26,314	44,735	77,270	2,186
Gain on sale of equipment	43	1,003	2,536	551	619	18
Transfer from provisions for diminution in value of investments and for loss on sale of an investment			182	1,588		
	11,230	16,610	79,032	46,874	77,889	2,204
Net earnings before cumulative effect of change in accounting methods	53,927	69,196	100,196	199,053	480,629	13,597
Cumulative effect on prior years of change in accounting methods			1,002	64,983		
Net earnings for the year	53,927	69,196	101,198	264,036	480,629	13,597
Deduct—Dividends on non-participating shares (see note 10 to financial statements)	4,047	4,047	4,047	4,047	4,047	114
3% "B" ordinary shares	1,750	1,733	1,680	1,627	1,575	45
3½% "A" preference shares	587	551	508	430	600	17
7% "B" preference shares	8,080	10,016	13,630	21,983	34,063	964
7½% "D" preference shares					7,282	206
7½% "DD" preference shares	14,464	16,347	19,865	28,087	47,567	1,346
	5,062	5,700	6,953	9,830	16,648	471
Less—Reduction in tax liability	9,402	10,647	12,912	18,257	30,919	875
Net dividend on non-participating shares	44,525	58,549	88,286	245,779	449,710	12,722
Net earnings applicable to the participating shares						

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL LIMITED—STATEMENT OF INCOME—
(Continued)

Per share data	Year ended December 31,									
	1975	1976	1977	1978	1979					
	<u>IL.</u>	<u>IL.</u>	<u>IL.</u>	<u>IL.</u>	<u>IL.</u>					
(a) Earnings per share (Note j)										
“A” ordinary shares of IL.1,000 each	344.17	451.78	687.35	2,075.10	3,856.16					
Preferred ordinary shares of IL.10 each	3.57	4.65	7.00	20.88	38.69					
“C” preference shares, linked to the U.S. dollar, of IL.1.80 each (equals \$1)	0.80	1.06	1.59	4.36	7.95					
“CC” preference shares, linked to the U.S. dollar, of IL.30 each (equals \$10)	8.06	10.61	15.99	43.65	79.53					
“CC1” preference shares, linked to the U.S. dollar, of IL.30 each (equals \$10)	8.06	10.61	15.99	43.65	79.53					
	Year ended December 31,									
	1975	1976	1977	1978	1979					
	<u>IL.</u>	<u>\$</u>	<u>IL.</u>	<u>\$</u>	<u>IL.</u>					
(b) Cash dividends declared per share, gross (Note k)										
“A” ordinary shares	155.87	20.32	172.60	19.16	265.10	16.16	301.85	15.60	518.55	14.13
Preferred ordinary shares	1.76	0.25	1.92	0.22	2.85	0.20	3.22	0.17	5.38	0.15
“C” preference shares	0.57	0.08	0.69	0.08	1.04	0.08	1.51	0.08	2.49	0.08
“CC” preference shares	5.68	0.83	6.93	0.83	10.36	0.83	15.11	0.83	24.93	0.83
“CC1” preference shares	5.68	0.83	6.93	0.83	10.36	0.83	15.11	0.83	24.93	0.83

U.S. dollar amounts presented above are stated on the basis of the rate of exchange in effect on the date of payment of such dividends.

	Year ended December 31,				
	1975	1976	1977	1978	1979
(c) Ratio of earnings to fixed charges and dividends on non-participating shares (Note 1)	1.43	1.38	1.12	1.22	1.19
Pro forma ratio of earnings to fixed charges and dividends on non-participating shares, giving effect to the issuance of all shares offered hereby					1.22
(d) Pro forma amounts assuming the change in accounting methods is applied retroactively.					

	Year ended December 31,			
	1975	1976	1977	1978
	<u>IL.</u>	<u>IL.</u>	<u>IL.</u>	<u>IL.</u>
Net earnings applicable to the participating shares ('000)	35,579	43,275	63,173	180,796
Earnings per share				
“A” ordinary shares of IL.1,000 each	429.40	592.28	926.68	1,455.83
Preferred ordinary shares of IL.10 each	4.42	6.10	9.40	14.69
“C” preference shares, linked to the U.S. dollar, of IL.1.80 each (equals \$1)	0.96	1.32	2.03	3.25
“CC” preference shares, linked to the U.S. dollar, of IL.30 each (equals \$10)	9.60	13.23	20.30	32.50
“CC1” preference shares, linked to the U.S. dollar, of IL.30 each (equals \$10)	9.60	13.23	20.30	32.50
Ratio of earnings to fixed charges and dividends on non-participating shares	1.48	1.38	1.16	—

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL LIMITED
NOTES TO THE STATEMENT OF INCOME

Note (a)—Accounting policy

- (1) The Controller of Banks in Israel issued in 1979 instructions regarding the preparation of financial statements of investment banks, which apply to banks granting long term finance. The financial statements of the Bank are therefore presented in accordance with the said instructions and the comparative figures for prior years were reclassified accordingly.
- (2) The accounting principles applied in the said instructions are generally accepted accounting principles in Israel, which do not differ from those generally accepted in the United States, except in that an adjustment to the provision for taxes on income affecting prior years, as a result of an agreement between banks and the tax authorities, reached in 1979, was required to be reflected retroactively by way of restating prior years results (see Note (f)(4) below).
- (3) During 1977 and 1978, the Institute of Certified Public Accountants in Israel issued opinions according to which linkage increments are to be included in income statements on accrual basis (in 1977), and linked Israel Government loans are to be stated at cost together with accrued interest and linkage increments (in 1978). Prior to that the Bank recognized income from linkage increments on principal on a cash basis, while Israel Government loans redeemable after five years were stated at cost together with accrued interest only.

These changes in accounting methods resulted in an increase of IL. 1,256,000 in the net earnings for 1977 (of which IL. 1,002,000 related to prior years), and in an increase of IL. 105,266,000 in the net earnings for 1978 (of which IL. 64,983,000 relate to prior years), after taking into account the adjustment to taxes on this income mentioned in Note (f)(4) below.

The effect of applying the said changes in accounting methods retroactively is shown in Pro-forma amounts given separately in the statement of income.

- (4) In prior years the cost of property and equipment was fully written off upon acquisition. In accordance with the instructions mentioned above, property and equipment acquired in the year 1979 are depreciated by the "straight line" method at rates deemed adequate to write off the assets over their estimated useful lives.
- (5) In accordance with the Bank's Articles of Association, exchange rate and linkage differences on principal are to be taken to a capital linkage fund, which is stated separately from the statement of income. In practice, the Bank includes such exchange rate and linkage differences on principal in the statement of income, and transfers to the capital linkage fund the net balance of such transactions after deduction of related taxes.
- (6) Full provision has been made in the financial statements for taxes on the income of the Bank. The provision for 1979 was made taking into account the deferral of taxes resulting from timing differences in the recognition for tax purposes of certain items of income and expense. In prior years the provision for income taxes included the tax in respect of expenses which would be recognized for tax purposes in the future, only upon actual payment. In accordance with the above mentioned instructions, this change in treatment was applied retroactively, and the figures of prior years were accordingly restated (See the statement of changes in retained earnings for the effect of this change on the retained earnings of prior years). Net taxes, the payment of which has been deferred as a result of timing differences are included in the balance sheet in "provisions" under "Other liabilities."

The Bank would be subject to additional tax liability were it to receive dividends distributed

out of the retained earnings of a 50% owned company. In management's opinion this requires no additional provision for taxes since this company does not distribute cash dividends out of its retained earnings.

Income from the Bank's share in earnings of the 50% owned company, included in the statement of income on the equity method, may be subject to capital gains tax if the investment in this company is sold for more than its cost. In the opinion of the management no provision for such tax is required as no intention exists of disposing with this investment.

Note (b)—Recoveries from (refunds to) the Israel Treasury of interest differentials (net)

In accordance with an agreement with the Israel Treasury, the Bank transfers to the Treasury amounts of interest in excess of a certain rate which the Bank collects on a part of the directed development loans. On the other hand the Bank is reimbursed by the Treasury in respect of the interest differentials up to the said rate on loans bearing a lower interest rate. These interest differentials (net) which are payable to or receivable from the Treasury are presented as a deduction from or addition to interest income from loans.

Note (c)—Recoveries from the Israel Treasury of interest differentials, linkage increments and exchange differences on the Bank's liabilities

This amount constitutes mainly exchange and linkage differences on principal and interest payable by the Bank, for which the Bank is reimbursed by the Treasury.

Note (d)—Allowance for possible loan losses

Possible loan losses are provided for on the basis of the net loss anticipated to be incurred by the Bank after realization of assets, etc., securing the debts involved.

Changes in the provision—

	<u>Balance at beginning of year</u> <u>IL.000</u>	<u>Additions Charged to expenses</u> <u>IL.000</u>	<u>Deductions Loans written off</u> <u>IL.000</u>	<u>Balance at end of year</u> <u>IL.000</u>
Year ended December 31,				
1975	16,100	6,629	229	22,500
1976	22,500	4,924	424	27,000
1977	27,000	10,147	147	37,000
1978	37,000	10,628	28	47,600
1979	47,600	10,400	—	58,000

In addition to the specific provision charged to income the Bank appropriates amounts out of retained earnings to a special reserve, to cover contingencies (see statement of changes in retained earnings).

Note (e)—General expenses

These constitute—

	<u>1975</u> <u>IL.000</u>	<u>1976</u> <u>IL.000</u>	<u>1977</u> <u>IL.000</u>	<u>1978</u> <u>IL.000</u>	<u>1979</u> <u>IL.000</u>
Occupancy of bank premises _____	1,328	2,082	2,738	8,427	11,047
Office and general expenses _____	2,845	3,721	4,818	8,564	17,352
	<u>4,173</u>	<u>5,803</u>	<u>7,556</u>	<u>16,991</u>	<u>28,399</u>

In December 1977, the Bank moved into new premises in Asia House in Tel-Aviv, leased for a period of fifteen years. The basic annual rent, which amounted to IL. 2,288,000, was adjusted to IL. 3,866,000 per annum and linked to the consumer price index, base index being 154.7 points. Occupancy expenses for 1977, 1978 and 1979 include rent in respect of the above amounting to IL. 305,000, IL. 4,783,000 and IL. 5,496,000 respectively. Due to a prepayment, the rent for 1979 was not fully affected by the increase in the consumer price index for that year.

Note (f)—Provision for taxes on income

(1) The provisions for taxes on income include amounts in respect of value added tax on earnings (in 1975—service tax on earnings and employees remuneration) as follows—

<u>Year ended December 31,</u>	<u>Rate of Tax</u>	<u>IL.000</u>
	<u>%</u>	
1975	7.5	11,100
1976	6	10,800
1977	6.5	15,000
1978	9	52,450
1979	12	112,000

Value added tax and employers' tax on employees remuneration are included in the item "Salaries and employees' benefits" as follows—

<u>Year ended December 31,</u>	<u>Rate of value added tax</u>	<u>Rate of employers tax</u>	<u>IL.000</u>
	<u>%</u>	<u>%</u>	
1975	—	4	290
1976	6	4	1,279
1977	6.5	4	1,984
1978	9	4	4,484
1979	12	4	10,149

(2) The provisions for taxes on income are reflected in the statement of income as follows—

	<u>Year ended December 31,</u>				
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
	<u>IL.000</u>	<u>IL.000</u>	<u>IL.000</u>	<u>IL.000</u>	<u>IL.000</u>
Provision for taxes on operating earnings	65,665	80,425	99,629	193,460	460,000
Deducted from the participation of the Israel Government in linkage increments on dividends	21,870	26,700	45,850	82,000	148,000
Deducted from capital gains	—	300	198	32	36
Deducted from cumulative effect of change in accounting methods	—	—	1,743	48,409	—
Total tax expense	<u>87,535</u>	<u>107,425</u>	<u>147,420</u>	<u>323,901</u>	<u>608,036</u>
These provisions comprise—					
Taxes currently payable	87,535	107,425	147,420	271,867	549,717
Deferred taxes	—	—	—	52,034	58,319
	<u>87,535</u>	<u>107,425</u>	<u>147,420</u>	<u>323,901</u>	<u>608,036</u>

The reasons for the difference between the computed income tax at the regular rates applicable to banks, and the reported income tax expense are as follows—

Year ended December 31,

	1975		1976		1977		1978		1979	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
	IL.000	of pre-tax Income %	IL.000	of pre-tax Income %	IL.000	of pre-tax Income %	IL.000	of pre-tax Income %	IL.000	of pre-tax Income %
Theoretical tax expense	93,704	66.24	111,872	63.34	157,855	63.54	378,253	64.51	715,035	65.68
Tax effect of equity in net earnings of a 50% owned company, net of dividend received	(2,411)	(1.70)	(1,807)	(1.02)	(7,352)	(2.97)	(11,620)	(1.98)	(33,695)	(3.10)
Tax effect of permanent differences— Capital gains and other income which is tax-exempt or taxed at lower rates	(1,518)	(1.07)	(3,671)	(2.08)	(3,181)	(1.28)	(43,501)	(7.42)	(73,953)	(6.79)
Non-deductible items	260	0.38	1,031	0.58	98	0.04	769	0.13	649	0.06
Provision for taxes on income	90,035	63.85	107,425	60.82	147,420	59.33	323,901	55.24	608,036	55.85
Less — Cancellation of excess provision for taxes from previous years	2,500									
	87,535									

- (3) The distribution of dividends by the Bank reduces its income tax liability, as shown in (2) above, by 35% of the dividends distributed in the respective years. The dividends reflected in the statement of income and statement of changes in retained earnings are therefore shown net of the said reduction in tax liability.
- (4) The Bank has received final income tax assessments for the years up to and including the 1968 tax year. The Bank also received assessments for the years 1969 to 1973, according to which its income from linkage increments on Government loans and other capital gains was subject to tax. The Bank appealed against these assessments, and recently an agreement was concluded with the tax authorities regarding the tax liability of income from compulsory Government loans. As a result of this agreement, a part of the tax provisions made in prior years was no longer required. The adjustment of the tax provisions is therefore reflected retroactively by way of a restatement of the prior years' figures (see statement of changes in retained earnings regarding the effect of this restatement on the retained earnings of prior years).

The other unresolved items of the assessments are the subject of an appeal by the tax authorities to the Supreme Court against a Tel-Aviv District Court ruling, upholding the Bank's claim that such income is tax exempt. The Supreme Court has not yet issued its decision. The Bank has fully provided for the amount of tax in dispute.

Note (g)—Participation of the Israel Treasury in linkage increments on dividends

Pursuant to an agreement with the Israel Treasury, the Bank bears that part of the linkage increments on dividends resulting from the change in the price of the U.S. dollar from IL. 1.80 to IL. 3.00, payable on shares issued prior to the date of such change. The balance of the linkage increments on dividends payable on such shares, resulting from later changes in the rate of exchange, as well as linkage increments on dividends payable on shares issued subsequent to the above mentioned date (except for the "DD" preference shares), are refundable to the Bank by the Treasury, except for linkage increments on that part of the dividends which exceeds 7.5 percent of the par value of the said shares.

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

		<u>Amount of taxes</u> <u>IL.000</u>
Year ended December 31, 1975	_____	21,870
1976	_____	26,700
1977	_____	45,850
1978	_____	82,000
1979	_____	148,000

Note (h)—Capital gains

These comprise:—

	<u>Year ended December 31,</u>				
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
	<u>IL.000</u>	<u>IL.000</u>	<u>IL.000</u>	<u>IL.000</u>	<u>IL.000</u>
Gains on sale of investments in shares and State of Israel obligations _____	—	1,137*	3	—	—
Gain on sale of property and equipment _____	43	166	2,731	583	655
	43	1,303	2,734	583	655
Capital gains tax _____	—	300	198	32	36
Net gains _____	<u>43</u>	<u>1,003</u>	<u>2,536</u>	<u>551</u>	<u>619</u>

*This includes IL.500,000 being adjustment to the cost of an investment sold in a prior year.

Note (i)—Provision for diminution in value of investments and for loss on sale of an investment

(1) Provision for diminution in value of investments

Year ended December 31,	Balance at beginning of year	Charged to Income	Deductions		Balance at end of year
			Credited to Income	Credited to other Accounts	
	IL.000	IL.000	IL.000	IL.000	IL.000
1975	182	—	—	—	182
1976	182	—	—	—	182
1977	182	—	182	—	—
1978	—	—	—	—	—
1979	—	—	—	—	—

(2) Provision for loss on sale of an investment

Year ended December 31,	Balance at beginning of year	Additions	Deductions			Balance at end of year
			Charged to items other than income	Credited to Investment Account	Credited to Income	
	IL.000	IL.000	IL.000	IL.000	IL.000	IL.000
1975	2,520	—	—	—	—	2,520
1976	2,520	—	—	—	—	2,520
1977	2,520	—	—	—	—	2,520
1978	2,520	—	—	1,588	932	—
1979	—	—	—	—	—	—

Note (j)—Earnings per share

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

Note (k)—Cash dividends declared per share

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

Note (l)—Ratio of earnings to fixed charges

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE STATEMENT OF INCOME

A. YEAR ENDED DECEMBER 31, 1979, AS COMPARED WITH THE YEAR ENDED DECEMBER 31, 1978.

For the year ended December 31, 1979, the Bank showed operating earnings of IL. 862.7 million, as compared with IL. 345.6 million for the year ended December 31, 1978 the increase of IL. 517.1 million is explained as follows:

	<u>IL. Millions</u>
1. Increase in operating income by	<u>3,513.1</u>
as a result of—	
(a) Increase of interest, commission and linking increments received from Loans and deposits due to a net increase of approximately IL. 4,380 million in the Loan portfolio, IL. 2,375 million in Long term deposits, higher devaluation of the Israel Pound in 1979 as compared with 1978, and increase in the rate of interest on arrears and on balances held with other Banks resulting from the general increase in the rate of interest in the Israeli Market	3,303.0
(b) Increase of income from security investments due mainly to the increase of the Consumer Price index	165.7
(c) Increase of earning from Subsidiary Company and other items	<u>44.4</u>
	<u>3,513.1</u>
2. Less increase in operating expenses amounting to	<u>2,996.0</u>
as a result of:	
(a) Net increase in interest and linkage increments on deposits, loans and debentures, as a result of increase of the amounts of deposits and loans and higher devaluation of the Israel Pound in 1979 as compared with 1978	2,937.5
(b) Increase of salaries and employees benefits due mainly to the increase of the consumer price index	49.2
(c) Increase of other expenses as a result of the increase in cost	<u>9.3</u>
	<u>2,996.0</u>
3. Increase in Operating Earnings	<u>517.1</u>
which gives a net increase in operating income after taxes of	<u>250.5</u>
4. Net income from other items—	
(a) Cumulative effect for prior years due to the change in method of accounting in 1978 related to security investment	(64.9)
(b) Increase of participation of the Israel Treasury in Linkage increments on dividends and other items	<u>31.0</u>
	<u>33.9</u>
Total increase in net earnings	<u>216.6</u>

B. YEAR ENDED DECEMBER 31, 1978 AS COMPARED WITH THE YEAR ENDED DECEMBER 31, 1977.

For the year ended December 31, 1978, the Bank showed operating earnings of IL. 345.6 million as compared with IL. 170.8 million for the year ended December 31, 1977, the increase of IL. 174.8 million is explained as follows:

	<u>IL. Millions</u>
1. Increase in operating income by	<u>420.5</u>
as a result of—	
(a) Increase of interest and Commission received from Loans and deposits due mainly to a net increase of approximately IL. 2,500 million in the Loan portfolio, IL. 1,370 million in Long term deposits	333.0

	<u>IL. Millions</u>
(b) Increase of income from security investment due mainly to the effect in change of method of accounting in recording Linkage increments	75.4
(c) Increase of earning from Subsidiary Company and other items	<u>12.1</u>
	<u>420.5</u>
2. Less increase in operating expenses amounting to	245.7
as a result of:	
(a) Net increase in interest and linkage increments on deposits, loans and debentures, mainly as a result of increase of the amounts of deposits and loans and decrease of recoveries from the Israel Treasury of Linkage increments due to the effect of the slighter increase of devaluations in 1978 as compared with 1977	212.0
(b) Increase of salaries and employees benefits due mainly to the increase of the consumer price index	24.3
(c) Increase of other expenses as a result of the increase in cost, rentals and occupancy expenses of the new Bank premises which were leased as from December 1977	<u>9.4</u>
	<u>245.7</u>
3. Increase in operating earnings	174.8
which gives a net increase in operating income after taxes of	<u>81.0</u>
4. Net income from other Items—	
(a) Increase in cumulative effect for prior years caused by the change in method of accounting related to security investment	63.9
(b) Increase of participation of the Israel Treasury in Linkage increments on dividends and other items	<u>17.9</u>
	<u>81.8</u>
Total increase in net earnings	<u>162.8</u>

CAPITALIZATION

The following table shows the capital structure of the Bank, as at December 31, 1979. The amounts to be outstanding, which are payable or are linked to foreign currencies, have been adjusted to reflect the representative rate of exchange of the Bank of Israel, as at December 31, 1979 (U.S. \$1.00=IL. 35.35). The amounts outstanding which are linked to the consumer price index have been adjusted to the index for November 1979.

