

## **AMENDED AND RESTATED CANADIAN OFFERING MEMORANDUM DATED JANUARY 1, 2013**

This amended and restated Canadian offering memorandum dated January 1, 2013 amends and restates the Canadian offering memorandum dated December 15, 2010 related to the securities described herein. 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\$300,000,000 STATE OF ISRAEL CANADIAN DOLLAR SAVINGS BONDS (FOURTH SERIES)**

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#### **Summary Terms of Bonds**

This is an offering by the State of Israel of an aggregate amount of CDN\$300,000,000 State of Israel Savings Bonds (Fourth Series) (the “bonds”). 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 bond 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 Savings Bond in a minimum denomination of CDN\$2,500 (and integral multiples of CDN\$2,500 in excess of CDN\$2,500). You may buy each 1-Year, 2-Year, 3-Year, 5-Year and 10-Year Canadian Dollar Sabra Savings Bond in a minimum denomination of CDN\$1,000 (and integral multiples of CDN\$100 in excess of CDN\$1,000). You may buy each 5-Year and 10-Year Canadian Dollar Mazel Tov Savings Bond in a minimum denomination of CDN\$100 (and integral multiples of CDN\$10 in excess of CDN\$100). The maximum amount of Canadian Dollar Mazel Tov Savings Bonds that may be purchased by any person on any purchase date, registered in the name of any one holder, is CDN\$2,500.

#### **Issue Dates**

The Canadian Dollar Savings Bonds and the Canadian Dollar Sabra Savings Bonds will be issued on the 1st and 15th of the month. The Canadian Dollar Mazel Tov Bonds will be issued on the 1st of the month. In order to purchase a bond of a specific Issue Date, your subscription must be accepted by the State of Israel before such Issue Date (or before such other date as may be announced).

#### **Interest**

The bonds will accrue interest from (and including) the Issue Date until (but not including) the maturity date, at the rate determined by the State of Israel and announced prior to the Issue Date. Interest will be compounded annually and will not be paid until maturity. *The bonds will not earn or accrue interest after maturity.*

#### **Limitations on Transfer; Early Redemption**

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.

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*See the section entitled "Risk Factors," beginning on page 6, for a discussion of certain factors you should consider before investing in the bonds.*

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This offering may have a special appeal to persons with an interest in the State of Israel rather than the general public. 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 commission will be paid in connection with the offering of the bonds. See "Summary of Sales Agency Agreement."

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 OFFENSE. THESE SECURITIES ARE ISSUABLE TO INDIVIDUALS AND ENTITIES ONLY WITHIN CANADA.

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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 fiscal agency agreement, dated as of February 3, 2010, as amended (the “Fiscal Agency Agreement”), between the State of 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\$300,000,000 aggregate principal amount of Canadian Dollar Savings Bonds (Fourth Series). The State of Israel is offering twelve classes of bonds: 1-Year Canadian Dollar Savings Bonds, 2-Year Canadian Dollar Savings Bonds, 3-Year Canadian Dollar Savings Bonds, 5-Year Canadian Dollar Savings Bonds, 10-Year Canadian Dollar Savings Bonds, 1-Year Canadian Dollar Sabra Savings Bonds, 2-Year Canadian Dollar Sabra Savings Bonds, 3-Year Canadian Dollar Sabra Savings Bonds, 5-Year Canadian Dollar Sabra Savings Bonds, 10-Year Canadian Dollar Sabra Savings Bonds, 5-Year Canadian Dollar Mazel Tov Savings Bonds and 10-Year Canadian Dollar Mazel Tov Savings 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.** You may buy each Canadian Dollar Savings Bond in a minimum denomination of CDN\$2,500 and integral multiples of CDN\$2,500 in excess of CDN\$2,500. You may buy each Canadian Dollar Sabra Savings Bond in a minimum denomination of CDN\$1,000 and integral multiples of CDN\$100 in excess of CDN\$1,000. You may buy each Canadian Dollar Mazel Tov Savings Bond in a minimum denomination of CDN\$100 and integral multiples of CDN\$10 in excess of CDN\$100. The maximum amount of Canadian Dollar Mazel Tov Savings Bonds that may be purchased by any person on any purchase date, registered in the name of any one holder, is CDN\$2,500. Additional bonds must be registered in the same name as the bonds satisfying the minimum purchase requirement.

### **Issue Dates and Sales Periods.**

- The Canadian Dollar Savings Bonds and the Canadian Dollar Sabra Savings Bonds will be issued on the 1st and 15th of the month (each, an “Issue Date”). There will be two (2) 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.

