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**This Prospectus Supplement should be read in conjunction with  
the Prospectus dated September 27, 2012.**

**\$2,000,000,000**



**State of Israel**

**\$1,000,000,000 3.15% Bonds due June 30, 2023**

**\$1,000,000,000 4.50% Bonds due January 30, 2043**

This is an offering by the State of Israel of an aggregate of \$1,000,000,000 3.15% bonds due June 30, 2023 (the “2023 bonds”) and \$1,000,000,000 4.50% bonds due January 30, 2043 (the “2043 bonds” and, together with the 2023 bonds, the “bonds”). The bonds will constitute the direct, general and unconditional obligation of the State of Israel. The full faith and credit of Israel will be pledged for the due and punctual payment of all principal and interest on the bonds.

Interest on the 2023 bonds will be payable semi-annually on June 30 and December 30 of each year, beginning on June 30, 2013. Interest on the 2043 bonds will be payable semi-annually on January 30 and July 30 of each year, beginning on July 30, 2013. The bonds will be issued only in denominations of \$200,000 and in multiples of \$100,000 above that amount.

This prospectus supplement and accompanying prospectus dated September 27, 2012, constitute a prospectus for the purposes of Article 1 of the Prospectus Directive, as amended (the “Prospectus Directive”).

Application will be made to the Commission de Surveillance du Secteur Financier of the Grand Duchy of Luxembourg (the “CSSF”), pursuant to the Prospectus Directive, to approve this Prospectus Supplement and the accompanying prospectus dated September 27, 2012, as a prospectus for the purposes of the Prospectus Directive. The CSSF assumes no responsibility as to the economic and financial soundness of the transaction or the solvency of the State of Israel.

Application will be made to list the bonds on the official list of the Luxembourg Stock Exchange and to have the bonds admitted to trading on the “regulated market” of the Luxembourg Stock Exchange, which is a regulated market for the purposes of the Market in Financial Instruments Directive.

**See the section entitled “[Risk Factors](#)” beginning on page S-7 for a discussion of certain factors you should consider in connection with the bonds.**

The bonds will be designated Collective Action Securities and, as such, will contain provisions regarding meetings of holders, acceleration of principal and interest, and other provisions.

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default and future modifications to the terms of the bonds that differ from those applicable to much of Israel's outstanding public external indebtedness, which are described in the sections entitled "Debt Securities — Default" beginning on page 6 of the accompanying prospectus and "Collective Action Clauses" on page 9 of the accompanying prospectus, Israel may amend the payment provisions of the bonds, including the principal amount and interest rate, in each case with the consent of the holders of 75% of the aggregate principal amount of the outstanding bonds.

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	Per 2023 bonds	Total
Public Offering Price	99.448%	\$994,480,000
Underwriting discounts and commissions	0.125%	\$ 1,250,000
Proceeds to the State of Israel (before expenses)	99.323%	\$993,230,000

The public offering prices set forth above do not include accrued interest, if any. Interest on the bonds will accrue from January 31, 2013, if the bonds are delivered after January 31, 2013.

**Neither the Securities and Exchange Commission (the "SEC") nor any regulatory body in the United States has approved or disapproved of the accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.**

The bonds are expected to be delivered on or about January 31, 2013 (the "issue date") in book-entry form only to purchasers through Clearstream Banking, Luxembourg, *société anonyme*, and the Euroclear System.

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*Joint Book-Running Managers*

**Citigroup**

**Barclays**

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Prospectus Supplement dated January 29, 2013

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On January 29, 2013, the Bank of Israel foreign exchange rate for U.S. dollars was 3.729 New Israeli Shekels, or NIS, per U.S. dollar. All references in this prospectus supplement are to U.S. dollars and references to “NIS” or “shekel” are to New Israeli Shekels. For a discussion of the conversion of the “Balance of Payments and Foreign Trade — Foreign Exchange Controls and International Reserves” in Exhibit D to Israel’s A, fiscal year ended December 31, 2011, as amended.

**FISCAL YEAR**

The fiscal year of the Government of Israel (the “Government”) ends December 31. The twelve-month period which ended on December 31, 2011, “2011”, and other years are referred to in a similar manner.

**OFFICIAL STATEMENTS**

Information included in this prospectus supplement and the accompanying prospectus, including the documents incorporated herein and any bonds that is identified as being derived from a publication of Israel or one of its agencies or instrumentalities or the Bank of Israel is included as a public official document of Israel or the Bank of Israel. All other information in this prospectus supplement, the accompanying prospectus other than the information included under the caption “Underwriting”, is included as a public official statement made on the authority of the Director of Finance of Israel, in his official capacity.

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### **ABOUT THIS PROSPECTUS SUPPLEMENT**

Israel accepts responsibility for the contents of this prospectus supplement and the accompanying prospectus, including the documents incorporated by reference. Israel further declares that, having taken all reasonable care to ensure that such is the case, the information contained in this prospectus supplement and the accompanying prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

A Description of the State of Israel is contained in Exhibit D to the Annual Report of the State of Israel on Form 18-K for the fiscal year ended December 31, 2011, as amended. Such Annual Report on Form 18-K for the year ended December 31, 2011 (including its exhibits), as amended, is incorporated by reference in this prospectus supplement. There have been no material adverse changes that would affect the information about the State of Israel included in the Description of the State of Israel in such Exhibit D.

Prospective investors should rely on the information provided in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference in this prospectus supplement and the accompanying prospectus. No person is authorized by Israel or the Underwriters to make any representation or statement not contained in this prospectus supplement, the accompanying prospectus or the documents incorporated by reference in this prospectus supplement. Any such representation or information not contained in this prospectus supplement, the accompanying prospectus or the documents incorporated by reference in this prospectus supplement and the accompanying prospectus must not be relied upon as having been authorized by Israel or the underwriters. Please see “Information Regarding the Prospectus Supplement” and “Listing, Admission to Trading and General Information — Where You Can Find More Information” for information on the documents that are incorporated by reference in this prospectus supplement and the accompanying prospectus.

Israel is not offering to sell or soliciting offers to buy any securities other than the bonds offered under this prospectus supplement, nor is it offering to buy the bonds in places where such offers are not permitted by applicable law. You should not assume that the information in this prospectus supplement and the accompanying prospectus, or the information incorporated by reference in this prospectus supplement and the accompanying prospectus, is as of the respective dates. Israel’s economic, fiscal or political circumstances may have changed since such dates.

The bonds described in this prospectus supplement are debt securities of Israel being offered under a registration statement filed with the SEC under the Securities Act of 1933, as amended. The accompanying prospectus is part of that registration statement. The accompanying prospectus provides you with a description of the bonds that Israel may offer, and this prospectus supplement contains specific information about the terms of this offering and the bonds. This prospectus supplement contains information that changes information provided or incorporated by reference in the accompanying prospectus. Consequently, before you invest, you should read this prospectus supplement along with the accompanying prospectus as well as the documents incorporated by reference in this prospectus supplement and the accompanying prospectus. Please see “Information Regarding the Prospectus Supplement” and “Listing, Admission to Trading and General Information — Where You Can Find More Information” for information on the documents incorporated by reference in this prospectus supplement and the accompanying prospectus. Those documents (such as Israel’s Annual Report on Form 18-K for the year ended December 31, 2011) contain information regarding Israel, the bonds and other matters. The registration statement, any post-effective amendments thereto, the various exhibits to the registration statement and the documents incorporated therein by reference contain additional information about Israel and the bonds. Certain terms used but not defined in this prospectus supplement and the accompanying prospectus are defined in the accompanying prospectus.

The distribution of this prospectus supplement and the accompanying prospectus and the offering of the bonds in certain jurisdictions may be subject to certain restrictions. Prospective investors who receive copies of this prospectus supplement and the accompanying prospectus should inform themselves about and observe any of those restrictions. For more information, see the accompanying prospectus supplement.

This prospectus supplement and the accompanying prospectus, including the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, may be used only for the purposes for which they have been produced in connection with the offering of the bonds. Any use of this prospectus supplement and the accompanying prospectus, including the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, for purposes other than the offering of the bonds, is unauthorized.



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### FORWARD-LOOKING STATEMENTS

Israel has made forward-looking statements in this prospectus supplement and the accompanying prospectus, including the documents therein. Statements that are not historical facts are forward-looking statements. Forward-looking statements generally can be identified by the such as “may”, “will”, “expect”, “intend”, “estimate”, “anticipate”, “believe”, “continue”, “could”, “should”, “would” or similar terminology in this prospectus supplement and the accompanying prospectus, including the documents incorporated by reference herein and therein, are based on assumptions and projections. Therefore, you should not place undue reliance on them. Forward-looking statements speak only as of the date of the obligation to update any of them in light of new information or future events.

Forward-looking statements involve inherent risks. Israel cautions you that many factors could affect the future performance of the Israel but are not limited to:

- External factors, such as:
  - 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, including the United States and the European Union;
  - the global high-tech market; and
  - regional economic and political conditions.
- Internal factors, such as:
  - general economic and business conditions in Israel;
  - present and future exchange rates of the Israeli currency;
  - foreign currency reserves;
  - the level of domestic debt;
  - domestic inflation;
  - the level of budget deficit;
  - the level of foreign direct and portfolio investment; and
  - the level of Israeli domestic interest rates.

[Table of Contents](#)**SUMMARY OF THE OFFERING**

*The following summary should be read as an introduction to this prospectus supplement and is qualified in its entirety by, and the more detailed information appearing elsewhere in this prospectus supplement and the accompanying prospectus. You should base on consideration of this prospectus supplement and the accompanying prospectus, including the documents incorporated by reference.*

<b>Issuer</b>	State of Israel.
<b>Title of Securities</b>	\$1,000,000,000 3.15% bonds due 2023. \$1,000,000,000 4.50% bonds due 2043.
<b>Maturity Date</b>	2023 bonds will mature on June 30, 2023. 2043 bonds will mature on January 30, 2043.
<b>Interest Rate</b>	3.15% per annum for the 2023 bonds. 4.50% per annum for the 2043 bonds.
<b>Interest Payment Dates</b>	June 30 and December 30 of each year, starting June 30, 2013, for the 2023 bonds. January 30 and July 30 of each year, starting July 30, 2013, for the 2043 bonds.
<b>Price to Public</b>	99.448% of the principal amount for the 2023 bonds. 98.574% of the principal amount for the 2043 bonds.
<b>Form</b>	Israel will issue the bonds in the form of one or more book-entry securities without physical coupons. Israel will not issue the bonds in bearer form.
<b>Denominations</b>	Israel will issue the bonds in denominations of US\$200,000 and integral multiples of that amount.
<b>Payment of Principal and Interest</b>	Principal and interest on the bonds will be payable in U.S. dollars or other freely convertible currency of the United States of America.
<b>Status</b>	The bonds will rank equal in right of payment with all of Israel's existing and future unsecured, unsubordinated external indebtedness.
<b>Redemption; Sinking Fund</b>	The bonds will not be redeemable prior to maturity and are not entitled to a sinking fund.
<b>Default</b>	The bonds will contain events of default, the occurrence of which may result in the acceleration of obligations under the bonds prior to maturity upon notice by holders of a majority of the principal amount of the outstanding bonds. See "Debt Securities — Default Events" and "Debt Securities — Acceleration of Maturity" in the accompanying prospectus.
<b>Risk Factors</b>	There are certain risks relating to the issue of the bonds, which investors should carefully read and understand. See "Risk Factors".



**Collective Action Clauses**

The bonds will be designated Collective Action Securities and, as such, will be subject to the provisions of the collective action clauses, including meetings of holders, acceleration of the bonds in an event of default and the bonds that differ from those applicable to much of Israel's outstanding bonds. Under these provisions, which are described in the sections entitled "Description of the Bonds" and "Collective Action Securities" in the accompanying prospectus, Israel may take certain other actions, in each case with the consent of the holders of a certain amount of the outstanding bonds. Certain of these actions may be taxable for U.S. federal income tax purposes. See "Taxation of Interest and Principal" in the prospectus supplement.

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<b>Listing and Listing Agent</b>	Application will be made to list the bonds on the official list of the Luxembourg Stock Exchange. It is expected that the Luxembourg listing agent will be Dexia Banque Internationale à Luxembourg S.A. (anonymized).
<b>Fiscal Agent</b>	The bonds will be issued pursuant to a Fiscal Agency Agreement dated as of February 1, 2011, by Amendment No. 1 to Fiscal Agency Agreement dated as of February 1, 2011, between Citibank, N.A., as fiscal agent, paying agent, transfer agent and registrar.
<b>Taxation</b>	For a discussion of the Israeli and United States tax consequences associated with the bonds, see “Taxation” in this prospectus supplement and “Debt Securities — Taxation” in the accompanying prospectus. Investors should consult their own tax advisors regarding the United States federal, state, local and any other tax consequences to the disposition of the bonds.
<b>Further Issues</b>	From time to time, without the consent of holders of the bonds, and subject to the requirements of Israeli law, Israel may create and issue additional debt securities with terms that differ from those of the bonds (or the same except for the amount of the first interest payment) <i>provided</i> that such additional debt securities, for purposes of U.S. federal income tax, (a) have the same characteristics as the bonds, and (b) do not have a greater discount than the bonds have as of the date of issuance of such additional debt securities. See “Debt Securities — Further Issues of Debt Securities of a Series” in the accompanying prospectus.
<b>Governing Law</b>	The bonds will be governed by the laws of the State of New York, except for the interpretation and execution of the bonds, which will be governed by the laws of the State of Israel.

