

CANADIAN OFFERING MEMORANDUM DATED JULY 1, 2014

This Canadian offering memorandum constitutes an offering of the securities described herein only in those Canadian jurisdictions and to those persons where and to whom they may be lawfully offered for sale, and therein only by persons permitted to sell such securities. This Canadian offering memorandum is not, and under no circumstances is to be construed as, an advertisement or a public offering of the securities described herein. No securities commission or similar authority in Canada has reviewed or in any way passed upon this document or the merits of the securities described herein, and any representation to the contrary is an offence under applicable securities laws.

**CDN\$500,000,000
STATE OF ISRAEL
CANADIAN DOLLAR JUBILEE BONDS (FIFTH SERIES)**

Summary Terms of Bonds

This is an offering by the State of Israel of an aggregate amount of CDN\$500,000,000 State of Israel Jubilee Fixed Rate Bonds (Fifth Series). The State of Israel pledges its full faith and credit for the due and punctual payment of principal and accrued interest, as well as for the due and timely performance of all of its obligations with respect to the bonds.

Maturity

We are offering bonds of five maturity periods: one (1), two (2), three (3), five (5) and ten (10) years. Your bonds will mature on the first calendar day of the month during which the first, second, third, fifth or tenth anniversary, as the case may be, of the Issue Date of your bond occurs.

Denominations

You may buy each 1-Year, 2-Year, 3-Year, 5-Year and 10-Year Canadian Dollar Jubilee Bond in a minimum denomination of CDN\$25,000 (and integral multiples of CDN\$5,000 in excess of CDN\$25,000). In addition, if you have purchased a minimum of CDN\$25,000 of bonds of a certain maturity period in a single purchase that were issued during the twelve (12) month period immediately preceding the additional purchase, you may purchase such additional bonds of the same maturity period in denominations of CDN\$5,000 (or integral multiples of CDN\$5,000). Additional bonds must be registered in the same name as the bonds satisfying the minimum purchase requirement.

You may buy each 1-Year, 2-Year, 3-Year, 5-Year and 10-Year Canadian Dollar Maccabee Jubilee Bond in a minimum denomination of CDN\$5,000 (and integral multiples of CDN\$1,000 in excess of CDN\$5,000). In addition, if you have purchased a minimum of CDN\$5,000 of bonds of a certain maturity period in a single purchase that were issued during the twelve (12) month period immediately preceding the additional purchase, you may purchase such additional bonds of the same maturity period in denominations of CDN\$1,000 (or integral multiples of CDN\$1,000). Additional bonds must be registered in the same name as the bonds satisfying the minimum purchase requirement.

Interest

The bonds will bear interest from (and including) the Issue Date at a fixed annual rate until (but not including) the maturity date. Except in the cases described in this offering memorandum, interest will be paid every May 1 and November 1 and upon maturity. *The bonds will not earn or accrue interest after maturity.*

Issue Dates

The bonds will be issued on the 1st and 15th of the month. To purchase a bond of a specific Issue Date, your subscription must be accepted before such Issue Date (or before such other day as may be announced).

Limitations on Transfer

The transferability of the bonds is restricted as described in detail in this offering memorandum.

Book Entry

The State of Israel is issuing the bonds in book-entry form. Certificates will be issued only to government agencies, pension funds, financial institutions and Employee Benefit Plans that so request at the time of purchase.

See the section entitled "Risk Factors" in the accompanying offering memorandum for a discussion of certain factors you should consider before investing in the bonds.

This offering may have a special appeal to persons with an interest in the State of Israel rather than the general public. The bonds offered hereby are considered a separate and distinct class of securities, for all purposes, from any other State of Israel debt instruments, whether denominated in Canadian dollars or otherwise. The State of Israel may have issues of debt instruments outstanding which may, on any given day, provide a greater yield to maturity than the bonds being offered by this offering memorandum.

The bonds are being offered on a best-efforts basis, and the amount of proceeds from the offering will depend upon the principal amount of bonds sold.

NO SECURITIES COMMISSION OR SIMILAR AUTHORITY IN CANADA HAS IN ANY WAY PASSED UPON THE MERITS OF THE SECURITIES OFFERED HEREUNDER AND ANY REPRESENTATION TO THE CONTRARY IS AN OFFENCE. THESE SECURITIES ARE ISSUABLE TO INDIVIDUALS AND ENTITIES ONLY WITHIN CANADA.

Selling Agent:

CANADA-ISRAEL SECURITIES, LIMITED
970 LAWRENCE AVENUE WEST, SUITE 502, TORONTO, ONTARIO, M6A 3B6

DESCRIPTION OF THE BONDS

We are issuing the bonds under the Amended and Restated Master Fiscal Agency Agreement, dated as of December 24, 2013 (as amended, further amended and restated or otherwise modified from time to time, the “Fiscal Agency Agreement”) between the State of Israel (also referred to in this offering memorandum as the “State” or “Israel”) and Computershare Trust Company of Canada, as fiscal agent (the “Fiscal Agent”).

This section of the offering memorandum is a summary of the material provisions of the bonds and the Fiscal Agency Agreement. Because it is only a summary, the description may not contain all of the information that is important to you as a potential investor in the bonds. Therefore, the State of Israel urges you to read the Fiscal Agency Agreement and the form of bond in making your decision on whether to invest in the bonds.