TITLE OF CLASS	Amount Authorized or to be Authorized (Number of Shares)	Amount Outstanding as of December 31, 1979 (Number of Shares)	Amount to be Outstanding if all the Securities being Registered are Sold (Number of Shares)
A. CAPITAL SHARES			
<u>Title of Class</u>			
Ordinary A Shares, par value IL. 1,000	16,000	15,100	15,100
Ordinary B Shares, par value IL. 1,000	135,400	134,900	134,900
8% Cumulative Participating Preferred Ordinary Shares, par value IL. 10	1,000,000	1,000,000	1,000,000
3½% Cumulative Redeemable Preference A Shares, par value IL. 1,000	57,500	43,500	43,500
6% Cumulative Participating Preference C Shares, par value IL. 1.80	17,000,000	17,000,000	17,000,000
6% Cumulative Participating Preference CC Shares, par value IL. 30	1,000,000	999,998	999,998
6% Cumulative Participating Preference CC1 Shares, par value IL. 30	1,740,000	1,734,779	1,734,779
7½% Cumulative Redeemable Preference D Shares, par value IL. 300	164,000	163,477	163,477
7½% Cumulative Redeemable Preference DD Shares, par value IL. 21,000	50,000	8,996	50,000
Unclassified Shares, par value IL. 1,000	50,100	—	—

B. DEBENTURES

Years of Redemption	Rate of Interest p.a.	Linking Terms or Currency	Balance Outstanding at December 31, 1979 (including Linking Increments)		Balance to be Outstanding if all the Securities being Registered are Sold	
			IL.000	\$000	IL.000	\$000
1975/86	5½%	Linked to Consumer Price Index	246,651	6,978	246,651	6,978
1975/84	7%	U.S. Dollar	70,700	2,000	70,700	2,000
1975/84	7%	U.S. Dollar	106,050	3,000	106,050	3,000
1972/84	7%	U.S. Dollar	63,630	1,800	63,630	1,800
1974/86	6%	S frs.	230,560	6,522	230,560	6,522
1974/86	5½%	S frs.	230,560	6,522	230,560	6,522
1975/84	6½%	Linked to Consumer Price Index	121,961	3,450	121,961	3,450
1976/85	7%	U.S. Dollar	63,630	1,800	63,630	1,800
1983/94	6½%	Linked to Consumer Price Index	71,762	2,030	71,762	2,030
1980/91	6%	Linked to Consumer Price Index	71,762	2,030	71,762	2,030
1976/85	7%	U.S. Dollar	63,630	1,800	63,630	1,800
1979/88	4%	Linked to Consumer Price Index	105,684	2,990	105,684	2,990
			1,446,580	40,922	1,446,580	40,922

For a description of the outstanding long-term debt of the Bank, see "Outstanding Securities of the Bank—Debentures and Charges," page 33.

C. LOAN BONDS

<u>Years of Redemption</u>	<u>Rate of Interest p.a.</u>	<u>Currency</u>	<u>Balance Outstanding at December 31, 1979 (including Linking Increments)</u>		<u>Balance to be Outstanding if all the Securities being Registered are Sold</u>	
			<u>IL.000</u>	<u>\$000</u>	<u>IL.000</u>	<u>\$000</u>
1972/82	7%	U.S. dollar	148,470	4,200	148,470	4,200

D. CAPITAL NOTES

<u>Years of Redemption</u>	<u>Rate of Interest p.a.</u>	<u>Currency</u>	<u>Balance Outstanding at December 31, 1979</u>	<u>Balance to be Outstanding if all the Securities being Registered are Sold</u>
				<u>\$000</u>
1998	7½%	U.S. dollar	\$49,992,000	\$49,992,000

E. PERPETUAL DEPOSIT

The State of Israel has made a perpetual deposit with the Bank which as of December 31, 1979 aggregated IL. 1.114 billion (U.S. \$31.5 million). The deposit bears interest at the rate of 7¼% per annum and may not be withdrawn by the State of Israel except upon the winding up of the Bank, the appointment of a liquidator or provisional liquidator, default by the Bank, or in the event the Government's ownership of voting securities becomes less than 20% of outstanding voting securities. The deposit is not linked and is convertible at any time into the Bank's Ordinary B Shares at the option of the Government. See note 15 to Notes to Financial Statements.

BUSINESS OF THE BANK

General

The Bank was organized to serve as an instrument to encourage and assist in the establishment and expansion of industrial enterprises in Israel. In its Memorandum and Articles of Association, the Bank was given wide powers to grant financial assistance to industrial enterprises by loans, participation in capital or by other means. The Bank's main activity consists of the granting of long-term loans to industrial enterprises. As a result of an amendment to the Law for the Encouragement of Capital Investments, since 1967 the Government has paid grants to owners of approved enterprises. The Bank acts as agent for the Government in processing the application for the grant and makes the payment thereof on behalf of the Government, for which it receives a commission of approximately 0.75% of the amount so disbursed.

An important segment of the Bank's financial resources comes from Government sources. In addition, certain borrowings by the Bank are guaranteed by the Government and the Government has provided rate differences and linkage insurance for most foreign currency and linked deposits. Generally, the terms and conditions of development loans granted by the Bank are based on Government directives.

Processing of Loans

Applications for loans are reviewed by various Bank committees, which include technical experts, engineers and economists. The application is then referred to a Loan Committee of the Board of Directors for its decision. In cases where the loan indebtedness of a particular borrower (including outstanding

indebtedness) exceeds IL. 20,000,000 (\$565,771) the matter is reviewed by the Executive Committee of the Board of Directors, the decision of which is final. The Management of the Bank is authorized to grant loans not in excess of IL. 5,000,000 (\$141,000) including outstanding indebtedness (See "Management and Control").

Government Responsibilities

Under certain circumstances, the Bank is unwilling to grant the loan either wholly, or partially, as a result of insufficient security or for other reasons. If the Government is interested in granting the loan, the Government might accept partial and sometimes even full responsibility toward the Bank for any loss which it might sustain as a result of the granting of the loan. The extent of the Government's responsibility is fixed by agreement with the Government, subject to approval of the Finance Committee of the Knesset. As at December 31, 1979 loans aggregating IL. 2.964 billion (\$83,847,000) had been granted on full or partial responsibility of the Government, of which the maximum liability of the Government was IL. 2.632 billion (\$74,455,000).

Nature of Security

The Bank generally grants loans against mortgages on immovable property and/or fixed or floating charges on machinery and equipment. A floating charge is a charge on property which does not relate to any definitive property. It contrasts with a fixed charge in that a floating charge does not prevent the owner from disposing of the property in the ordinary course of business without the consent of the creditor, whereas in a fixed charge the approval of the holder of the charge would be required. In certain cases the Bank requires third party guarantees, generally from the shareholders of the borrower. Short term advances made by the Bank until the execution of the formal loan agreement are usually made against guarantees of other banks or financial institutions.

Terms of Loans

At the present time the Bank grants development loans in amounts up to 40% of the investment in fixed assets of any particular project. The borrower is required to provide the balance of the funds necessary for the project from other sources, which could include grants to eligible projects. Loans made by the Bank are normally granted for a period of ten (10) years. Generally, for the first two (2) years of the Loan, interest only is paid by the borrower and for the remaining period of the loan (i.e., eight (8) years), the borrower is required to pay interest and principal.

Up to May 29, 1979, the Bank generally approved long-term development loans, the principal and interest of which were not linked. In the middle of 1979 the Government of Israel promulgated new policies regarding the terms and conditions of Development Loans to be approved by the Bank after May 29, 1979. Development Loans, for which applications were submitted to the Bank prior to May 29, 1979, and approved by the Bank after that date, were linked at the option of the Borrower, either to the U.S. Dollar (100% linkage) or to the cost-of-living index in Israel (70%) linkage). Development Loans, for which the applications were submitted to the Bank and approved after May 29, 1979, and relating to projects which were designated as "Approved Enterprises" under the Law for the Encouragement of Capital Investments, will be fully linked at the option of the Borrower, either to the U.S. Dollar or to the cost-of-living index in Israel. Said linkage will apply to the principal as well as to the interest of the Loans. Nevertheless, loans approved by the Bank prior to May 29, 1979, have been disbursed according to the terms and conditions prevailing at the time of approval.

The concept of linkage was instituted as a result of a high rate of inflation in Israel and in an effort to provide a protection to the substance of the outstanding loans receivable. Therefore, in cases where the loan is linked to the rate of exchange of the U.S. Dollar, upon the increase of the price of the U.S. Dollar in Israel currency terms, the borrowers are required to repay principal and interest to the Bank with a greater number of Israeli Pounds than those originally borrowed, in proportion to the new parity of the Israel Pounds to the U.S. Dollar. In cases where the loan is linked to the cost-of-living index, the borrowers are required to repay principal and interest to the Bank with a greater number of Israeli Pounds than those originally borrowed, proportionately to the increase of the cost-of-living index at the time of the loan and at the time of repayment of principal or interest.

Interest on development loans is charged by the Bank in accordance with government policy and is determined by the zone in which the project to be financed is located. Loans approved in the period between August 1, 1978 and May 29, 1979, carry non-linked interest at a variable rate based upon the rate of inflation in any given year with a maximum, depending on the zone in which the project is located. The maximum rate applicable to projects located in Zone A is 27%, to projects located in Zone B is 29% and to projects located in Zone C is 32%. The Accountant General of the State of Israel instructs the Bank from time to time as to what the maximum rate of interest will be in each zone for the year. Zones are likewise determined by the appropriate Government Ministers and include specific geographical areas. Zone areas may be modified from time to time by decisions of applicable government authorities.

Linked loans approved by the Bank after May 29, 1979, the applications for which were submitted prior to May 29, 1979, carry a fixed linked interest depending upon the zone in which the project is located and ranging from $\frac{1}{2}\%$ to 2% per annum. Linked loans approved after May 29, 1979, the applications for which were submitted after said date, carry a fixed linked interest depending upon the zone in which the project is located as aforesaid and ranging from $\frac{1}{2}\%$ to $1\frac{1}{2}\%$ per annum in cases where the loan is linked to the cost-of-living index and ranging from 6% to $7\frac{1}{2}\%$ per annum in cases where the loan is linked to the U.S. Dollar.

In accordance with an agreement between the Bank and the Treasury of Israel, the Bank transfers to the Treasury, with regard to the unlinked loans approved prior to May 29, 1979, amounts of interest received by it in excess of that permitted on development loans. On the other hand, the Bank is reimbursed by the Treasury with respect to interest differentials up to the designated interest rate on loans bearing a lower interest rate. Under existing agreements with the Government, the Bank is generally permitted a profit margin of up to $1\frac{3}{4}\%$ on the unlinked borrowing made by the Bank.

Linked development loans are granted by the Bank to its borrowers from proceeds of funds which the Government deposits from time to time with the Bank, the terms of which are similar to those of the linked development loans. The Bank is generally permitted a profit margin of up to 1.375% on such linked borrowings made by the Bank.

Since the second half of 1979, the Bank has also granted, from time to time, unlinked loans, out of its own Capital (Ordinary shares, Preferred Ordinary shares, Preference "A" shares, Capital reserves and retained earnings) for investments in fixed assets, at a flexible rate of interest, taking into consideration the prevailing rate of interest charged by the large commercial banks in Israel for short-term commercial loans. Such loans have been granted for a period of up to four (4) years.

In addition, the Government allows the Bank interest income of 20% when granting loans from funds derived from Preference "C", "CC", "CC1" and "D" shares of the Bank.

Past-Linked Loans and Government Guarantees and Insurance

Prior to April, 1968, the Bank made long-term loans at varying rates of interest. However, certain of these loans were also linked either to the United States Dollar or to the Cost of Living Index in Israel.

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

In consideration of the cancellation of the linking increments and the reduction of interest rates by the Bank as hereinbefore mentioned, the Government has, by the aforementioned arrangements and subsequent arrangements further agreed (a) that in respect of dividends which the Bank will pay on the Preference B Shares*, the Preference C Shares, the Preference CC Shares, the Preference CC1 Shares and the Preference D Shares, the Government will pay to the Bank such amount as will, after allowance for Company tax and any other tax or imposition then payable by the Bank thereon, leave the Bank with a net amount equivalent to the additional amount which the Bank will pay as part of such dividends due to the change in the price of the U.S. Dollar which occurred on November 19, 1967 or any further change which may subsequently take place. The liability of the Government as aforesaid is limited to the extent required to pay dividends at an annual rate of 7% on the Preference B Shares* and 7½% on the other shares mentioned above, such percentage being calculated in each case on the nominal amount of the shares converted into U.S. Dollars at the rate of exchange which prevailed at the time of the creation of such shares; and (b) that likewise, in respect of capital which the Bank will pay on the shares mentioned above in the case of redemption or winding-up, the Government will pay to the Bank, to the extent which may be necessary, such amount as will, after allowance for any taxes or impositions then payable by the Bank thereon, leave the Bank with a net amount equivalent to the additional amount which the Bank will pay as part of such capital payment due to any change in the price of the U.S. Dollar as described above; and (c) that payment by the Government under (a) and (b) above shall be applicable to the extent of the devaluation of the Israel Pound based upon the ratio of IL. 3—to one U.S. Dollar except with respect to the Preference D Shares, in which case (a) and (b) above shall be applicable to the extent of such devaluation based upon the ratio of IL. 3.50 to one U.S. Dollar; and (d) that the Government will insure or procure the insurance for the Bank to cover the Bank's obligations in respect of the difference in rate of exchange or linking increments on interest and principal which will be payable by the Bank on loans in foreign currency or linked to the Cost of Living Index, which had been received or contracted by the Bank through March, 1968. The said insurance will be applicable to the extent of the rise in the price of the U.S. Dollar above IL. 3—or, in respect of such part of any loans in foreign currency which have been obtained by the Bank when the price of the U.S. Dollar was or will be above IL. 3—, the insurance will be applicable to the extent of the rise of the price of the Dollar above the rate of exchange then prevailing.

*Fully redeemed on December 31, 1979.

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

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

For information concerning linking provisions relating to the Shares, see "Outstanding Securities of the Bank—The Shares" on page 30.

Outstanding Linked Loans

The outstanding balance of loans granted by the Bank either on linkage terms or in foreign currency were, as of December 31, 1979 IL. 1,404 billion (\$39.7 million) which includes IL. 685 million (\$19,370,000) in linkage increments.

Distribution of Loans

During the year ended December 31, 1979, the Bank approved loans aggregating IL. 5,035 million (\$142,433,000) as compared to IL. 3,525 million (\$99,717,000) for the year ended December 31, 1978. During the year ended December 31, 1979, the Bank actually loaned IL. 4,162 million (\$117,734,000) as compared to IL. 2,771 million (\$78,388,000) for the year ended December 31, 1978.

The following table indicates the distribution of the loans actually expended during the comparable periods.

<u>Industrial Branch</u>	<u>1979</u>	<u>1978</u>
	<u>Amount in IL. Millions</u>	<u>Amount in IL. Millions</u>
Mining and Quarrying	199.9	34.5
Food Products	209.2	134.2
Textile and Leather Products	166.9	70.5
Wood and its Products	25.2	19.5
Paper and its Products	52.8	40.1
Printing and Publishing	21.2	10.5
Rubber and Plastics	79.6	31.4
Chemical Products	766.9	838.5
Mineral Products	126.3	39.4
Metal and Transport Equipment	514.1	288.7
Electrical and Electronic Equipment	215.5	115.2
Industrial Buildings for Sale and Rent	414.1	69.2
Miscellaneous	213.2	170.9
Israel Electric Corporation	<u>1,157.0</u>	<u>908.8</u>
TOTAL	<u>4,161.9</u>	<u>2,771.4</u>

Analysis of Loans by Borrowers

The following table sets forth information relating to outstanding loans of the Bank as at December 31, 1978 and December 31, 1979.

Size of Loan Per Borrower (in IL.)	December 31, 1978		December 31, 1979	
	Number of Borrowers	Aggregate Amount of Loans (in Millions) IL.	Number of Borrowers	Aggregate Amount of Loans (in Millions) IL. \$
Up to IL. 1,000,000	1,984	296	2,119	310 9
From IL. 1,000,001 to IL. 5,000,000	190	426	270	660 19
From IL. 5,000,001 to IL. 10,000,000	58	425	71	495 14
From IL. 10,000,001 to IL. 30,000,000	46	842	79	1,323 37
From IL. 30,000,001 to IL. 50,000,000	13	486	17	646 18
From IL. 50,000,001 to IL. 100,000,000	10	551	12	816 23
From IL. 100,000,001 to IL. 300,000,000	11	2,177	12	1,859 53
From IL. 300,000,001 to IL. 1,000,000,000	2	1,134	4	1,837 52
Over IL. 1,000,000,000	1	2,565	2	5,346 151
	<u>2,315</u>	<u>8,902</u>	<u>2,586</u>	<u>13,292 376</u>

Maturities of Loans

The following table shows the maturities of the loans as at December 31, 1979:

	IL. Millions	\$ Millions
Up to December 31, 1980	1,143.1	32.5
From January 1, 1981-December 31, 1984	6,279.9	177.6
From January 1, 1985-December 31, 1989	3,569.1	101.0
From January 1, 1990	2,049.4	57.9
Non-performing loans	204.2	5.7
Standing non-interest-bearing loans (from special deposits for the disposition of grants)	46.3	1.3
	<u>13,292.0</u>	<u>376.0</u>

Interest Sensitivity of Loans

The following table shows the interest sensitivity of loans at December 31, 1979:

	IL. Millions	\$ Millions
Fixed rate	7,294	206
Variable rate	5,998	170
Total	<u>13,292</u>	<u>376</u>

Provision for Possible Losses on Loans

As at December 31, 1979, the provision for possible losses on loans amounted to IL. 58.0 million (\$1.64 million). During the year ended December 31, 1979, no debts were written off by the Bank, as finally uncollectible. The Bank has no fixed policy as to declaring loans delinquent or for the curing of delinquent loans. The Bank's determination depends on the facts of each individual situation.

Non-performing Loans

Legal proceedings had been instituted by the Bank as at December 31, 1979 with respect to unpaid

loans aggregating IL. 123 million (\$3.4 million) of which IL. 100.1 million (\$2.8 million) represented loans which are fully or partially covered by guarantees or deposits of the Israel Government or the Jewish Agency. With respect to these loans the Bank has provided IL. 7.2 million (\$0.2 million) for doubtful debts and estimates that IL. 66.3 million (\$1.87 million) will be recovered by executing on the Government and Jewish Agency guarantees and the balance by executing on the mortgages and other security given for these loans. In addition, with respect to loans aggregating approximately IL. 298 million (\$8.4 million) the Bank believes that approximately IL. 41.9 million (\$1.2 million) may not be recovered by the Bank. As a result, at December 31, 1979 the reserve for doubtful accounts amounted in total to IL. 58.0 million (\$1.6 million). In addition, on December 31, 1979 approximately IL. 81.2 million (\$2.3 million) in installments on loans aggregating IL. 471.2 million (\$13.3 million) was owed to the Bank for more than 60 days past the due date of such installments. The total interest included in income with respect to such delinquency was IL. 40.4 million (\$1.1 million).

Managed Funds

Included among the activities of the Bank is the disbursement of funds specially deposited, primarily by the government, for the granting of loans ("Managed Funds"). As at December 31, 1979, the Managed Funds amounted to approximately IL. 4.9 billion as compared to IL. 3.2 billion as at December 31, 1978. During the year ended December 31, 1979, loans from the managed funds were made primarily to the Israel Electric Corporation in the amount of IL. 1,157 million as compared to IL. 909 million during the year ended December 31, 1978. The Bank is permitted a profit margin of between 0.15% and 0.75% on these loans.

World Bank Loans

Under the terms of Agreements between the Bank and the International Bank for Reconstruction and Development, the Bank is obligated to comply with certain covenants.

Other Activities of the Bank

The Bank issues Letters of Credit regarding the purchase by the Bank's borrowers of capital goods outside Israel, forming part of the investment plan, partly financed by the Bank's lendings.

In addition, the Bank issues to third parties guarantees on behalf of borrowers of the Bank. For this the Bank receives a commission equal to a percentage of the outstanding balance. Security is given in the same manner as security given for loans.

Competition

There are a number of other banks and financial institutions in Israel, some considerably larger than the Bank, which either directly or through affiliated companies, grant long-term loans to industry. It is estimated that the Bank accounts for approximately 52% of long-term industrial loans in Israel.

Property

The Bank's offices, which are leased by the Bank, are located at the Asia House 2 Dafna Street, Tel Aviv, Israel. These premises encompass approximately 30,000 sq. feet. The premises are leased pursuant to a Lease dated as of February 5, 1976 and runs from December, 1977 to December, 1992.

The rental is determined by a basic index which is adjusted on a semi-annual basis for increases in the Cost of Living Index. For the year ended December 31, 1979, the rent was IL. 5,496,000 (\$155,400). Under the terms of the Lease, a new assessment is made of the premises after 4½ years and a new rental is determined.

The Bank owns offices in a cooperative office building in Migdal Shalom 9 Ahad Haam Street, Tel Aviv, Israel encompassing approximately 25,000 sq. feet, which are under lease to the Bank Leumi Le-Israel B.M. group.

Employees

In addition to the Chairman, the Executive Vice Chairman, the Managing Director, the Senior Deputy General Manager and General Counsel and the Deputy General Manager, the Bank employs approximately 151 employees, including the Internal Controller, 5 Assistant Managers, 1 General Secretary, the Chief Accounting Officer and more than 60 professionals, consisting of Economists, Attorneys, Accountants and Engineers. Management believes its relationship with employees is satisfactory.

Israel Taxes Payable By the Bank

The Bank is obliged to pay a company's profit tax and income tax totalling 61 percent. The Bank is also liable for the payment of capital gains tax. In calculating the tax, certain adjustments are made to partially neutralize purely inflationary profits. In any event, capital gains tax does not exceed 50 percent of the capital gain.

In addition, the Bank pays an employers tax at the rate of 7 percent of all salaries paid to its employees. The Bank is also required to pay a 12 percent salaries and profit tax under the value added tax law of 1976 (up to February, 1978-9 percent). The employers tax and the value added taxes are deductible expenses for income tax purposes.

Subsidiaries

The Bank owns approximately 50% of the capital stock of the Investment Company for Industrial Development in Israel Ltd. (the "Investment Company") with the balance owned by the Government of Israel. The Investment Company was organized in 1962 under the laws of the State of Israel. Its principal object is to invest in various branches of industry. The Investment Company is the main organ of the Bank for making its investments in the share capital of companies. The Investment Company also holds immovable property. The authorized share capital of the Investment Company is IL. 50,000,000 (\$1,414,422) of which IL. 30,000,000 (\$848,656) has been issued and is fully paid up.

The Consolidated Income Statement of the Investment Company and its subsidiaries for the year ended December 31, 1979 showed a net profit of IL. 102,602,405 after providing IL. 24,165,987 for income tax. The consolidated balance sheet of the investment company and its subsidiaries at December 31, 1979 shows an unappropriated balance of profits in the amount of IL. 48,376,137 (\$1,368,490) after deduction of dividends for the year 1979. The above net after tax income of IL. 102,602,405, is made up as follows: Ordinary net after tax income for the year, of IL. 20,449,977 and other income for the year amounting to IL. 82,153,481. The above other income includes mainly IL. 25,940,408 gain on sale of Investments and IL. 51,546,178 Exchange rate and linkage differences on Debentures and Compulsory Government Loans. The Investment Company has distributed dividends from 1975 through 1979 in the amounts of IL. 1,500,000, IL. 1,500,000, IL. 1,950,000, IL. 3,000,000 and IL. 3,600,000 respectively.