*Where a claim relating to the information contained in this prospectus supplement or the accompanying prospectus is brought to court, under the national legislation of the place of jurisdiction, have to bear the costs of translating this prospectus supplement and the accompanying prospectus into the language of the court before the legal proceedings are initiated.*

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## RISK FACTORS

*You should read this entire prospectus supplement, the accompanying prospectus and the documents incorporated by reference hereto. The expressions defined elsewhere in this prospectus supplement or the accompanying prospectus have the same meaning in this section. Investments involve risks. Factors which are material for assessing the market risks associated with the bonds are described below. You should consult with your broker and other advisors, prior to deciding whether to make an investment in the bonds.*

### **Risks related to the bonds**

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

You must determine the suitability of investment in the bonds in light of your own circumstances. In particular, you should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the bonds and the merits and risks of investing in them;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of your particular financial situation, the risks that 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 of the bonds 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 market conditions and your investment and your ability to bear the applicable risks.

***There is no assurance that an active secondary market for the bonds will develop.***

The bonds are new securities for which there currently is no public market. There can be no assurance that an active trading market for the bonds will develop, that it will be maintained. If an active trading market for the bonds does not develop or is not maintained, the market or trading price of the bonds may be adversely affected. If the bonds are traded after their initial issuance, they may trade at a discount to their initial offering price, depending on the market for similar securities, recommendations from securities analysts, general economic conditions and the financial condition of the State of New York. If the bonds are made to list and trade on the Regulated Market “Bourse de Luxembourg” of the Luxembourg Stock Exchange, there is no assurance that the bonds will be accepted or that an active trading market will develop.

***The bonds contain provisions that permit Israel to amend the payment terms and take certain other actions without the consent of all holders.***

The bonds contain provisions regarding acceleration and voting on amendments, modifications, changes and waivers, which are commonly known as “covenant waivers”. Under these provisions, certain key provisions of the bonds may be amended, including the maturity date, interest rate and other payment terms. Such amendments may be taken with the consent of the holders of 75% of the aggregate principal amount of the outstanding bonds. See “Debt Securities — Definition of Debt Securities” in the accompanying prospectus. Certain of these actions may be taxable events requiring holders to recognize gain or loss for U.S. federal income tax purposes. See “Taxation – United States” in this prospectus supplement.

***There can be no assurance that the laws of the State of New York in effect as of the date of this prospectus supplement will not be modified.***

The conditions of the bonds are based on the laws of the State of New York in effect as of the date of this prospectus supplement. No assurance can be given that there will be no change of any possible judicial decision or change to New York law or administrative practice after the date of this prospectus supplement.



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The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain 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 other investments, and (iii) other restrictions apply to your purchase or pledge of any bonds. Financial institutions should consult their legal advisors or the appropriate regulatory authorities for the appropriate treatment of the bonds under any applicable risk-based capital or similar rules.

***The trading market for debt securities may be volatile and may be adversely impacted by many events.***

The market for the bonds issued by the State of Israel is influenced by economic and market conditions and, to varying degrees, interest rates in the United States and Europe and other industrialized countries. There can be no assurance that events in Israel, the United States or Europe will cause market volatility or that such volatility will not adversely affect the price of the bonds or that economic and market conditions will not change.

***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.

**Risks related to the State of Israel and the geopolitical and economic environment*****External factors including regional and international political and economic conditions may adversely affect the trading price of the bonds.***

Israel's access to credit in the international capital markets is affected by regional and international political and economic conditions. Changes in the credit rating of Israel, the security situation, the economic growth and stability of Israel's 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's cost of funds in the international capital markets and the liquidity of and demand for Israel's debt securities, including the bonds. In addition, a change in the credit rating of Israel could adversely affect the trading price of Israel's debt securities, including the bonds.

***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, a number of armed conflicts have occurred between Israel and its Arab neighbors. Political instability in the Middle East has increased since the 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, terrorism has continued. 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 may be adversely affected. The conflicts with Hamas in the Gaza strip and with Hezbollah in Lebanon may worsen and potentially affect Israel's economic condition. In addition, such conflicts may affect the stability of the Israeli economy.

Since January 2011, there have been varying degrees of political instability and public protests within Middle Eastern countries including Egypt, Libya, Syria, Tunisia and Yemen. Although such instances of instability in the Middle East have not so far materially affected Israel's economy, as of the date of this prospectus supplement, there can be no assurance that such instability in the Middle East will not escalate in the future, that such instability will not affect the stability of the Israeli economy, or that Israel's economy will not thereby be affected.



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

Israel is a sovereign state. Although Israel has waived its sovereign immunity in respect of the bonds, except for its sovereign immunity arising out of or based on United States federal or state securities laws, enforcement in the event of a default may nevertheless be impractical for political or other considerations.

Because Israel has not waived its sovereign immunity in connection with any action arising out of or based on United States federal or state securities laws, it may not be possible to obtain a United States judgment against Israel based on such laws unless a court were to determine that Israel is not entitled under the Immunities Act of 1976, as amended, to sovereign immunity with respect to such actions.

***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. Recession stemming most recently from the sovereign debt crisis in Europe, have led to increased market volatility, decreased consumer confidence and reduced economic activity generally. The potential impact of such global economic pressure on Israel is uncertain. Although Israel's economy has shown moderate growth since the global financial crisis, there can be no assurance that Israel's economy will continue to grow in a prolonged negative global economic environment.

As a result of the sovereign debt crisis in Europe, there has been significant price volatility in the secondary market for sovereign debt. If such price volatility continues or worsens, it could lead to a decline in the recoverability and value of the market price of Israel's debt securities. 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 Eurozone countries, the Euro by one or more successor currencies, could have a detrimental impact on the global economy, thereby adversely affecting Israel's economy. In addition, the continued stagnation or decline in economic growth of the European Union, which is one of Israel's major trading partners, could adversely affect 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 uncertain.***

There are numerous uncertainties associated with estimating quantities of natural gas reserves and projecting future rates of production from Israel's natural gas fields. These items are, in part, dependent on the reliability of seismic measurement technologies, the future interest in other energy substitutes, as well as future development and operating costs, all of which may in fact vary considerably from Israel's current assumptions. Moreover, certain of Israel's neighboring countries have asserted mineral rights with respect to certain natural gas reserves to which Israel is entitled. Failure to meet expected natural gas production targets on the forecasted timelines, or at all, could have a negative impact on Israel's projected revenues that will be received by the State of Israel.

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Israel has filed its Annual Report for 2011 on Form 18-K with the SEC. The Annual Report of Israel for 2011 on Form 18-K and its amendment to that Annual Report on Form 18-K and its exhibits that Israel files with the SEC after the date of this prospectus supplement but before the date of this prospectus supplement, and all of its bonds, are considered part of and incorporated by reference in this prospectus supplement. All of these documents have been filed with the SEC and are available to the public over the internet at the SEC's web site at [www.sec.gov](http://www.sec.gov). You may read and copy any document we file at the SEC's public reference room at 1000 ... 20549. You may also obtain a copy of all such documents, free of charge, at the offices of the fiscal agent in New York City or the listing agent in the accompanying prospectus under the heading "Where You Can Find More Information About the State of Israel".

For the purposes of the review of this prospectus supplement and the accompanying prospectus by the CSSF pursuant to the Prospectus Regulation, stated in this prospectus supplement, the documents incorporated by reference in the accompanying prospectus are not deemed to be incorporated by reference in this prospectus supplement and the accompanying prospectus reviewed by the CSSF, and (ii) Exhibit C to the Annual Report of Israel for 2011 is not to be incorporated by reference and does not form part of this prospectus supplement and the accompanying prospectus reviewed by the CSSF.



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**USE OF PROCEEDS**

Israel will use the net proceeds from the sale of the bonds offered hereby, estimated to be US\$1,976,245,000 after deducting underwriting expenses payable by Israel, for the general purposes of the State.

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## RECENT DEVELOPMENTS

*The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing in Exhibit D to the Annual Report of the State of Israel on Form 18-K for the fiscal year ended December 31, 2011 (including certain tables may differ from the sum of the individual items in such tables due to rounding. Unless otherwise specified, amounts in NIS are in millions of NIS, and without adjustment for inflation. Figures in this section are as of January 24, 2013, except as otherwise indicated.*

### Economic Developments

During the first three quarters of 2012, the Israeli economy experienced moderate gross domestic product (“GDP”) growth of approximately 3.5% (annual terms). According to the preliminary estimates of the Central Bureau of Statistics, the annual growth rate for 2012 is anticipated to be approximately 3.5%. The Bank of Israel and the Economic Research Department at the Ministry of Finance. For 2013, the Bank of Israel predicts growth of approximately 3.5%. Finance predicts growth of approximately 3.5%. The higher growth predicted for 2013 is mainly attributable to an increase in the domestic product. GDP grew at a rate of 4.6%. Although there was relatively high growth in the first and second quarters of 2011 (4.6% and 3.7%, respectively), growth in 2011 and during 2012. In the first, second and third quarters of 2012, GDP increased at an annual rate of 2.9%, 3.1% and 2.9%, respectively, compared to the third and fourth quarters of 2011, respectively. Business sector product (calculated as GDP less certain general government services, services of government housing services) experienced moderate growth in the second, third and fourth quarters of 2011 (2.4%, 3.9% and 3%, respectively) and the first quarter of 2012 (2.7%, 3.5% and 3%, respectively) compared to 6.5% growth in the first quarter of 2011. The relatively lower rates of growth commencing in the second quarter through the third quarter of 2012 can be attributed to the deterioration in Europe’s fiscal condition and the high levels of economic uncertainty.

The budget deficit in 2012 amounted to 4.2% of GDP, exceeding the target budget deficit ceiling of 2% of GDP. The higher than target deficit is attributable to a shortfall in tax revenues compared to the 2012 tax revenues forecast, which was prepared in mid-2010 and approved at the end of 2010. Inflation in 2012 was 1.6% at year end, within the target range of 1% to 3%. Inflation in 2013 is expected to be close to the middle of the aforementioned target range. The Israeli shekel depreciated in 2011 and 2012, after having appreciated in 2009 and 2010.

During 2012, there was no change in Israel’s foreign currency credit rating from Moody’s Investor Services, and Standard & Poor’s Global Ratings. Israel’s existing credit rating.

Israel’s economy continues to be affected by current global economic conditions, including the stability of the Eurozone and the ability of Eurozone countries to continue to service their sovereign debt obligations and maintain liquidity with respect to their public finances. Since late 2009, several Eurozone countries, including Spain, Italy, Ireland, Portugal and France, have experienced rising national debt levels coupled with the downgrade of the credit ratings of these countries. There has been significant price volatility in the secondary market for sovereign debt of European and other nations. As of early January 2013, there has been significant price volatility in the secondary market for sovereign debt, in part due to the actions of the European Central Bank. However, if the price volatility in the secondary market for sovereign debt could lead to a decline in the recoverability and value of the market price of Israeli government bonds, which would have a material adverse effect on Israel’s financial condition. Additionally, speculation regarding the inability of Greece and certain other Eurozone governments to pay their national debt, the inability to mitigate the sovereign debt crisis and the concerns regarding the stability of the Euro currency have created uncertainty in global credit markets. Although Israel’s economy has shown moderate rates of growth throughout the global financial crisis, there can be no assurance that Israel will continue to grow in a prolonged negative global economic climate. Risks and ongoing concerns about the sovereign debt crisis in Europe, as well as the stability of 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 effect on Israel’s economy, financial condition and credit. In addition, the continued stagnation or decline in economic growth of one of Israel’s major trade partners, could have a material adverse impact on Israel’s balance of trade and adversely affect Israel’s financial condition.

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### **Balance of Payments and Foreign Trade**

After a decade of high surplus in the current account, Israel experienced a current account deficit commencing in the fourth quarter of 2012. According to the preliminary estimates of the Economic Research Department at the Ministry of Finance based on data from the Central Bank, the current account deficit for 2012 is expected to be 0.6% of GDP. In the third quarter of 2012, Israel once again recorded a surplus in the current account of 0.5% of GDP, lower than the unusually high surplus in the preceding two years (3.7% and 3.9% of GDP in 2009 and 2010). The 2011 surplus was driven by a substantial expansion in imports of goods and services. This rise in imports reflects a sharp increase in the cost of energy, a rise in all categories of imports, including consumption goods, raw materials and investment goods. The steep increase in imports resulted in a deficit in 2011, in comparison with a net-export surplus of \$4.9 billion in 2010. Compared to 2010, exports of goods and services increased in 2011 by 1.2% (in the first quarter, exports decreased by 0.9% in the first quarter, but increased significantly during the second quarter, by 16.8%; in the third quarter, exports increased by 1.2% in annual terms, compared with the previous quarter). The significant rise in export levels in the second quarter of 2012 is attributable in part to its refurbished plant in Kiryat-Gat. The decrease in export levels in the third quarter of 2012 is attributable to a decline in exports of services of the year.

In the first half of 2012, Israel had a current account deficit of \$2 billion, compared with surpluses of \$1.4 billion and \$5.1 billion during the first and second halves of 2011, respectively. In the first quarter of 2012, the current account deficit was \$1.3 billion, the highest quarterly current account deficit since the third quarter of the global recession that followed the bursting of the high-tech bubble. The deficit during the first quarter of 2012 was driven by a large deficit in the goods account, as imports of goods rose significantly while exports of goods declined. In the second quarter of 2012, there was a small deficit of \$0.2 billion, and a decrease in imports during the same period. In the third quarter of 2012, Israel experienced a surplus of \$0.8 billion, mainly due to a surplus in the services account.