Whenever used in this offering memorandum, a “Business Day” shall mean any banking day in Toronto, Ontario.

The State of Israel is offering CDN\$500,000,000 aggregate principal amount of Canadian Dollar Jubilee Bonds (Fifth Series). The State is offering ten series of bonds: 1-Year Canadian Dollar Jubilee Bonds, 2-Year Canadian Dollar Jubilee Bonds, 3-Year Canadian Dollar Jubilee Bonds, 5-Year Canadian Dollar Jubilee Bonds, 10-Year Canadian Dollar Jubilee Bonds, 1-Year Canadian Dollar Maccabee Jubilee Bonds, 2-Year Canadian Dollar Maccabee Jubilee Bonds, 3-Year Canadian Dollar Maccabee Jubilee Bonds, 5-Year Canadian Dollar Maccabee Jubilee Bonds, 10-Year Canadian Dollar Maccabee Jubilee Bonds. The bonds are direct, unconditional and general obligations of the State of Israel. The State of Israel pledges its full faith and credit for the due and punctual payment of principal and accrued interest, as well as for the due and timely performance of all of its obligations with respect to the bonds. The terms of the bonds are as follows:

Denominations. The State of Israel will issue the Canadian Dollar Jubilee Bonds at a minimum denomination of CDN\$25,000 (and integral multiples of CDN\$5,000 in excess of CDN\$25,000). In addition, if you have purchased a minimum of CDN\$25,000 of bonds of a certain maturity in a single purchase that were issued during the twelve (12) month period immediately preceding the additional purchase, you may purchase such additional bonds of the same series in denominations of CDN\$5,000 (or integral multiples of CDN\$5,000). Additional bonds must be registered in the same name as the bonds satisfying the minimum purchase requirement.

The State of Israel will issue the Canadian Dollar Maccabee Jubilee Bonds at a minimum denomination of CDN\$5,000 (and integral multiples of CDN\$1,000 in excess of CDN\$5,000). In addition, if you have purchased a minimum of CDN\$5,000 of bonds of a certain maturity period in a single purchase that were issued during the twelve (12) month period immediately preceding the additional purchase, you may purchase such additional bonds of the same maturity period in denominations of CDN\$1,000 (or integral multiples of CDN\$1,000). Additional bonds must be registered in the same name as the bonds satisfying the minimum purchase requirement.

Issue Dates and Sales Periods. Bonds will be issued on the 1st and 15th of the month (each, an “Issue Date”). There will be two sales periods per month: bonds issued on the 15th of the month will be offered from the 1st of the month through the 14th of the month, and bonds issued on the 1st of the month will be offered from the 15th of the month preceding the Issue Date through the last day of that month.

In order to purchase a bond of a specific Issue Date, your subscription must be accepted by or on behalf of the State of Israel before such Issue Date (or before such other date as may be announced). If your subscription is accepted by or on behalf of the State on or after an Issue Date (or such other date), your bond will be issued on a subsequent Issue Date. Unless sales of a certain bond are suspended, a subscription will be accepted by the State if it is in a form acceptable to the State before the designated date as set forth above. However, if you are reinvesting a matured State of Israel bond, in order for your new bond to be issued on the maturity date of your reinvested bond, your subscription must be accepted by or on behalf of the State within five (5) calendar days after the maturity date of your reinvested bond..

Maturity. Your bond will mature on the first calendar day of the month during which the first (1st), second (2nd), third (3rd), fifth (5th) or tenth (10th) anniversary, as the case may be, of the Issue Date of your bond occurs. For example, a 3-Year Jubilee Fixed Rate Bond issued on August 15, 2015 will mature on August 1, 2018. If your Issue Date is the 15th of the month, your bond will mature two weeks earlier than the total number of years of the bond. When the bonds become payable, you will receive the face amount of the bonds in Canadian currency.

Interest Rate and Interest Determination Date. The interest rate is a fixed annual rate determined by the State of Israel and specified on the book-entry statement or bond certificate. The interest rate applicable to a certain bond will be announced not less than one (1) Business Day prior to the first day of the sales period of such bond. For example, the interest rate on a 1-Year Canadian Dollar Jubilee Bond issued on Monday, December 1, 2014 will be the rate announced one (1) Business Day prior to November 15, 2014 (i.e., on Friday, November 14, 2014).

Interest and Maturity Payment. Interest will accrue from (and including) the Issue Date of the bonds until (but not including) the maturity date. *Bonds do not earn or accrue interest after maturity.* The State of Israel will pay interest in Canadian currency semi-annually on May 1, November 1 (each, an “Interest Payment Date”) and upon maturity, except that for those bonds issued on April 15 or October 15 of each year, the first interest payment will be made on the subsequent Interest Payment Date following their respective Issue Dates. If either May 1 or November 1 is not a Business Day, the State will pay interest that has accrued up to, but not including, either May 1 or November 1, as the case may be, on the next succeeding Business Day, but interest that accrues from either May 1 or November 1, as the case may be, to, but not including, the date on which the interest is paid, will be paid out on the next Interest Payment Date. If the maturity date is not a Business Day, you will receive payment accrued up to (but not including) the maturity date on the next Business Day but no additional interest will accrue or be payable by reason of such extension. Interest is calculated on the basis of a 365-day year and the actual number of days elapsed. Interest and maturity payments will be made in

Canadian currency by mailing a cheque to the last address of the registered owner as listed in the bond register or by a wire transfer to the bank account of the registered bondholder.