PRINCIPAL HOLDERS OF VOTING SECURITIES

The following table sets forth certain information concerning ownership of the voting securities of the Bank, including all persons known by the Bank and its directors to own more than ten percent (10%) of any class of such securities or 5% of all such securities as at February 29, 1980:

<u>Name and Address</u>	<u>Title of Class*</u>	<u>Type of Ownership</u>	<u>Number of Shares Owned</u>	<u>Percentage of Class</u>
State of Israel, The Treasury Jerusalem, Israel	Ordinary A Shares	Direct and Beneficial	3,925	25.99%
Bank Hapoalim B.M.**	Ordinary A Shares	Direct and Beneficial	5,275 ⁽¹⁾	34.93%
Bank Hapoalim B.M.**	Preferred Ordinary Shares	Direct and Beneficial	533,185 ⁽²⁾	53.32%
Israel Discount Bank Ltd. Israel**	Ordinary A Shares	Direct and Beneficial	2,030	13.44%
Israel Discount Bank Ltd. Israel**	Preferred Ordinary Shares	Direct and Beneficial	156,050 ⁽³⁾	15.61%
Bank Leumi Le-Israel B.M. Israel**	Ordinary A Shares	Direct and Beneficial	3,110 ⁽⁴⁾	20.60%

*See Page 30 for the description of the voting rights of the Preferred Ordinary Shares and the Ordinary A Shares.

**Includes Affiliated Companies.

⁽¹⁾ Includes 3,310, or 21.92%, held by Keren Hashkaot Shel Hevrat Haovdim.

⁽²⁾ Includes 458,160 or 45.82% held by Keren Hashkaot Shel Hevrat Haovdim.

⁽³⁾ Hevra Lerishumim Shel Bank Discount Le-Israel B.M., affiliated with Israel Discount Bank Ltd., hold of record, but not beneficially, 306,995, or 30.70%, of the Preferred Ordinary Shares of the Bank.

⁽⁴⁾ Includes 1,050, or 6.95%, held by Otzar La'taasiya Ltd.

In addition to the foregoing, the State of Israel, Bank Hapoalim B.M., Bank Leumi Le-Israel B.M., and Israel Discount Bank Ltd., respectively, beneficially owned the following non-voting shares as of February 29, 1980.*

The State of Israel

All issued Ordinary "B" Shares in the aggregate amount of IL. 134,900,000 (\$3,816,124)	
43,500	Preference "A" Shares in the aggregate amount of IL. 43,500,000 (\$1,230,552)
7,675	Preference "C" Shares in the aggregate amount of IL. 13,815 (\$391)
19	Preference "CC" Shares in the aggregate amount of IL. 570 (\$16)
23,370	Preference "D" Shares in the aggregate amount of IL. 7,011,000 (\$198,331)

Bank Hapoalim B.M.**

34,527	Preference "C" Shares in the aggregate amount of IL. 62,149 (\$1,758)
7,813	Preference "CC1" Shares in the aggregate amount of IL. 234,390 (\$6,631)

Bank Leumi Le-Israel B.M.**

1,063,688	Preference "C" Shares in the aggregate amount of IL. 1,914,638 (\$54,162)
20,251	Preference "CC" shares in the aggregate amount of IL. 607,530 (\$17,186)
20,567	Preference "CC1" Shares in the aggregate amount of IL. 617,010 (\$17,454)
3	Preference "D" Shares in the aggregate amount of IL. 900 (\$25)

Israel Discount Bank Ltd.**

570,722	Preference "C" Shares in the aggregate amount of IL. 1,027,300 (\$29,062)
49,450	Preference "CC" Shares in the aggregate amount of IL. 1,483,510 (\$41,966)
12,385	Preference "CC1" Shares in the aggregate amount of IL. 371,560 (\$10,511)
892	Preference "D" Shares in the aggregate amount of IL. 267,600 (\$7,570)

*Figures stated in U.S. Dollars converted at the exchange rate of U.S. \$1.00=IL. 35.35, the representative exchange rate in effect on December 31, 1979.

**Includes affiliated companies.

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 U.S. Dollar shall exceed IL. 21 the Bank will pay for every IL. 21 of such payment on account of capital or dividend an amount in Israel Pounds which will be equivalent to the price of one U.S. Dollar on the Determining Day. Should the price of the U.S. Dollar on the Determining Day be less than IL. 21 the Bank will make such payment on account of capital or dividend at its nominal amount.

The expression "the price of the U.S. Dollar" means the amount in Israel currency which the Bank will pay on the Determining Day for the purchase of a U.S. Dollar from a dealer authorized by law to deal in U.S. Dollars in Israel, at the rate for drafts and transfers as determined by the Bank; the expression "Dollar" means a U.S. 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 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.

The Bank undertakes to pay the dividend declared not later than 15 days from the date of the declaration thereof.

Dividends

The Shares entitle the holders thereof to fixed cumulative preferential dividends at the rate of 7½% per annum (together with any additional payments necessitated by the U.S. Dollar linking), pari passu with the fixed cumulative preferential dividends on all other preference shares (together with any additional payments necessitated by the U.S. Dollar linking of such shares and before payment of dividend on the Preferred Ordinary and Ordinary shares of the Bank).

All dividends on the Shares are computed on paid up capital, are intended to be paid on a quarterly basis and will be paid in U.S. dollars. 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.

Although dividends accrue at a fixed rate of 7½% per annum, dividends may, under Israeli law, be paid only out of profits. The cumulative dividends are paid out of ordinary profits of the Bank and, to the extent that such profits are inadequate, are paid out of the Profits Linking Fund. The additional payments to be made because of the linking provisions of the Shares are paid out of the Profits Linking Fund, and to the extent that such fund is inadequate, out of the ordinary profits.

The Board of Directors is required by the Articles of Association of the Bank to submit to every annual general meeting of stockholders of the Bank, a Profit and Loss Statement, including a statement of the ordinary profits and of the Profits Linking Fund. If such statement indicates sufficient profits, the Board of Directors is required to recommend to the meeting, and the meeting is required to declare, dividends in the following order: arrears, if any, of cumulative dividends on preference shares (together with additional amounts payable as a result of linking provisions); and on the preferred ordinary shares; and thereafter current dividends on the preference shares (together with additional amounts payable on account of linking) and on the preferred ordinary shares. After declaration of dividends, as aforementioned, and after setting aside sums to the Reserve Fund and the Capital Redemption Fund, if any, the Board is entitled to recommend the declaration of any other dividend payable on the shares of the Bank.

Voting Rights

The Shares have no voting rights. The holders of the Ordinary A Shares and the Preferred Ordinary Shares have the exclusive right to vote. (See "Appointment of Directors" under "Management and Control" herein.)

Redemption

The Shares are redeemable at the option of the Bank at par value plus accrued dividend, both linked to the U.S. Dollar as aforesaid.

No redemptions may be made by the Bank prior to December 31, 1990 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.

The par value of the Shares will be linked to the U.S. Dollar. (See in this connection "Linking Provisions" herein contained.)

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 resolution of the Bank which created the Shares authorizes the Bank to acquire the Shares in the open market or by agreement with Shareholders, out of profits of the Bank, or in any other legal manner, 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.

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 will determine to redeem only part of the Shares for the time being outstanding the Shares to be so redeemed will be ascertained by 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 dividend or out of the proceeds of a new issue of shares made for the purpose of such redemption.

Liquidation Rights

In the event of dissolution of the Bank, the holders of the Shares will be entitled to the following rights and benefits out of the monies available for distribution amongst the members, after payment of creditors including holders of Bank's debentures and capital notes and including any debt hereinafter created by the bank, that is to say:

- (a) After payment of creditors to receive arrears of fixed cumulative dividends up to the date of the commencement of the dissolution on the capital paid up on the Shares together with any additional amounts due as a result of linking provisions, whether such dividends have been declared or not, *pari passu* with the arrears of fixed cumulative dividends up to the date of commencement of the dissolution on the capital paid up on the other preference shares of the Bank, together with any additional amounts due on linked preference shares as a result of linking provisions, and before payment of arrears of dividends on the Preferred Ordinary Shares;
- (b) To receive, after payment of arrears of dividends on the Preferred Ordinary Shares, repayment of the capital paid up on the Shares together with any additional amounts due as a result of linking provisions, *pari passu* with the repayment of the capital paid up on the other preference shares of the Bank, together with any additional amounts due on linked preference shares as a result of linking provisions, and before repayment of the capital paid up on the Preferred Ordinary Shares and the Ordinary Shares.

The arrears of the fixed cumulative dividends and repayment of capital, without the additional amounts due as a result of the linking provisions, are paid out of the Ordinary Assets of the Bank and, to the extent that such assets are inadequate, out of the Capital Linking Fund. The additional amounts due as a result of the linking provisions of the shares are paid out of the Capital Linking Fund and, to the extent that such fund is inadequate, out of the Ordinary Assets of the Bank.

The foregoing description of the Shares contains summaries of various sections of the Bank's Articles of Association, as now in effect. For further information see "Additional Information Required Under Israeli Law". 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 the issued shares of that class, or with the sanction of a Special Resolution passed at an Extraordinary 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 Extraordinary General Meeting. For a discussion of Meetings see page 76.

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 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 furnishes its shareholders with annual reports containing a review of the Bank's activities and certified financial statements.

Transfer Agent

The Transfer Agent for the Shares is Manufacturers Hanover Trust Company, 40 Wall Street, New York, New York 10015.

PREFERENCE SHARES

The Bank had outstanding, as of December 31, 1979, six classes of Preference Shares: (i) 43,500 3½% Cumulative Redeemable Preference A Shares, par value IL. 1,000 per share (Preference "A" Shares); (ii) 17,000,000 6% Cumulative Participating Preference C Shares, par value IL. 1.80 per share (Preference "C" Shares); (iii) 999,998 6% Cumulative Participating Preference CC Shares, par value IL. 30 per share (Preference "CC" Shares); (iv) 1,734,779 6% Cumulative Participating Preference CC1 Shares, par value IL. 30 per share (Preference "CC1" Shares); (v) 163,477 7½% Cumulative Redeemable Preference D Shares, par value IL. 300 per share (Preference "D" Shares); and (vi) 8,996 7½% Cumulative Redeemable Preference "DD" Shares, par value IL. 21,000 per share (the Shares).

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

In the event of a dissolution and liquidation of the Bank, the holders of Preference Shares will be entitled to receive liquidating distributions to which they are entitled only after payment in full of amounts due to creditors of the Bank, including holders of the Bank's Debentures and Capital Notes and also including any debt hereafter created by the Bank.

PREFERRED ORDINARY SHARES

As of December 31, 1979 the Bank had outstanding 1,000,000 8% Cumulative Participating Preferred Ordinary Shares, par value IL. 10 per share (Preferred Ordinary Shares). The Preferred Ordinary Shares are subordinated to the Preference Shares as to dividends and on liquidation. The holders thereof are entitled to one vote per share for all purposes, except the appointment of Directors. Directors are appointed, not elected, by the holders of the Ordinary "A" Shares on a basis whereby each holder or group of holders is entitled to appoint one director for every 250 Shares held by such holder or group. (See "Management and Control.")

ORDINARY SHARES

As of December 31, 1979 the Bank had outstanding two classes of Ordinary Shares: (1) 15,100 Ordinary A Shares, with a par value of IL. 1,000 per share (Ordinary "A" Shares) and (ii) 134,900

Ordinary B Shares, with a par value of IL. 1,000 per share (Ordinary "B" Shares). Both classes of Ordinary Shares are subordinated to the Preference Shares and Preferred Ordinary Shares as to payment of dividends and on liquidation. Each Ordinary "A" Share entitles the holder thereof to 1,000 votes for all purposes except the appointment of Directors. Directors are appointed, not elected, by the holders of the Ordinary "A" Shares on a basis whereby each holder or group of holders is entitled to appoint one director for every 250 Shares held by such holder or group. (See "Management and Control.")

Stock Exchange Quotations

As stated above, the 6% Cumulative Participating Preference "C" Shares, the 6% "CC" Shares, the 6% "CC1" Shares, the 7½% Cumulative Redeemable Preference "D" Shares and the Preferred Ordinary Shares are listed at the Tel Aviv Stock Exchange. The list below shows the lowest and highest quotations of the said shares in the years 1978 and 1979 and the Stock Exchange quotation on April 15, 1980 (in IL.)

April 15, 1980	1979		1978		
	Low	High	Low	High	
1,033	820	1,027	813	992.5	6% Cumulative Participating Preference "C" Shares
657	490	636	500	600	6% Cumulative Participating Preference "CC" Shares
704	457	630	500	601	6% Cumulative Participating Preference "CC1" Shares
602	496	760	470	584	7½% Cumulative Redeemable Preference "D" Shares
145	81	187	122	205	Preferred Ordinary Shares

NOTE: (1) The listing on the Tel Aviv Stock Exchange of the Ordinary "A" Shares was discontinued in June 1977 because of absence of trade in this security. Substantially all of such shares are held by the groups set out on page 28 hereof. (2) The listing on the Tel Aviv Stock Exchange of the Preference "B" shares was discontinued on December 31, 1979 due to final redemption.

CAPITAL NOTES

The Bank had outstanding at December 31, 1979 \$49,992,000 of its Capital Notes, issued under an Indenture, dated as of July 25, 1974. The Notes are direct unsecured obligations of the Bank. The Notes mature by their terms on December 31, 1998, provided, however, that if noteholders do not elect to have their Notes mature on that date, the Notes will be extended until June 30th, 2,000 and will continue thereafter on the same basis for additional periods of 18 months each. The Notes are subordinated by their terms to secured indebtedness and rank equally with unsecured indebtedness and other obligations of the Bank.

DEBENTURES AND CHARGES

As at December 31, 1979, the Bank had outstanding debentures in a total amount of IL. 1,446,-580,000 linked either to the consumer price index or linked to or expressed in U.S. Dollars or Swiss Francs. The said debentures are secured by a floating charge on the assets and undertaking of the Bank. Certain loans and deposits of the Bank are similarly secured in a total amount of IL. 1,838,382,000 (\$52,000,000). In addition the Capital Notes of the Bank aggregating \$49,992,000 are secured by a floating charge against certain furniture of the Bank so as to qualify the said notes as a debenture under the Israeli Companies Law, but subject thereto are unsecured obligations of the Bank. In addition the Bank has given a conditional charge on its assets to secure a loan which at December 31, 1979 aggregated IL. 148,470,000 (\$4,200,000).

**EXCEPT FOR SPECIAL DEPOSITS FOR THE GRANTING OF LOAN
THE FOLLOWING REPRESENTS DEPOSIT**

	<u>Currency or Linkage terms(d)</u>	<u>Repayable in the years(e)</u>	<u>Rate of Interest %</u>
The Israel Treasury	Various*	1980-1994	0.5-7.2
United States Agency for International Development	Israel Pounds	1980-1989	3.5
International Bank for Reconstruction & Development(c)	Various Foreign Currencies*	1980-1990	5.5-7
Export-Import Bank of the United States	U.S. Dollars	1980-1988	6-7
Consortium of British Financial Institutions(c)	Pounds Sterling	1980-1984	5.5-7
Syndicate of Belgian Banks(c)	Belgian Francs	1980-1984	6.3-7.2
Export Development Corp., Canada(c)	Canadian Dollars	1980-1986	6
Israel Discount Bank Limited	U.S. Dollars	1980-1981	(a)
Barclays Discount Bank Limited	U.S. Dollars	1980-1981	(a)
Crocker National Bank, San Francisco	U.S. Dollars	1980-1984	(a)
Consortium of Financial Institutions in France	French Francs	1980-1981	(a)
Efibanca, Rome	Lit.	1980-1984	6.5-7
Bank Leumi Le-Israel B.M.	U.S. Dollars	1980-1983	(a)
Bank Hapoalim B.M.	U.S. Dollars	1980-1984	(a)
Union Bank of Israel Ltd.	U.S. Dollars	1980-1981	(a)
Israel Development Corporation Ltd.	U.S. Dollars	1980-1986	8.5-10;
The Hebrew University, Jerusalem	Various Foreign Currencies*	1980-1981	8-10
Hadassah Medical Relief Association Inc.	U.S. Dollars	1983	8
United Mizrahi Bank Ltd.	Consumer Price Index	1980-1992	6.7-8.7
Discount Bank Investment Corporation Limited	Consumer Price Index	1980-1989	6.6-9
A Banking Institution in Europe	German Marks	1980-1987	(a)
I.D.C. South Africa(c)	S.A. Rands	1980-1982	7
Barclays Bank Ltd., London	Pounds Sterling	1980-1983	5.5-7
Manufacturers Hanover Trust Company	U.S. Dollars	1980-1983	(a)
Bankers Trust Company	U.S. Dollars	1980-1984	7.25
Banca Nazionale del Lavoro	U.S. Dollars	1980-1984	8
Swiss Bank Corporation	Swiss Francs	1980-1981	7.25
Sobe and Gebore Societe de Banque	U.S. Dollars	1980-1982	8
Rothschild Bank A.G.-Bank Julius Bar	Swiss Francs	1980-1983	5
Republic National Bank of New York	U.S. Dollars	1980-1986	(a)
Oil Refineries Ltd. and Northern Cold Storage Ltd.	U.S. Dollars	1980-1984	(a)
Oil Refineries Limited	Pounds Sterling	1980-1982	(a)
Bank of Nova Scotia	U.S. Dollars	1980-1987	(a)
Various	Various Foreign Currencies*	1980-1987	(a)

- (a) Interest Rates are subject to changes in the Interbank rates of interest, prime rate of interest and Euro Dollar interest rate.
- (b) The amounts comprise various loans and deposits received in various foreign currencies, which have been expressed above in U.S. \$ according to rate of exchange prevailing on December 31, 1979.
- (c) Secured, wholly or partly, by Floating Charges on the Assets of the Bank.
- (d) As at December 31, 1979, the representative rates of exchange were U.S. \$1=IL. 35.35; £ 0.45; B.F. 28.00 C.\$ 1.18; DM. 1.73; Sw.F. 1.59; Lit. 805; Jap. Yen 239.7; Fr.F. 4.04; and S.A. Rands 0.83.
- (e) Repayment requirements are as follows:

<u>Years</u>	<u>12/31/79 (In Millions)</u>	
	<u>IL.</u>	<u>\$</u>
1980	3,139.2	88.8
1981	2,502.7	70.8
1982	2,465.5	69.7
1983	2,762.9	78.2
1984	1,290.0	36.5
1985-1989	2,527.0	71.5
1990-1994	19.0	0.5
	<u>14,706.3</u>	<u>416.0</u>

**AND THE PERPETUAL DEPOSIT, AS AT DECEMBER 31, 1979
AND LOANS MADE WITH THE BANK**

Amount of Loan or Deposit (In Millions)	Amount Utilized by December 31, 1979 (In Millions)	Balance December 31, 1979 (Including Linking Increments and Accrued Interest)	
		IL.000	\$000
IL. 5,075.7(b)	4,168.6	4,172,148	118,024
IL. 40.0	40.0	17,883	506
\$ 59.8	59.8	274,541	7,767
\$ 66.3	52.4	874,858	24,749
£ 37.6	27.9	939,252	26,570
B.F. 1,509.2	1,012.7	210,182	5,946
C.\$ 16.3	15.8	240,633	6,807
\$ 10.0	10.0	145,330	4,111
\$ 8.2	8.2	115,948	3,280
\$ 11.1	7.3	73,774	2,087
F.F. 100.0	35.5	11,102	314
Lit. 12,313.0	11,118.3	229,531	6,493
\$ 33.3	30.0	545,359	15,428
\$ 30.0	21.5	354,247	10,021
\$ 10.0	10.0	71,270	2,016
\$ 4.0	4.0	63,126	1,786
\$ 15.0(b)	11.2(b)	270,969	7,666
\$ 2.0	2.0	72,114	2,040
IL. 15.0	15.0	85,911	2,430
IL. 20.0	20.0	123,831	3,503
DM. 130.0	130.0	2,085,585	58,998
S.A.R. 5.0	4.9	69,793	1,974
£ 3.3	3.3	103,981	2,941
\$ 12.7	8.7	290,618	8,221
\$ 5.0	3.3	75,036	2,123
\$ 5.0	3.9	93,204	2,637
Sw.F. 3.1	2.5	17,162	485
\$ 15.0	15.0	549,266	15,538
Sw.F. 50.0	50.0	1,119,585	31,671
\$ 20.0	20.0	716,397	20,266
\$ 15.1	15.1	359,346	10,165
£ 7.2	7.2	120,675	3,414
\$ 5.0	5.0	182,588	5,165
\$ 8.6(b)	8.6(b)	31,262	879
		<u>14,706,307</u>	<u>416,020</u>

*The balances in various currencies were repayable in the currencies and amounts indicated below:

The International Bank for Reconstruction and Development	December 31, 1979
U.S. Dollars	530,369
German Marks	8,635,547
Japanese Yen	239,621,182
Swiss Francs	1,989,649
The Hebrew University, Jerusalem	
U.S. Dollars	4,750,297
Canadian Dollars	2,695,470
Swiss Francs	1,020,000
Various	
U.S. Dollars	145,439
French Francs	994,273
Israel Pounds	11,806,935
German Marks	274,730
The Israel Treasury	
Consumer Price Index	28,404,690
Linked to the U.S. \$	21,695,249
Israel Pounds	4,122,047,920

MANAGEMENT AND CONTROL

The Directors of the Bank are not elected, but appointed by the Ordinary "A" shareholders. Each holder of 250 or more Ordinary "A" Shares is entitled, by instrument in writing, to appoint one Director for every 250 such shares held, and each group of shareholders who together hold 250 or more Ordinary "A" Shares is entitled, by an instrument in writing, to appoint one Director for every 250 such shares held. As at December 31, 1979 an aggregate of 60 Directors could be so appointed. Shareholders who have appointed a Director may remove such Director at any time and appoint another person in his place. Each Director, therefore, holds office until removed by the Ordinary "A" Shareholders who have appointed him.

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

The Board of Directors may delegate any of its powers, except the power of the election of the Chairman and Vice-Chairman and of the appointment of a Managing Director, to committees consisting of such Director or Directors and/or of such other persons as they think fit. The Board of Directors may appoint a Managing Director either for a fixed term or without any limitation as to period in which he is to hold such office. Unless such Managing Director shall himself be a director of the Company he shall participate at meetings of the Board of Directors but shall not have the power to vote thereat.