Israel is party to free trade agreements with its major trading partners and it is one of the few nations that has signed free trade agreements with the EU. Israel's trade partner diversification has ameliorated the effect of weakened demand from the U.S. and the EU in 2011. In 2012, as compared to 2011, exports to the EU decreased by 6.6%, exports to the U.S. decreased by 5.6% and exports to other regions including Asia increased by 1.2%. Exports of goods to Asia, which constituted 20.8% of total exports during 2012, continues to offset the decline in exports to the U.S. and the EU.

### **Fiscal Policy**

The budget deficit amounted to 4.2% of GDP in 2012, in line with the preliminary estimates of the Accountant General, but significantly higher than the 2% for that year. Between 2009 and 2011, the budget deficit was on a declining path, amounting to 5.2% of GDP in 2009 (the 2009 budget deficit target was set at 5.5%), 4.2% of GDP in 2010 (the 2010 budget deficit target was set at 5.5%) and 3.3% of GDP in 2011 (the 2011 budget deficit target was set at 3%). On July 30, 2012, the Government approved a deficit reduction plan proposed in June 2012 by the Prime Minister and the Minister of Finance in response to a shortfall in the budget. Under the new law, the 2013 deficit is not to exceed 3% of GDP, the 2014 deficit is not to exceed 2.75%, the 2015 deficit is not to exceed 2.5%, the 2016 deficit is not to exceed 2.2%, and the deficit from 2019 and onwards is not to exceed 1.5% of GDP. In accordance with the Government's long-term fiscal policy, Government remains committed to reach the limit that was set forth in the Expenditure Law (as defined below), and the Government remains committed to reach a 60% debt/GDP ratio by 2019.

In addition, on July 30, 2012, the Government approved a series of fiscal measures aiming to increase Government revenues by approximately 1.5% of GDP starting in 2013. The measures include an increase of 1% in V.A.T. and changes in the income tax on individuals, as well as higher taxes on corporations. Legislative approval of a majority of these measures has been completed.

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As a result of the Government's fiscal discipline, Israel's gross public debt as a percentage of GDP has been on a declining path in the last decade. Israel's gross public debt as a percentage of GDP stood at 74.1% in 2011, 76.3% in 2010 and 79.6% in 2009. According to the estimate of the Accountant General, the gross public debt is not expected to exceed 74% of GDP.

### **Inflation and Monetary Policy**

The rate of inflation in the last decade was near the middle of the target range (1% — 3%) and stood at 2.2% on average. Measured at the consumer price index ("CPI") rose by 1.6% in 2012, 2.2% in 2011, 2.7% in 2010 and 3.9% in 2009. The changes in CPI reflect a rise in the prices of commodities.

Because of the slowdown in the Israeli and global economies, the Bank of Israel lowered its key interest rate to 0.5% in the middle of 2010 and continued to grow, the Bank of Israel began to gradually increase its key interest rate. By the end of 2010, the key interest rate was set at 1.5% and by the end of the first half of 2011. In order to support further growth, in the second half of 2011 the Bank of Israel lowered its interest rate to 1.25% in December 2011. The Bank of Israel continued to tune its key interest rate downward in 2012, lowering it in February to 2.5%, in June to 1.75%. In January 2013, the Bank of Israel further lowered its interest rate to 1.75%. The real interest rate (nominal interest rate less inflation) averaged 1.5% after two years of a negative real interest rate (-1.2% in 2010 and -1% in 2009). As of December 2012, the real interest rate was negative at -0.5%.

In recent years, Israel has been active in the global sovereign debt markets: In March 2009, Israel issued in the global markets \$1.5 billion aggregate principal amount of 5.125% bonds due 2019. In March 2010, Israel issued in the Euro market EUR1.5 billion aggregate principal amount of 4.625% bonds due 2020. In January 2012, Israel issued in the global markets \$1.5 billion aggregate principal amount of 4% bonds due 2022.

The NIS/USD exchange rate depreciated in 2011 and into 2012, averaging NIS 3.86 for 2012. As of December 31, 2011 and December 31, 2012, the exchange rate stood at NIS 3.821 and NIS 3.733, respectively. From late July through mid-August 2012, the NIS depreciated significantly, reaching a low of NIS 3.600 in the third quarter of 2012, the NIS appreciated once again and the NIS/USD exchange rate remained relatively steady into January 2013. In response to the NIS depreciation that began in 2008 and continued until mid-2011, the Bank of Israel initiated a two-year policy in the foreign exchange market that included daily purchases of foreign currency. In August 2009, the Bank of Israel announced its intention to terminate its daily purchasing of foreign currency but to continue purchasing such currency in the interbank market. At the end of each of 2009, 2010 and 2011, official reserves stood at \$60.6 billion, \$70.9 billion and \$74.9 billion, respectively. At the end of 2012, the official reserves stood at \$75.9 billion. Since August 2011, the Bank of Israel has not made substantial foreign currency purchases.

On October 29, 2012, the Bank of Israel published a directive limiting the loan-to-value (LTV) ratio in housing loans, applying to loans with a term of more than 10 years. The directive prohibits banks from approving mortgages with an LTV ratio of more than 70%. An exception is available to first-time buyers, for whom a 75% LTV ratio will apply. The directive establishes an LTV ratio of 50% for investment mortgages, which include mortgages on second homes and homes in areas of high risk. The occurrence in various countries of financial crises that were spurred by risky mortgage lending practices, and in light of the increase in housing prices, the Bank of Israel aims to prevent an overheating of the Israeli housing market by ensuring that mortgage terms are responsive to the risks that are inherent in the housing market.

On January 29, 2013, the Governor of the Bank of Israel, Professor Stanley Fischer, announced his intention to resign on June 30, 2013.

### **Labor Market**

In 2012, the unemployment rate dropped to 6.8% (based on the average monthly data for January to November 2012) from 7.1% in 2011. The unemployment rate increased to 9.5% during 2009, from 7.7% in 2008, reflecting the effects of the global economic downturn. The labor market has been recovering since the second half of 2009, and the unemployment rate has gradually decreased since then, reaching 6.7% in November 2012.

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The participation rate remained relatively stable throughout 2011 but increased significantly in 2012, reaching 64.2% in the third quarter of 2012. Despite the high rate and low unemployment rate in 2012, the increase in average wages has been moderate. This is in part attributable to the entry of a large number of new jobs and part-time positions. For the first ten months of 2012, average monthly wages averaged \$2,310.

Effective January 2012, the Central Bureau of Statistics changed its labor survey methodology, resulting in a restatement reflecting higher wages for certain periods. The changes include conducting the labor survey on a monthly (rather than a quarterly) basis, as well as changes in modeling and calculation in part to conform to the labor survey methodology of the OECD.

## **Capital Markets**

The Tel-Aviv Stock Exchange (the “TASE”) is Israel’s sole stock exchange and the Tel Aviv 100 (“TA-100”) and Tel Aviv 25 (“TA-25”) are two indicators of the performance of Israel’s public companies. The TA-100 and TA-25 measure, respectively, the 100 and 25 companies with the highest market capitalization on the TASE. The TASE is highly correlated with major stock markets in developed countries, and the global financial crisis and overall weak economic conditions over the years have affected Israel’s public companies. The TA-100 fell by 51.1% in 2008, but recovered in 2009 and 2010, rising by 88.8% and 14.2%, respectively. In the two-year bull market, the TA-100 fell by 20.1% and the TA-25 fell by 18.2%. However, in 2012, the financial performance of companies listed on the TASE improved. The TA-100 and TA-25 gained 7.2% and 9.2%, respectively.

In reaction to the downgrading of U.S. credit by Standard & Poor’s and the European sovereign debt crisis, starting in April 2011 and continuing through 2012, there was a decline in market activity on the TASE, including a fall in share prices, trading volume and in the number of public offerings. During 2012, the market was characterized by volatile movements and the downward trend affected all leading TASE indices. In light of the 7.7% devaluation of the NIS against the USD in 2012, the NIS rose 24% in USD terms over the course of the year. The TA-25 rose by 9.2% in nominal terms and 11.8% in USD terms during 2012, as the value of the NIS rose. The value of the public portfolio of financial assets (a weighted average of the public’s holdings of financial assets and deposits, in NIS) was approximately 1.2% during 2011, but increased by 6.4% by November 2012. Large redemptions, primarily in provident funds, led to a record net outflow of NIS 417.67 million in the third quarter of 2011. However, during the fourth quarter of 2011 there was a positive inflow of NIS 1.467 billion. In 2012, large redemptions, mainly in January, led to a new record net outflow of assets under management of NIS 1.467 billion. In the second quarter of 2012, large redemptions continued, and there were outflows of NIS 444.8 million and NIS 95.3 million, respectively. In the fourth quarter of 2012 (based on data through November 2012), there was an inflow of NIS 26 million.

The Bank of Israel, together with governmental authorities and regulators, monitors Israeli banks and financial institutions on an ongoing basis to ensure the financial system’s conditions and operations as a whole. In addition, the Bank of Israel cooperates with the Ministry of Finance and the Israel Security Agency to regulate and supervise Israel’s financial markets, to ensure coordination among the various entities in the financial sector and to set policies that are implemented and enforced with respect to such entities.

The Bank of Israel and the Ministry of Finance took a number of steps to reduce short-term investments by foreign investors, including requiring banking corporations in Israel to meet a 10% reserve requirement for foreign exchange swap transactions and shekel-based forward contracts. In addition, the Ministry of Finance cancelled a tax exemption previously granted to foreign investors on capital gains from non-indexed zero-coupon government bonds issued by the Bank of Israel (“Makam”) and short-term government bonds. To improve its ability to analyze transactions in the foreign exchange market, transparency and investor confidence, the Bank of Israel imposed reporting obligations on Israeli residents and non-residents undertaking transactions in the foreign exchange market and forwards exceeding \$10 million per day, and non-residents undertaking transactions in Makam and short-term government bonds exceeding \$10 million per day.

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### **Political Situation**

The State of Israel was established in 1948. Israel is a parliamentary democracy, with governmental powers divided among separate branches. Israel has no formal written constitution, but rather, a number of basic laws that were granted special status by the Israeli Supreme Court. Jurisprudence is also reflected in judicial decisions and in the State's Declaration of Independence. The President of Israel is the head of state in a largely apolitical, figurehead role, with the real executive power lying in the hands of the Prime Minister. The legislative power of the State resides in the Knesset, a parliament that consists of 120 members elected by universal suffrage under a system of proportional representation.

In 2005, Israel implemented a unilateral disengagement from Gaza, pursuant to which the State dismantled and evicted all Israeli civilian settlements in the northern West Bank and all of its military personnel in those areas. In the summer of 2006, Israel was engaged in a war with Hezbollah in Lebanon. After the Israeli disengagement from Gaza, Hamas, a terror organization, assumed administrative control over the Gaza Strip. In December 2008, after firing into Israel an increasing number of rockets from Gaza, Israel commenced operation Cast Lead in the Gaza Strip with the goal of suppressing Hamas's rocket fire. Operation Cast Lead concluded in January 2009, contributing to relative calm from 2009 and into 2011. From 2011 and into 2012, Hamas resumed and substantially increased its rocket fire from Gaza, including for the first time using rockets that have the capability of reaching Tel Aviv and Jerusalem. In response, in November 2012, Israel launched Operation Pillar of Defense, a military campaign against targets in the Gaza Strip. Operation Pillar of Defense lasted eight days. Neither operation Cast Lead nor Operation Pillar of Defense had a material effect on the Israeli economy. Since 2009, the Israeli-Palestinian peace process has been at a standstill — a situation that continued to deteriorate. The Palestinian side accept basic conditions set out by the "International Middle East Quartet" (i.e., the United Kingdom, EU, United States, and Russia), including the acceptance of previous Palestinian commitments. Although Israel has agreed to negotiate with Palestinian partners who accept the Quartet's conditions, Hamas has refused to do so.

On September 23, 2011, the Palestinian Authority filed an application for membership with the United Nations. On November 29, 2011, the United Nations General Assembly adopted a resolution upgrading the Palestinian Authority's status in the United Nations from a "non-member observer entity" to a "non-member observer state."

Since January 2011, there has been political instability and civil disobedience, termed the Arab Spring, in numerous Middle East and North Africa countries, including Bahrain, Libya, Egypt, Iran, Tunisia, Yemen and Syria. The Arab Spring has ousted long-standing leadership in several of the aforementioned countries. Political situations in others are uncertain. As Israel is situated in the center of this region, it closely monitors these events, aiming to protect its economic and political interests. While Israel is hopeful that these developments will lead to increased freedom and opportunity for the citizens of its neighboring countries, it remains concerned about the future of the region. The delicate relations between Israel and its neighbors have become even more fragile with the change in regimes. While such instability in the Middle East and North Africa region have not so far materially affected Israel's financial or political situation, there can be no assurance that such instability will not spread to additional countries in the Middle East and North Africa region, that governments in the Middle East and North Africa will be successful in maintaining domestic order and stability, or that Israel's economic or political situation will not thereby be affected.

The outcome of regime change in Egypt and the ongoing turmoil in Syria remains uncertain. Since the signing of the Camp David Accords, Egypt has been important to Israel's national security. Following the ousting of Egyptian President Hosni Mubarak, the relationship between Egypt and Israel has been strained. The political power of the Muslim Brotherhood as evidenced by the recent victory of the Egyptian presidential election by Mohamed Morsi, a member of the Muslim Brotherhood, may adversely affect the long-standing peaceful relationship between the two countries. Egypt's suspension in May 2012 of the blockade that restricts movement along the Egypt-Gaza border, as well as the increased instances of violence including rocket fire from the Sinai side of the border, may be seen as a deterioration in the relationship. However, as of the end of 2012, Israel did not perceive a material change in the strategic stance of Egypt, as the peace treaty between Israel and Egypt remains in force.