Right to Suspend or Terminate Sales. The State of Israel reserves the right to suspend or terminate new sales of any series of bonds at any time, for any period of time and for any reason, including without limitation, for reasons relating to market conditions. Any subscription received in respect of a series of bonds for which sales have been suspended will be returned to the subscriber.

Bond Certificate. The State of Israel is issuing the bonds in book entry form. Therefore, bond certificates will not be issued (except in the limited circumstances described below). Instead, the Fiscal Agent will mail to the purchaser and owner of each bond a confirmation that the owner has been listed in the bond register as the registered owner of the bond along with other pertinent information. Certificates will be issued only to government agencies, pension funds, financial institutions and Employee Benefit Plans (as defined under “Limited Transferability” below) that so request at the time of purchase. The State of Israel will forward all notices relating to the bonds to the registered owner(s). You may transfer a bond, if permitted under the terms of this offering memorandum, by notifying the Fiscal Agent in writing of the transfer request along with appropriate transfer documents and any fee and expenses, paid by the transferor, required by the Fiscal Agent. The transferor must also pay the State of Israel for any of its expenses in connection with the transfer. The Fiscal Agent will then record the transfer in the bond register. The State of Israel will only repurchase bonds upon presentation of appropriate transfer documents (and the bond certificate if one was issued) to the Fiscal Agent. Upon maturity of a book entry bond or redemption of a book entry bond, the Fiscal Agent will automatically pay the principal amount and accrued interest on the book entry bond to the registered owner by mailing a cheque to the last address of the registered owner as listed in the bond register or, if written instructions are given by the registered owner, by automatic clearing house funds to the bank and bank account specified by the registered owner. Bond certificate holders must present the physical certificate to the Fiscal Agent to receive payment. You will bear all expenses in connection with the replacement and delivery of a new bond. The State of Israel will issue a new bond certificate to you for no cost, in case you notify the Fiscal Agent in writing that the bond certificate was never delivered, no later than six (6) months following the original Issue Date of the bond.

Limited Transferability. You may not transfer or assign the bonds, except as described herein or with the prior consent of the State of Israel. You may transfer the bonds to the following permitted transferees under the circumstances described below, provided that each such transferee of the bonds must hold at least the minimum purchase requirement (see “Denominations” above) with respect to such bonds:

- The State of Israel;
- Any religious, charitable, literary, scientific or educational organizations, contributions to which, at the time of the transfer, give rise to a deduction or credit against income tax payable pursuant to the *Income Tax Act* (Canada), as heretofore or hereafter amended (or are accorded similar treatment under the laws of the country in which the transferee is

located), provided that a transfer to such entity is made by gift or bequest without any compensation to the transferor;

- The owner's spouse, children, grandchildren, siblings, parents or grandparents;
- A Pension Plan or an Employee Benefit Plan that owns a bond may transfer or assign the bond at any time to another Pension Plan or Employee Benefit Plan, provided that the aggregate denomination of the bonds that are subject to any transfer is not less than CDN\$500,000. In this offering memorandum, "Pension Plan" refers to a pension plan, which is governed by or registered under one of the following statutes:

Pension Benefits Standards Act, 1985 (Canada)

Pension Benefits Standards Act (British Columbia)

The Pension Benefits Act (Manitoba)

The Pension Benefits Act (New Brunswick)

Pension Benefits Act (Newfoundland)

Pension Benefits Act (Nova Scotia)

Pension Benefits Act (Ontario)

Pension Benefits Act (Prince Edward Island)

Employment Pension Plans Act (Alberta)

Supplemental Pension Plans Act (Quebec)

In this offering memorandum, "Employee Benefit Plan" means any "employee benefit plan", "employee trust", "retirement compensation arrangement" or "registered pension plan", all as defined in the *Income Tax Act (Canada)*, as heretofore or hereafter amended, or the regulations thereunder, or any comparable legislation then in effect at the time of determination, and any Union Plan, or, subject to the approval of the State, a plan or fund, if any, irrespective of its location or place or organization determined by the State to be a comparable plan or fund. A "Union Plan" means any treasury, strike or other fund established or maintained by an employee organization.¶

- Upon the death of the bondholder, to any person in accordance with such bondholder's testamentary disposition and/or applicable laws of descent and distribution;
- Provided the transfer is made by the registered owner of the bond, as collateral security to an Authorized Institutional Lender, and only at the time of purchase of the bond. "Authorized Institutional Lender" shall mean an entity primarily engaged in the business of making secured loans to institutional and non-institutional borrowers, authorized in writing by the State of Israel to accept bonds as collateral security; or
- Anyone designated by a written direction signed in the name of the State of Israel as a permissible transferee.

Due to the limited transferability of the bonds and the limited circumstances under which the State of Israel will purchase the bonds (see “Early Redemption” below), bondholders may not be able to readily liquidate their investment prior to maturity.