The Board of Directors has delegated certain of its powers to certain committees of the Board. The Vice-Chairmen's Committee deals with administrative and personnel matters; the Loan Committee deals with loan applications where the total indebtedness of the particular borrower does not exceed IL. 20,000,000 (\$565,771); the Management of the Bank deals with loan applications where the loan indebtedness of the particular borrower does not exceed IL. 5,000,000 (\$141,443) and the Executive Committee, which has had delegated to it all the powers of the Board except the power of appointing the Chairman, Vice Chairmen, and General Managers as explained above, will resolve all loan applications where the loan indebtedness of the particular borrower exceeds IL. 20,000,000. (See "Business of the Bank—Terms of Loans" page 21.)

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

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

<u>Name</u>	<u>Age</u>	<u>Director Since</u>	<u>Business Experience During Past Five Years</u>
Chairman: Abraham Friedmann	74	February, 1963	Managing Director, Clal (Israel) Limited; Chairman of the Board, Israel Central Trade & Investment Co.

<u>Name</u>	<u>Age</u>	<u>Director Since</u>	<u>Business Experience During Past Five Years</u>
Executive			
Vice-Chairman:			
Dr. M. Y. Mandelbaum (1)	47	November, 1966	Executive Vice-Chairman of the Bank; Formerly: Director General, Ministry of Industry, Trade and Tourism.
Vice-Chairmen:			
M. B. Gitter (2)	61	November, 1970	Vice-Chairman, I.D.B. Bankholding Corp. Ltd.; Director, Israel Discount Bank Limited.
Yaacov Macht (3)	61	September, 1970	Joint General Manager, Bank Leumi Le-Israel B.M.; Formerly: Deputy General Manager.
Moshe Olenik (4)	51	August, 1971	Joint Managing Director, Bank Hapoalim B.M.; Formerly: Secretary Hevrat Haovdim.
Yoram Ziv (1)	43	April, 1979	Director General, Ministry of Industry, Trade & Tourism. Formerly: Director, Jerusalem District of the First International Bank of Israel Ltd.
Directors:			
Abroad:			
Hermann Merkin (2)	73	October, 1968	President, Merkin & Co. Inc., members New York Stock Exchange, U.S.A.
Joseph Meyerhoff (2)	81	October, 1962	Chairman, Board of Directors and Executive Committee of P.E.C. Israel Economic Corporation, U.S.A.
Raphael Recanati (2)	56	December, 1964	Vice-Chairman and Managing Director, Israel Discount Bank Limited.
In Israel:			
Richard Armon (4)	46	August, 1975	Senior Deputy Managing Director, Bank Hapoalim B.M. Formerly: Deputy Managing Director, Bank Hapoalim B.M.
Meir Bachar (4)	54	August, 1976	Director of Companies; General Manager, Industrial Bank Limited.
Chaim Ben-David (2)	67	February, 1969	Senior Assistant General Manager, Israel Discount Bank Limited.
Haim J. Bergstein (4)	47	March, 1977	Senior Deputy Managing Director, Bank Hapoalim B.M.
Yoram Blizovsky (1)	41	December, 1979	Deputy Director General of Financing and Government Companies, Ministry of Industry, Trade and Tourism; Formerly: Head of Tourism Administration; Assistant Director General (Economic Planning) Ministry of Tourism.
Naftali Blumenthal (4)	58	February, 1975	President, Koor Industries Ltd. Formerly: Deputy Chairman, Board of Directors.
Arie Chupak (4)	43	January, 1977	Assistant to Managing Director, Bank Hapoalim B.M.; Formerly: Economist, Head of Loans Dept., Bank Hapoalim B.M. Tel-Aviv.

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

<u>Name</u>	<u>Age</u>	<u>Director Since</u>	<u>Business Experience During Past Five Years</u>
Ralph Cohen (4)	61	February, 1976	President and Director of Ampal-American Israel Corp., and Israel Development Corp.
Isaac Ellman (3)	65	May, 1975	Director of Companies; Formerly: Managing Director, Bank Leumi Investment Co. Ltd.; Otzar La'taasiya Ltd.; and Yaad Agricultural Development Bank Ltd.
Aharon Fogel (1)	33	June, 1978	Director of the Economic Team in the Budget Department, The Treasury.
Asher Friedman (4)	58	August, 1968	Director General, Miluot Haifa Bay Settlements Development Co.
Meyer Friedmann (1)	55	June, 1977	Senior Deputy Commissioner of Capital Market; Formerly: In Charge of Government Guarantees and Internal Loans.
Israel Galitzky (4)	64	August, 1971	Member of Industrial Department, Ihud Hakvutzot Vehakibutzim; Member, Kibbutz Nir-Am.
Arie Geva (4)	41	December, 1977	Managing Director, American Israel Bank Ltd.; Formerly: Manager of Investment Association.
Yaakov Geva (4)	55	August, 1976	Senior Deputy Managing Director, Bank Hapoalim B.M.
Gad Gil (4)	44	August, 1979	Joint Managing Director, Bank Hapoalim B.M.; Formerly: Managing Director of Economic Affairs of Ihud Hakvutzot Vehakibutzim.
Yehuda Gill (1)	52	June, 1977	Managing Director, Industrial Development Bank of Israel Ltd.; Formerly: Joint General Manager, Industrial Development Bank of Israel Ltd.
Shlomo Givon (1)	58	June, 1977	Coordinator, Industrial Department, Hakibutz Haartzzi; Formerly: Economic Coordinator, Kibbutz Haogen; Managing Director, Haogen Plast.
Avraham M. Goldwasser	60	February, 1974	Managing Director of Israel Oxidon Ltd.
Haim Haham (1)	44	November, 1977	Assistant to the Minister of Finance; Formerly: Assistant to the Minister of Industry, Trade and Tourism for Development Areas; Coordinator of Government activities of the Galilee.
Henry Haran (1)	62	June, 1977	In Charge of Development Budget, Ministry of Industry, Trade and Tourism.
William Hauck (3)	68	May, 1975	Director of Companies; Formerly: Joint General Manager of Union Bank of Israel Ltd.
Dr. Alexander Kagan (1)	60	June, 1973	Deputy Director of the Financing Dept., Ministry of Industry, Trade and Tourism; Formerly: Assistant in the matters of Industry financing.
Shlomo Kovacs (3)	59	November, 1976	General Manager's Senior Assistant and Deputy Chief Inspector, Bank Leumi Le-Israel B.M.

(1) Appointee of State of Israel.

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

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

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

<u>Name</u>	<u>Age</u>	<u>Director Since</u>	<u>Business Experience During Past Five Years</u>
Gershon Lev (3)	59	May, 1975	Assistant General Manager, Bank Leumi Le-Israel B.M.
Aviv Levin (4)	48	August, 1976	Deputy Managing Director, Chief Legal Adviser, Bank Hapoalim B.M.
Uri Levit (4)	42	December, 1979	Managing Director, Investment Company of Bank Hapoalim Ltd.; Formerly: Manager, Foreign Trade Dept., Bank Hapoalim B.M.
Peretz Littmann (4)	60	March, 1977	Manager, Staff Welfare Department, Bank Hapoalim B.M.
Shlomo Magriso (2)	59	March, 1970	Deputy General Manager, Israel Discount Bank Ltd.; General Manager, The Mercantile Bank of Israel Ltd.
Leon Malowanczyk (3)	46	November, 1976	General Manager's Assistant, Bank Leumi Le-Israel B.M.; Formerly: Manager (Credits), Bank Leumi Le-Israel B.M.
Yaacov Mann (3)	42	September, 1979	Manager, Bank Leumi Le-Israel B.M.
Aryeh Manor (3)	68	July, 1964	Director of Companies; Formerly: Assistant General Manager, Bank Leumi Le-Israel B.M.
Dr. Avraham Neaman (1)	72	June, 1960	Internal Auditor, The Israel Corporation Ltd.
Yaacov Pachter (4)	42	February, 1975	Managing Director, Israel Continental Bank Ltd.
Eugen Propper	68	July, 1969	Managing Director, Osem Limited.
Israel Rauch (3)	54	May, 1975	Joint General Manager, Bank Leumi Le-Israel B.M.
Daniel Recanati (2)	58	December, 1957	Chairman of the Board and Managing Director, Israel Discount Bank Ltd.
Amnon Sadeh (4)	43	February, 1975	Deputy Managing Director, Bank Hapoalim B.M.
Yory Salant (4)	35	August, 1979	Member, Tel Aviv Stock Exchange; Formerly: Gen. Manager, Hachevra Lenihul Kranot Veneemanut; Head of Securities Dept., Bank Hapoalim B.M.
Avraham Shaliv (1)	60	June, 1973	Director of Centre for Industrial Planning, Ministry of Industry, Trade and Tourism; Formerly: Assistant Director.
Isaiah Spivak (3)	44	September, 1979	General Manager's Assistant, Bank Leumi Le-Israel B.M.; Formerly: Manager, Credit Dept., Bank Leumi Le-Israel B.M. Head Office, Tel Aviv; Deputy General Manager Bank Leumi Le-Israel (France) S.A.
Dan Tolkowsky (2)	59	June, 1964	Managing Director, Discount Bank Investment Corp. Ltd.
Yehuda Weiler (3)	48	August, 1975	General Manager's Senior Assistant, Bank Leumi Le-Israel B.M.; Formerly: Manager (Credits) Northern Regional Management.
Shalom Zak (4)	78	July, 1961	Director of Companies.
Shlomo Ziv (4)	38	December, 1977	Senior Deputy Managing Director, Bank Hapoalim B.M.

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

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

<u>Name</u>	<u>Age</u>	<u>Office</u>	<u>In Office Since</u>	<u>Business Experience During Past Five Years</u>
Abraham Friedmann	74	Chairman of the Board of Directors	November, 1977	Managing Director, Clal (Israel) Ltd.; Chairman of the Board, Israel Central Trade & Investment Co.
Dr. Moshe Y. Mandelbaum	47	Executive Vice-Chairman	January, 1978	Director General, Ministry of Industry, Trade and Tourism.
Yehuda Gill	52	Managing Director	June, 1977	Joint General Manager of the Bank, General Manager of the Bank.
Mordechai Rottenberg	50	Senior Deputy General Manager and General Counsel	February, 1980	Deputy General Manager and General Counsel.
Dov Heinsdorf	60	Deputy General Manager	February, 1980	Assistant General Manager; Internal Controller.
Hillel Ehrmann	42	General Secretary	October, 1977	Head of Textile, Leather and Light Industries Division of the Bank.
Ms. Shoshana Flomin	42	Internal Controller	July, 1977	Assistant Manager (Administration and Computer); Assistant Manager (Accountancy).
Elkana Bronholc	51	Assistant Manager (Economics, Research and Statistics), Chief Economist of the Bank.	January, 1976	Assistant Manager (Loans) Chief Economist of the Bank.
Anwar Elias	60	Assistant Manager (Disbursements)	January, 1976	General Secretary.
Iosef Halfon	44	Assistant Manager (Administration)	July, 1977	Officer in the Permanent Defence Forces.
Eliezer Nemes	59	Assistant Manager (Finance)	March, 1972	Assistant Manager (Finance) of the Bank.
Benjamin Tzwick	55	Assistant Manager; Chief Engineer of the Bank	January, 1975	Assistant Manager; Chief Engineer of the Bank.
Gidon Barhoom	47	Chief Accountant	January, 1975	Chief Accountant of the Bank.

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

The Chairman, Vice Chairmen, and Managing Director, though being Directors or alternate Directors of the Bank, are entitled to such remuneration as may from time to time be determined by the Board of Directors. However, as at the date of this Prospectus, the only Directors who receive or are to receive remuneration from the Bank are the Executive Vice Chairman, the Managing Director, and the former Managing Director, who has retired from his office but is receiving a pension. The Executive Vice-Chairman, the Managing Director and the former Managing Director received during the year ended December 31, 1979, remuneration totalling IL. 2,407,000, or approximately \$68,000 (based on the representative exchange rate at December 31, 1979 of \$1=IL. 35.35).

During the year ended December 31, 1979, and as of the date of this Prospectus, no Director or Officer of the Bank received a salary in excess of \$50,000 per year at the aforementioned rate of exchange. The aggregate remuneration received by the Bank's Executive Officers and Directors as a group (the persons mentioned on page 39, except for the Chairman of the Board of Directors) during the said year amounted to IL. 9,111,000 or approximately \$258,000 at the aforementioned rate of exchange. In addition the Bank made provisions for pension, retirement benefits and other social benefits for Officers and Directors, which in that year aggregated IL. 3,528,000 (\$100,000).

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

Directors also serve as directors and as officers, and certain of them are stockholders, of companies which are holders of the Bank's securities, and certain of them are officials of the Government of Israel.

CONVERTIBILITY OF CURRENCY AND UNITED STATES AND ISRAEL TAXES

This section relates only to residents of countries other than Israel, for whom this offering is exclusively made.

The Shares have been designated by the Investment Center as an Approved Investment in Foreign Currency under The Law for the Encouragement of Capital Investments—1959. This designation does not imply that the Investment Center recommends the Shares as an investment nor does it imply that the Investment Center has passed upon the commercial merits of the Shares.

The Controller of Foreign Exchange has confirmed to the Bank that foreign resident holders of the Shares will be permitted to repatriate from Israel all sums in foreign currency paid to them as dividends and capital in case of redemption of the Shares or return of capital on winding up the Bank's affairs. At present there is a withholding tax on the dividends, which the Bank is required to deduct, which is 25% when payable to a foreign resident and 35% when payable to an Israeli resident. Sales of Shares in Israel will be exempt from capital gains tax since the Shares will be traded on the Tel Aviv Stock Exchange. Section 9(15b) of the Income Tax Code exempts from the payment of Israel tax a foreign resident who receives income from dividends on the Shares, provided the Shares are traded through the Tel Aviv Stock Exchange and provided further that he does not obtain in his country of residence relief from double taxation. Persons who do not obtain from their countries of residence relief from double taxation will not have tax deducted at the source by the Bank. Residents of the United States, however, will generally have

the tax deducted at the source since such said residents do receive, in most instances, relief from double taxation.

Furthermore, the exemption from Israeli taxes on the dividends will also apply in respect of a resident in a country where pursuant to a convention for the avoidance of double taxation on the same income with Israel he is considered there as if he has paid the tax which he would have been required to pay but for the provisions of section 9(15b).

Under an exemption granted by law no Israeli income tax will accrue to original purchasers of the Shares from the Bank on the capital gain arising on the redemption thereof pursuant to increments emanating from changes in the rate of exchange of the Israeli currency.

The Bank has been advised by the Israel Income Tax Commissioner that pursuant to said Section 9(15b) he will grant an exemption from the payment of tax to institutions which are charities, religious or educational institutions or other similar institutions which are exempt from the payment of tax pursuant to the provisions of the tax laws of their country of residence. In order to receive this exemption the institutions must submit to the Israel Tax authorities, directly or through the Bank or Underwriter, proof relating to the tax exemption in their own country. Only upon receipt by the Bank of this proof will the Bank not be required to withhold the tax.

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

U.S. counsel to the Bank, Finley, Kumble, Wagner, Heine & Underberg, have advised that under the provisions of the Internal Revenue Code, United States Shareholders (persons other than individuals electing the standard deduction) have the option of claiming the amount of any Israel income taxes withheld either as a deduction from the gross income for Federal income tax purposes or as a credit against their Federal income tax liability. The amount of the credit is subject to complex limitations, restrictions and rules set forth in Sections 901-905 inclusive of the Internal Revenue Code and is a matter to be determined on an individual basis by each Shareholder and his tax advisor. Individuals who do not itemize deductions cannot claim the amount of the Israel income taxes withheld as a deduction from their gross income. However, such amounts may be taken as a credit against their Federal income tax liability.

CONDITIONS IN ISRAEL

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

The information herein contained has been taken from the State of Israel Sixth Development Issue Bond Prospectus dated May 1, 1980.

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

Internal security and political stability have prevailed since the establishment of the State in 1948, and public services have been continuously functioning 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, which provides for reciprocal lowering of trade barriers among its members.

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

Since the establishment of the State of Israel, the hostility between Israel and her neighbors has resulted in a number of armed conflicts. On March 26, 1979, a peace treaty was signed between Egypt and Israel. Under the terms of the treaty, Israel is to withdraw from the Sinai Peninsula in two phases: the first to be completed within nine months after the ratifications of the treaty and the second to be completed within three years. The treaty provides that full normal relations (including economic and trade) be established between the two countries immediately following the first stage withdrawal. The first phase was completed on February 26, 1980, and the Israeli and Egyptian ambassadors have presented their credentials in Cairo and Jerusalem respectively.

Discussions are to continue to take place between officials of Egypt and officials of Israel in an effort to seek solutions to certain other problems existing in the area. At the present time, it is impossible to make predictions as to the nature of any resolution of these problems.

Geographic Location. Israel lies on the western edge of Asia bordering on the Mediterranean Sea. It is bounded on the north by Lebanon and Syria, on the east by Jordan, and on the south by Egypt. Israel does not have an abundance of raw materials, including oil, and therefore is dependent to a large degree on the import of such raw materials.

Economic Factors. Israel's defense expenditure is very high and absorbs about 30% of the State budget. As a result, the share of the State's resources available for economic development and other national purposes is limited. Giving effect to the extraordinary rate of inflation, Israel has experienced a decline in gross and net investments during the past four years.

In 1978 about 25,000 immigrants arrived in Israel; in 1979 the figure was about 37,000.

At December 31, 1979 Israel's outstanding foreign debt was estimated at 15 billion U.S. Dollars as compared to a gross national product for 1979 of some 16.4 billion dollars (at the average rate of exchange during 1979).

Balance of Payments Deficit. The defense burden, together with the absorption of immigrants, development of the economy; provision of a minimum standard of living—particularly for the members of the lower income segments of the community—and the maintenance of a minimum level of net foreign reserves, have resulted in an extremely high balance of payments deficit. In order to finance this deficit, Israel must ensure an adequate inflow of capital imports.

The main sources of the country's capital imports are U.S. aid (military and economic), personal remittances, sale of Bonds (primarily in the United States), German restitution payments and loans from other governments, international institutions and the free market. World Jewry has traditionally been a

substantial capital import contributor and is currently responsible for approximately 34% of Israel's total capital imports.

Inflation. High rates of inflation have been experienced over the last few years. The consumer price index reached 521.7 in December 1979, a percentage increase of approximately 111.4% since December 1978.

This inflation is considered to be the result of both external and internal influences. Several of the external factors which have led to the high inflation rates included the sharp rise in international prices, particularly those of grains and oil in 1973 and 1974, and the frequent devaluations of the Israeli Pound. Significant internal factors include both large Government deficits caused by the heavy defense burden and substantial social service expenditures which have been required to absorb past and current immigration and to protect the members of the lower income segments of the community. The continual increases in indirect taxes, coupled with the decrease in price subsidies required to limit the budget deficits, directly encouraged recent price increases.

Investment. Since the establishment of the State in 1948, the Government has promoted and developed industrial and agricultural pursuits through a variety of methods including: (i) direct grants-in-aid; (ii) direct ownership interests in agricultural and industrial enterprises, (iii) tax abatements; and (iv) tax incentives.

As a result of an amendment to the Law for the Encouragement of Capital Investments, since 1967, the Government has made grants available to the owners of approved enterprises.

Taxation. The people and the companies in Israel are among the highest-taxed individuals and enterprises in the free world. Business enterprises pay a company profit tax and income tax. Direct and indirect taxation in 1979 accounted for 67% of total national income.

Foreign Exchange. Prior to October 28, 1977, the Israeli Government had imposed exchange control regulations which limited the ability of Israelis to remove Israeli currency from the State. However, on October 28, 1977, the Government reformed the country's foreign exchange policy by reducing controls and virtually abolishing them for foreign investors. In addition, on that date the Government cancelled almost all restrictions on the possession of foreign exchange by Israelis.

Currently, no exchange control regulations exist prohibiting foreign currency payments to overseas investors of interest or principal on investments, provided that the investment is transferred through an authorized dealer who confirms that the investment terms are reasonable.

As a further consequence of the 1977 policy: (i) exchange rates were unified; (ii) export premiums were abolished; (iii) import levies were eliminated; and (iv) a floating exchange rate was created which is subject only to limited intervention to counteract disruptive rate swings.

Following the 1977 reform, the Israeli pound depreciated by 46.4% and was IL. 15.20 per U.S. \$1.00 on October 31, 1977, compared with IL. 10.38 per U.S. \$1.00 on October 28, 1977. The new policy caused the effective rate for imports to increase by about 27.7% after the deduction of import levies and exclusive of customs duties. The effective rate for exports similarly increased by an average rate of approximately 11.7% after the abolition of export premiums and, as to exports subject to value added tax, by a rate in excess of 66% after adjustment for export premiums.

On February 23, 1980, a new currency unit, the Sheqel, was introduced as legal tender. The Israeli Sheqel (IS.) is equal to ten Israeli Pounds (1 IS.=10 IL.).

Since the end of October 1977 and through February, 1980, the Israeli Pound has continued to depreciate at an average monthly rate of 3.5% against the U.S. dollar. As of April 2, 1980 the representative rate was IL. 41.6=U.S. \$1.00.

Emergency Economic Programs. The Economic after-effects of the 1973 War made themselves strongly felt in the second half of 1974. Since that time, the Government has implemented a number of measures to improve the balance of payments and diminish the inflation rate.

Objectives of these programs have been to reduce imports and increase exports and transfers of capital to Israel. The programs have also sought to reduce private consumption, thereby freeing resources for exports and defense preparations. To achieve these objectives, the Israeli Pound has been steadily devalued and subsidies have been reduced on such items as basic food commodities, bus fares, electricity and water rates.

The Government has also continued a policy of credit restraint and measures have been instituted with respect to permissible increases in wages and salaries resulting from cost of living increases.

The Government, elected in May 1977, is putting major emphasis on expanding the role of the private sector and concurrently reducing the role played by the Government.

Government Finance. Since its formation Israel has never defaulted on the payment either of principal or of interest on any of its indebtedness.

A statement of the internal public debt and of the foreign exchange debt of Israel as at December 31, 1979, appears in Tables 1A and 1B on page 51.

A statement of receipts and expenditures for the fiscal years ended March 31, 1977, 1978, 1979 and provisional figures for the period April 1, 1979-December 1979 appear in Tables II and III on page 52.

National Income and Investments. The following tables indicate the national income, gross national product and investment of Israel for the calendar years 1976-1979, both in current prices for the respective years and in constant prices.