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While the government of Egypt has changed, the framework for ongoing security contacts between the two countries continued to be utilized. In November 2012, the ambassador of Egypt to Israel, Ambassador Atef Salem, presented his credentials to President Shimon Peres. However, in November 2012, Ambassador Salem was called to Cairo for consultations. As of the end of 2012, the weakening of the Assad regime in Syria was perceived as diminishing the threat emanating from the Syrian armed forces. Nevertheless, Israel remains vigilant regarding the security challenges posed by its shared border with Syria.

Fundamentalist regimes, such as Iran's, present a deep concern for the international community and especially for states in the region. The prospect of a nuclear Iran has been at the center of both domestic and international geopolitical discourse. The implementation of strict international sanctions combined with widespread international denouncement of Iranian nuclear ambitions, serve as evidence that the United States, EU and other world powers are committed to preventing Iran from acquiring nuclear weapons. Prime Minister Benjamin Netanyahu has publicly stated that Israel aims to achieve a peaceful resolution to the situation; however, all options to prevent Iran from acquiring nuclear weapons remain on the table.

In June 2011, a number of small protests began over issues relating to living standards, initially in response to the rising prices of Israeli bread, cheese, and quickly spreading to a variety of related issues, such as the decline in doctors' wages, which led to a national doctors' strike. Large scale protests ensued over housing and food costs, government services and the cost of living for the middle class. These large-scale protests were backed and culminated in the largest demonstration in the country's history, with over 400,000 participants. Protest marches in Tel Aviv were followed by an encampment along the popular Rothschild Boulevard, a trend that spread to other cities in Israel. To address the protestors' grievances, in August 2011, the Government appointed the Trajtenberg Committee to examine Israel's socioeconomic issues and propose measures to improve living standards. The Trajtenberg Committee released its recommendations in September 2011. The Trajtenberg Committee's recommendations are consistent with the Government's goal of maintaining a balanced budget; spending increases are offset by additional revenue-raising measures. Since October 2011, many of these recommendations have been adopted. Recommendations regarding tax policy and competitive markets have been introduced into law in December 2011.

In the first half of 2012, the exponential growth of Israel's refugee population originating from sub-Saharan African countries, primarily from Sudan, has become a significant domestic political issue. These refugee groups began coming to Israel following the 2005 Egyptian police attacks on Sudanese refugees, who were initially granted protection to those who sought refuge in Israel. However, Israel soon became a primary destination for such groups, due to the availability of jobs, prompting thousands of additional illegal immigrants and asylum seekers to cross the Sinai Desert from Egypt and seek refuge in Israel. In response to the continuous influx of approximately one thousand such refugees each month, the Government implemented a deportation policy designed to control the refugee population.

In recent years, there has been increasing controversy in Israel regarding the Tal Law, which permits ultra-orthodox (haredi) Jews to avoid military service on account of their status as full-time yeshiva students. The law, which required renewal by the Knesset every five years, was up for renewal in February 2012. On February 21, 2012, Israel's High Court of Justice held the Tal Law unconstitutional on the grounds that it placed a heavier share of society's burden on the ultra-orthodox population.

On May 7, 2012, in order to extend the Tal Law for at least six months, proponents of the law put forth a measure to dissolve the current Knesset and call for new elections. The following day, Prime Minister Benjamin Netanyahu and opposition leader Knesset member Shaul Mofaz announced that Mofaz's Kadima party, Netanyahu's Likud party and form a national unity government. The new coalition consisted of 94 out of the 120 Knesset members.

In May 2012, the Committee for Equality in the Burden of Military Service in Israel was established to formulate an alternative to the current military service law. Committee member Yohanan Plesner, the committee was created under the coalition agreement of the national unity government between Likud and Kadima. Following the resignation of three committee members, Prime Minister Benjamin Netanyahu announced the committee's dissolution, stating that it would not implement its recommendations in the Knesset. However, on July 4, 2012, Knesset member Plesner published a report, which was followed by negotiations for the implementation of the report's conclusions. On July 17, 2012, after the parties failed to reach a compromise on the issues underlying the Tal Law, the coalition collapsed. The surviving coalition did, however, maintain its majority of seats, having returned to its original composition preceding Kadima's entry into the coalition.



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Since the expiration of the Tal Law on August 1, 2012, mandatory military recruitment technically applies to haredi Jews. According to authority to determine who is to be recruited rests with the IDF. While the IDF is currently preparing a general recruitment plan for haredi Jews, it has not yet begun.

In response to concerns regarding the ability of the coalition to pass a budget for 2013 by the beginning of the fiscal year, Prime Minister Netanyahu announced on October 9, 2012 that early elections would be held in January 2013. On October 16, 2012, the Knesset passed a resolution for the dissolution of the Knesset and set January 22, 2013 as the election date. In accordance with Israeli law, seven days after the publication of the resolution, a Knesset member is obligated to select a Knesset member to form a new government, which must be formed within 28 days (with the possibility of a 14 day extension). If a government is not formed, a budget must be approved within 45 days. Accordingly, it is anticipated that the 2013 budget will be approved approximately three weeks after the elections. Until such budget is passed, Israeli law provides that only 1/12th of the previous year's budget may be allocated per month. Therefore, until the approval of 2013 budget by the Knesset, the Accountant General will allocate for use on a monthly basis 1/12th (8.33%) of the amount allocated for the previous year.

As of January 23, 2013, according to preliminary election results accounting for approximately 99% of the votes cast, the Likud party received 31 votes, amounting to 31 seats in the Knesset. The Yesh Atid party, led by former journalist Yair Lapid, is in second place, with 19 seats in the Knesset. The Labor party is in third place, with 15 seats in the Knesset. The HaBayit HaYehudi party is in fourth place, with 12 seats in the Knesset, and the Shas party is in fifth place, with 7 seats in the Knesset. It is anticipated that the final election results will be published by January 29, 2013 and that President Shimon Peres will assign the Prime Minister. Benjamin Netanyahu.

## **Privatization**

Historically, the Government has been involved in nearly all sectors of the Israeli economy. In the past several decades, privatization has been a major policy. Broader market reforms initiated by the Government aiming to promote the growth of the private sector, mainly by enhancing competition. In recent years, resulting in the privatization of many enterprises owned by the State and the reduction of State subsidization of business enterprises. In 1996 government companies became partially or fully-private. The proceeds stemming from these privatizations totaled \$14.2 billion. In 2010, \$4.5 billion, partly as a result of the privatization of the State's interest in two of the five major banks in Israel — Israel's entire remaining interest in Bank Leumi Le-Israel Ltd. and 5% proceeds of Israel's stake in Bank Leumi Le-Israel Ltd. Currently, the Government holds approximately 6.03% of Bank Leumi's outstanding shares. The Government continues with the process of privatizing its interest in financial institutions, as well as State-owned land, seaports, and parts of the defense industry.

## **Loan Guarantee Program**

In 1992, the United States approved up to \$10 billion of loan guarantees during U.S. fiscal years 1993 through 1998 to help Israel absorb the economic shock of the Gulf War. Israel completed its financings under this program in January 1998. In April 2003, the United States approved up to \$9 billion in additional loan guarantees issued during U.S. government fiscal years 2003 through 2005, with an option to extend the program by an additional year. In 2005, the United States extended the \$9 billion program for two more years, and in 2006, this program was extended again through U.S. fiscal year 2011 (with an option to extend for an additional year). The amount of guarantees that may be issued to Israel under the loan guarantee program may be reduced by a factor of 10% or estimated to have been extended by Israel for activities that the President of the United States determines are inconsistent with the objectives of the program between the United States and Israel regarding the implementation of the loan guarantee program. Under the program, the United States issues loan guarantees for payments of principal and interest on certain bonds issued by Israel. The proceeds of the guaranteed loans may be used to refinance existing loans. Under the loan guarantee program, between September 2003 and November 2004, Israel issued guaranteed notes totaling \$4.1 billion face value. Israel has not issued any new loan guarantees since November 2004, and up to \$3.8 billion of U.S. loan guarantees (subject to the reductions described above) remains available. The program was approved by the U.S. House of Representatives on July 17, 2012 and signed into law by President Obama on July 27, 2012. Through 2016, and allows the United States to provide access to up to \$3.8 billion in future loan guarantees as part of the \$9 billion commitment made under the program. The United States and Israel entered into a memorandum of understanding establishing a new framework for administering the extended program.





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**Selected Economic Indicators**  
(in billions of NIS unless otherwise noted)

	2007	2008	2009	2010
<b>Main Indicators</b>				
GDP (at constant 2005 prices, NIS)	672.2	699.9	707.6	710.0
Real GDP growth	5.9%	4.1%	1.1%	1.1%
GDP per capita (at constant 2005 prices, in NIS)	93,128	95,207	94,575	97,000
GDP per capita, percentage change	4.0%	2.2%	-0.7%	2.7%
Inflation (change in CPI- annual average)	0.5%	4.6%	3.3%	3.3%
Industrial production	4.4%	7.4%	-6.0%	-1.0%
Business sector product (at constant 2005 prices)	495.8	517.8	520.2	520.2
GDP (at current prices)	683.4	723.0	766.0	800.0
Permanent average population (thousands)	7,180	7,309	7,486	7,600
Unemployment rate <sup>(1)</sup>	9.2%	7.7%	9.5%	9.5%
Foreign direct investment (net inflows, in billions of dollars)	8.8	10.9	4.4	4.4
<b>Trade Data</b>				
Exports (F.O.B) of goods and services (NIS, at constant 2005 prices)	296.0	317.0	277.9	300.0
Imports (F.O.B) of goods and services (NIS, at constant 2005 prices)	298.4	305.4	263.0	280.0
<b>Government Debt<sup>(2)</sup></b>				
Total gross government debt (at end-of-year current prices) <sup>(3)</sup>	524	547	596.4	600.0
Total gross government debt as percentage of GDP	76.3%	75.6%	77.8%	77.8%
<b>External Debt</b>				
External debt liabilities (in millions of dollars)	90,849	88,365	93,266	100,000
Net external debt (in millions of dollars)	-40,490	-40,639	-53,790	-53,790
<b>Revenues and Expenditures<sup>(8)</sup></b>				
Revenues and grants	241,273	237,345	224,719	243,000
Expenditures	284,647	301,518	306,836	325,000
Expenditures other than capital expenditures	209,154	216,478	226,177	233,000
Development expenditures (including repayments of debt)	75,493	85,040	80,659	91,000
Repayments of debt	64,696	72,674	67,973	78,000

**Sources: Central Bureau of Statistics, Bank of Israel, Ministry of Finance.**

- (1) Reflects the recent change in the Central Bureau of Statistics' labor survey methodology, resulting in higher values in the unemployment rate.
- (2) Government debt excluding local authorities' debt.
- (3) Risk Management Dept., Debt Unit, Ministry of Finance.

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- (4) Reflects estimates of the Central Bureau of Statistics for 2012.
- (5) Reflects an annualized average based on data for January - November, 2012.
- (6) Reflects an annualized amount based on data for the first three quarters of 2012.
- (7) Reflects data as of the third quarter of 2012.
- (8) See also Table No. 31 and Table No. 33 in the Annual Report of the State of Israel on Form 18-K for the fiscal year ended December information on revenues and expenditures.
- (9) Reflects the average for January - November 2012 on an annualized basis relative to the average for January - November 2011.
- (10) Reflects an annualized average based on data for January - October, 2012.

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[Table of Contents](#)**DESCRIPTION OF THE BONDS**

*Israel will issue the bonds under the Fiscal Agency Agreement dated as of March 13, 2000, as amended by Amendment No. 1 to February 24, 2004, between Israel and Citibank, N.A., as fiscal agent, paying agent, transfer agent and registrar.*

*This section of this prospectus supplement is a summary of the material provisions of the bonds and the fiscal agency agreement. The description may not contain all of the information that is important to you as a potential investor in the bonds. Therefore, 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. Israel has filed copies of these documents with the SEC. Copies of the fiscal agency agreement and the form of bond are available over the internet at the SEC's web site at [www.sec.gov](http://www.sec.gov) or may be inspected at the office of the SEC. Copies of the form of bonds, may be inspected during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the office of the listing agent in Luxembourg.*

*Any capitalized terms that are defined in the accompanying prospectus have the same meanings in this section unless a different definition is provided. If there are any inconsistencies between the information in this section and the information in the accompanying prospectus, the information in the accompanying prospectus shall prevail.*

**General Terms of the Bonds**

The 2023 bonds, issued in an aggregate principal amount of \$1,000,000,000, bear interest at a rate of 3.15% per annum and mature on June 30, 2023. The 2023 bonds will pay interest semi-annually in arrears in equal installments on June 30 and December 30 of each year, starting on June 30, 2013, to be paid to the person in whose name the global bond is registered at the close of business on the preceding June 15 or December 15. The 2043 bonds, issued in an aggregate principal amount of \$1,000,000,000, bear interest at a rate of 4.50% per annum and mature on January 30, 2043. The 2043 bonds will pay interest semi-annually in arrears in equal installments on January 30 and July 30 of each year, starting on July 30, 2013, to be paid to the person in whose name the global bond is registered at the close of business on the preceding January 15 or July 15.