Event of Default. If the State of Israel defaults on the payment of interest or principal with respect to any bond:

- Any amount of interest or principal in default will bear interest at the interest rate applicable to such bond on the date of such default until such default is cured; and
- If any default continues for a period of ninety (90) calendar days, the principal amount of the bond will, at the option of, and upon written demand to us by, the registered owner(s) of the bond, mature and become due and payable, together with accrued and unpaid interest, upon the date that such written demand is actually received by us, unless prior to such date the State of Israel cured all defaults in respect of the bonds.

Early Redemption. The bonds are subject to early redemption and repurchase by the State as described under this heading. Whether the bonds are redeemed at the option of the State, or repurchased by the State at the request of the bondholder or on such other terms and conditions as the State may determine, the State will redeem or repurchase bonds for a purchase price equal to the principal amount of the bond together with interest accrued to the redemption or repurchase date. If the redemption or repurchase price is not paid on the surrender of any bond, then such bonds will continue to accrue interest at the rate prescribed for such bonds through the maturity of the bond.

Repurchase by the State at the Request of a Bondholder. A bond may be repurchased by the State prior to its maturity, but only on the first Business Day of a given month, within sixty (60) days following the State’s receipt of a bondholder’s written request accompanied by an instrument of transfer in a form approved by the Fiscal Agent, under the following three scenarios:

- Upon the death of any natural person who was the original registered owner of the bond or, in the event there is more than one original registered owner of the bond, upon the death of the last surviving original registered owner; provided that such obligation of the State to redeem upon death shall cease and terminate and shall not apply when the bond is owned by a transferee or assignee.¶
- Upon the death of any natural person (or the dissolution of a testamentary trust following the death of such person) who owned such bond through a Registered Retirement Savings Plan (as defined in the *Income Tax Act* (Canada), as heretofore or hereafter amended).

The two scenarios described above are subject to the caveat that the State may suspend or terminate its obligation to purchase such bond if, in the opinion of the State, a material number of the affected original registered owners have died as a result of war, epidemic, catastrophe of nature or other disaster.¶

- Upon the termination of any Employee Benefit Plan which owned such bond. In order to redeem a bond upon the termination of an Employee Benefit Plan that is the owner of the

bond, sufficient evidence must be provided to the State of Israel that such Employee Benefit Plan has been terminated and that the assets must be liquidated to meet the Plan's commitments.

Redemption at the Option of the State. The bonds are subject to redemption at any time by the State. The bonds of this series are redeemable as a whole or in part. If the bonds are redeemed in part, selection of the bonds will be at the State's discretion; however, the bonds will be redeemed in one or more groups, where each group of bonds will consist of all bonds of this series that bear the same Issue Date (each, a "tranche"). In addition, no bonds of a particular tranche will be redeemed at the option of the State unless bonds of tranches with prior Issue Dates are or have been called for redemption. For purposes of such redemption, the bonds will be called in accordance with the provisions of the Fiscal Agency Agreement, and there will be no aggregation of different series or other debt instruments of the State. (For the avoidance of doubt, there will be no aggregation irrespective of any similarity in name, maturity, currency, denomination, integral terms and/or Issue Date between the bonds offered hereby and any different series or other debt instruments of the State.) A notice of redemption will be mailed to all bondholders by the Fiscal Agent between thirty (30) and sixty (60) days prior to the redemption date. The notice will set forth:

- The redemption date;
- Whether all bonds or a group of bonds are to be redeemed;
- In the case of a redemption of a group of bonds, a description of the group of bonds that are to be redeemed;
- The redemption price;
- That on the redemption date no owner of bonds called for redemption is entitled to more than the redemption price, and that the redemption price is due and payable on the redemption date; and
- The place where the bonds are to be redeemed.

The State will not be required to issue or register the transfer or exchange of any bond during the period beginning with the fifteenth (15th) Business Day prior to the date of the mailing of a notice of redemption through the end of the date of the mailing. The State will also not be required to register the transfer or exchange of any bond selected for redemption in whole or in part, except for the unredeemed portion of the bonds being redeemed in part.

Repurchase by the State Under Other Terms and Conditions. In addition to a redemption or repurchase of the bonds described above (see "Repurchase by the State at the Request of Bondholder" and "Redemption at the Option of the State"), the State reserves the right to repurchase the bonds in whole or in part, at any time, at such terms and under such conditions as may be determined by the State. Bonds so repurchased shall be purchased from bondholders willing to sell such bonds on the terms and conditions determined by the State in respect of such repurchase. Repurchased bonds may be held or resold by the State or

surrendered to the Fiscal Agent for cancellation in accordance with the Fiscal Agency Agreement.

The foregoing description of the material terms of the bonds is qualified by reference to the full terms of the bonds and to the Fiscal Agency Agreement, the forms of which may be obtained from the Fiscal Agent upon request.

