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

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

	Notes	Year ended December 31, 1975 IL.000	1976 IL.000	1977 IL.000	1978 IL.000	1979 IL.000	1979 Translated to $000
OPERATING INCOME							
Income from loans and deposits							
Interest		231,926	371,644	714,213	1,270,193	2,384,188	67,445
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)	(b)	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
Commissions		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
Income from security investments							
Income from Israel Government loans		2,432	4,190	3,497	78,890	244,642	6,921
Equity in net earnings of a 50% owned company		4,390	3,603	12,320	18,312	51,301	1,451
Dividends from other companies		428	478	687	596	889	25
		7,250	8,271	16,504	97,798	296,832	8,397
Other income		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
OPERATING EXPENSES							
Expenses on debentures, loan bonds and deposits							
Interest and commissions		183,114	257,672	483,678	722,129	1,273,213	36,017
Linkage increments and exchange differences on principal sums		119.993	159.181	2.637.350	1,738,370	6,814,452	192,771
		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	(c)	133,047	206,421	2.119.705	1,442,802	4,645,748	131,421
		170,060	210,432	1,001,323	1,017,697	3,441,917	97,367

Expenses on special deposits for the granting of loans							
Interest		14,472	64,814	190,707	403,844	668,386	18,908
Linkage increments and exchange differences on principal sums		3,895	6,761	53,991	36,258	285,028	8,063
		18,367	71,575	244,698	440,102	953,414	26,971
Allowance for possible loan losses	(d)	6,629	4,924	10,147	10,628	10,400	294
Write off of property and equipment		416	602	2,308	1,977	134	4
Salaries and employees' benefits		11,911	19,344	31,361	55,640	104,835	2,965
General expenses	(e)	4,173	5,803	7,556	16,991	28,399	803
		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	(f)	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	(g)	11,187	15,607	26,314	44,735	77,270	2,186
Gain on sale of equipment	(h)	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	(i)	—	—	182	1,588	—	—
		11,230	16,610	29,032	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)							
3% "B" ordinary shares		4,047	4,047	4,047	4,047	4,047	114
3½% "A" preference shares		1,750	1,733	1,680	1,627	1,575	45
7% "B" preference shares		587	551	508	430	600	17
7½% "D" preference shares		8,080	10,016	13,630	21,983	34,063	964
7½% "DD" preference shares		—	—	—	—	7,282	206
		14,464	16,347	19,865	28,087	47,567	1,346
Less—Reduction in tax liability		5,062	5,700	6,953	9,830	16,648	471
Net dividend on non-participating shares		9,402	10,647	12,912	18,257	30,919	875
Net earnings applicable to the participating shares		44,525	58,549	88,286	245,779	449,710	12,722

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

Per share data	1975 IL.	1976 IL.	1977 IL.	1978 IL.	1979 IL.
	Year ended December 31,				
(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

	1975 IL.	1975 $	1976 IL.	1976 $	1977 IL.	1977 $	1978 IL.	1978 $	1979 IL.	1979 $
	Year ended December 31,									
(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.

	1975	1976	1977	1978	1979
	Year ended December 31,				
(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.

	1975 IL.	1976 IL.	1977 IL.	1978 IL.
	Year ended December 31,			
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—

	Balance at beginning of year	Additions Charged to expenses	Deductions Loans written off	Balance at end of year
	IL.000	IL.000	IL.000	IL.000
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—

	1975	1976	1977	1978	1979
	IL.000	IL.000	IL.000	IL.000	IL.000
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
	4.173	5.803	7.556	16.991	28,399

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.