The bonds will:

- be issued as separate series under a fiscal agency agreement, as amended, between Israel and Citibank, N.A., as fiscal agent;
- be designated Collective Action Securities as described in the accompanying prospectus;
- bear interest from January 31, 2013 or from the most recent interest payment date on which interest has been paid, calculated on the basis of a year consisting of twelve 30-day months;
- be issued in fully registered form, without coupons, in denominations of US\$200,000 and integral multiples of US\$1,000 above such denominations;
- be direct, unconditional and general obligations of Israel and will rank equal in right of payment with all of Israel's payment obligations, including its future unsecured and unsubordinated external indebtedness;
- be recorded on, and transferred through, the records maintained by The Depository Trust Company ("DTC") and its direct and indirect participants, including Euroclear System ("Euroclear") and Clearstream Banking, Luxembourg, *société anonyme* ("Clearstream Banking Luxembourg");
- not be available in definitive form except under certain limited circumstances (see "— Certificated Bonds" below for a description of the circumstances under which bonds in definitive form (certificated bonds) will be available); and
- not be redeemable prior to maturity or subject to any sinking fund.

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### **Fiscal Agent and Listing Agent**

The bonds will be issued pursuant to the fiscal agency agreement dated March 13, 2000, as amended by Amendment No. 1 to Fiscal Agency Agreement dated February 24, 2004, between Israel and Citibank, N.A., as fiscal agent. The fiscal agency agreement will govern the duties of the fiscal agent. The fiscal agent is not a trustee for the holders of the bonds and, unlike a trustee, does not have the responsibility or duty to act for the holders of the bonds. You should read the fiscal agency agreement and the form of bonds included therein, free of charge, at the office of the listing agent in Luxembourg and at the office listed in the prospectus supplement heading “Where You Can Find More Information About the State of Israel”.

In addition, so long as the bonds are listed on the official list of the Luxembourg Stock Exchange and the rules of such exchange so require, the listing agent in Luxembourg. Israel has initially appointed Dexia Banque Internationale à Luxembourg, *société anonyme* (“Dexia”), to serve as its listing agent.

Israel may at any time appoint a new fiscal agent. Israel will promptly provide notice (as described under “— Notices”) of the termination of the fiscal agency agreement and the change in the office of, the fiscal agent or the listing, paying or transfer agent.

Israel may maintain deposit accounts and conduct other banking transactions in the ordinary course of business with the fiscal agent and the listing agent.

### **Interest**

If an interest payment date is not a Business Day at the relevant place of payment, payment of interest will be made on the next day that is a Business Day at the place of payment. “Business Day” means any day that is not a Saturday or Sunday and that is not a day on which banking institutions are generally authorized to close in The City of New York and, for any place of payment outside of The City of New York, in such place of payment.

Interest on the bonds will be computed on the basis of a 360-day year of twelve 30-day months.

### **Global Clearance And Settlement**

Israel has obtained the information in this section from sources it believes to be reliable, including from DTC, Euroclear and Clearstream. Euroclear and Clearstream Banking Luxembourg are under no obligation to perform or continue to perform the procedures described below, and may discontinue them at any time. None of Israel, the underwriters or the registrar of the bonds will be responsible for DTC’s, Euroclear’s or Clearstream Bank Luxembourg’s obligations under their rules and procedures; nor will Israel or the registrar be responsible for the performance by direct or indirect participants of their rules and procedures.

### **Introduction**

#### *The Depository Trust Company*

DTC is:

- a limited-purpose trust company organized under the New York Banking Law;
- a “banking organization” under the New York Banking Law;
- a member of the Federal Reserve System;
- a “clearing corporation” under the New York Uniform Commercial Code; and
- a “clearing agency” registered under the provisions of Section 17A of the Securities Exchange Act of 1934.



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DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between its participants through electronic book-entry changes in the accounts of its direct participants, eliminating the need for physical movement of securities certificates. DTC is the holding company for the Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and National Central Depository Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries.

The foregoing information about DTC has been provided to Israel by DTC for informational purposes only and is not a representation of any kind.

### *Euroclear and Clearstream Banking Luxembourg*

Like DTC, Euroclear and Clearstream Banking Luxembourg hold securities for their participants and facilitate the clearance and settlement of securities transactions between their participants through electronic book-entry changes in their accounts. Euroclear and Clearstream Banking Luxembourg provide clearing and settlement services, including the safekeeping, administration, clearance and settlement and lending and borrowing of internationally traded securities. Euroclear and Clearstream Banking Luxembourg participants are financial institutions such as the underwriters of this offering, securities brokers and dealers, banks, trust companies and other financial institutions. Other banks, brokers, dealers and trust companies have indirect access to Euroclear and Clearstream Banking Luxembourg by clearing through or maintaining a custodial relationship with Euroclear or Clearstream Banking Luxembourg participants.

### *Ownership of Bonds Through DTC, Euroclear and Clearstream Banking Luxembourg*

Israel will issue the bonds in the form of a fully registered book-entry security, registered in the name of Cede & Co., a nominee of DTC. DTC, its direct and indirect participants in DTC, will represent your beneficial interests in the book-entry security. These financial institutions will represent your beneficial interests through book-entry accounts.

You may hold your beneficial interests in the book-entry security through Euroclear or Clearstream Banking Luxembourg if you are a participant in such systems. Euroclear and Clearstream Banking Luxembourg will hold their participants' beneficial interests in the book-entry security in their customers' securities accounts with their depositaries.

These depositaries of Euroclear and Clearstream Banking Luxembourg in turn will hold such interests in their customers' securities accounts.

Israel and the fiscal agent generally will treat the registered holder of the bonds, initially Cede & Co., as the absolute owner of the bonds. If the fiscal agent make payments to the registered holders, Israel and the fiscal agent will no longer be liable on the bonds for the amounts so paid. If you have a beneficial interest in the book-entry security, you must rely on the procedures of the institutions through which you hold your interests in the bonds (Euroclear, Clearstream Banking Luxembourg and their participants) to exercise any of the rights granted to the holder of the book-entry security. If you desire to take any action that Cede & Co., as the holder of such book-entry security, is entitled to take, then Cede & Co. would authorize you to take such action, and that DTC participant would then either authorize you to take the action or act for you on its behalf.

DTC may grant proxies or authorize its participants (or persons holding beneficial interests in the bonds through such participants) to take any other actions that a holder is entitled to take under the fiscal agency agreement or the bonds. Euroclear's or Clearstream Banking Luxembourg's participation as holder under the bonds or the fiscal agency agreement will be limited by the ability of their respective depositaries to carry out such actions. Euroclear and Clearstream Banking Luxembourg will take such actions only in accordance with their respective rules and procedures.

The fiscal agent will not charge you any fees for the bonds, other than reasonable fees for the replacement of lost, stolen, mutilated or destroyed bonds or incur fees for the maintenance and operation of the book-entry accounts with the clearing systems in which your beneficial interests are held.

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The laws of some states require certain purchasers of securities to take physical delivery of the securities in definitive form. These laws may limit your ability to pledge a beneficial interest in the bonds to such purchasers. DTC can act only on behalf of its direct participants, who in turn act on behalf of indirect participants. Your ability to pledge a beneficial interest in the bonds to persons that do not participate in the DTC system, and to take other actions, may be limited if you do not have a physical certificate that represents your interest.

### ***Transfers Within and Between DTC, Euroclear and Clearstream Banking Luxembourg***

#### ***Trading Between DTC Purchasers and Sellers***

DTC participants will transfer interests in the bonds among themselves in the ordinary way according to DTC rules. DTC participants may not be able to transfer interests in the bonds to non-DTC participants.

#### ***Trading Between Euroclear and/or Clearstream Banking Luxembourg Participants***

Participants in Euroclear and Clearstream Banking Luxembourg will transfer interests in the bonds among themselves in the ordinary way according to the operating procedures of Euroclear and Clearstream Banking Luxembourg.

#### ***Trading Between a DTC Seller and a Euroclear or Clearstream Banking Luxembourg Purchaser***

When the bonds are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream Banking Luxembourg participant, the DTC participant must first send instructions to Euroclear or Clearstream Banking Luxembourg through a participant at least one business day prior to the settlement date. Clearstream Banking Luxembourg will then instruct its depository to receive the bonds and make payment for them. On the settlement date, the depository will credit the participant's account and the bonds will be credited to the depository's account. After settlement has been completed, DTC will credit the bonds to the participant's account. Clearstream Banking Luxembourg, Euroclear or Clearstream Banking Luxembourg will credit the bonds, in accordance with its usual procedures, to the participant's account. The participant will then credit the purchaser's account. These securities credits will appear the next day (European time) after the settlement date. If settlement is not completed on the intended value date (i.e., the trade fails), the cash debit will instead be valued at the actual settlement date.

Participants in Euroclear and Clearstream Banking Luxembourg will need to make funds available to Euroclear or Clearstream Banking Luxembourg on the value date. The most direct way of doing this is to pre-position funds (i.e., have funds in place at Euroclear or Clearstream Banking Luxembourg before the value date), either from cash on hand or existing lines of credit. Under this approach, however, participants may take on credit exposure until the bonds are credited to their accounts one day later.

As an alternative, if Euroclear or Clearstream Banking Luxembourg has extended a line of credit to a participant, the participant may allow Euroclear or Clearstream Banking Luxembourg to draw on the line of credit to finance settlement for the bonds. Under this procedure, Euroclear or Clearstream Banking Luxembourg would charge the participant overdraft charges for one day, assuming that the overdraft would be cleared when the bonds were received. However, interest on the bonds would accrue from the value date. Therefore, in many cases the interest income on bonds which the participant receives will substantially reduce or offset the amount of the participant's overdraft charges. Of course, this result will depend on the cost of funds (i.e., the overdraft charges) to each participant.

Since the settlement will occur during New York business hours, a DTC participant selling an interest in the bonds can use its usual procedures to transfer the proceeds to its depositories of Euroclear or Clearstream Banking Luxembourg for the benefit of Euroclear or Clearstream Banking Luxembourg participants. Thus, to the DTC seller, a cross-market sale will settle no differently than a trade between two DTC participants.

#### ***Trading Between a Euroclear or Clearstream Banking Luxembourg Seller and DTC Purchaser***



Due to time zone differences in their favor, Euroclear and Clearstream Banking Luxembourg participants can use their usual procedures to send instructions to their depositories to a DTC participant. The seller must first send instructions to Euroclear or Clearstream Banking Luxembourg through a participant no later than the settlement date.

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Euroclear or Clearstream Banking Luxembourg will then instruct its depositary to credit the bonds to the DTC participant's account and receive the cash proceeds credited in the account of the Euroclear or Clearstream Banking Luxembourg participant on the following day, but the receipt of the cash proceeds will be on the value date (which will be the preceding day if the settlement occurs in New York). If settlement is not completed on the intended value date (i.e., the value date), the proceeds will instead be valued at the actual settlement date.

If the Euroclear or Clearstream Banking Luxembourg participant selling the bonds has a line of credit with Euroclear or Clearstream Banking Luxembourg, the participant may be in debt for the bonds until it receives the sale proceeds in its account, then the back-valuation may substantially reduce or offset any overdraft in the account over that one-day period.

Finally, a day trader that uses Euroclear or Clearstream Banking Luxembourg and that purchases bonds from a DTC participant for credit to its account should note that these trades will automatically fail on the sale side unless affirmative action is taken, including:

- (a) borrowing through Euroclear or Clearstream Banking Luxembourg for one day (until the purchase side of the day trade is reflected in the Euroclear or Clearstream Banking Luxembourg account) in accordance with the clearing system's customary procedures;
- (b) borrowing the bonds in the United States from a DTC participant no later than one day prior to settlement, which would give the participant the bonds in the borrower's Euroclear or Clearstream Banking Luxembourg account in order to settle the sale side of the trade; or
- (c) staggering the value dates for the buy and sell sides of the trade so that the value date for the purchase from the DTC participant is later than the value date for the sale to the Euroclear or Clearstream Banking Luxembourg account holder.

## **Same-Day Settlement and Payment**

The underwriters will settle the bonds in immediately available funds. Israel will make principal and interest payments on the bonds in immediately available funds. Secondary market trading between DTC direct participants will occur in accordance with DTC rules and will be settled in immediately available funds. Secondary market trading between Clearstream Banking Luxembourg customers and Euroclear participants will occur in accordance with the applicable rules and operating procedures of Clearstream Banking Luxembourg and Euroclear and will be settled using the procedures applicable to the participants in immediately available funds.

## **Certificated Bonds**

Unless and until they are exchanged, in whole or in part, for bonds in definitive form in accordance with the terms of the bonds, the bonds will be (1) as a whole by DTC to a nominee of DTC, (2) by a nominee of DTC to DTC or another nominee of DTC or (3) by DTC or any such nominee to a nominee of such successor. The bonds cannot be partially exchanged into definitive bonds.

Israel will issue certificated bonds in definitive form to you or your nominees, rather than to DTC or its nominees, only if:

- Israel advises the fiscal agent in writing that DTC is no longer willing or able to discharge its responsibilities properly or that the fiscal agent is unable to locate a qualified successor within the agency under the Securities Exchange Act of 1934, and the fiscal agent or Israel is unable to locate a qualified successor within the agency;
- an event of default has occurred and is continuing under the fiscal agency agreement or the bonds; or
- Israel, at its option, elects to terminate the book-entry system through DTC.

If any of the three above events occurs, DTC is required to notify all direct participants that bonds in fully certificated registered form are being re-registered. The fiscal agent will re-issue the bonds in fully certificated registered form in denominations of US\$200,000 and integral multiples of US\$1,000 above that amount, and will recognize the registered holders of the certificated bonds.