RISK FACTORS

You should read this offering memorandum carefully. Words and expressions defined elsewhere in this offering memorandum have the same meaning in this section. Investing in the bonds involves certain risks. Israel may become unable to pay interest, principal or other amounts on or in connection with the bonds for any number of reasons. Factors which Israel currently views as material for assessing the risks of investing the bonds are described below. However, additional risks that are not currently known to Israel, or that it currently deems immaterial, may arise or become material and, accordingly, Israel does not represent that the statements below regarding the risks of investing in the bonds are exhaustive. The materialization of any such known or unknown risks could, individually or cumulatively, have a material adverse effect on Israel's ability to make payments on the bonds, in which case you could lose all or part of your investment. You should consider carefully whether an investment in the bonds is suitable for you in light of your personal circumstances. You should make your own inquiries as you deem necessary without relying on the State of Israel or Canada-Israel Securities, Limited and should consult with your financial, tax, legal, accounting and other advisors, prior to deciding whether to make an investment in the bonds. You should consider, among other things, the following:

Risks Related to the Bonds.

The bonds may not be a suitable investment for all investors.

In considering whether to invest in the bonds you should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the bonds and the merits and risks of investing in the bonds;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of your particular financial situation, an investment in the bonds and the impact the bonds will have on your overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the bonds, including where the currency for principal or interest payments is different from your currency;
- (iv) understand thoroughly the terms of the bonds and be familiar with the behaviour of any relevant indices and financial markets; and

- (v) be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rate and other factors that may affect your investment and your ability to bear the applicable risks.

There is no secondary trading market for the bonds and transferability is limited.

Except under certain limited circumstances provided in the applicable offering memorandum, the bonds may not be transferred, sold or pledged. As a result, no secondary market can develop for the bonds and they will not be traded on an established securities market (or the substantial equivalent thereof).

There can be no assurance that the laws of the Province of Ontario and applicable Canadian federal laws in effect as at the date of this offering memorandum will not be modified.

The conditions of the bonds are based on the laws of the Province of Ontario and applicable Canadian federal laws in effect as at the date of this offering memorandum. No assurance can be given as to the impact of any possible judicial decision or change to the laws of the Province of Ontario and applicable Canadian federal laws or administrative practice after the date of this offering memorandum.

Legal investment considerations may restrict certain investments.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. You should consult your legal advisors to determine whether and to what extent (i) the bonds are legal investments for you, (ii) the bonds can be used as collateral for various types of borrowing and (iii) other restrictions apply to your purchase or pledge of any bonds. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the bonds under any applicable risk-based capital or similar rules.

Investors in the bonds may be subject to interest rate risks.

Investment in fixed rate bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the fixed rate bonds.

The bonds are unsecured.

The bonds constitute unsecured obligations of the State of Israel. This means that bondholders will not have recourse to any security or other assets of the State of Israel should the State default on its payment obligations in respect of the bonds.

Bonds subject to optional redemption or repurchase by the Issuer.

The State of Israel may redeem or repurchase the bonds in whole or in part, at any time or from time to time, prior to their scheduled maturity dates. For example, the State may choose to redeem or repurchase the bonds when its cost of borrowing is lower than the interest rate on the

bonds. Upon such redemption or repurchase, an investor might not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the bonds being redeemed and might only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Principal and interest payments will be made in Canadian dollars and will be subject to exchange rate risks and exchange controls affecting investors whose principal currency is not Canadian dollars.

The State of Israel will pay principal and interest on the bonds in Canadian dollars. This presents certain risks relating to currency conversions if an investor's financial activities ("Investor's Currency") are denominated principally in a currency or currency unit other than Canadian dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Canadian dollar or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Canadian dollar would decrease (1) the Investor's Currency-equivalent yield on the bonds and (2) the Investor's Currency-equivalent value of the principal payable on the bonds. Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Risks Related to the State of Israel and the Geopolitical and Economic Environment.

Israel's access to credit is affected by external factors such as regional and international political and economic conditions.

Israel's access to credit in the international capital markets is affected by regional and international political and economic conditions, including interest rates in financial markets outside Israel, the impact of changes in the credit rating of Israel, the security situation, the economic growth and stability of Israel's major trading partners, and the global high-tech market. As a result, political, economic or market factors, which may be outside Israel's control, may impact the debt dynamics of Israel and could adversely affect Israel's cost of funds in the international capital markets and the demand for Israel's debt securities.

Israel's political, economic and military environment may continue to be volatile.

Israel has from time to time experienced political volatility and has been subject to ongoing security concerns. Since the establishment of the State of Israel in 1948, a number of armed conflicts have occurred between Israel and its Arab neighbours. Political instability in the Middle East has increased since the terrorist attacks of September 11, 2001, the U.S. intervention in Iraq and news of Iran's reported nuclear program. Since 2005, when Israel withdrew from the Gaza strip, terrorist violence from Gaza has increased. If the level of instability and violence increases in the future, Israel's capital markets, the level of tourism in Israel and foreign investment in Israel, among other things, may suffer. The conflicts with Hamas in the Gaza strip

and with Hezbollah in Lebanon may worsen and potentially affect Israel's economic condition. In addition, political volatility may affect the stability of the Israeli economy.

Since January 2011, there has been political instability and civil disobedience, termed the Arab Spring, in numerous Middle East and North African countries, including Bahrain, Libya, Egypt, Iran, Tunisia, Yemen and Syria. The Arab Spring has ousted long-standing leadership in several of the aforementioned countries and created turbulent political situations in others. As Israel is situated in the center of this region, it closely monitors these events, aiming to protect its economic, political and security interests. The delicate relations between Israel and its neighbours have become even more fragile with the change in regimes and the ongoing political instability. There can be no assurance that such instability in the region will not escalate in the future, that such instability will not spread to additional countries in the region, that governments in the region will be successful in maintaining domestic order and stability, or that Israel's economic or political situation will not thereby be affected.