- The Canadian Dollar Mazel Tov Savings Bonds will be issued only once per month, on the 1st of the month (the “Issue Date”) and will be sold in one (1) sales period per month: from the 1st of the month preceding the month of 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 of Israel 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 or on behalf of the State of Israel if it is in a form acceptable to the State of Israel 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 of Israel within five (5) calendar days after the maturity date of your reinvested bond (or, if such date falls on a non-Business Day, the first Business Day after such date).

**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 Canadian Dollar Savings 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 (2) weeks less 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.** The interest rate applicable to each bond will be determined by the State of Israel and 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 bond issued on Monday, July 1, 2013 will be announced one (1) Business Day prior to June 15, 2013 (i.e., on Friday, June 14, 2013).

**Interest and Maturity Payment.** You will not receive interest on the bonds until maturity, at which point you will receive the aggregate amount in Canadian currency of principal and accrued interest on the bond. Interest will accrue from (and including) the Issue Date of the bonds and will be compounded annually until (but not including) the maturity date. The State of Israel will calculate interest on the bonds on the basis of a 365-day year. If the maturity date is not a Business Day, you will receive payment accrued until (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. *The bonds will not earn or accrue interest after maturity.*

**Right to Suspend or Terminate Sales.** The State of Israel reserves the right to suspend or terminate new sales of any series or maturity period 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 or maturity period 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. 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 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 Canadian principal amount and accrued interest on the book entry bond to the registered owner by mailing a check 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. You 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 that you may transfer the bonds to the following permitted transferees under the circumstances provided herein, provided that each transferee of the bonds holds at least the minimum purchase requirement set forth above:

- 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 who own 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. For these purposes, the term "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)*

- 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 the 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 accrue 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 – At the Request of a Bondholder.** A bond may be repurchased by the State of Israel prior to maturity, for a purchase price equal to the principal amount of the bond together with interest accrued and through the redemption date, within sixty (60) days of a written request, but only on the first Business Day of a given month, accompanied by an instrument of transfer in a form approved by the Fiscal Agent, under the following circumstances:

- 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 the obligation of the State of Israel 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 who owned such bond through a Registered Retirement Saving Plan (as defined in the *Income Tax Act* (Canada), as heretofore or hereafter amended).

Provided that the State of Israel may suspend or terminate the obligations to purchase a bond upon death as set forth above if, in the opinion of the State of Israel, a material number of these persons shall 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. "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 of Israel to be a comparable plan or fund. A "Union Plan" means any treasury, strike or other fund established or maintained by an employee organization.

**Early Redemption – At the Option of the State.** The bonds are subject to redemption at any time by the State of Israel. The bonds are redeemable as a whole or in part. If the bonds are redeemed in part, selection of the bonds will be at the State of Israel's discretion; however, the bonds will be redeemed in one or more groups, where each group of bonds will consist of all bonds of the same issue bearing the same Issue Date. Partial redemption can be made only on an interest payment date. In addition, no bonds of any issue can be redeemed at the option of the State of Israel unless the bonds of such issue having a prior Issue Date are or have been called for redemption. A notice of redemption will be mailed to all bond owners 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.

Whether the bonds are repurchased at the request of the bond owner or redeemed at the option of the State of Israel, the State of Israel will repurchase bonds for a purchase price equal to the principal amount of the bond together with interim interest accrued and unpaid to the repurchase date.

If the redemption price is not paid on the surrender of any bond, then bonds will continue to accrue interest at the rate prescribed for such bonds. The State of Israel 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 of Israel 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.

**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. Factors which are material for assessing the market risks associated with the bonds are described below. However, the inability of the State of Israel to pay interest, principal or other amounts on or in connection with the bonds may occur for other reasons and the State of Israel does not represent that the statements below regarding the risks of holding bonds are exhaustive. You should make your own inquiries as you deem necessary without relying on the State of Israel or Canada-Israel Securities, Ltd. 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 behavior 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 herein, 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 law in effect as of 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 law in effect as of the date of this offering memorandum. No assurance can be given as to the impact of any possible judicial decision or change to the law of the Province of Ontario and applicable Canadian federal law 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.

*The bonds are subject to optional redemption by the State of Israel.*

The State of Israel may redeem the bonds prior to their scheduled maturity dates. Upon such redemption, 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 dollars 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 U.S. 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.**

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

The State of 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 the State of Israel and could adversely affect Israel's cost of funds in the international capital markets and the demand for Israel's debt securities.

*The State of Israel's political, economic and military environment may continue to be volatile.*

The State of 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 the State of Israel and its Arab neighbors. 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 the State of 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 the State of 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 the State of Israel and its neighbors have become even more fragile with the change in regimes. 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.