Final Prospectus Supplement

<http://www.sec.gov/Archives/edgar/data/5>

agency agreement.

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If Israel issues certificated bonds in definitive form, they will have the same terms and authorized denominations as the bonds in book form. In definitive form for transfer, exchange or payment at the corporate trust office of the fiscal agent in New York City, according to the procedure set forth in the indenture, and, in the case of bonds in definitive form presented for payment, principal and interest thereon will be payable at the office of the fiscal agent. In the case of transfer of part of a bond in definitive form, the registrar or transfer agent will issue a new bond in definitive form to the transferee and a second bond for the balance of the bond in definitive form to the transferor. Certificated bonds presented for transfer must be accompanied by an executed instrument of transfer.

## **Replacement of Bonds**

If any certificated bond in definitive form becomes mutilated, destroyed, stolen or lost, you can have it replaced by delivering the certificate to the fiscal agent, together with proof of loss, theft or destruction to the fiscal agent. Israel and the fiscal agent may require you to sign an indemnity under which you agree to pay Israel for any losses that they may suffer relating to the certificated bond in definitive form that was mutilated, destroyed, stolen or lost. Israel may also require you to present other documents or proof of ownership. After you deliver these documents, if neither Israel nor the fiscal agent have not acquired the certificated bond in definitive form you are exchanging, Israel will execute, and the fiscal agent will authenticate and deliver to you a new bond in definitive form with the same terms as the certificated bond in definitive form you are exchanging. You will be required to pay all expenses of the replacement of the mutilated, destroyed, stolen or lost certificated bond in definitive form.

## **Notices**

The fiscal agent will mail notices by first class mail, postage prepaid, to each registered holder's last known address as it appears in the records of the fiscal agent maintains. The fiscal agent will only mail these notices to Cede & Co., as the registered holder of the bonds, unless Israel reissues the bonds in certificated form.

In addition, if, and for so long as, the bonds are listed on the official list of the Luxembourg Stock Exchange, the fiscal agent will publish notices, including notice of any modification, in a daily newspaper of general circulation in Luxembourg. Israel expects that this newspaper will be the *Journal de Luxembourg*, published on the website of the Luxembourg Stock Exchange, <http://www.bourse.lu>. Published notices will be deemed to have been given if publication as described above becomes impossible, then the fiscal agent may publish sufficient notice by alternate means that approximate the effect of this paragraph.

## **Prescription**

Under the State of New York's statute of limitations, any legal action to enforce Israel's obligation to pay principal and interest under the bonds will be barred six years after any such payment is due. Thereafter, Israel's payment obligations will generally become unenforceable.

## **Governing Law**

The fiscal agency agreement and the bonds, for all purposes, shall be governed by and construed in accordance with the laws of the State of New York. The authorization and execution of the fiscal agency agreement and the bonds on behalf of Israel, which shall be governed by the laws of Israel.

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**[Table of Contents](#)****TAXATION****United States**

The following discussion describes the material U.S. federal income tax consequences of your purchase, ownership and disposition of the bond if you (i) hold the bond as capital assets as defined in the U.S. federal tax laws (generally, assets held for investment), (ii) were the initial purchaser of the bond at its issue price. This discussion also assumes that you are not subject to any special U.S. federal income tax rules, including, among others, those applicable to:

- dealers in securities or currencies;
- securities traders using a mark-to-market accounting method;
- financial institutions, regulated investment companies, real estate investment trusts and insurance companies;
- banks or life insurance companies;
- persons subject to the alternative minimum tax;
- persons that do not use the U.S. dollar as their functional currency; or
- tax-exempt organizations.

Finally, this discussion assumes that you are not using a bond as part of a more complex transaction, such as a “straddle” or a hedging transaction. If these assumptions are not correct in your case, the purchase, ownership or disposition of a bond may have U.S. federal income tax consequences different from those discussed in this discussion.

This discussion does not cover any state, local or non-U.S. tax issues, nor does it cover issues under the U.S. federal estate or gift tax provisions of the U.S. Internal Revenue Code of 1986, as amended (the “Code”), its legislative history, and the regulations, rulings and judicial decisions of the date that this prospectus supplement was issued. All of these authorities are subject to change at any time and may be repealed, revoked or amended with retroactive effect. No assurances can be given that any changes in these laws or authorities will not affect the validity and accuracy of this discussion.

Israel has not sought any ruling from the Internal Revenue Service (the “IRS”) with respect to the statements made and the conclusions reached in this discussion. There can be no assurance that the IRS will agree with all of such statements and conclusions.

If a partnership (including any entity classified as a partnership for U.S. federal income tax purposes) is a beneficial owner of a bond, the tax consequences to a partner in that partnership generally will depend on the status of the partner and the activities of the partnership. Holders of bonds that are owned by partnerships should consult their own tax advisors regarding the U.S. federal income tax consequences of the purchase, ownership and disposition of the bond.

You should consult your own tax advisor concerning the federal, state, local, non-U.S. and other tax consequences to you of the purchase, ownership and disposition of the bond.

**U.S. Holders**

This section applies to you if you are a “U.S. Holder”, meaning that you are the beneficial owner of a bond and you are:

- an individual citizen or resident of the United States for U.S. federal income tax purposes;
- a corporation created or organized in or under the laws of the United States or any state thereof, or the District of Columbia;

- an estate the income of which is subject to U.S. federal income taxation regardless of its source;
- a trust if a court within the United States is able to exercise primary jurisdiction over your administration and one or more “U.S. Persons” (each a “U.S. Person”) have authority to control all your substantial decisions, or a trust that was in existence on August 17, 2005 and was treated as a domestic trust under U.S. Treasury regulations to be treated as a domestic trust; or
- a partnership, but only with respect to partners that are U.S. Holders under any of the foregoing clauses.

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*Payments of Stated Interest.* Payments or accruals of stated interest on a bond generally will be taxable to you as ordinary income at amounts (in accordance with your regular method of tax accounting). If you generally report your taxable income using the accrual method of interest in your income as they accrue. If you generally report your taxable income using the cash method of accounting, you must include payments when you receive them. However, the first payment of stated interest on a bond will not be includable in your income to the extent that it reflects a refund of interest previously included in your income. It will instead reduce your adjusted tax basis in your bond.

In addition to interest on the bond, you will be required to include any tax withheld from the interest payment as ordinary income, even if the tax withheld exceeds the interest payment, and any additional amounts paid in respect of such tax withheld.

For purposes of the foreign tax credit provisions of the Code, interest (including any additional amounts) on a bond generally will constitute income from sources outside the United States. Under the foreign tax credit rules, that interest will, depending on your circumstances, be “passive” or “general” income, and will be treated separately from some other types of income for purposes of computing the foreign tax credit allowable to you under the U.S. federal income tax laws.

*Treatment of Premium.* If you purchase a bond for an amount in excess of its principal amount, you may elect to treat the excess as amortizable bond premium. If you make this election, you will reduce the amount required to be included in your income each year with respect to interest on your bond by the amount of premium allocable to that year, based on the yield to maturity of your bond. If you make an election to amortize bond premium, it will apply to all tax instruments the interest on which is excludible from gross income, that you hold at the beginning of the first taxable year to which the election applies, and you may not revoke it without the consent of the IRS. If you do not make the election to amortize premium on a bond and hold the bond to maturity, the premium will be included in your gross income for U.S. federal income tax purposes, equal to the amount of the premium, when the bond matures. If you do not make the election to amortize premium and dispose of the bond before maturity, the premium will be included in your “tax basis” in the bond, and therefore will decrease the gain, or increase the loss, you otherwise realize on the sale or other disposition of the bond.

*Treatment of Discount.* If a bond is issued with more than de minimis original issue discount (“OID”), you must include in your gross income the amount of the bond as ordinary interest income on an accrual basis generally under a “constant yield to maturity” method as described below (whether you elect to do so for U.S. federal income tax purposes). OID will be de minimis if it is less than 0.25% of the stated redemption price at maturity of the bonds included in the offering, computed on a year-by-year basis from the issue date to the maturity date. Generally, OID must be included in income in advance of the receipt of cash representing such payments.

The total amount of OID on an OID bond equals the excess of the bond’s “stated redemption price at maturity” over its “issue price”. The “stated redemption price at maturity” equals the sum of all payments due under the OID bond, other than any payments of qualified stated interest, which is stated interest on the bond in money at least annually, at a fixed rate, during the entire term of a debt instrument. The “issue price” generally equals the initial public offering price of bonds issued in a given offering.

The amount of OID on an OID bond that you must include in income during a taxable year is the sum of the “daily portions” of OID for that year, determined by allocating to each day in an “accrual period” (generally the period between compounding dates) a pro rata portion of the OID for that year. The amount of OID attributable to an accrual period is the product of the “adjusted issue price” of the bond at the beginning of the accrual period and the sum of the payments of qualified stated interest on the bond allocable to the accrual period. The adjusted issue price of the bond at the beginning of the accrual period is generally equal to the sum of its issue price and all prior accruals of OID. Cash payments on an OID bond are allocated first to any stated interest on the bond, then to accrued OID (in the order of accrual) to which cash payments have not yet been allocated, and then to principal.

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You generally may make an irrevocable election to include in your income the entire return on an OID bond (including payments of quarterly interest) using the constant yield method applicable to OID.

Any OID included in your income will constitute foreign source income, and generally will be “passive” or “general” income for U.S. holders.

*Purchase, Sale, Redemption and Retirement of a Bond.* If you sell or otherwise dispose of a bond in a taxable disposition, you generally will recognize a capital gain or loss equal to the difference between your “amount realized” and your adjusted “tax basis” in the bond. Your “amount realized” will be the value of the bond at the time of disposition, less any cash payments of principal received. Your adjusted “tax basis” in the bond will equal the amount that you paid for the bond, decreased (but not below zero) by any cash payments of principal received in respect to the bond, and increased by the amount of any OID previously included in income in respect of the bond.

Gain or loss from the sale or other taxable disposition of a bond generally will be capital gain or loss, and will be long-term capital gain or loss if you dispose of the bond, you have held the bond for more than one year. Under current law, net capital gains of non-corporate taxpayers may be taxed at a lower rate than ordinary income. Limitations may apply to your ability to deduct a capital loss. Any capital gains or losses that arise when you sell or otherwise dispose of a bond may be treated as U.S. source income, or loss allocable to U.S. source income, for purposes of the foreign tax credit provisions of the Code. There may be a foreign tax credit for any Israeli tax imposed upon a disposition of a bond unless (subject to special limits) you have other income from foreign sources.

*Medicare Tax.* For taxable years beginning after December 31, 2012, a U.S. Holder that is an individual or estate, or a trust that does not have a U.S. Holder, that is exempt from such tax, will be subject to a 3.8 percent tax on the lesser of (i) the U.S. Holder’s “net investment income” (or, in the case of a trust, “undistributed net investment income”) for the relevant taxable year and (ii) the excess of the U.S. Holder’s modified adjusted gross income over a threshold (which in the case of individuals will be between \$125,000 and \$250,000, depending on the individual’s circumstances). Your net investment income includes your interest income and your net gains from the disposition of the bonds, unless such interest income or net gains are derived in the course of a trade or business (other than a trade or business that consists of certain passive or trading activities).

*Information with Respect to Foreign Financial Assets.* Owners of “specified foreign financial assets” with an aggregate value in excess of \$100,000 at the end of the taxable year, or \$75,000 at any time during the taxable year, generally will be required to file information reports with respect to such assets with their federal income tax returns. Depending on your circumstances, higher threshold amounts may apply. “Specified foreign financial assets” include any financial assets held by financial institutions, as well as any of the following, but only if they are not held in accounts maintained by financial institutions: (i) stocks and securities of non-U.S. persons, (ii) financial instruments and contracts held for investment that have non-United States issuers or counterparties and (iii) interests in non-U.S. entities. You may be treated as specified foreign financial assets. You may be subject to this information reporting regime and be required to file a form with your federal income tax return. Failure to file information reports may subject you to penalties. You should consult your own tax advisor regarding information reports with respect to the bonds.

## **Non-U.S. Holders**

This section applies to you if you are a “Non-U.S. Holder”, meaning that you are a beneficial owner of a bond that is not a “U.S. Holder”.

*Payments of Stated Interest.* Subject to the discussion of backup withholding below, you will not be subject to U.S. federal income tax on the interest that you receive on a bond unless you are engaged in a trade or business in the United States and the interest on the bond is treated as “effectively connected” to that trade or business (or, if an income tax treaty applies, is attributable to a permanent establishment or fixed base in the United States).



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If you are engaged in a U.S. trade or business and the interest income is deemed to be effectively connected to that trade or business, (or, if attributable to a permanent establishment or fixed base in the United States), you generally will be subject to U.S. federal income tax on that income as if you were a U.S. Holder. In addition, if you are a foreign corporation, your interest income subject to tax in that manner may increase your liability for U.S. federal income tax.

*Purchase, Sale, Redemption and Retirement of a Bond.* Subject to the discussion of backup withholding below, you will not be subject to U.S. federal income tax, including withholding tax, for any capital gain that you realize when you sell a bond unless:

- that gain is effectively connected for U.S. federal tax purposes to any U.S. trade or business in which you are engaged (or, if attributable to a permanent establishment or fixed base in the United States); or
- if you are an individual, you (i) are in the United States for 183 days or more in the taxable year in which you sell the bond or (ii) are a resident (as defined in the Code) in the United States in the taxable year in which you sell the bond and the gain is attributable to any office or other fixed place of business in the United States.