Israel is a foreign sovereign state and accordingly it may be difficult to obtain or enforce judgments against it.

The State of Israel is a foreign sovereign government. Consequently, it may be difficult for investors to realize upon judgments of courts in Canada against the State of Israel. The State of Israel will irrevocably agree not to assert any defence based on immunity, including foreign sovereign immunity, from jurisdictions to which it might otherwise be entitled in any action arising out of or based on the bonds which may be instituted by the holder of any bonds in any federal or provincial court in Canada or in any competent court in the State of Israel. Because the State of Israel has not waived its sovereign immunity in connection with any action arising out of or based on provincial securities laws, it will not be possible to obtain a Canadian judgment against the State of Israel based on such laws unless a court were to determine that the State of Israel is not entitled under the State Immunity Act (Canada) to sovereign immunity with respect to such actions. Under the laws of the State of Israel, assets of the State of Israel are immune from any form of execution.

The current global economic climate and continued economic disruption in Europe may have an adverse effect on Israel's economy.

Israel's economy is affected by current global economic conditions, including regional and international rates of economic growth. Recent downturns in the global economy, stemming most recently from the sovereign debt crisis in Europe, have led to increased market volatility, decreased consumer confidence and a widespread reduction of business activity generally. The potential impact of such global economic pressure on Israel is uncertain. Although Israel's economy has shown moderate rates of growth throughout and since the global financial crisis, there can be no assurance that Israel's economy will continue to grow in a prolonged negative global economic climate.

As a result of the sovereign debt crisis in Europe, there was significant price volatility in the secondary market for sovereign debt of European and other nations in recent years. If such price volatility resumes, it could lead to a decline in the recoverability and value of the market

price of Israel's debt securities, including the bonds. Europe continues to face uncertainty, with many Eurozone countries experiencing moderate growth. The continued sluggish growth or a decline in economic growth of the European Union, which is one of Israel's major trading partners, could have a material adverse impact on Israel's balance of trade and adversely affect Israel's financial condition.

The successful development of Israel's natural gas reserves involves certain risks that may make expected natural gas production levels unobtainable.

There are numerous uncertainties associated with estimating quantities of natural gas reserves and projecting future rates of production and the level of revenue Israel will recover from its natural gas fields. These items are, in part, dependent on the reliability of seismic measurement technologies, the future international market for natural gas and other energy substitutes, as well as future development and operating costs, all of which may in fact vary considerably from Israel's current assumptions concerning royalties and tax revenues. Moreover, certain of Israel's neighbouring countries have asserted mineral rights with respect to certain natural gas reserves to which Israel currently lays claim. Any failure to meet expected natural gas production targets on the forecasted timelines, or at all, could have a negative impact on Israel's progress towards energy independence or the revenues that will be received by the State of Israel.

TAX MATTERS

The following is a summary of the principal Canadian federal income tax considerations under the *Income Tax Act* (Canada) (the "Tax Act") generally applicable to a holder who acquires the bonds pursuant to this offering memorandum and who, for the purposes of the Tax Act and at all relevant times, is, or is deemed to be, resident in Canada, holds the bond as capital property and deals at arm's length with the State of Israel.

This summary is not applicable to a holder (i) that is a "financial institution" as defined in the Tax Act for purposes of the mark-to-market rules; (ii) an interest in which would be a "tax shelter investment" as defined in the Tax Act; (iii) that is a "specified financial institution" as defined in the Tax Act; (iv) that reports its "Canadian tax results" (as defined in the Tax Act) in a currency other than Canadian currency; or (v) that has entered or will enter into a "synthetic disposition arrangement" or "derivative forward agreement" (as such terms are defined in the Tax Act) with respect to the bonds. This summary does not address the deductibility of interest by a holder who borrows money to acquire the bonds. Any such holder to which this summary does not apply should consult its own tax advisor.

This summary is based on the provisions of the Tax Act in force on the date hereof, all specific proposals to amend the Tax Act publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof ("Tax Proposals") and our Canadian legal counsel's understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency. This summary assumes that the Tax Proposals will be enacted in the form proposed; however, no assurance can be given that the Tax Proposals will be enacted in the form proposed or at all.

This summary is not exhaustive of all possible Canadian federal income tax considerations and, except for the Tax Proposals, does not take into account or anticipate any changes in law, whether by legislative, governmental, administrative or judicial decision or action, nor does it take into account provincial, territorial or foreign income tax legislation or considerations, which may differ significantly from those discussed herein.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular holder and no representations with respect to the income tax consequences to any particular holder or a prospective holder is made. Prospective holders should consult their own tax advisors for advice with respect to the tax consequences to them of acquiring, holding and disposing of the bonds, having regard to their particular circumstances.

Taxation of Interest on Bonds. A holder that is a corporation, partnership, unit trust or trust of which a corporation or partnership is a beneficiary will be required to include in computing its income for a taxation year any interest on a bond that accrues or is deemed to accrue to the holder to the end of that taxation year or becomes receivable or is received by the holder before the end of that taxation year, except to the extent that such interest was included in the holder's income for a preceding taxation year.