NATIONAL INCOME (at current prices)			GROSS NATIONAL PRODUCT AND INVESTMENT (in million IS.)*					
Year	Total (in IS. millions)	Per Capita	Gross National Product		Gross Investment		Net Investment	
			at Current Prices	At 1975 Prices	at Current Prices	At 1975 Prices	at Current Prices	At 1975 Prices
1976.....	7,459	2,117	9,689	7,648	2,703	2,168	1,430	1,163
1977.....	10,631	2,942	13,892	7,722	3,447	1,943	1,523	872
1978.....	17,464	4,729	22,241	8,120	6,005	1,974	2,745	860
1979.....	30,670	8,110	41,650	8,466	12,670	2,317	**	**

*Figures have been converted into the Israeli Sheqel (IS). The conversion rate is 1 IS = 10 IL.
**Unreasonable effort would be involved in obtaining this information.

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

The index of consumer prices in Israel has risen as follows (annual average figures, 1976=100.0):

1977 _____ 134.6 1978 _____ 202.7 1979 _____ 361.4

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

The cost-of-living allowance is the principal tool for compensating wage-earners for inflation. As of April 1, 1980 this compensation was equal to 70% of the increase in the CPI, up to a ceiling of IL. 28,500 per month (subject to revision). Low income allowances have been raised by the same percentage, while tax credits and children's allowances increase at the full rate of the increase in the CPI.

Net Domestic Product by sectors is as follows:

**SECTORAL ORIGIN OF ISRAEL'S NET DOMESTIC PRODUCT
AT FACTOR COST, 1976-1978**

	(percentages)		
	<u>1976*</u>	<u>1977*</u>	<u>1978*</u>
Agriculture, forestry, fisheries	6.1	5.8	5.5
Industry, mining and quarrying	23.3	23.4	23.3
Construction, water and electricity	10.1	9.1	10.1
Transportation and communications	7.2	7.4	6.8
Finance, trade, and business and personal services	27.2	27.9	27.6
Public and community services	17.7	19.6	19.4
Ownership of dwellings	8.2	6.8	7.3
Net domestic product (at factor cost)	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

*Revised

Foreign Exchange. An exchange rate of U.S. \$1.00=IL. 4.2 was in effect from August 22, 1973 to November 10, 1974. Effective November 10, 1974, the Israel pound was devalued to U.S. \$1.00=IL. 6.0. The Government of Israel has devalued the Israel Pound at frequent intervals in a series of crawling devaluations averaging 2% a month, so that the prevailing rate of exchange at October 28, 1979 was U.S. \$1.00=IL. 10.4. On that day, the Government instituted a new economic program which, among other things, established a floating exchange rate. As of April 2, 1980, the representative rate for the Israeli Pound quoted by commercial banks was U.S. \$1.00=IL. 41.68. (See "Emergency Economic Programs," page 45).

The amounts of net foreign exchange reserves held in the Bank of Israel as of the end of calendar years 1976, 1977, 1978, 1979 and as of March, 1980 were as follows:

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>March 1980</u>
Net Foreign Exchange Reserves of Bank of Israel (in \$ millions)	1,156.3	1,359.0	2,242.0	2,570.0	2,875.0

Population and Employment. The population of Israel and the number of gainfully employed persons as of December 31, 1976, 1977, 1978 and 1979 are indicated below:

<u>Date</u>	<u>Total Population</u>	<u>Gainfully Employed Person (Annual Average)</u>
December 31, 1976	3,575,000	1,126,700
December 31, 1977	3,653,200	1,159,300
December 31, 1978	3,738,000	1,213,000
December 31, 1979 (estimate)	3,831,000	1,243,000

In 1978 approximately 25,000 immigrants arrived in Israel and in 1979 approximately 37,000 immigrants arrived in Israel.

The approximate annual average percentage distribution of gainfully employed persons among the various branches of the economy for December 31, 1976, 1977, 1978 and 1979 was as follows:

<u>Economic Sector</u>	<u>Annual Average December 31,</u>			
	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Industry	24.3%	24.1%	23.3%	24.1%
Agriculture	6.4	6.2	6.1	5.9
Services (public, business and personal)	40.6	41.2	42.8	42.9
Construction and Public Works	7.7	7.4	6.7	6.6
Transportation and Communications	7.0	7.0	6.8	6.8
Electricity and Water	1.0	1.2	1.1	0.9
Commerce, Restaurants, and Hotels	12.4	12.2	12.0	11.8
Other	0.6	0.7	1.2	1.0
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

The average number and percentage of unemployed persons in Israel during the years 1976-1979 was as follows:

<u>Year</u>	<u>Average Number of Unemployed Persons</u>	<u>Total Civilian Labor Force</u>	<u>Percentage of Average Number of Unemployed Persons in Total Civilian Labor Force</u>
1976	42,600	1,169,000	3.6%
1977	47,400	1,207,000	3.9%
1978	44,700	1,258,000	3.6%
1979	37,000	1,280,000	2.9%

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

The value of Israel's foreign trade in goods and services for calendar years 1976, 1977, 1978 and 1979 was as follows:

<u>Period Ended</u>	<u>Imports* (in \$ millions)</u>	<u>Exports (in \$ millions)</u>	<u>Deficit (in \$ millions)</u>
December 31, 1976	7,899	4,735	3,164
December 31, 1977	8,434	5,871	2,563
December 31, 1978	10,308	6,969	3,339
December 31, 1979 (estimate)	12,151	8,398	3,753

*Defense imports in 1976 were 1,603, in 1977 were 1,099 and in 1978 were 1,623 and in 1979 were 1,450, (in \$ millions). The principal categories of imports of commodities other than defense were as follows:

ISRAEL'S IMPORTS OF GOODS 1976-1979
(CIF Values in \$ Millions)

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979*</u>
Consumer Goods				
Durable	115	111	144	233
Non-Durable	204	230	247	393
Raw Materials				
Rough Diamonds	616	937	1,053	845
Fuel	685	738	775	1,337
Other	1,834	2,110	2,633	3,346
Investment Goods				
Ships & Aircraft	53	95	75	155
Other	566	538	707	1,054

*Estimated.

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

ISRAEL'S BALANCE OF PAYMENTS (1976-1979)

(In \$ Millions of Dollars)

Description	1976		1977		1978*		1979**	
	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit
A. Current Account								
Merchandise (Exports and Imports, F.O.B.) _____	2,670	5,381	3,404	5,559	4,075	6,894	4,723	7,979
Insurance _____	234	259	264	294	297	306	347	335
Transportation _____	633	696	750	791	853	941	882	1,128
Travel _____	430	185	564	245	595	347	790	432
Investment Income _____	312	743	371	787	494	993	764	1,372
Government Offices _____	21	126	22	114	20	150	19	131
Other Services _____	265	395	292	436	410	452	602	503
Total Current Account _____	<u>4,565</u>	<u>7,765</u>	<u>5,664</u>	<u>8,227</u>	<u>6,744</u>	<u>10,083</u>	<u>8,127</u>	<u>11,880</u>
Deficit on Current Account _____	—	3,200	—	2,563	—	3,339	—	3,753
B. Unilateral Transfers (Net)								
Restitutions _____	314	—	350	—	406	—	439	—
Personal Remittances _____	250	—	334	—	436	—	515	—
Institutional Remittances _____	538	—	469	—	405	—	455	—
Government _____	<u>1,108</u>	—	<u>929</u>	—	<u>1,153</u>	—	<u>872</u>	—
Total Unilateral Transfers _____	<u>2,210</u>	—	<u>2,082</u>	—	<u>2,400</u>	—	<u>2,281</u>	—
Total Current Account and Unilateral Transfers _____	<u>6,775</u>	<u>7,765</u>	<u>7,746</u>	<u>8,227</u>	<u>9,144</u>	<u>10,083</u>	<u>10,408</u>	<u>11,880</u>
C. Net Capital Movements								
Private Long-Term (including investments) _____	171	—3	104	—1	256	64	169	67
Private Short-Term Loans _____	153	225	21	389	54	37	533	—
Government Issues Abroad and other Government Long-Term Obligations _____	870	—	532	—	919	—	1,043	—
Government Short-Term Obligations _____	78	9	24	24	—94	56	—	37
Foreign Exchange Assets and Liabilities _____	<u>252</u>	<u>377</u>	<u>529</u>	<u>727</u>	<u>1,437</u>	<u>1,833</u>	<u>1,400</u>	<u>1,632</u>
Total Net Capital Movements _____	1,524	608	1,210	1,139	2,572	1,990	3,145	1,736
Net Errors and Omissions _____	74	—	410	—	357	1,783	63	—
GRAND TOTAL _____	<u>8,373</u>	<u>8,373</u>	<u>9,366</u>	<u>9,366</u>	<u>12,073</u>	<u>12,073</u>	<u>13,616</u>	<u>13,616</u>

*Revised.

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

The following data are available concerning the U.S. share of some of the major elements in Israel's global balance payments:

A. Current Account

Merchandise: the U.S. was the source of 23% of Israel's non-defense imports in 1976, 21% in 1977, 20% in 1978 and 21% in 1979; the U.S. was the destination of 20% of Israel's exports in 1976, 19% in 1977 and 12.5% in 1978 and 17% in 1979. Travel: of the tourists visiting Israel in 1976, approximately 28% were Americans; in 1977 approximately 27% were Americans; in 1978 approximately 27% were Americans, and in 1979 approximately 26% were Americans.

B. Unilateral Transfers:

Institutional Remittances: approximately 70% thereof were of U.S. origin in 1976, 1977, 1978, and 1979; Government: all of the \$1,222 in 1976, \$921 in 1977, \$1,125 in 1978 and \$842 in 1979, represent U.S. Government grant assistance.

C. Net Capital Movements:

Government Issues Abroad: approximately 80% thereof were from the U.S. in 1976, 1977, 1978 and 1979.

Agricultural Development. In the years since 1948, there has been extensive development of irrigation and reclamation of swamp lands, sand dunes and hilly areas, with the result that Israel now provides about 75% of its food needs. The total area under cultivation in 1979 (agricultural year runs from October 1, 1978 to September 30, 1979) amounted to 4,310,000 dunams (just over one million acres) of which 53% was under irrigation.

Israel's organized sales of local agricultural produce in 1976, 1977, 1978 and 1979 were as follows:

<u>Year Ended September 30,</u>	<u>Organized Sales of Local Agricultural Produce</u>
1976	9,238
1977	12,546
1978	19,660
1979	31,140

Israel's organized sales of local agricultural produce in 1976, 1977, 1978 and 1979 were accounted for by the products indicated below:

<u>Product</u>	<u>Year Ended September 30,</u>			
	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979*</u>
Citrus and other fruits	28.4%	27.9%	28.6%	30.1%
Vegetable crops	8.9	10.0	10.1	10.3
Field crops (including grains, fodder and industrial crops)	15.5	16.9	18.3	16.3
Meat	20.7	20.9	18.6	16.3
Milk	13.0	12.4	10.8	11.8
Eggs	9.4	8.7	7.4	7.5
Other	4.1	3.2	6.2	7.7
*Provisional (subject to revision)	100.0%	100.0%	100.0%	100.0%

Israel's agricultural exports for calendar years 1976, 1977, 1978 and 1979, including citrus fruit exports, were as follows:

<u>Period Ended</u>	<u>Agricultural Exports (in \$ millions)</u>	<u>Citrus Fruit Exports (in \$ millions)</u>
December 31, 1976	324	172
December 31, 1977	386	191
December 31, 1978	452	202
December 31, 1979	557	255

An average of approximately 76,100 persons were engaged in agricultural pursuits in 1979, as compared to 72,500 persons in 1978, 72,100 persons in 1977, and 71,100 persons in 1976.

Industrial Development. The net domestic product of Israel's industry in the years 1976, 1977, 1978 and 1979 is indicated below:

<u>Year Ended December 31,</u>	<u>Net domestic product of Industry (in IS. millions)</u>
1976	2,051
1977	3,137
1978	5,029
1979 (estimate)	9,400

The approximate percentages of the net domestic product of industry in 1976, 1977, 1978 and 1979 accounted for by various industrial sectors were as follows:

<u>Industrial Sector</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979*</u>
Food products	13.3%	13.8%	13.8%	14.3%
Textiles and leather products	14.3	14.0	15.8	15.3
Light industry (including timber, paper, and printing)	8.0	8.1	8.5	8.3
Diamonds	5.2	5.4	4.1	3.9
Non-metallic mineral products and quarrying	7.3	6.7	6.6	6.5
Chemicals, rubber and plastic products	15.1	15.4	15.5	15.0
Metal products, machinery, electrical and electronic equipment	24.8	24.8	25.9	26.6
Other	11.4	11.8	9.8	10.1
	100.0%	100.0%	100.0%	100.0%

*Provisional (subject to revision)

Industrial exports (including all production imports apart from capital goods) for the calendar years 1976, 1977, 1978 and 1979 were as follows:

<u>Year Ended December 31</u>	<u>Industrial Exports (in \$ millions)</u>
1976	2,004
1977	2,601
1978	3,307
1979	3,794

Polished diamonds accounted for approximately 36% of industrial exports during 1976, for approximately 39% of industrial exports during 1977, for approximately 40% of industrial exports during 1978 and for approximately 32% of industrial exports in 1979.

Approximately 298,000 persons were employed in industry at the end of 1979, as compared to 294,000 persons in 1978.

Production of electricity in the calendar year 1979 totalled approximately 10,151 million kilowatt hours (provisional figure), of which approximately 3,560 million kilowatt hours (provisional figure) were consumed by industry.

TABLE IA—GOVERNMENT OF ISRAEL—INTERNAL PUBLIC DEBT*

As of December 31, 1979

Payable in thousands of Israeli Sheqels**

<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Description</u>	<u>Rate of Interest</u>	<u>Amount Issued Sheqels</u>	<u>Amount Outstanding Sheqels</u>
1948/77	1983/2002	Advances from Bank of Israel Provisional Advance from Bank of Israel	5-7.5%	2,500,400	2,500,400
1950	1980	Popular Loans	Lottery Prizes	4,100	2,203,300
1960/79	1979/96	Development Loans	Minimum of 3¼ %		1,800
1968/73	1980/90	Defense Loans	linked to index		3,832,300
1973/75	1989/91	War Loan	Minimum of 3¼ %	560,000	497,300
1962/75	1980/90	Absorption and Savings Loan	linked to index	310,000	289,300
		Short-Term Bills (3-18 months)	4-5 % linked to index		1,390,400
		Loan from National Insurance Institute	9-12%		60
		Emissions of Private Banks			2,170,700
		Other			5,644,600
					1,321,100
					<u>19,851,260</u>
				TOTAL	

*Original figures not adjusted for linkage. Accumulation of the linkage and interest as at December 31, 1979 was approximately 30 billion Israeli Sheqels.

**1 Sheqel = 10 Israeli Pounds.

TABLE IB—ISRAEL'S FOREIGN EXCHANGE DEBT

As of December 31, 1979

Payable in Thousands of Dollars

<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Description</u>	<u>Rate of Interest</u>	<u>Amount Authorized \$ 000</u>	<u>Amount Issued \$ 000</u>	<u>Amount Outstanding \$ 000</u>
1959/64	1969/74	Development Bonds II	4%	300,00	293,621	7,840
1964/67	1976/79	Development Bonds III	4%	400,000	392,630	101,142
1967/71	1979/83	Development Bonds IV	4%	500,000	475,311	364,620
1971/75	1986/90	Development Bonds V	4%	750,000	658,104	489,245
1979	1994	Development Bonds VI	4%	1,000,000	45,822	44,550
1968/71	1988/90	Development Investment Bonds I	5½ %	200,000	151,023	66,489
1966/68	1986/88	Development Investment Bonds II	4¾ %	100,000	72,300	5,334
1971/73	1991/92	Development Investment Bonds III	5½ %	250,000	223,658	70,432
1973/79	1993/99	Development Investment Bonds IV	5½ %	350,000	349,775	175,685
1977/79	1997/99	Development Investment Bonds V	5½ %	350,000	122,189	91,691
1974/76	1989/91	Reconstruction and Development Bonds	4%	1,000,000	999,946	812,848
1962/76	1976/85	EXIM—Government and Private	5¾ - 8¼ %	588,105	460,964	145,190
1962/67	1967/82	Development Loan Fund	¾ %	10,000	10,000	1,612
1962/67	1967/87	Agency for International Development	¾ - 3½ %	145,500	139,561	65,312
1966/77	1968/95	PL 480 Dollar Credits	3½ %	332,853	309,641	207,105
1966/75	1967/87	F.B.R.D. (Govt. and Private with Govt. Guarantee)	5¾ - 8¼ %	284,500	210,000	118,898
1974/76	—	International Monetary Fund	6.875%			296,733
	1976/95	Bank Loans	Euro-Euro + 1¾ %			1,961,918
	1976/2061	Private Loans	0-Euro %			483,521
	1976/85	Suppliers Loans	2-Euro %			546,974
	1976/90	Loans from Foreign Accounts	Euro-Euro + 1¾ %			1,237,239
		Defense Loans	3-9¾ %			3,966,287
		Loans from Germany	2½ - 4½ %			1,158,732
		Various Loans from Foreign Sources	Various			<u>2,605,806</u>
				TOTAL		<u>14,999,274</u>

TABLE II—GOVERNMENT OF ISRAEL—STATEMENT OF RECEIPTS
(In Sheqel 000)

Current Receipts	Fiscal Year	Fiscal Year	Fiscal Year	Provisional
	Ended March 31, 1977	Ended March 31, 1978	Ended March 31, 1979	Figures for the Period April 1, 1979- December 31, 1979
Income Tax	1,755,496	2,583,648	4,363,965	6,582,300
Property, Inheritance Tax and Others	299,536	452,389	635,661	1,266,000
Customs, Excise & Sales Taxes	1,708,436	1,936,340	2,135,265	2,682,900
Added Value Tax	442,098	870,650	2,157,965	2,524,200
Revenue Stamps, License and Registration Fees	164,565	201,401	215,272	250,120
Receipts Transferred to Local Governments	146,925	212,760	343,772	5,500,000
Collection of Interest	336,026	268,446	406,861	336,362
Miscellaneous Revenue**	88,126	578,153	316,631	997,000
Defense Loans (including savings)	143,141	258,151	391,781	503,300
Transfer of Receipts from Development Budget	1,925,628	3,200,755	4,058,888	3,253,065
Total Ordinary Budget	<u>6,939,977</u>	<u>10,562,699</u>	<u>15,026,061</u>	<u>17,895,247</u>
Receipts from Loans and Capital Accounts				
Proceeds from Internal Loans	361,893	1,695,101	4,178,402	2,985,200
Loan Repayments	112,387	149,978	225,204	168,500
Proceeds from Foreign Loans and Grants (including State of Israel Bonds and U.S. Loans and Grants)	2,297,105	3,169,091	4,894,935	7,000,000
U.S. Agricultural Surpluses	—	44,796	12,573	10,000
Special Receipts and Sundry Items	19,577	29,853	41,873	95,600
Advances from Bank of Israel	270,000	1,279,213	—	2,800,000
Transfer of Receipts to Ordinary Budget	-1,925,628	-3,200,754	-4,058,888	-3,253,065
Total Development Budget	<u>1,755,325</u>	<u>3,167,276</u>	<u>5,294,099</u>	<u>9,806,235</u>
GRAND TOTAL	<u>8,675,312</u>	<u>13,729,975</u>	<u>20,320,160</u>	<u>28,701,482</u>

**Reclassified

TABLE III—GOVERNMENT OF ISRAEL—STATEMENT OF EXPENDITURES
(In Sheqel 000)

Current Expenditures	Fiscal Year	Fiscal Year	Fiscal Year	Provisional
	Ended March 31, 1977	Ended March 31, 1978	Ended March 31, 1979	Figures for the Period April 1, 1979- December 31, 1979
General Administration	301,047	524,690	888,438	1,331,625
Local Government	308,286	466,725	770,426	1,207,988
Defense	3,528,780	4,624,349	6,010,846	7,955,154
Social Services	1,118,256	2,024,086	3,091,778	5,006,567
Economic Services	132,548	185,898	254,420	451,778
Subsidies on Essential Commodities	234,807	392,843	845,136	906,841
Export Promotion	401,761	444,139	33,440	13,984
Interest Payments and Subsidies of Credits**	914,491	1,899,168	3,131,517	2,521,310
Total Ordinary Budget	<u>6,939,976</u>	<u>10,562,698</u>	<u>15,026,061</u>	<u>19,395,247</u>
Expenditures on Development and Capital Account				
Housing	350,648	458,961	552,669	1,013,311
Agriculture and Irrigation	25,646	142,437	318,009	301,950
Industry and Mining (including oil drilling)	143,341	206,089	482,124	925,107
Transportation and Communications	99,741	113,763	99,775	310,526
Funds and Sundry Items	197,322	215,862	292,071	285,200
Debt Repayment	915,870	1,982,544	3,502,636	6,556,200
Total Development Budget	<u>1,733,168</u>	<u>3,119,556</u>	<u>5,247,284</u>	<u>9,392,294</u>
GRAND TOTAL	<u>8,673,144</u>	<u>13,682,354</u>	<u>20,273,345</u>	<u>28,187,541</u>

**Reclassified

TABLE IV—SUMMARY OF GOVERNMENT OF ISRAEL BUDGETS
Fiscal Years ending March 31, 1976-1981
(In IS. millions)

	<u>Fiscal Year Ended March 31, 1976</u>	<u>Fiscal Year Ended March 31, 1977</u>	<u>Fiscal Year Ended March 31, 1978*</u>	<u>Fiscal Year Ended March 31, 1979</u>	<u>Revised Budget Fiscal Year Ending March 31, 1980</u>	<u>Proposed Budget Fiscal Year Ending March 31, 1981</u>
1. Current Expenditures	4,971	6,940	10,905	15,048	31,906	48,250
2. Current Revenues	<u>3,394</u>	<u>4,871</u>	<u>7,964</u>	<u>10,918</u>	<u>24,184</u>	<u>39,236</u>
3. Current Deficit (1-2)	1,577	2,068	2,941	4,130	7,722	9,014
4. Capital Expenditures	752	817	1,444	1,745	4,360	8,145
5. Income on Capital A/C	<u>112</u>	<u>132</u>	<u>179</u>	<u>267</u>	<u>703</u>	<u>1,435</u>
6. Financing of Capital Expenditures (4-5)	639	685	1,264	1,478	3,657	6,710
7. Debt Repayments	<u>548</u>	<u>915</u>	<u>1,982</u>	<u>3,478</u>	<u>6,220</u>	<u>8,905</u>
8. Total Required Financing (3+6+7)	<u>2,765</u>	<u>3,669</u>	<u>6,188</u>	<u>9,086</u>	<u>17,599</u>	<u>24,629</u>
9. Domestic Borrowing	1,283	1,372	2,974	4,106	6,190	10,634
10. Foreign Loans and Grants	<u>1,486</u>	<u>2,297</u>	<u>3,213</u>	<u>4,980</u>	<u>11,409</u>	<u>13,995</u>
11. Total Financing (9+10)	<u>2,769</u>	<u>3,669</u>	<u>6,188</u>	<u>9,086</u>	<u>17,599</u>	<u>24,629</u>

*Revised

**TABLE V—ESTIMATED REPAYMENT SCHEDULE OF LONG AND MEDIUM-TERM
FOREIGN EXCHANGE DEBTS**
As of November 30, 1979
(In \$ Millions)

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985†</u>
Principal	\$1,200	\$1,150	\$1,270	\$1,170	\$1,110	\$ 970	\$7,270
Interest	1,250	1,000	910	830	770	690	—

† Having maturities of more than one year.