## **Backup Withholding and Information Reporting**

If you are a non-corporate U.S. Holder, and, unless you prove that you are otherwise exempt, information reporting requirements will apply to interest to you if such payments are made within the United States or by or through a custodian or nominee that is a “U.S. Controlled Person”. Backup withholding will apply to such payments of principal and interest if you fail to (i) provide an accurate taxpayer identification number; (ii) certify that you are not a U.S. Holder; (iii) report all interest and dividend income required to be shown on your U.S. federal income tax returns, or (iv) demonstrate your exemption from backup withholding.

If you are a Non-U.S. Holder, you generally are exempt from these withholding and reporting requirements (assuming that the gain or loss is not subject to U.S. federal income tax), but you may be required to comply with certification and identification procedures in order to prove your exemption. If you are a partner in a partnership, these certification procedures would generally be applied to you as a partner. If you are paid the proceeds of a sale or redemption of a bond through a broker, you generally will be subject to the information reporting and backup withholding rules described above. In addition, the information reporting requirements apply to payments of proceeds of a sale or redemption effected at a foreign office of a broker that is a “U.S. Controlled Person”, as defined below.

A U.S. Controlled Person is:

- a U.S. Person;
- a controlled foreign corporation for U.S. federal tax purposes;
- a foreign person 50% or more of whose gross income is effectively connected with a U.S. trade or business for tax purposes for the taxable year;
- a foreign partnership in which U.S. Persons hold more than 50% of the income or capital interests or which is engaged in a U.S. trade or business.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to you generally may be credited against your U.S. federal income tax liability as long as you provide the required information to the IRS.

## **Israeli Taxation**

Under Israeli law as presently in effect, payments made under the bonds will be exempt from Israeli taxation, and there is no transfer tax or stamp duty of Israel payable in connection with the issuance, transfer or sale of the bonds.

## EU Directive on Taxation of Savings Income

Also with effect from July 1, 2005, a number of non-EU countries and certain dependent or associated territories of certain Member States (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident in a Member State. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with a number of non-EU countries and certain dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident in a Member State or in such territories.

## *Luxembourg Taxation*

### ***Withholding Tax***

- (i) the application of the Luxembourg law of June 21, 2005 implementing the European Union Savings Directive (Council Directive 2003/49/EC of June 6, 2003) on interest paid to certain non-Luxembourg resident investors (individuals and certain types of entities called “residual entities”) by appointing a paying agent in Luxembourg within the meaning of the above-mentioned directive (see section “EU Directive on Taxation of Interest Payments”) and the applicable agreements and the interest payment is made through this Luxembourg paying agent; and
- (ii) the application of the amended law dated December 23, 2005 according to which a 10% withholding tax is levied on payments made by a Luxembourg paying agent to (or for the benefit of) Luxembourg resident individuals or to certain foreign residual entities secured by Luxembourg resident individuals. This withholding tax also applies on accrued interest received upon sale, disposal, redemption or repurchase of bonds as business assets. Luxembourg resident individuals beneficial owners of payments of interest or similar income made by a Luxembourg paying agent in a Member State of the European Union or the European Economic Area or in a jurisdiction having concluded a double taxation agreement with the European Union may opt for exemption from the withholding tax if the conditions set forth in connection with the European Union Savings Directive may opt

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for a final 10% levy. In such case, the 10% levy is calculated on the same amounts as for the payments made by Luxembourg p  
final levy must cover all interest payments made by paying agents to the beneficial owner during the entire civil year.

Responsibility for the withholding of tax in application of the above-mentioned Luxembourg laws of June 21, 2005 and December 23,  
Luxembourg paying agent within the meaning of these laws and not by Israel.

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[Table of Contents](#)**UNDERWRITING**

Israel has entered into an underwriting agreement, dated January 28, 2013, with respect to the bonds with Barclays Capital Inc., Citigroup Global Markets Inc., and Goldman, Sachs & Co. Subject to the terms and conditions set forth in the underwriting agreement, the underwriters have severally and not jointly agreed to sell the amount of bonds set forth opposite their respective names:

<u>Underwriters</u>	<u>Principal Amount of 2013 Bonds</u>
Barclays Capital Inc.	\$ 333,334,000
Citigroup Global Markets Inc.	333,333,000
Goldman, Sachs & Co.	333,333,000
Total	<u>\$ 1,000,000,000</u>

The underwriting agreement provides that the obligation of the underwriters to pay for and accept delivery of the bonds is subject to the delivery of certain legal opinions. Under the terms and conditions of the underwriting agreement, the underwriters are committed to take and defend any underwriting agreement if any are taken. Subject to the conditions set forth in the underwriting agreement, each underwriter has agreed to purchase the amount of bonds set forth in the above table at a discount from the price indicated on the cover page of this prospectus supplement, and to offer the bonds to the public at the price set forth on the cover page of this prospectus supplement. After the initial offering of the bonds, the underwriters may from time to time vary the amount of bonds by the underwriters is subject to receipt and acceptance of an order and subject to the underwriters' right to reject any order in whole or in part.

Israel will pay transaction expenses, estimated to be approximately \$225,000, not including the underwriting discount. The underwriters will be responsible for certain expenses incurred in connection with this offering.

Israel has agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act of 1933, to the extent of payments the underwriters may be required to make in respect of any of these liabilities.

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage services. The underwriters and their respective affiliates have from time to time, directly or indirectly, provided investment and/or commercial banking or financial advisory services to Israel. The underwriters and their respective affiliates expect to provide these services to Israel in the future, for which they expect to receive customary fees and commissions.

In the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of securities, including as counterparties to certain derivative and hedging arrangements, and actively trade debt and equity securities (or related derivative securities, such as bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities transactions. The underwriters and their respective affiliates may also make investment recommendations and/or publish or express independent research views and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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[Table of Contents](#)**STABILIZATION**

In connection with this offering, the underwriters and their respective affiliates (the “Stabilizing Underwriters”) may overallocate or effect transactions supporting the market price of the securities at a level higher than that which might otherwise prevail for a limited period. Those transactions are effected in accordance with Rule 104 of Regulation M under the Securities Exchange Act of 1934, pursuant to which those underwriters and affiliates may purchase bonds for the purpose of stabilizing the market price. The Stabilizing Underwriters also may create a short position for the account of the underwriters in connection with this offering that they are committed to purchase from Israel. In that case, the Stabilizing Underwriters may purchase bonds in the open market after completion of this offering to cover their short position. The underwriters also may impose a penalty bid. This occurs when a particular underwriter’s portion of the underwriting discount received by it because the representatives have repurchased bonds sold by or for the account of such underwriter in covering transactions. Any of the transactions described in this paragraph may result in the maintenance of the price of the bonds at a level above that which might otherwise prevail in the open market. None of the transactions described in this paragraph are required, however, and such stabilizing, if commenced, must be brought to an end after a limited period.

Neither Israel nor any of the underwriters makes any representation or prediction as to the direction or magnitude of any effect that such transactions may have on the price of the bonds. In addition, neither Israel nor any of the underwriters makes any representation that any of the underwriters will not engage in such transactions, once begun, will not be discontinued without notice.

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## OFFERING RESTRICTIONS

### European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), the undersigned underwriters has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (“Relevant Implementation Date”) it has not made and will not make an offer of bonds to the public in that Relevant Member State prior to the date on which the bonds which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State by the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from the Relevant Implementation Date, make an offer of bonds to the public in the Relevant Member State at any time:

- (a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive (the “2010 PD Amending Directive”), to more than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior approval of the Dealer or Dealers nominated by the issuer for any such offer; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of the bonds shall require the issuer or any underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Directive or a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of the bonds to the public” in relation to any bonds in any Relevant Member State shall mean an offer in any form and by any means of sufficient information on the terms of the offer and the bonds to be offered so as to enable an investor to decide whether to subscribe for the bonds. The same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

### United Kingdom

Each underwriter has represented and agreed that:

- (a) it will only communicate or cause to communicate an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (“FSMA”) received by it in connection with the issue or sale of any Offered Securities in circumstances in which FSMA does not apply to Israel; and
- (b) it has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the Offered Securities involving the United Kingdom.

### Hong Kong

The bonds may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Securities and Futures Ordinance (Cap.32, Laws of Hong Kong), or (ii) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap.32, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a “prospectus” within the meaning of the Securities and Futures Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the bonds may be issued or may be in the possession or control of any person (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong or elsewhere, to do so under the laws of Hong Kong other than with respect to bonds which are or are intended to be disposed of only to persons outside Hong Kong.

investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

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### **Singapore**

This prospectus supplement has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, it acknowledges that the bonds may not be offered or sold, or be made the subject of an invitation for subscription or purchase, nor may the prospectus supplement, document or material in connection with the offer or sale, or invitation for subscription or purchase, of the bonds be circulated or distributed to the public or any member of the public in Singapore other than (i) to an institutional investor or other person specified in Section 274 of the Securities and Futures Act of Singapore (the “Securities and Futures Act”) (ii) to a sophisticated investor, and in accordance with the conditions, specified in Section 275 of the Securities and Futures Act (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

### **Japan**

The bonds have not been and will not be registered under the Securities and Exchange Law of Japan (the Securities and Exchange Law of Japan) and that it will not offer or sell any securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein includes any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law of Japan and the regulations and ministerial guidelines of Japan.

### **Israel**

This prospectus supplement and the accompanying prospectus are not, and under no circumstances are to be construed as, an advertisement or solicitation to sell securities in Israel. Any public offer or sale of securities in Israel may be made only in accordance with the Israeli Securities Act-1968 (which requires registration of a prospectus in Israel).

### **Switzerland**

The offering of the bonds is not a public offering in Switzerland. The bonds may not be publicly offered, sold or advertised, directly or indirectly, in Switzerland. None of this prospectus supplement, the accompanying prospectus or any other offering or marketing material relating to the bonds is understood pursuant to Article 652a and/or Article 1156 of the Swiss Code of Obligations and none of this prospectus supplement, the accompanying prospectus or other offering or marketing material relating to the bonds is subject to the Directive for Notes of Foreign Borrowers of the Swiss Bankers Association on the SIX Swiss Exchange and, therefore, the documents relating to the bonds, including, but not limited to, this prospectus supplement and the accompanying prospectus, do not claim to comply with the disclosure standards of the Swiss Code of Obligations and the listing rules of the SIX Swiss Exchange and corresponding the listing rules thereof.

## **LISTING, ADMISSION TO TRADING AND GENERAL INFORMATION**

### **Listing and Listing Agent**

Application will be made to list the bonds on the official list of the Luxembourg Stock Exchange and to have the bonds admitted to trading on the “regulated market” of the Luxembourg Stock Exchange. The total fees and expenses in connection with the admission of the bonds to trading on the Luxembourg Stock Exchange will be approximately €32,400.

The Luxembourg Stock Exchange takes no responsibility for the contents of this prospectus supplement and the accompanying prospectus and does not guarantee the accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of this prospectus supplement and the accompanying prospectus.



Offers and sales of the bonds are subject to restrictions in relation to the European Economic Area and the United Kingdom, details of which are set out in the “Offering Restrictions”. The distribution of this prospectus supplement and the accompanying prospectus and the offering of the bonds in certain jurisdictions may be restricted by law.

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The Luxembourg listing agent is Dexia, 69 Route d'Esch, L-2953, Luxembourg.

### **Clearing**

The bonds have been accepted for clearance through DTC, Euroclear and Clearstream Banking Luxembourg. The 2023 bonds have been allocated the International Security Identification Number (ISIN) US4651387M19 and CUSIP No. 465138 7M1. The 2043 bonds have been allocated the International Security Identification Number (ISIN) US4651387N91 and CUSIP No. 465138 7N9. The address of DTC is 55 Water Street, New York, NY 10041-0208. The address of Euroclear is Boulevard du Roi Albert II, B-1210 Brussels. The address of Clearstream Banking Luxembourg is 42 Avenue Kennedy, L-1011 Luxembourg.

### **Due Authorization**

Israel has authorized the creation and issue of the bonds pursuant to State Property Law 5711-1951. The State of Israel has obtained all necessary governmental authorizations in the State of Israel in connection with the issue and performance of the bonds.

### **Litigation**

Neither Israel nor any governmental agency of Israel is involved in any litigation or arbitration or administrative proceeding relating to the bonds or material in the context of the issue of the bonds and which would materially and adversely affect Israel's ability to meet its obligations under the agreement with respect to the bonds. No such litigation or arbitration or administrative proceeding is pending, or, so far as Israel is aware, threatened.

### **General Information**

The information contained in the Annual Report of the State of Israel on the Form 18-K for the fiscal year ended December 31, 2011 filed with the SEC and amended on November 14, 2012, and November 27, 2012, which contains the economic, financial and statistical information for fiscal years ended December 31, 2011, December 31, 2010, December 31, 2009, December 31, 2008 and December 31, 2007 shall be deemed to be incorporated in, and to form part of, this prospectus and accompanying prospectus. Save as disclosed in this prospectus supplement and the accompanying prospectus or as incorporated by reference, there have been no significant changes relating to public finance and trade.

There are no interests of any natural or legal persons, including conflicting interests, that are material to the issue of the bonds. The State of Israel waives, to the fullest extent permitted by law, any immunity, including foreign sovereign immunity, from jurisdiction to which it might otherwise be entitled in connection with the debt securities which may be instituted by the holder of any debt securities in any state or federal court in the City of New York. Israel's waiver of immunity does not extend to actions under the United States federal securities laws or state securities laws.

The address of the State of Israel is Government of Israel, Ministry of Finance, 1 Kaplan Street, Hakiryah, Jerusalem 91131, Israel, to which all communications should be addressed.