Any other holder, including an individual (other than certain trusts), will be required to include in computing its income for a taxation year any interest on a bond that is received or receivable by such holder in that taxation year (depending upon the method regularly followed by the holder in computing income), except to the extent that such interest was included in the holder's income for a preceding taxation year. In addition, if at any time a bond should become an "investment contract" (as defined in the Tax Act) in relation to a holder, such holder will be required to include in computing income for a taxation year any interest that accrues or is deemed to accrue to the holder on the bond up to the end of any "anniversary day" (as defined in the Tax Act) in that taxation year to the extent such interest was not otherwise included in the holder's income for that taxation year or a preceding taxation year.

A holder that throughout the relevant taxation year is a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay an additional refundable tax of 6 $\frac{2}{3}$ % on its aggregate investment income, which is defined in the Tax Act to include interest.

A disposition or deemed disposition of the bonds by a holder, including a redemption, payment on maturity or purchase for cancellation will generally give rise to a capital gain (or capital loss) equal to the amount by which the holder's proceeds of disposition, net of any amount otherwise required to be included in the holder's income as interest, exceed (or are less than) the total of the adjusted cost base of the bonds and any reasonable costs of disposition. Generally, one-half of any capital gain (a "taxable capital gain") realized by a holder in a taxation year must be included in the holder's income for the year, and one-half of any capital loss (an "allowable capital loss") realized by a holder in a taxation year must be deducted from taxable capital gains realized by the holder in that year. Allowable capital losses for a taxation year in excess of taxable capital gains for that year generally may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent

taxation year against net taxable capital gains realized in such years, to the extent and under the circumstances described in the Tax Act.

A holder that is, throughout the relevant taxation year, a Canadian-controlled private corporation, may be liable for a refundable tax of 6 $\frac{2}{3}$ % on its aggregate investment income, which is defined in the Tax Act to include taxable capital gains.

Capital gains realized by an individual (including certain trusts) may give rise to a liability for alternative minimum tax as calculated under the detailed rules set out in the Tax Act.

Foreign Property Information Reporting. In general, a holder that is a “specified Canadian entity” (as defined in the Tax Act) for a taxation year or fiscal period and whose total “cost amount” of all “specified foreign property” (as defined in the Tax Act) at any time in the taxation year or fiscal period exceeds \$100,000 is required to file an information return for the year or fiscal period disclosing prescribed information in respect of such property. Subject to certain exceptions, a holder will generally be a specified Canadian entity. The bonds will be a specified foreign property to a holder. Accordingly, holders should consult their own tax advisors regarding compliance with these rules.

FISCAL AGENT

Computershare Trust Company of Canada will act as the Fiscal Agent for the bonds. The address for Computershare Trust Company of Canada is 100 University Avenue, 9th floor, Toronto, Ontario M5J 2Y1, Attention: State of Israel Bonds. The telephone number is 416-263-9200.

OTHER STATE OF ISRAEL DEBT INSTRUMENTS

The State of Israel issues debt instruments, including securities denominated in Canadian and/or U.S. dollars, whose names, series, maturities, denominations, issue dates, interest commencement dates, maturity dates and/or other integral terms may be similar to those of the bonds. The bonds offered hereby are considered a separate and distinct class of securities, for all purposes, from any other State of Israel debt instruments irrespective of any such similarity. For purposes of a redemption at the option of the State, the bonds will be called in accordance with the provisions of the Fiscal Agency Agreement, and there will be no aggregation of different series or other debt instruments of the State (see “Early Redemption – Redemption at the Option of the State” above).

AVAILABLE INFORMATION

The State of Israel, although not subject to the reporting requirements of the *United States Securities Exchange Act of 1934*, as amended, has filed an annual report for 2013 on Form 18-K with the Securities and Exchange Commission (the “SEC”) on a voluntary basis. Such Annual Report includes certain financial, statistical and other information concerning the State. The State may also include exhibits to its Annual Report on Form 18-K and file amendments on Form 18-K/A thereto. Such Annual Report, including such exhibits and amendments thereto, can be inspected and copied at the public reference facilities maintained by the SEC at: Office of

Investor Education and Assistance, U.S. Securities and Exchange Commission, 100 F Street, N.E., Washington, D.C. 20549-0213; and 175 W. Jackson Boulevard, Suite 900, Chicago, IL 60604. Copies of such reports may be obtained at prescribed rates from the Public Reference Section of the SEC at its Washington address. The State's SEC filings are also available to the public from the SEC's website at www.sec.gov.

INCORPORATION OF DOCUMENTS BY REFERENCE

The State of Israel has filed its annual report for 2013 on Form 18-K with the SEC. The annual report of Israel for 2013 on Form 18-K, its exhibits and any amendment to that annual report on Form 18-K and its exhibits, as well as all future annual reports and amendments to such annual reports that Israel files with the SEC until Israel sells all of the bonds covered by this prospectus supplement, are considered part of and incorporated by reference in this prospectus supplement. Each time Israel files a document with the SEC that is incorporated by reference, the information in that document automatically updates the information contained in previously filed documents.

Any person receiving a copy of this offering memorandum may obtain, without charge, upon written or oral request, a copy of any of the documents incorporated by reference herein. Written requests for such documents should be directed to Canada-Israel Securities, Limited, 970 Lawrence Avenue West, Suite 502, Toronto, Ontario, M6A 3B6.