UNDERWRITING

The Bank has entered into an agreement with Capital for Israel Inc. (the "Underwriter") pursuant to which the Underwriter has agreed to use its best efforts to sell the 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 Shares will be sold. As at March 31, 1980, 12,744 of the 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

The legality of the Shares and the form in which they are being offered have been passed upon for the Bank by Messrs. Finley, Kumble, Wagner, Heine & Underberg, 425 Park Avenue, New York, New York 10022, and by Messrs. S. Horowitz & Co. of 20 Yehuda Halevy Street, Tel-Aviv, Israel and by Mr. Mordechai Rottenberg, Counsel to the Bank. On matters of Israel laws, Messrs. Finley, Kumble, Wagner, Heine & Underberg have relied upon the opinions of Messrs. S. Horowitz & Co. and Mr. Rottenberg.

EXPERTS

The Financial Statements of the Bank, included in this Prospectus, have been examined by Somekh, Chaikin, Citron & Co. Certified Public Accountants (Israel) to the extent stated in their 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.

REPORT OF INDEPENDENT ACCOUNTANTS

Industrial Development Bank of Israel Limited,
Tel-Aviv.

We have examined the balance sheet of Industrial Development Bank of Israel Limited as of December 31, 1978 and 1979, the statement of income and statement of changes in retained earnings for the five years ended December 31, 1979 and the statement of changes in financial position for the three years ended December 31, 1979. Our examination was made in accordance with generally accepted auditing standards, including those prescribed under the Auditors Regulations (Auditor's Mode of Performance)—1973, and accordingly we have applied such auditing procedures as we considered necessary in the circumstances.

In our opinion, the above referred to financial statements, expressed in Israel pounds, present fairly the financial position of the Bank as of December 31, 1978 and 1979, the results of its operations for the years ended December 31, 1975, 1976, 1977, 1978 and 1979 and the changes in the financial position for the years ended December 31, 1977, 1978 and 1979, in conformity with generally accepted accounting principles applied on a consistent basis, except for the change in method of valuing Israel Government loans effected in 1978, in accordance with Opinion 18 of the Institute of Certified Public Accountants in Israel, as described in note 1 (d).

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

SOMEKH, CHAIKIN, CITRON & CO.
CERTIFIED PUBLIC ACCOUNTANTS (ISR.)

Tel-Aviv, April 16, 1980

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL LIMITED

Balance Sheet

		December 31,		1979 Translated to \$000*
		1978	1979	
Assets		IL.000	IL.000	
Notes				
	LOANS AND DEPOSITS			
3	Long term loans to industry	8,505,696	12,535,410	354,608
	Fixed term deposits with banking institutions for the granting of loans to industry	348,704	698,835	19,769
		<u>8,854,400</u>	<u>13,234,245</u>	<u>374,377</u>
	Long term deposits with the Israel Treasury (in foreign currency)	2,665,130	5,040,371	142,585
		<u>11,519,530</u>	<u>18,274,616</u>	<u>516,962</u>
	AMOUNTS RECEIVABLE IN RESPECT OF LINKAGE INCREMENTS AND EXCHANGE DIFFERENCES ON THE BANK'S LIABILITIES	4 3,307,548	6,577,028	186,054
	SECURITIES			
5	Israel government loans	244,711	492,561	13,934
6	Shares	60,472	110,799	3,134
		<u>305,183</u>	<u>603,360</u>	<u>17,068</u>
	OTHER ACCOUNTS			
7	Cash and balances with banks	220,985	349,279	9,881
	Debtors and debit balances	166,072	286,171	8,095
		<u>387,057</u>	<u>635,450</u>	<u>17,976</u>
	REAL ESTATE, EQUIPMENT AND OTHER ASSETS	8 —	1,793	51
	CUSTOMERS' LIABILITIES (See contra)			
	For long term guarantees	99,345	372,437	10,536
	For documentary credits and other liabilities in connection with orders for industrial equipment	227,182	329,845	9,331
		<u>326,527</u>	<u>702,282</u>	<u>19,867</u>
	The notes to the financial statements form an integral part thereof	<u>15,845,845</u>	<u>26,794,529</u>	<u>757,978</u>

*The Bank is an Israeli corporation and its financial statements are expressed in Israel pounds. Solely for convenience of the reader, and as a matter of arithmetical computation only, the financial statements as at December 31, 1979, have been translated into U.S. dollars at the rate IL. 35.35 equal to U.S. \$1.00, which was the rate of exchange in effect on December 31, 1979. Such translation does not constitute a part of the financial statements and should not be construed as a representation that the applicable amounts actually represent, or have been or could be converted into U.S. dollars. Furthermore such translation does not give effect to any changes in currency exchange rates which occurred during the said period.

Since December 31, 1979 there have been further changes in the exchange rate of the Israel pound and as of March 31, 1980, the rate of exchange was U.S. \$1.00=IL. 41.48. For the calendar years 1975, 1976, 1977, 1978 and 1979, the percentage increases in the average level of the consumer price indexes for each year were 39.3%, 31.3%, 34.6%, 50.9% and 78.3% respectively.

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL LIMITED

Balance Sheet

Liabilities and Shareholders' Equity

	Notes	December 31,		
		1978	1979	1979
		IL.000	IL.000	Translated to \$000*
DEPOSITS AND OTHER LIABILITIES	9			
The Israel Treasury		2,202,872	4,172,148	118,024
Banking and financial institutions		5,706,728	9,693,171	274,206
Other liabilities		508,380	840,988	23,790
		<u>8,417,980</u>	<u>14,706,307</u>	<u>416,020</u>
SPECIAL DEPOSITS FOR THE GRANTING OF LOANS				
The Israel Treasury		2,895,490	4,376,902	123,816
Others		290,595	529,269	14,972
		<u>3,186,085</u>	<u>4,906,171</u>	<u>138,788</u>
OTHER ACCOUNTS				
Provisions		86,592	188,364	5,329
Creditors and credit balances		150,309	257,786	7,292
Proposed final dividend (gross)	10(b)	30,331	53,066	1,501
		<u>267,232</u>	<u>499,216</u>	<u>14,122</u>
LIABILITIES ON ACCOUNT OF CUSTOMERS (see contra)	11			
Long term guarantees		99,345	372,437	10,536
Documentary credits and other liabilities in connection with orders for industrial equipment		227,182	329,845	9,331
		<u>326,527</u>	<u>702,282</u>	<u>19,867</u>
CONTINGENT LIABILITIES	12			
DEBENTURES AND LOAN BONDS	13	976,194	1,618,710	45,791
7½ % REGISTERED SUBORDINATED CAPITAL NOTES DUE 1998	14	950,603	1,767,217	49,992
PERPETUAL DEPOSIT	15	904,110	1,114,110	31,516
SHAREHOLDERS' EQUITY				
Share capital	16	367,241	554,102	15,675
Capital reserves	17	174,427	447,331	12,654
Retained earnings		275,446	479,083	13,553
		<u>817,114</u>	<u>1,480,516</u>	<u>41,882</u>
		<u>15,845,845</u>	<u>26,794,529</u>	<u>757,978</u>

*See footnote on page 56.

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

A. Friedmann
Chairman

Dr. M. Mandelbaum
Executive Vice-Chairman

Y. Gill
Managing Director

M. Olenik **M. B. Gitter** **Y. Macht**
Vice-Chairmen and Directors

Y. Ziv

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL LIMITED

Statement of Changes in Retained Earnings

	<u>Unappropriated earnings</u>	<u>General reserve</u>	<u>Special reserve</u>	<u>Other reserve</u>	<u>Total retained earnings</u>
	<u>IL.000</u>	<u>IL.000</u>	<u>IL.000</u>	<u>IL.000</u>	<u>IL.000</u>
Balance at January 1, 1975	3,519	41,000	31,000	910	76,429
Restatement in respect of taxes on income of prior years (a)	6,856	—	—	—	6,856
Balance at January 1, 1975, as restated	10,375	41,000	31,000	910	83,285
Changes in 1975 —					
Net earnings for the year, applicable to the participating shares (a)	44,525	—	—	—	44,525
Dividends, net, on participating shares (Note 10)	(19,042)	—	—	—	(19,042)
Transfer to —					
Capital reserves (Note 17)	(2,711)	—	—	—	(2,711)
General reserve	(8,500)	8,500	—	—	—
Special reserve	(8,000)	—	8,000	—	—
Other reserve	(2,738)	—	—	2,738	—
Balance at December 31, 1975	13,909	49,500	39,000	3,648	106,057
Changes in 1976 —					
Net earnings for the year, applicable to the participating shares (a)	58,549	—	—	—	58,549
Dividends, net, on participating shares (Note 10)	(22,956)	—	—	—	(22,956)
Transfer to —					
Capital reserves (Note 17)	(1,991)	—	—	—	(1,991)
General reserve	(8,500)	8,500	—	—	—
Special reserve	(18,000)	—	18,000	—	—
Other reserve	(1,745)	—	—	1,745	—
Balance at December 31, 1976	19,266	58,000	57,000	5,393	139,659
Changes in 1977 —					
Net earnings for the year, applicable to the participating shares (a)	88,286	—	—	—	88,286
Dividends, net, on participating shares (Note 10)	(34,244)	—	—	—	(34,244)
Transfer to —					
Capital reserves (Note 17)	(4,121)	—	—	—	(4,121)
General reserve	(10,000)	10,000	—	—	—
Special reserve	(18,000)	—	18,000	—	—
Other reserve	(7,432)	—	—	7,432	—
Balance at December 31, 1977	33,755	68,000	75,000	12,825	189,580
Changes in 1978 —					
Net earnings for the year, applicable to the participating shares (a)	245,779	—	—	—	245,779
Dividends, net, on participating shares (Note 10)	(48,624)	—	—	—	(48,624)
Transfer to —					
Capital reserves (Note 17)	(111,289)	—	—	—	(111,289)
General reserve	(25,000)	25,000	—	—	—
Special reserve	(34,000)	—	34,000	—	—
Other reserve	(12,091)	—	—	12,091	—
Balance at December 31, 1978	48,530	93,000	109,000	24,916	275,446
Changes in 1979 —					
Net earnings for the year, applicable to the participating shares (a)	449,710	—	—	—	449,710
Dividends, net, on participating shares (Note 10)	(80,392)	—	—	—	(80,392)
Transfer to —					
Capital reserves (Note 17)	(165,681)	—	—	—	(165,681)
General reserve	(157,000)	157,000	—	—	—
Other reserve	(39,514)	—	—	39,514	—
Balance at December 31, 1979	55,653	250,000	109,000	64,430	479,083

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL LIMITED

Statement of Changes in Retained Earnings (Continued)

	<u>Unappropriated earnings</u>	<u>General reserve</u>	<u>Special reserve</u>	<u>Other reserve</u>	<u>Total retained earnings</u>
	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
Translation into U.S. Dollars (b)					
Balance at December 31, 1978	1,373	2,631	3,083	705	7,792
Changes in 1979 —					
Net earnings for the year, applicable to the participating shares (a)	12,722	—	—	—	12,722
Dividends, net, on participating shares	(2,274)	—	—	—	(2,274)
Transfer to —					
Capital reserves	(4,687)	—	—	—	(4,687)
General reserve	(4,441)	4,441	—	—	—
Other reserve	(1,118)	—	—	1,118	—
Balance at December 31, 1979	<u>1,575</u>	<u>7,072</u>	<u>3,083</u>	<u>1,823</u>	<u>13,553</u>

(a) The retroactive adjustment of the provision for taxes on income resulted in an increase in the earnings of prior years as follows —

	<u>As of January 1, 1975</u>	<u>Year ended December 31,</u>				<u>Total</u>
	<u>IL.000</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	
In respect of —						
Deferred taxes (Note (a)(6) to statement of income)	6,166	2,637	3,794	9,196	8,894	30,687
Income from compulsory Government loans (Note (f) (4) to statement of income)	690	145	517	883	41,547	43,782
	<u>6,856</u>	<u>2,782</u>	<u>4,311</u>	<u>10,079</u>	<u>50,441</u>	<u>74,469</u>

(b) See footnote on page 56.

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

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL LIMITED

Statement of Changes in Financial Position

	Year ended December 31,			
	<u>1977</u> <u>IL.000</u>	<u>1978</u> <u>IL.000</u>	<u>1979</u> <u>IL.000</u>	<u>1979</u> <u>Translated to</u> <u>\$000*</u>
SOURCE OF FUNDS				
Operations				
Net earnings	101,198	285,551	480,629	13,596
Add (deduct) amounts not constituting flow of funds—				
Allowance for doubtful debts	10,147	10,628	10,400	294
Gain on sale of fixed assets	(2,536)	(551)	(619)	(17)
Equity in the earnings of a subsidiary company	(11,570)	(39,193)	(50,326)	(1,424)
Depreciation	2,308	1,977	134	4
Overprovision in prior years for losses on investments	(182)	(1,588)	—	—
Total from operations	<u>99,365</u>	<u>256,824</u>	<u>440,218</u>	<u>12,453</u>
Funds raised				
Shares and premium on shares	—	—	296,509	8,388
Perpetual deposit	210,827	242,791	283,746	8,027
Capital notes	568,331	254,241	930,191	26,314
Debentures and loan bonds	342,988	353,281	917,210	25,946
Deposits and other liabilities	3,079,316	4,138,005	9,032,278	255,510
Special deposits for the granting of loans (Including accumulated interest and linkage increments accrued in the amount of 1977—IL. 2,894,893,000; 1978—IL. 2,720,848,000; 1979—IL. 9,018,357,000)	<u>1,273,150</u>	<u>1,589,255</u>	<u>2,409,256</u>	<u>68,154</u>
	<u>5,474,612</u>	<u>6,577,573</u>	<u>13,869,190</u>	<u>392,339</u>
Collections				
Loans	1,061,102	1,467,092	2,271,650	64,262
Deposits with the Israel Treasury	95,888	181,725	716,029	20,255
	<u>1,156,990</u>	<u>1,648,817</u>	<u>2,987,679</u>	<u>84,517</u>
Proceeds from sale of assets				
Securities	1,964	3,766	2,081	59
Fixed assets	2,494	551	619	17
	<u>4,458</u>	<u>4,317</u>	<u>2,700</u>	<u>76</u>
Other sources				
Amounts received in respect of linkage increments and exchange rate differences on liabilities	258,245	612,419	1,024,047	28,969
Increase in other creditory accounts	—	225,181	231,985	6,563
	<u>258,245</u>	<u>837,600</u>	<u>1,256,032</u>	<u>35,532</u>
Total funds provided	<u>6,993,670</u>	<u>9,325,131</u>	<u>18,555,819</u>	<u>524,917</u>

*See footnote on page 56.

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

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL LIMITED

Statement of Changes in Financial Position (Continued)

APPLICATION OF FUNDS	Year ended December 31,			
	<u>1977</u> <u>IL.000</u>	<u>1978</u> <u>IL.000</u>	<u>1979</u> <u>IL.000</u>	<u>1979</u> <u>Translated to</u> <u>\$000*</u>
Loans granted and deposits made				
Loans	2,920,599	3,987,167	6,661,897	188,455
Deposits with the Israel Treasury	885,106	1,552,588	3,091,270	87,448
(Including interest and linkage increments, currently accrued, in the amount of 1977—IL. 1,303,019,000; 1978—IL. 1,480,986,000; 1979—IL. 5,163,286,000)	3,805,705	5,539,755	9,753,167	275,903
Reduction of liabilities				
Preference shares	2,432	1,603	2,425	69
Perpetual deposit	45,953	60,191	73,746	2,086
Capital notes	12,520	95,658	113,577	3,213
Debentures and loan bonds	116,054	176,459	274,694	7,771
Special deposits for the granting of loans	217,208	473,607	689,170	19,496
Deposits and other liabilities	602,541	1,414,236	2,743,951	77,621
	<u>996,708</u>	<u>2,221,754</u>	<u>3,897,563</u>	<u>110,256</u>
Other applications				
Amounts receivable, accrued in the current year, in respect of linkage increments and exchange rate differences on liabilities	1,717,771	1,208,313	4,293,527	121,458
Government loans	3,388	195,838	249,931	7,070
Acquisition of fixed assets	1,928	1,977	1,927	55
Dividends (net)	47,156	66,881	111,311	3,149
Increase in cash and balances with banks	100,446	90,613	128,294	3,629
Increase in debtors and debit balances	320,568	—	120,099	3,397
	<u>2,191,257</u>	<u>1,563,622</u>	<u>4,905,089</u>	<u>138,758</u>
Total funds applied	<u>6,993,670</u>	<u>9,325,131</u>	<u>18,555,819</u>	<u>524,917</u>

*See footnote on page 56.

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

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL LIMITED

Notes to the Financial Statements

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

The financial statements are presented according to instructions of the Controller of Banks in Israel, as explained in note (a) to the statement of income.

NOTE 1—ACCOUNTING POLICIES

(a) Long term loans to industry—

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

In addition to the above allowance the Bank appropriates amounts out of ordinary income to a special reserve (see Statement of Retained Earnings). This reserve is computed as a percentage of the outstanding loans granted on the responsibility of the Bank.

(b) Investment in a 50% owned company (Investment Company for Industrial Development in Israel Limited)—

Stated on the basis of the equity method.

The excess of cost of this investment over its equity value at acquisition date amounting to IL. 73,000 was written off against income.

(c) Investment in other companies—

Stated at the lower of cost or estimated value.

(d) Israel Government loans (compulsory loans and voluntary war loan)—

In accordance with an opinion issued by the Institute of Certified Public Accountants in Israel, these are stated as from 1978 at cost together with accrued interest and linkage differences. In prior years, Government loans redeemable after five years were stated at cost together with accrued interest only.

This change in method, after taking into account the change in the tax effect thereon, as described in note (f) (4) to the statement of income, resulted in an increase of IL. 105,266,000 in the net earnings for 1978 (of which IL. 25,895,000, IL. 16,516,000, IL. 9,391,000 and IL. 13,181,000 relate to the years 1977, 1976, 1975 and years prior to that, respectively).

(e) Real estate, equipment and other fixed assets—

In accordance with the instructions of the Controller of Banks mentioned above, fixed assets acquired in the current year are stated at cost less depreciation, which was calculated by the "straight line" method at rates deemed adequate to write off the assets over their estimated useful lives. In prior years, the Bank's practice was to write off such assets upon acquisition. The effect of this practice on the amounts reflected for assets and retained earnings as compared with the currently used depreciation method is not material.

(f) Exchange rates and linkage—

1. Assets and liabilities in foreign currency or linked thereto are stated at the representative rates of exchange, published by the Bank of Israel, at balance sheet date. The representative exchange rate for the U.S. dollar was as of December 31, 1977—\$1=IL. 15.39; December 31, 1978—\$1=IL. 19.02; December 31, 1979—\$1=IL. 35.35.

2. Assets and liabilities linked to the consumer price index are stated on the basis of the latest available index as of balance sheet date as follows:

For December 31, 1976—the index for November 1976 of 113.8 points; For December 31,

1977—the index for November 1977 of 163.4 points; For December 31, 1978—the index for November 1978 of 238.6 points; for December 31, 1979—the index for November 1979 of 482.6 points.

Exchange and linkage differences in respect of assets and liabilities are recognized on an accrual basis (see also note (a)(5) to the statement of income).

(g) Taxes on income

See note (f) to the statement of income.

NOTE 2—LINKAGE STATEMENT

The assets and liabilities in the balance sheet include amounts in foreign currency or linked thereto, or linked to the consumer price index, as follows:—

	December 31, 1978		December 31, 1979	
	In foreign currency or linked thereto	Linked to the consumer price index	In foreign currency or linked thereto	Linked to the consumer price index
	<u>IL.000</u>	<u>IL.000</u>	<u>IL.000</u>	<u>IL.000</u>
Assets				
Loans	363,685	—	612,337	792,907
Deposits with the Israel Treasury ...	2,665,130	—	5,040,371	—
Securities	1,355	237,200	1,355	483,634
Cash and balances with banks	28,785	—	67,078	—
Total	<u>3,058,955</u>	<u>237,200</u>	<u>5,721,141</u>	<u>1,276,541</u>
Liabilities				
Capital notes	950,603	—	1,767,217	—
Debentures and loan bonds	629,894	346,300	988,884	629,826
Deposits and other liabilities—				
The Israel Treasury	—	—	21,695	28,405
Banking and financial institutions	5,574,248	132,354	9,471,623	221,548
Other liabilities	488,824	—	823,105	—
Special deposits for the granting of loans	—	—	1,009	764,502
Other accounts	23,365	—	51,326	—
Proposed final dividend	19,306	—	36,604	—
	<u>7,686,240</u>	<u>478,654</u>	<u>13,161,463</u>	<u>1,644,281</u>
Less/ — Liabilities insured by the				
Israel Treasury	<u>4,642,656</u>	<u>478,654</u>	<u>7,794,725</u>	<u>851,374</u>
Total	<u>3,043,584</u>	—	<u>5,366,738</u>	<u>792,907</u>
Excess of assets over liabilities	<u>15,371</u>	<u>237,200</u>	<u>354,403*</u>	<u>483,634</u>

*Includes an amount of IL.318,009,000 (prior years—nil) representing the proceeds of the issue of "DD" preference shares, which have been deposited in their entirety, in foreign currency, with the Israel Treasury.