*The State of 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 defense 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 has been significant price volatility in the secondary market for sovereign debt of European and other nations. If such price volatility continues or worsens, it could lead to a decline in the recoverability and value of the market price of the State of Israel's debt securities, including the bonds. Risks and ongoing

concerns about the sovereign debt crisis in Europe, as well as the possible default by, or exit from the Eurozone of, one or more European states and/or the replacement of the Euro by one or more successor currencies, could have a detrimental impact on the global economy, thereby adversely affecting Israel's economy, financial condition and credit. In addition, the continued stagnation or 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 the State 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 the State of 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 neighboring 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 the State of 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 generally applicable under the *Income Tax Act* (Canada) to holders of bonds who are resident in Canada, hold bonds as capital property and deal at arm's length with the State of Israel. This summary is not applicable to any holder of bonds that is a "financial institution" as defined in the *Income Tax Act* (Canada). A taxpayer that is a corporation, partnership, unit trust or any trust of which any corporation or partnership is a beneficiary will be required to include in computing income for a taxation year all interest that accrues to it on a bond to the end of that taxation year or that becomes receivable or is received by it before the end of that taxation year, except to the extent that the interest was included in computing its income for a preceding taxation year. Any taxpayer (other than a taxpayer described in the preceding sentence) will be required to include in computing income for a taxation year all interest on a bond that is received or receivable by the taxpayer in that taxation year (depending on the method regularly followed by the taxpayer in computing income) and will be required to include in income any interest that accrues to the taxpayer on a bond up to the "anniversary day" (as defined in the *Income Tax Act* (Canada)) in that year to the extent that the accrued interest was not otherwise included in computing income for that or a preceding taxation year. Gain or loss on the disposition or deemed disposition of the bonds, when transfers are permitted, is normally taxable at capital gains rates to the same extent as on the sale of any other security. Generally, interest earned on the bonds and gain on the sale of bonds by an entity which is exempt from the payment of tax on such interest and gain pursuant to the applicable provisions of the *Income Tax Act* (Canada) will not be subject to federal income tax in Canada. Applicable reporting and withholding, where appropriate, will be made with respect to the bonds by the Fiscal Agent.

**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, 9<sup>th</sup> floor, Toronto, Ontario M5J 2Y1, attention: State of Israel Bonds. The telephone number is 416-263-9200.

**Status of the Bonds.** The bonds will be the direct, general and unconditional obligations of the State of Israel. The full faith and credit of the State of Israel will be pledged for the due and punctual payment of all principal, interest and maturity amounts, as well as for the due and timely performance of all of the State of Israel's obligations with respect to the bonds.

**Ranking of Bonds.** The bonds will rank equally with each other, without any preference among themselves. The payment obligations of the State of Israel under the bonds will at all times rank at least equally with other payment obligations of the State of Israel relating to unsecured, unsubordinated external indebtedness. For purposes of this paragraph, "external indebtedness" means any indebtedness for money borrowed which is payable by its terms or at the option of its holder in any currency other than the currency of the State of Israel, and "indebtedness" means all obligations of the State of Israel in respect of money borrowed and guarantees given by Israel in respect of money borrowed by others.

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.

**Available Information.** The State of Israel, although not subject to the reporting requirements of the *United States Securities Exchange Act of 1934*, as amended (the "Exchange Act"), has filed an Annual Report on Form 18-K with the Securities and Exchange Commission (the "Commission") on a voluntary basis. Such Annual Report includes certain financial, statistical and other information concerning the State of Israel. The State of Israel 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 Commission 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 Commission at its Washington address.

**Incorporation of Documents by Reference.** The description of the State of Israel which appears as Exhibit D to the State of Israel's Annual Report on Form 18-K for the fiscal year ended December 31, 2011 and all amendments on Form 18-K/A thereto filed on or prior to the date hereof, are incorporated by reference in this offering memorandum as of their respective dates.

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.** 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.

**Summary of Sales Agency Agreement.** 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 under a sales agency agreement, dated as of February 18, 2010, pursuant to which it agrees to use its best efforts to sell the bonds. No commissions will be paid to Canada-Israel Securities, Limited in connection with the offering of the bonds. Since this offering is on a best efforts basis, there is no assurance that all of the bonds will be sold. The State of Israel is to pay all charges, expenses and fees in connection with the issuance of the bonds, including, without limitation, commissions and concessions to any brokers or dealers assisting in the sale of the bonds and all sums payable to the Fiscal Agent.

**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 of Israel. The State of Israel will irrevocably agree not to assert any defense 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. The State of 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 the State of 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 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. This summary is subject to the express provisions of the *Securities Act* (Nova Scotia) and the regulations and rules made under it, and prospective investors should refer to the complete text of those provisions.

### ***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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