USE OF PROCEEDS

Unless otherwise indicated in an offering memorandum Supplement to this offering memorandum, the proceeds to the State of Israel from the sale of bonds will be used for general State of Israel purposes. No part of the proceeds received from this bond issue is specifically allocated to any particular project, and no part of the assets or receipts of any projects is earmarked for payments of the bonds obligations.

SALES AGENT

Canada-Israel Securities, Limited, 970 Lawrence Avenue West, Suite 502, Toronto, Ontario, M6A 3B6 is the sole and exclusive agent for the sale of the bonds. Since this offering is on a best efforts basis, there is no assurance that all of the bonds will be sold.

DEBT RECORD

The State of Israel has never defaulted on the payment of principal or interest on any of its internal or external indebtedness.

JURISDICTION; CONSENT TO SERVICE AND ENFORCEABILITY

The State of Israel is a foreign sovereign government. Consequently, it may be difficult for investors to realize upon judgments of courts in Canada against the State. The State will irrevocably agree not to assert any defence based on immunity, including foreign sovereign immunity, from jurisdictions to which it might otherwise be entitled in any action arising out of or based on the bonds which may be instituted by the holder of any bonds in any federal or

provincial court in Canada or in any competent court in the State of Israel. Israel has appointed Canada-Israel Securities, Limited, at its registered office in Canada, as its authorized agent upon whom process may be served in any action arising out of or based upon the bonds which may be instituted in any court in Canada by the holder of any bonds. Such appointment shall be irrevocable until all amounts in respect of the principal, premium, if any, and interest, if any, due or to become due on or in respect of the bonds have been paid by the State of Israel, except that, if for any reason, the authorized agent ceases to be able to act as such authorized agent or no longer has an address in Canada, the State of Israel will appoint another person in Canada as its authorized agent. Canada-Israel Securities, Limited is not the agent for service for actions under the applicable provincial securities laws and Israel's waiver of immunity does not extend to such actions. Because the State of Israel has not waived its sovereign immunity in connection with any action arising out of or based on provincial securities laws, it will not be possible to obtain a Canadian judgment against the State of Israel based on such laws unless a court were to determine that the State of Israel is not entitled under the *State Immunity Act* (Canada) to sovereign immunity with respect to such actions. Under the laws of the State of Israel, assets of the State of Israel are immune from any form of execution.

RIGHTS OF ACTION FOR DAMAGES OR RESCISSION

Securities legislation in some of the Canadian provinces provides some purchasers, in addition to any other rights they may have at law, with a remedy for rescission or damages or both where an offering memorandum and any amendment to it contains a misrepresentation. Those remedies, or notice with respect thereto, must be exercised, or delivered, as the case may be, by the purchaser within the time limits prescribed by the applicable securities legislation. Each purchaser should refer to the provisions of the applicable securities legislation for the particulars of these rights or consult with a legal advisor.

Rights for Purchasers in Nova Scotia. The right of action for rescission or damages described herein for purchasers of the bonds in Nova Scotia is conferred by Section 138 of the *Securities Act* (Nova Scotia) ("Section 138"). Section 138 provides, in the relevant part, that in the event that this Canadian offering memorandum, together with any amendments hereto, or any advertising or sales literature (as defined in the *Securities Act* (Nova Scotia)) contains an untrue statement of material fact or omits to state a material fact that is required to be stated or that is necessary in order to make any statements contained herein or therein not misleading in light of the circumstances in which it was made (a "misrepresentation"), a purchaser of securities is deemed to have relied upon such misrepresentation if it was a misrepresentation at the time of purchase and has, subject to certain limitations and defences, a statutory right of action for damages against the seller of such securities, the directors of the seller and the persons who have signed the Canadian offering memorandum or, alternatively, while still the owner of the securities, may elect instead to exercise a statutory right of rescission against the seller, in which case the purchaser shall have no right of action for damages against the seller, the directors of the seller or the persons who have signed the Canadian offering memorandum, provided that, among other limitations:

- (a) no action shall be commenced to enforce the right of action for rescission or damages by a purchaser resident in Nova Scotia later than 120 days after the date payment was made for the securities (or after the date on which initial payment

was made for the securities where payments subsequent to the initial payment are made pursuant to a contractual commitment assumed prior to, or concurrently with, the initial payment);

- (b) no person will be liable if it proves that the purchaser purchased the securities with knowledge of the misrepresentation;
- (c) in the case of an action for damages, no person will be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the securities; and
- (d) in no case will the amount recoverable in any action exceed the price at which the securities were offered to the purchaser.

The liability of all persons or companies referred to above is joint and several with respect to the same cause of action.

General. The foregoing summary is subject to the express provisions of the *Securities Act* (Nova Scotia) and the rules and regulations thereunder and reference is made thereto for the complete text of such provisions. Purchasers in other provinces may have similar rights of action pursuant to the securities legislation of such provinces and purchasers in such provinces should consult the complete text of such legislation. The rights discussed above are in addition to and without derogation from any other right or remedy which purchasers may have at law and are intended to correspond to the provisions of the relevant securities legislation and are subject to the defences contained therein.

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