NOTE 3—LOANS AND DEPOSITS

a. The following is the composition of the long term loans to industry (including those given by way of deposits with banking institutions)—

	<u>December 31, 1978</u> <u>IL.000</u>	<u>December 31, 1979</u> <u>IL.000</u>
Loans	5,543,505	7,611,777
Less/—Allowance for doubtful debts (see b. hereunder)	47,600	58,000
	<u>5,495,905</u>	<u>7,553,777</u>
Advances, pending signing of loans contracts	150,945	725,182
Other advances	21,465	49,115
	<u>5,668,315</u>	<u>8,328,074</u>
Loans granted out of special deposits (Managed Funds) of:		
The Israel Treasury	2,895,490	4,376,902
Others	290,595	529,269
	<u>3,186,085</u>	<u>4,906,171</u>
	<u>8,854,400</u>	<u>13,234,245</u>

b. The following is the movement in the allowance for doubtful debts:—

Balance at beginning of year	37,000	47,600
Add/—Additions per statement of income	10,628	10,400
	47,628	58,000
Less/—Bad debts written off against the allowance	28	—
	<u>47,600</u>	<u>58,000</u>

NOTE 4—AMOUNTS RECEIVABLE IN CONNECTION WITH EXCHANGE DIFFERENCES AND LINKAGE INCREMENTS ON THE BANK'S LIABILITIES

According to an agreement with the Israel Treasury the Bank is reimbursed by the Treasury in respect of linkage increments and exchange differences accrued on its linked liabilities or on those in foreign currency. These increments are included in the liabilities as follows:—

	<u>December 31, 1978</u> <u>IL.000</u>	<u>December 31, 1979</u> <u>IL.000</u>
7½% Registered subordinated capital notes due 1998	472,302	1,228,916
Debentures and loan bonds	813,704	1,489,337
Deposits and other liabilities	2,021,542	3,798,775
	<u>3,307,548</u>	<u>6,577,028</u>

NOTE 5—ISRAEL GOVERNMENT LOANS

(a) Composition

	<u>December 31, 1978</u>	<u>December 31, 1979</u>
	<u>IL.000</u>	<u>IL.000</u>
Cost	45,827	50,933
Accumulated income	198,884	441,628
	<u>244,711</u>	<u>492,561</u>

The loans are non transferable by Law.

(b) Period of redemption—

	<u>December 31, 1979</u>
	<u>IL.000</u>
Employers' Savings Loan	
1980	1,504
1981	11,581
1982	1,319
1983	1,536
1984	2,221
1985 - 1989	6,363
Defence and War Loans	
1984	53,380
1985 - 1989	370,306
1990	44,351
	<u>492,561</u>

NOTE 6—SHARES

	<u>December 31, 1978</u>	<u>December 31, 1979</u>
	<u>IL.000</u>	<u>IL.000</u>
Unquoted shares—		
50% owned company		
Cost	15,073	15,073
Equity in retained earnings and reserves accumulated since acquisition date	42,701	93,028
	57,774	108,101
Excess of cost over equity value at acquisition date written off	73	73
	57,701	108,028
Other companies	2,771	2,771
	<u>60,472</u>	<u>110,799</u>

NOTE 7—CASH AND BALANCES WITH BANKS

Balances with banks include in 1979 marketable deposit certificates amounting to IL. 271,868,000.

NOTE 8—REAL ESTATE, EQUIPMENT AND OTHER FIXED ASSETS

a. Composition:—	At beginning of year <u>IL.000</u>	Additions <u>IL.000</u>	Disposals <u>IL.000</u>	At end of year <u>IL.000</u>
Year ended December 31, 1978—				
Cost—				
Office premises in Shalom Tower Building	3,817	48	(12)	3,853
Leasehold improvements in premises in Asia House	524	259	—	783
Equipment, furniture and motor cars	3,874	1,669	(363)	5,180
Total cost	8,215	1,976	(375)	9,816
Writes off	8,215	1,976	(375)	9,816
Book value at December 31, 1978	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Year ended December 31, 1979—				
Cost—				
Office premises in Shalom Tower Building	3,853	—	—	3,853
Leasehold improvements in premises in Asia House	783	38	—	821
Equipment, furniture and motor cars	5,180	1,889	(692)	6,377
Total cost	9,816	1,927	(692)	11,051
Writes off and depreciation	9,816	134	(692)	9,258
Book value at December 31, 1979	<u>—</u>	<u>1,793</u>	<u>—</u>	<u>1,793</u>

b. Depreciation rates used as from 1979—

	%
Leasehold improvements	10
Equipment, furniture and motor cars	6-15

c. Additional information:—

- (1) The premises in Shalom Tower building are leased until 2049.
- (2) The Bank's premises in Asia House are leased for a period of fifteen years commencing in 1977. The rent is linked to the consumer price index (see also note (e) to the statement of income).
- (3) The total of the amounts written off property and equipment on the books exceeds the aggregate depreciation claimed for tax purposes by IL.6,536,000 and IL.5,702,000 as of December 31, 1978 and 1979 respectively.

NOTE 9—DEPOSITS AND OTHER LIABILITIES

a. The deposits and other liabilities are due in the following years:—

	<u>IL.000</u>
1980	3,139,190
1981	2,502,651
1982	2,465,463
1983	2,762,873
1984	1,290,039
1985 - 1989	2,527,026
1990 - 1994	19,065
	<u>14,706,307</u>

b. The deposits and other liabilities include—

	December 31, 1978	December 31, 1979
	<u>IL.000</u>	<u>IL.000</u>
i. Deposits from banking and financial institutions abroad	5,319,157	9,211,272
ii. Amounts secured by floating charges on the assets of the Bank	1,328,126	1,838,382
iii. A liability to pay exchange rate differences, as a result of currency fluctuations on guarantees issued by the Bank (see Notes 11 and 12)*	273,114	480,021

*This liability is covered by a counter guarantee of the Israel Treasury, which is included under assets in "Amounts receivable in respect of linkage and exchange rate differences on the Bank's liabilities" (see note 4). The due dates of such liability correspond to the due dates of the loans, in respect of which the said guarantees were given.

See note 4 for linkage and exchange rate differences accrued on deposits and other liabilities.

NOTE 10—DIVIDENDS

(a) Composition—

	Years ended December 31,									
	1975		1976		1977		1978		1979	
	%	<u>IL.000</u>	%	<u>IL.000</u>	%	<u>IL.000</u>	%	<u>IL.000</u>	%	<u>IL.000</u>
Non-participating shares—										
3% "B" ordinary shares	3	4,047	3	4,047	3	4,047	3	4,047	3	4,047
3½% "A" preference shares ..	3½	1,750	3½	1,733	3½	1,680	3½	1,627	3½	1,575
7% "B" preference shares, linked to the price of the U.S. dollar	7	587	7	551	7	508	7	430	7	600
7½% "D" preference shares, linked to the price of the U.S. dollar	7½	8,080	7½	10,016	7½	13,630	7½	21,983	7½	34,063
7½% "DD" preference shares, linked to the price of the U.S. dollar		—		—		—		—	3¾	7,282
		<u>14,464</u>		<u>16,347</u>		<u>19,865</u>		<u>28,087</u>		<u>47,567</u>
Less/—reduction in tax liability ..		<u>5,062</u>		<u>5,700</u>		<u>6,953</u>		<u>9,830</u>		<u>16,648</u>
Net dividend on the non-participating shares		<u>9,402</u>		<u>10,647</u>		<u>12,912</u>		<u>18,257</u>		<u>30,919</u>
Participating shares—										
6% participating "C" preference shares, linked to the price of the U.S. dollar	8¼	9,655	8¼	11,777	8¼	17,611	8¼	25,690	8¼	42,369
6% participating "CC" preference shares, linked to the price of the U.S. dollar	8¼	5,680	8¼	6,928	8¼	10,360	8¼	15,112	8¼	24,923
6% participating "CC1" preference shares, linked to the price of the U.S. dollar	8¼	9,853	8¼	12,019	8¼	17,966	8¼	26,215	8¼	43,237
8% participating preferred ordinary shares	17.59	1,759	19.26	1,926	28.51	2,851	32.19	3,219	53.855	5,385
"A" ordinary shares	15.59	2,353	17.26	2,606	26.51	4,003	30.19	4,558	51.855	7,830
		<u>29,300</u>		<u>35,256</u>		<u>52,791</u>		<u>74,794</u>		<u>123,744</u>
Less/—reduction in tax liability ..		<u>10,258</u>		<u>12,300</u>		<u>18,547</u>		<u>26,170</u>		<u>43,352</u>
Net dividends on participating shares		<u>19,042</u>		<u>22,956</u>		<u>34,244</u>		<u>48,624</u>		<u>80,392</u>

(b) The total dividend (gross) is distributable as follows—

Interim dividend, paid	28,752	34,836	46,184	72,480	118,245
Final dividend, proposed	<u>15,012</u>	<u>16,767</u>	<u>26,472</u>	<u>30,331</u>	<u>53,066</u>
Total dividend (gross)	<u>43,764</u>	<u>51,603</u>	<u>72,656</u>	<u>102,811</u>	<u>171,311</u>

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

NOTE 11—CONTRA ACCOUNTS—LONG TERM GUARANTEES

	December 31, 1978	December 31, 1979
These include—	<u>IL.000</u>	<u>IL.000</u>
Guarantee in U.S. dollars stated on the basis of the exchange rate at balance sheet date	—	282,800
Guarantee in U.S. dollars stated on the basis of an exchange rate of \$1=IL.4.20*	50,539	41,803

*Exchange rate differences on this guarantee resulting from changes from the above mentioned rate of exchange to that at balance sheet date, are included in the balance sheet in the item "Deposits and other liabilities" (see Note 9).

NOTE 12—CONTINGENT LIABILITIES

The Bank has guaranteed the payment of exchange rate differences on foreign currency loans, granted to companies in Israel in the aggregate amounts of IL. 32,801,000 and IL. 21,966,000 as of December 31, 1978 and 1979, respectively, based on the rates of exchange prevailing on the dates of execution of such loans.

Exchange rate differences accrued in respect of these guarantees up to balance sheet date are included in the balance sheet in the item "Deposits and other liabilities" (see note 9).

These guarantees are covered by counter undertakings of the Israel Treasury to compensate the Bank for any amount payable under such guarantees.

NOTE 13—DEBENTURES AND LOAN BONDS

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

Rate of interest	Periods of redemption	Amount authorized by indenture '000	Currency or linkage terms	December 31, 1978	December 31, 1979
				<u>IL.000</u>	<u>IL.000</u>
5.5%	1975/86	IL.21,000	linked to the consumer price index	138,205	246,651
7%	1975/84	\$4,000	in U.S. dollars	45,636	70,700
7%	1975/84	\$6,000	in U.S. dollars	68,455	106,050
7%	1972/84	\$5,000	in U.S. dollars	41,833	63,630
6%	1974/86	Sfr. 20,000	in Swiss francs	140,635	230,560
5.5%	1974/86	Sfr. 20,000	in Swiss francs	140,635	230,560
6.5%	1975/84	IL.20,000	linked to the consumer price index	72,358	121,961
7%	1976/85	\$3,000	in U.S. dollars	39,932	63,630
6.5%	1983/94	IL.7,500	linked to the consumer price index	35,479	71,762
6%	1980/91	IL.7,500	linked to the consumer price index	35,479	71,762
7%	1976/85	\$3,000	in U.S. dollars	39,932	63,630
4%	1979/88	IL.15,000	linked to the consumer price index	58,057	105,684
				<u>856,636</u>	<u>1,446,580</u>
(b) Loan bonds (guaranteed by the State of Israel):					
7%	1972/82	\$15,000	in U.S. dollars	105,534	148,470
(c) Accrued interest				<u>962,170</u>	<u>1,595,050</u>
				<u>14,024</u>	<u>23,660</u>
				<u>976,194</u>	<u>1,618,710</u>

See note (4) for linkage increments and exchange differences accrued on the above items.

NOTE 14—7½% REGISTERED SUBORDINATED CAPITAL NOTES DUE 1998

This series of capital notes of a par value of \$50,000,000 bears interest at the rate of 7½% p.a. and is due on December 31, 1998. The notes are registered and are secured by a floating charge on a part of the furniture of the Bank.

Subject to the approval of the Ministry of Finance of the State of Israel, the notes may be redeemed at the option of the Bank in whole or in part on January 2, 1981 or at any date thereafter up to the original maturity date, at a redemption price equal to 105% of the principal amount thereof. Possibility of premature redemption exists in special cases. See note (4) for exchange rate differences accrued on the capital notes.

NOTE 15—PERPETUAL DEPOSIT

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

The deposit bears interest at the rate of 7.25% per annum.

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

NOTE 16—SHARE CAPITAL

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

		December 31, 1978	December 31, 1979
		Authorized IL.000	Issued and paid IL.000
16,000 "A"	ordinary shares of IL.1,000 each	16,000*	15,100
135,400 "B"	ordinary shares of IL.1,000 each	135,400*	134,900
1,000,000 8%	cumulative participating preferred ordinary shares of IL.10 each	10,000	10,000
57,500 3½%	cumulative redeemable "A" preference shares of IL.1,000 each (redemption dates have been fixed for the period 1965-1998)	57,500*	45,000**
6,000 7%	cumulative redeemable "B" preference shares of IL.1,000 each, linked to the price of the U.S. dollar at the rate of \$1 = IL. 1.80 (redemption dates have been fixed for the period 1970-1979)	6,000	— ***
17,000,000 6%	cumulative participating "C" preference shares of IL.1.80 each, linked to the price of the U.S. dollar at the rate of \$1 = IL.1.80	30,600	30,600
1,000,000 6%	cumulative participating "CC" preference shares of IL.30 each, linked to the price of the U.S. dollar at the rate of \$1 = IL.3	30,000	30,000
1,740,000 6%	cumulative participating "CC1" preference shares of IL.30 each, linked to the price of the U.S. dollar at the rate of \$1 = IL.3	52,200	52,043
164,000 7½%	cumulative "D" preference shares of IL.300 each, linked to the price of the U.S. dollar at the rate of \$1 = IL.3, redeemable at a premium of 5.5% (redemption dates will be determined by the Bank, subject to the approval by the Israel Treasury)	49,200	49,043

	<u>Authorized</u> <u>IL.000</u>	<u>December 31,</u> <u>1978</u>	<u>December 31,</u> <u>1979</u>
		<u>Issued and</u> <u>paid</u>	<u>Issued and</u> <u>paid</u>
		<u>IL.000</u>	<u>IL.000</u>
50,000 7½% cumulative "DD" preference shares of IL.21,000 each, linked to the price of the U.S. dollar at the rate of \$1 = IL.21 (redemption dates will be determined by the Bank, subject to approval by the Israel Treasury, but not before December 31, 1983)	1,050,000****	—	188,916
50,100 Unclassified shares of IL.1,000 each	50,100	—	—
	<u>1,487,000</u>	<u>367,241</u>	<u>554,102</u>

* Not traded.

** After redemption of IL.14,000,000 (December 31, 1978—IL.12,500,000)

*** After redemption of IL.5,586,000 (December 31, 1978—IL.5,031,000)

**** In 1979 the authorized share capital of the Bank was increased by IL.840,000,000 by the creation of 40,000 "DD" preference shares of IL.21,000 each. In addition 500,000 existing "DD" preference shares of IL.420 each were converted to 10,000 "DD" preference shares of IL.24,000 each.

NOTE 17—CAPITAL RESERVES

(a) Composition:—

	<u>Paid in</u> <u>surplus</u> <u>IL.000</u>	<u>Linked</u> <u>share</u> <u>capital</u> <u>adjustment</u> <u>reserve(b)</u> <u>IL.000</u>	<u>Capital</u> <u>linkage</u> <u>fund</u> <u>IL.000</u>	<u>Capital</u> <u>redemption</u> <u>reserve</u> <u>fund</u> <u>IL.000</u>	<u>Reserve</u> <u>for future</u> <u>capital</u> <u>redemption</u> <u>IL.000</u>	<u>Capital</u> <u>reserve</u> <u>of a</u> <u>subsidiary</u> <u>IL.000</u>	<u>Tot</u> <u>IL.000</u>
Balance as at January 1, 1978	7,508	25,154	12,289	12,369	2,425		59,7
Changes during 1978—							
Linkage increments on shares redeemed ...		(41)	41				
Linkage gains, net of related income tax ..			109,686				109,6
Appropriated for the redemption of shares					1,603		1,6
Redemption of shares—							
par value				1,562	(1,562)		
linkage increments					(41)		(
Equity in the capital reserve of a subsidiary .						3,434	3,4
Balance as at December 31, 1978	7,508	25,113	122,016	13,931	2,425	3,434	174,4
Changes during 1979—							
Premium on "DD" preference shares	107,593						107,5
Linkage increments on shares redeemed ...		(370)	370				
Linkage gains, net of related income tax ..			163,181				163,1
Appropriated for redemption of shares ..					2,500		2,50
Adjustment of the par value of linked shares		129,093	(129,093)				
Redemption of shares—							
par value				2,055	(2,055)		
linkage increments					(370)		(3
Balance as at December 31, 1979	<u>115,101</u>	<u>153,836</u>	<u>156,474</u>	<u>15,986</u>	<u>2,500</u>	<u>3,434</u>	<u>447,3</u>

(b) Linked share capital adjustment reserve

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

	<u>December 31,</u> <u>1978</u>	<u>December 31,</u> <u>1979</u>
	<u>IL.000</u>	<u>IL.000</u>
Total amount required to adjust the linked share capital on the basis of the rate of exchange at balance sheet date:		
In respect of redeemable shares	267,118	657,942
In respect of non-redeemable shares	<u>730,634</u>	<u>1,455,050</u>
	997,752	2,112,992
Less/- Portion thereof to be recouped from the Israel Treasury upon redemption of shares or in the event of liquidation	<u>972,639</u>	<u>1,959,156</u>
	<u><u>25,113</u></u>	<u><u>153,836</u></u>

NOTE 18—PENSIONS AND SEVERANCE PAY

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

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

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

	<u>December 31,</u> <u>1978</u>	<u>December 31,</u> <u>1979</u>
	<u>IL.000</u>	<u>IL.000</u>
Commitment for pension and severance pay	<u>24,447</u>	<u>57,208</u>
Amounts funded including profits thereon, approximately	<u>17,737</u>	<u>49,385</u>

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

NOTE 19—SUBSIDIARY COMPANIES

The financial statements include the following amounts in respect of subsidiary companies (being a 50% owned company and its subsidiaries):—

	<u>December 31,</u> <u>1978</u>	<u>December 31,</u> <u>1979</u>
	<u>IL.000</u>	<u>IL.000</u>
In the balance sheet		
Loans granted	46,471	55,449
"Other assets"	165	378
"Special deposits for the granting of loans"	4,957	4,957
"Other liabilities"	2,263	24
"Long term guarantees"	50	50
In the statement of income		
Interest income	4,663	8,649
Interest expense	705	191

NOTE 20—"INTERESTED PARTIES" IN THE BANK

The Securities Authority has granted the Bank an exemption from giving details of loans and guarantees granted to "interested parties" in the Bank, in conformity with section 45 of the Securities Regulations (Preparation of Financial Statements—1969), except for loans given within the framework of loans to employees of the Bank, amounting to IL. 50,611 and IL. 43,474 at December 31, 1978 and 1979 respectively. The outstanding balance of these loans during 1979 did not exceed IL. 50,611.

NOTE 21—CAPITAL LINKING FUND AND PROFITS LINKING FUND

In conformity with the requirements of the Articles of Association of the Bank the following statement is given in respect of amounts to be taken to the said funds, which have been included in the statements of income and changes in shareholders' equity under the relevant headings:—

	<u>Capital Linkage Fund</u>		<u>Profits Linkage Fund</u>	
	<u>1978</u>	<u>1979</u>	<u>1978</u>	<u>1979</u>
	<u>IL.000</u>	<u>IL.000</u>	<u>IL.000</u>	<u>IL.000</u>
Income from linkage increments	758,303	3,152,581	93,672	262,609
Expense from linkage increments	566,314	2,879,400	92,166	260,065
Excess	191,989	273,181	1,506	2,544
Provision for taxes	82,303	110,000	972	1,366
Excess after taxes transferred to the Fund ...	<u>109,686</u>	<u>163,181</u>	<u>534*</u>	<u>1,178*</u>

*This surplus was allocated to payment of linkage increments on dividends.

ADDITIONAL INFORMATION REQUIRED UNDER ISRAEL LAW

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

Dividends:

The profits of the Bank which it shall be decided to distribute from time to time, in respect of any period of time, between the members of the Bank will be applied in the order and degree of priority following:—

Firstly—In paying, after payment of arrears, if any, on all Preference Shares and then on Preferred Ordinary Shares, a fixed cumulative preferential dividend at the rate of $3\frac{1}{2}\%$ per annum on the capital paid up on Preference "A" Shares, and at the rate of 6% per annum (together with the increment emanating from the linking terms at IL. 1.80=\$1) on the capital paid up on Preference "C" Shares, and at the rate of 6% per annum (together with the increment emanating from the linking terms at IL. 3=\$1) on the capital paid up on Preference "CC" Shares, and at the rate of 6% per annum (together with the increment emanating from the linking terms at IL. 3=\$1) on the capital paid up on Preference "CC1" Shares, and at the rate of $7\frac{1}{2}\%$ per annum (together with the increment emanating from the linking terms at IL. 3=\$1) on the capital paid up on the D Shares and at the rate of $7\frac{1}{2}\%$ per annum (together with the increment emanating from the linking terms at IL. 21=\$1) on the capital paid up on the Shares—all pari passu and proportionately to the capital paid up on the said shares.

The said dividends without the increment emanating from the linking terms, shall in the first place be paid out of the Ordinary Profits of the Bank, and to the extent that these will not be sufficient from the Profits Linking Fund. The increments emanating from the linking terms shall be paid, unless otherwise provided in the terms of issue of any share, in the first place out of the Profits Linking Fund, and to the extent that this will not be sufficient from the Ordinary Profits. (For the precise terms of issue of the Shares, see "The Shares".)

Secondly—In paying a fixed cumulative preferential dividend at the rate of 8% per annum on the capital paid up on Preferred Ordinary Shares. The said dividend shall in the first place be paid out of the Ordinary Profits, and to the extent that these will not be sufficient from the Profits Linking Fund.

Thirdly—In setting aside out of the Ordinary Profits sums to the Capital Linking Fund or Funds, if any, for the redemption of Redeemable Preference Shares.

Fourthly—In setting aside out of the Ordinary Profits such sums to the Reserve Fund as the Board of Directors of the Bank may determine, provided such sums shall not exceed 10% of the said profits.

Fifthly—In paying a non-cumulative dividend at the rate of 6% per annum on the capital paid up on the Ordinary "A" Shares.

Sixthly—In paying a non-cumulative dividend at the rate of 3% per annum on the capital paid up on the Ordinary "B" Shares.

The dividends mentioned in Fifthly and Sixthly above shall be paid out of the Ordinary Profits, and to the extent that these will not be sufficient the Board shall be entitled to recommend the payment of the said dividends out of the Profits Linking Fund.

Seventhly—In setting aside additional sums out of the Ordinary Profits to the aforesaid Reserve Fund if it shall be so determined.

Eighthly—The surplus of the Ordinary Profits, to the extent that it may be decided to distribute the same, shall be distributed by way of additional dividend on the capital paid up on the following shares and in the following proportion, namely: 10 for every agora paid up on each Ordinary "A" Share; 10 for every agora paid up on each Preferred Ordinary Share; 10 for every agora paid up on each Preference "C" Share; 6 for every agora paid up on each Preference "CC" Share; and 6 for every agora paid up on each Preference "CC1" Share—all pari passu and proportionately to the capital paid up on the said shares.

Ninthly—The Board of Directors of the Bank shall be entitled to recommend the use of the surplus of the Profits Linking Fund, to the extent that it may be decided to distribute the same, in the order and degree of priority following:

- (a) In setting aside such sums as shall be deemed fit to the Capital Fund or Funds, if any, for the redemption of Redeemable Preference Shares;
- (b) In setting aside such sums as shall be deemed fit for the Reserve Fund;
- (c) In setting aside such sums as shall be deemed fit for any other Reserve Fund of the Bank then existing;
- (d) In distributing the residue of the surplus or any part thereof among the holders of Ordinary "A" Shares, the holders of Ordinary "B" Shares, the holders of Preferred Ordinary Shares, and the holders of Preference "A" Shares—all pari passu and proportionately to the capital paid up on the said shares, such distribution to be as compensation for the devaluation of the Israeli pound.

All the said dividends are payable on the nominal amount paid up on the shares on the date of the declaration of the dividend proportionately to the amounts paid up on the nominal value of the shares, and proportionately to the dates on which such amounts have been paid (pro rata temporis) but the terms of issue of any share may provide that a holder shall be entitled to a dividend from a fixed date. (For the terms of issue of the Shares see "The Shares—Dividends".)

Liquidation Rights:

On a winding up of the Bank all its assets available for distribution among its members will be applied in the order and degree of priority following:

Firstly—In paying arrears of fixed cumulative preferential dividends cumulated up to the date of commencement of the winding up (whether such dividends have been declared or not) on the capital paid up on Preference "A" Shares, and in paying arrears of fixed cumulative preferential dividends (together with the increment emanating from the linking terms at IL. 1.80=\$1) cumulated up to the date of the commencement of the winding up (whether such dividends have been declared or not) on the capital paid up on Preference "C" Shares, and in paying arrears of fixed cumulative preferential dividends (together with the increment emanating from the linking terms at IL. 3=\$1) cumulated up to the date of the commencement of the winding up (whether such dividends have been declared or not) on the capital paid up on Preference "CC" Shares, and in paying arrears of fixed cumulative preferential dividends (together with the increment emanating from the linking terms at IL. 3=\$1) cumulated up to the

date of the commencement of the winding up (whether such dividends have been declared or not) on the capital paid up on Preference "CC1" Shares, and in paying arrears of fixed cumulative preferential dividends (together with the increment emanating from the linking terms at IL. 3=\$1) cumulated up to the date of the commencement of the winding up (whether such dividends have been declared or not) on the capital paid up on the Preference "D" Shares and in paying arrears of fixed cumulative preferred dividends (together with the increment emanating from the linking terms at IL. 21=\$1) cumulated up to the commencement of the winding up (whether such dividends have been declared or not) on the capital paid up on the Shares—all pari passu and proportionately to the capital paid up on such shares.

The arrears of the said dividends, without the increments emanating from the linking terms, shall in the first place be paid out of the Ordinary Assets, and to the extent that these will not be sufficient out of the Capital Linking Fund. The increments emanating from the linking terms shall be paid, unless otherwise provided in the terms of issue of any share, in the first place out of the Capital Linking Fund and to the extent that this will not be sufficient out of the Ordinary Assets. (For the precise terms of issue of the Shares, see "The Shares—Liquidation Rights".)

Secondly—In paying arrears of fixed cumulative preferential dividends up to the date of the commencement of the winding up (whether such dividends have been declared or not) on the capital paid up on the Preferred Ordinary Shares, which shall in the first place be paid out of the Ordinary Assets of the Bank, and to the extent that these will not be sufficient out of the Capital Linking Fund.

Thirdly—In repaying the capital paid up on Preference "A" Shares, and in repaying the capital paid up (together with the increment emanating from the linking terms at IL. 1.80=\$1) on Preference "C" Shares, and in repaying the capital paid up (together with the increment emanating from the linking terms at IL. 3=\$1) on Preference "CC" Shares, and in repaying the capital paid up (together with the increment emanating from the linking terms at IL. 3=\$1) on Preference "CC1" Shares, and in repaying the capital paid up (together with the increment emanating from the linking terms at IL. 3=\$1) on the Preference "D" Shares and in repaying the capital paid up (together with the increment emanating from the linking terms at IL. 21=\$1) on the Shares—all pari passu and proportionately to the capital paid up on the said shares.

The said capital, without the increments emanating from the linking terms, shall in the first place be paid out of the Ordinary Assets and to the extent that these will not be sufficient out of the Capital Linking Fund. The increments emanating from the linking terms shall be paid, unless otherwise provided in the terms of issue of any share, in the first place out of the Capital Linking Fund and to the extent that this will not be sufficient out of the Ordinary Assets. (For the precise terms of issue of the Shares, see "The Shares—Liquidation Rights".)

Fourthly—In repaying the capital paid up on the Preferred Ordinary Shares, which shall in the first place be paid out of the Ordinary Assets, and to the extent that these will not be sufficient out of the Capital Linking Fund.

Fifthly—In repaying the capital paid up on Ordinary "A" Shares, and in repaying the capital paid up on Ordinary "B" Shares—all pari passu and proportionately to the capital paid up on the said shares. The said capital shall be repaid in the first place out of the Ordinary Assets, and to the extent that these will not be sufficient out of the Capital Linking Fund.

Sixthly—The surplus of the Ordinary Assets shall be divided among the holders of Ordinary "A" Shares, Preferred Ordinary Shares, Preference "C" Shares, Preference "CC" Shares and Preference "CC1" Shares, in accordance with the capital paid up thereon and in the following proportion, namely, 10 for every agora paid up on each Ordinary "A" Share, 10 for every agora paid up on each Preferred Ordinary Share, 10 for every agora paid up on each Preference "C" Share, 6 for every agora paid up on each Preference "CC" Share, and 6 for every agora paid up on each Preference "CC1" Share—all pari passu and proportionately to the capital paid up on the said shares.

Seventhly—The surplus of the Capital Linking Fund shall be distributed among the holders of Ordinary "A" Shares, Ordinary "B" Shares, Preferred Ordinary Shares, and Preference "A" Shares—all pari passu and proportionately to the capital paid up on the said shares.

It is to be noted that the Shares do not participate in the surplus of the Bank.

Redemption Rights:

Ordinary "A" Shares, Ordinary "B" Shares, Preferred Ordinary Shares, Preference "C" Shares, Preference "CC" Shares and Preference "CC1" Shares are not redeemable. The only redeemable shares in the share capital of the Bank are the Preference "A" Shares, the Preference "D" Shares and the Shares, which are redeemable as follows:

Preference "A" Shares:

- (a) As from the year 1980 to the year 1989 inclusive, the Bank will redeem each year 2,500 Preference "A" Shares at the nominal value thereof;
- (b) As from the year 1990 to the year 1997 inclusive, the Bank will redeem each year 2000 Preference "A" Shares at the nominal value thereof;
- (c) At the year 1998 the Bank will redeem 2,500* Preference "A" Shares at the nominal value thereof;
- (d) At the year 1999 the Bank will redeem 2,500* Preference "A" Shares at the nominal value thereof.

Preference "D" Shares:

As from the year 1974 and with the consent of the Ministry of Finance of the Government of Israel, the Bank may redeem the Preference D Shares at 105% of the par value plus accrued dividends, both linked to the Dollar at the rate of IL. 3=\$1.

The Shares:

See "Description of Shares—Redemption".

As mentioned above, under Israeli Law redeemable preference shares (including the Shares) may be redeemed only out of the profits of the Bank which would otherwise be available for dividend or out of the proceeds of a fresh issue of shares made for the purpose of such redemption.

* Not yet allotted.

Linking Terms of Preference "C" Shares:

If on the day on which any amount becomes due for payment to the holders of the Preference "C" Shares, whether on account of dividend or on account of capital in the event of winding up, (hereinafter referred to as "the Determining Day"), the price of the Dollar shall exceed IL. 1.80, the Bank will pay for every IL. 1.80 of such payment on account of dividend or capital an amount in Israeli 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. 1.80, the Bank will make such payment on account of dividend or capital at its nominal amount.

Linking Terms of Preference "CC" Shares and Preference "CC1" Shares and Preference "D" Shares:

If on the day on which any amount becomes due for payment to the holders of the Preference "CC" Shares or to the holders of the Preference "CC1" Shares, or to the holders of the Preference "D" Shares, whether on account of dividend or on account of capital in the event of winding up and in the case of Preference "D" Shares also on redemption (hereinafter referred to as "the Determining Day"), the price of the Dollar shall exceed IL. 3, the Bank will pay for every IL. 3 of such payment on account of dividend or capital, an amount in Israeli 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. 3, the Bank will make such payment on account of dividend or capital at its nominal amount.

Linking Terms of the Shares:

See "The Shares—Linking Terms".

Issue of Further Shares:

No additional preference shares (whether cumulative or non-cumulative, linked to any value or not linked to any value, participating or non-participating, redeemable or non-redeemable) may be issued which in order of priority as regards payment of dividends and linking increments and repayment of capital and premiums will rank before the Preference "A" Shares, Preference "C" Shares, Preference "CC" Shares, Preference "CC1" Shares, Preference "D" Shares and the Shares, but additional preference shares as aforesaid which will rank *pari passu* with the Preference "A" Shares, Preference "C" Shares, Preference "CC" Shares, Preference "CC1" Shares, Preference "D" Shares and the Shares in all respects or as regards payment of dividends, linking increments, or repayment of capital and premiums, may be issued.

Meetings:

General meetings of the Bank must be held at least once in every calendar year and not more than 15 months after the holding of the last preceding general meeting, and at such places as may be determined by the Board of Directors of the Bank. Such general meetings are called Ordinary General Meetings and other general meetings of the Bank are called Extraordinary General Meetings. The Board of Directors may call an Extraordinary General Meeting whenever it thinks fit. The Board of Directors shall convene an Extraordinary General Meeting on the requisition in writing signed by the holders of not less than 10% of the paid up voting share-capital. If the Board of Directors fails to call a meeting within 21 days from the deposit of the requisition, the requisitionists themselves or a

representative of the majority of the voting rights of the requisitionists may call an Extraordinary General Meeting, but no such meeting is to be held after the expiration of three months from the deposit of the requisition.

Any reasonable expenses incurred by the requisitionists by reason of the failure of the Board of Directors to convene an Extraordinary General Meeting, shall be repaid to the requisitionists by the Bank.

Notice of Meetings:

Prior notice of not less than 7 days shall be given to the Ordinary "A" Shareholders and Preferred Ordinary Shareholders of every Ordinary and Extraordinary General Meeting (other than a meeting for the passing of a Special Resolution), and prior notice of not less than 21 days shall be given to the said Shareholders whenever it is proposed to pass a Special Resolution.

Quorum and Voting:

Two members of the Bank present at a general meeting in person or by proxy and holding between them a number of Ordinary "A" Shares entitling them to one-third of the total number of votes of the Bank shall be a quorum, and no business shall be transacted at any meeting unless such quorum is present at the commencement of the business. If within half an hour after the time appointed for the holding of a general meeting a quorum is not present, the meeting, if convened on the requisition of members, shall be dissolved, and in every other case shall stand adjourned to the same day in the next week at the same time and place or to such other day, time and place as the Board of Directors may fix by Notice to the Ordinary "A" Shareholders and Preferred Ordinary Shareholders. If at such adjourned meeting a quorum is not present the Ordinary "A" Shareholders and/or Preferred Ordinary Shareholders present at the meeting in person or by proxy shall be a quorum and may transact the business for which the meeting was called. The Chairman with the consent of the meeting may adjourn any meeting from time to time and from place to place. No business shall be transacted at an adjourned meeting other than the business which might have been transacted at the original meeting.

In any general meeting a resolution put to the vote shall be decided upon by a poll only. Each Ordinary "A" Share enables the holder thereof to 1,000 votes and each Preferred Ordinary Share entitles the holder thereof to one vote only.

In the case of equality of votes the Chairman of the meeting shall be entitled to a casting vote in addition to the vote or votes to which he is otherwise entitled.

Any resolution of the Bank in general meeting shall be deemed duly passed if passed by a simple majority, unless a different majority is required by Israel law or by the Articles of Association of the Bank.

Board of Directors:

The number of Directors shall not be less than two. The Directors of the Bank for the time being constitute the Board of the Bank. The Board of the Bank may exercise all the powers of the Bank and do all the things which the Bank is entitled to do and which are not by law or by the Articles of Association of the Bank required to be done in general meeting.

A Director shall not be disqualified by his office from holding any office or place of profit under the Bank or under any company which is a shareholder or otherwise interested in the Bank or in any other company in which the Bank is a shareholder or otherwise interested. Likewise a Director shall not be

disqualified by his office from contracting with the Bank in the name and on behalf of another company or in his name or on his own behalf, as vendor, purchaser, or otherwise, and the holding by a Director of the office of Director or the fiduciary relationship thereby created shall not, ipso facto, serve as cause for the cancellation of any contract as aforesaid or any agreement or arrangement that may be made by the Bank or in its name in which a Director is in any way interested. Moreover, a Director need not, for these reasons alone, account to the Bank for any profits made from any office or place of profit or which may arise out of any such agreement or arrangement.

Miscellaneous:

- (a) Except for the Underwriting Agreement, with respect to the Shares referred to herein, the Bank has not paid, nor has it undertaken to pay, any commission for agreements to subscribe or for undertakings to procure subscriptions of the Shares.
- (b) Within the past two years, the Bank has paid no commissions in connection with the sale and subscription of its debentures and shares, except for the sum of IL. 22,450,000 paid to the Underwriter of the Capital Notes and the Shares.
- (c) The Bank has paid no monies and has given no benefits to any promoters and it has no intention of doing so in the future.
- (d) The Bank has not heretofore agreed to issue any shares or debentures for any consideration other than cash, except as follows:

According to the terms of issue of 10,000,000 Preference "C" Shares and the terms of issue of 7,000,000 Preference "C" Shares (of July 31st, 1962) and the terms of issue of 1,000,000 Preference "CC" Shares and 1,500 Ordinary "AA"* Shares (of December 5th, 1962 and December 9th, 1963, respectively) and the terms of issue of 3,085 Ordinary "A" Shares (of September 3rd, 1963) and the terms of issue of 300,000 Preference "CC1" Shares (of October 11th, 1963) and the terms of issue of 200,000 Preference "CC1" Shares (of April 5th, 1965) and the terms of issue of 200,000 redeemable Preference "D" Shares (of May 31, 1966) which the Bank has issued, the consideration for such shares was paid partly in State of Israel Independence Issue and Development Issue Bonds and the terms of issue of \$50,000,000 Capital Notes, which the Bank has issued, of which the consideration was paid partly in State of Israel Bonds. The Bank has also allotted on December 31st, 1962, 1,111,111 Preference "C" Shares and 250 Ordinary "A" Shares to Israel Central Trade and Investment Company Ltd. for a consideration of 1,500,000, 6% Redeemable Preference Shares (linked to the price of cement) of IL. 1 each in "Nesher" Israel Portland Cement Works Limited and for cash.
- (e) Under Israel law, a prospectus may only be used for a period not exceeding 17 months from the last audited financial statement, but in no case for more than one year from the publication of the prospectus.

Material Contracts:

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

* N.B. These shares have never been allotted and have since been converted into Ordinary "A" Shares.

- (1) Agreements dated December 30, 1960, December 31, 1962, February 14, 1965, August 30, 1967 and September 28, 1969 between the State of Israel and the Bank relating to monies which the State has deposited with the Bank and to monies which the Bank deposited with the State's Treasury, and to the responsibility of the State for certain loans granted by the Bank.
- (2) The Bank's letter dated December 8, 1968 to the Government of Israel and the Government's letter to the Bank, dated January 24, 1969, with regard to loans carrying interest of a rate over 9% per annum and loans in foreign currency or linked loans which are granted with the approval of the Ministry of Finance.
- (3) Exchange of letters dated March 27, 1968 between the Bank and the Ministry of Finance and a letter to the Bank from the Ministry of Finance dated April 24, 1968, setting out the arrangements regarding the cancellation of linkage on the loans which were granted by the Bank and the insurance of its linked obligations.
- (4) An agreement dated September 30, 1969 between the State of Israel and Yuval Insurance Company for Israel Ltd. and the Bank with regard to the payment of the difference in exchange rates in respect of loans in foreign currency which the Bank has received, and an exchange of letters between the Ministry of Finance and the Bank relating to the application of the terms of the agreement to loans which the Bank received after the date of the said agreement.
- (5) Agreement dated February 8, 1960 between the Government and the Bank with regard to the redemption of Preference A Shares.
- (6) A letter dated June 21, 1970 from the Ministry of Finance to the Bank with regard to the profit ratio on linked loans.
- (7) A letter dated December 1, 1976, from the Ministry of Finance to the Bank with regard to the rate of interest on directed Development Loans and a letter dated August 9, 1978 from that Ministry on the same subject and a letter dated January 1979 from the Ministry of Industry, Trade and Tourism with regard to the rate of interest on long term directed loans for investment in fixed assets.
- (8) Agreement dated July 8, 1971 between the Bank and the State of Israel with regard to monies which the Government deposits with the Bank from time to time, in consideration of which the Bank shall issue Capital Notes to the Government.
- (9) Agreements dated June 25, 1971 and November 23, 1972 between the Investment Company of Industrial Development Bank of Israel Ltd. and Dimona Fibers Ltd. and its shareholders, according to which the Investment Company acquired all the capital of "Dimona Fibers" out of which 25% was acquired on behalf of the Bank.
- (10) Agreement dated February 24, 1974, between the Jewish Agency for Israel and the Bank in connection with the management of a special fund of \$25,000,000.
- (11) Agreement dated May 15, 1974, between the Government of Israel and the Bank in connection with the setting up of a fund and the management thereof.
- (12) Indenture dated as of July 25, 1974 between the Bank and Manufacturers Hanover Trust Company, in respect of the issue of the Capital Notes.

- (13) Underwriting Agreement dated as of July 25, 1979 between the Bank and Capital for Israel, Inc. with respect to the sale of the Shares.
- (14) Agreement dated March 31, 1976 between the Government of Israel and the Bank relating to rates of interest payable to and by the Bank.
- (15) Lease agreement dated February 5, 1976 between Asia House Ltd. and the Bank for the lease of office premises.
- (16) A Letter of Undertaking dated July 29, 1979 by the Government of Israel relating to various undertakings of the Government of Israel and the Bank, respectively, in connection with the issuance of the Shares.
- (17) Letters dated August 12, 1979; August 26, 1979; October 11, 1979; November 21, 1979 and December 2, 1979, from the Ministry of Finance to the Bank with regards to the terms and conditions of the New Development Loans granted by the Bank, which are linked either to the cost-of-living index in Israel or to the United States Dollar, and with regards to the profit ratio to the Bank on such linked loans.

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

The Industrial Development Bank of Israel Ltd.
Tel-Aviv

In connection with an offer of 50,000 7½% Cumulative Redeemable Preference DD Shares of IL. 21,000 each, in a total amount of \$50,000,000 to be issued by you pursuant to a Prospectus which you are about to publish, we are giving you at your request our opinion as follows:

- (a) The rights attached to the Shares offered have, in our opinion, been correctly described in the Prospectus;
- (b) In our opinion, you are entitled to issue the said Shares as stated in the Prospectus;
- (c) In our opinion and based on the opinion of the law officers of the Government of Israel relating to the State Directors, the directors of your Bank have been properly appointed and their names are properly inserted in the Prospectus.

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

M. ROTTENBERG, Advocate

April 11, 1980

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

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

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

SIGNATURES

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL LIMITED

YEHUDA GILL	M. B. GITTER	HERMANN MERKIN
RICHARD ARMON	SHLOMO GIVON	JOSEPH MEYERHOFF
MEIR BACHAR	AVRAHAM GOLDWASSER	DR. AVRAHAM NEAMAN
CHAIM BEN-DAVID	HAIM HAHAM	MOSHE OLENIK
H. J. BERGSTEIN	HENRY HARAN	YAACOV PACTHER
YORAM BLIZOVSKY	WILLIAM HAUCK	EUGEN PROPPER
NAFTALI BLUMENTHAL	DR. ALEXANDER KAGAN	ISRAEL RAUCH
ARIE CHUPAK	SHLOMO KOVACS	DANIEL RECANATI
RALPH COHEN	GERSHON LEV	RAPHAEL RECANATI
ISAAC ELLMAN	AVIV LEVIN	AMNON SADEH
AHARON FOGEL	URI LEVIT	YORY SALANT
ASHER FRIEDMAN	PERETZ LITTMAN	AVRAHAM SHALIV
MEYER FRIEDMANN	YAAQOV MACHT	ISAIAH SPIVACK
ABRAHAM FRIEDMANN	SHLOMO MAGRISO	DAN TOLKOWSKY
ISRAEL GALITZKY	LEON MALOWANZCYK	YEHUDA WEILER
ARIE GEVA	DR. M. MANDELBAUM	SHALOM ZAK
YAAKOV GEVA	YAACOV MANN	SHLOMO ZIV
GAD GIL	ARYEH MANOR	YORAM ZIV