### **Documents Relating to the Bonds**

Copies of the fiscal agency agreement, including the form of bonds, may be inspected during normal business hours on any weekday (excluding public holidays excepted) at the specified office of the fiscal agent and listing agent.

### **Where You Can Find More Information**

So long as the bonds are listed on the official list of the Luxembourg Stock Exchange and the rules of the exchange so require, copies of the fiscal agency agreement, the underwriting agreement and the bonds may be inspected at the registered office of the listing agent in Luxembourg: the fiscal agency agreement, the underwriting agreement and the bonds.



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Israel has filed its Annual Report for 2011 on Form 18-K with the SEC. The Annual Report of Israel for 2011 on Form 18-K, as amended, is incorporated by reference to that Annual Report on Form 18-K that Israel files with the SEC after the date of this prospectus supplement but before the end of the offering period and incorporated by reference in this prospectus supplement.

All of these documents have been filed with the SEC and are available to the public over the internet at the SEC's web site at [www.sec.gov](http://www.sec.gov). Any document we file at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Upon approval for listing, this prospectus supplement, including the documents containing the information incorporated by reference, will also be published on the website of the Luxembourg Stock Exchange at <http://www.bourse.lu>. You may also obtain a copy of such documents free of charge at the office of the listing agent in Luxembourg or at the office of the listing agent in Israel under the heading "Where You Can Find More Information About the State of Israel."

**VALIDITY OF THE BONDS**

Arnold & Porter LLP, New York, New York and Washington, D.C., United States counsel to Israel, and Joel Baris, Adv., Legal Advisor to the State of Israel, will pass upon the validity of the bonds for Israel. Cravath, Swaine & Moore LLP, New York, New York, and Meitar, Liqueur & Partners, Tel Aviv, Israel, represent the underwriters. As to all matters of Israeli law, Arnold & Porter LLP may rely on the opinion of the Legal Advisor to the Ministry of Finance, Israel. Cravath, Swaine & Moore LLP may rely on the opinions of Meitar, Liqueur & Partners, Geva & Leshem Brandwein and the Legal Advisor to the Ministry of Finance, Israel. The matters of Israeli law in the accompanying prospectus and this prospectus supplement have been passed upon by the Legal Advisor to the Ministry of Finance, Israel, in his authority.

## INCORPORATION BY REFERENCE CROSS-REFERENCE TABLE

**EC No. 809/2004 Item**

EC No. 809/2004 Item	Annual Report on Form 18-K for 2011
The Issuer's position within the governmental framework	"State of Israel — Form of Government and Political Parties" on pages 14 to 17 of Exhibit D
Geographic location and legal form of the Issuer	"State of Israel — Geography" on page 14 of Exhibit D and "Political Parties" on pages 15 to 17 of Exhibit D
Structure of the Issuer's economy	"The Economy" on pages 22 to 44 of Exhibit D
Gross domestic product	"The Economy — Gross Domestic Product" on pages 22 to 44 of Exhibit D
Israel's political system and government	"State of Israel — Form of Government and Political Parties" on pages 14 to 17 of Exhibit D
Tax and budgetary systems of the Issuer	"Public Finance" on pages 74 to 77 of Exhibit D
Gross public debt of the Issuer	"Public Debt" on pages 78 to 85 of Exhibit D
Foreign trade and balance of payments	"Balance of Payments and Foreign Trade" on pages 86 to 90 of Exhibit D
Foreign exchange reserves	"Balance of Payments and Foreign Trade — Foreign Reserves" on pages 53 to 54 of Exhibit D
Income and expenditure figures	"Public Finance — The Budget Process, Limits on Government Expenditure" on pages 69 to 71 of Exhibit D and "— Government Revenue" on pages 72 to 75 of Exhibit D

This prospectus supplement and the accompanying prospectus, including the documents containing the information incorporated by reference, are available on the website of the Luxembourg Stock Exchange, <http://www.bourse.lu>.

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**PROSPECTUS**

**State of Israel**

**\$7,000,000,000**

**Debt Securities**

The State of Israel, which may be referred to herein as Israel or the State, may offer up to U.S. \$7,000,000,000 (or its equivalent in other currencies) of its debt securities.

Israel will offer the debt securities from time to time as separate issues. Israel will provide a description of the specific terms of the debt securities, the amounts, prices and terms of the debt securities, in supplements to this prospectus. You should read this prospectus and any prospectus supplement.

Israel may sell the debt securities directly, through agents designated from time to time or through underwriters or dealers.

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**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or the accuracy of this prospectus. Any representation to the contrary is a criminal offense.**

**You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized anyone to provide additional information. We are not making an offer of these securities in any place where the offer is not permitted. You should not act on the basis of any information in this prospectus or any prospectus supplement or any document incorporated by reference is accurate as of any date other than the date of the document.**

The date of this prospectus is September 27, 2012.

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**[Table of Contents](#)****TABLE OF CONTENTS**[Where You Can Find More Information](#)[Use of Proceeds](#)[Debt Securities](#)[Collective Action Securities](#)[Governing Law](#)[Plan of Distribution](#)[Official Statements](#)[Validity of the Debt Securities](#)[Authorized Representative](#)**WHERE YOU CAN FIND MORE INFORMATION  
ABOUT THE STATE OF ISRAEL**

Israel is not subject to the informational requirements of the Securities Exchange Act of 1934. Israel files annual reports on Form 18-K with the Securities and Exchange Commission, or the SEC, on a voluntary basis. These reports and any amendments to these reports include certain financial, statistical and other information and may be accompanied by exhibits. You may read and copy any document Israel files with the SEC at the SEC's public reference room located at the Securities and Exchange Commission, 100 F Street, N.E., Washington, D.C., 20549-0213. Israel's SEC filings are also available on the SEC's website at <http://www.sec.gov>. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room or log on to [www](http://www.sec.gov).

The Securities and Exchange Commission allows Israel to "incorporate by reference" into this prospectus the information Israel files with the SEC. Israel discloses important information to you by referring you to those documents. Information that is incorporated by reference is an important part of the information you should consider in making your investment decision. By reference the following documents:

- Israel's Annual Report on Form 18-K for the year ended December 31, 2011, file number 002-94917;
- all further amendments to Israel's Annual Report on Form 18-K for the year ended December 31, 2011 filed prior to the date of this prospectus.

Israel also incorporates by reference all future annual reports and amendments to annual reports until it sells all of the debt securities. When Israel files a document with the SEC that is incorporated by reference, the information in that document automatically updates the information in the prospectus documents.

You may request a copy of these filings, at no cost, by writing to or telephoning Israel's Consul and Chief Fiscal Officer for the Western Hemisphere at the following address:

Ministry of Finance  
Government of Israel  
800 Second Avenue, 17<sup>th</sup> floor  
New York, NY 10017  
Telephone: (212) 499-5710  
Facsimile: (212) 499-5715

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### **USE OF PROCEEDS**

Unless otherwise specified in the applicable prospectus supplement, Israel will use the net proceeds from the sale of the debt securities of the State, which may include the refinancing of domestic and external indebtedness of Israel.

### **DEBT SECURITIES**

Israel may issue debt securities in distinct series at various times, and these debt securities will be issued pursuant to a fiscal agency agent. The prospectus supplement that relates to any series of debt securities will identify the fiscal agent and any other paying agent that Israel may use for the debt securities. The prospectus supplement relating to your series of debt securities will also describe the financial terms and other specific terms of the debt securities. If the terms or conditions described in the prospectus supplement that relate to your series of debt securities differ from the terms or conditions described in the prospectus supplement, you should rely on the terms or conditions described in the prospectus supplement.

The prospectus supplement that relates to your debt securities will specify the following terms relating to your debt securities, if applicable:

- the specific title or designation of the debt securities;
- the principal amount of the debt securities;
- the price of the debt securities;
- the stated maturity date on which Israel must repay the debt securities;
- the rate of any interest the debt securities will bear and, if variable, the method by which the interest rate will be calculated;
- the dates when any interest payments are scheduled to be made;
- the date or dates from which any interest will accrue;
- the record dates for any interest payable on an interest payment date;
- whether and in what circumstances Israel may redeem the debt securities before maturity;
- the currency or currencies in which the debt securities are denominated, which may be U.S. dollars, another foreign currency or currencies, or a combination thereof;
- whether and under what circumstances and terms the holders of the debt securities may opt to have their respective debt securities converted into shares of common stock of Israel;
- whether and under what circumstances the debt securities will be entitled to the benefit of a sinking fund or other similar arrangement;
- whether and under what circumstances and terms the holders of the debt securities may opt to obligate Israel to repurchase or redeem the debt securities either pursuant to an option that is included in the debt securities or that is or becomes separately tradable following their issuance;
- the currency or currencies for which such debt securities may be purchased and in which principal, premium, if any, and interest will be payable;
- whether any amount payable in respect of the debt securities will be determined based on an index or formula, and, if so, how the amount will be determined;
- whether the debt securities will be issued upon the exchange or conversion of other debt securities and, if so, the specific terms of the exchange or conversion;
- whether any part or all of the debt securities will be in the form of a global security and the circumstance in which a global security may be issued.



- (physical) securities;
- whether the debt securities will be listed and, if listed, the stock exchange on which these debt securities will be listed;

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- whether the debt securities will be designated “Collective Action Securities” (as described below under “Collective Action S
- any other terms of the debt securities.

The prospectus supplement may also describe any United States federal or Israeli income tax consequences and special consideration debt securities if applicable.

### **Status of the Debt Securities**

The debt securities will be direct, general and unconditional obligations of Israel. The full faith and credit of Israel will be pledged for principal and interest on the debt securities.

The debt securities of each series will rank equally with each other, without any preference among themselves. The payment obligations will at all times rank at least equally with all other payment obligations of Israel relating to unsecured, unsubordinated external indebtedness. “external indebtedness” means any indebtedness for money borrowed which is payable by its terms or at the option of its holder in any currency and “indebtedness” means all obligations of Israel in respect of money borrowed and guarantees given by Israel in respect of money borrowed.

### **Form of Debt Securities**

Unless otherwise specified in the prospectus supplement, debt securities denominated in U.S. dollars will be issued:

- only in fully registered form;
- without interest coupons; and
- in denominations of \$1,000 and greater multiples.

Debt securities denominated in another monetary unit will be issued in the denominations set forth in the applicable prospectus supplement.

### **Global Securities**

The prospectus supplement that relates to your debt securities will indicate whether any of the debt securities you purchase will be represented by a global security. The aggregate principal amount of any global security equals the sum of the principal amount of all the debt securities it represents. The global security will be deposited with the depository identified in the prospectus supplement or its nominee, and will be deposited with the depository, its nominee or a custodian.

*Limitations on Your Ability to Obtain Debt Securities Registered in Your Name.* The global security will not be registered in the name of the depository or its nominee. Similarly, the global security will not be exchanged for debt securities that are registered in the name of any person other than the depository or its nominee. An exception to these restrictions would be made only if:

- the depository notifies Israel that it is unwilling, unable or no longer qualified to continue to act as the depository and Israel has appointed a new depository;
- at any time Israel decides it no longer wishes to have all or part of the debt securities represented by a global security; or
- a default occurs that entitles the holders of the debt securities to accelerate the maturity date and such default has not been cured.

In those circumstances, the depository will determine in whose names to register any certificated (physical) debt securities issued in exchange for the global security. Debt securities will be denominated in principal amounts of \$1,000 or integral multiples of \$1,000, or such other denominations as may be specified in the prospectus supplement.

Final Prospectus Supplement

<http://www.sec.gov/Archives/edgar/data/5>

supplement.

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The depositary or its nominee will be considered the sole owner and holder of the global security for all purposes. As a result:

- You cannot get debt securities registered in your name for so long as they are represented by the global security;
- You cannot receive certificated (physical) debt securities in your name in exchange for your beneficial interest in the global security;
- You will not be considered to be the owner or holder of the global security or any debt securities represented by that global security;
- You cannot assert any right of a holder of the debt securities unless you are authorized by the depositary and the participant through whom you hold your interest; and
- All payments on the global security will be made to the depositary or its nominee.

In some jurisdictions, certain types of purchasers (such as some insurance companies) are not permitted to own securities represented by a global security, which may limit your ability to sell or transfer your beneficial interest in the global security to these types of purchasers.

*Beneficial Interests in and Payments on the Global Security.* Institutions that have accounts with the depositary or a nominee of the depositary, and dealers, are called participants. Only participants, and persons that may hold beneficial interests through participants, can own a beneficial interest in the global security. The depositary keeps records of the ownership and transfer of beneficial interests in the global security by its participants. In turn, participants keep records of the transfer of beneficial interests in the global security by other persons (such as their customers). No other records of the ownership and transfer of beneficial interests in the global security will be kept.

Israel will make principal and interest payments on debt securities represented by the global security to the depositary or its nominee. Upon receipt of payment of principal or interest on the global security, the depositary is expected to credit its participants' accounts in amounts that correspond to the beneficial interests in that global security. In turn, after the participants' accounts are credited, the participants are expected to credit the accounts of the owners of the global security in amounts that correspond to the owners' respective beneficial interests in the global security.

The depositary and its participants establish policies and procedures that govern payments, transfers, exchanges and other important matters relating to beneficial interests in a global security. The depositary and its participants may change these policies and procedures from time to time. Israel has no responsibility for maintaining, supervising or reviewing those records or payments. Israel has no responsibility or liability for any aspect of the relationship between the depositary and participants or for any aspect of the relationship between participants and owners of beneficial interests in the global security.

The giving of notices and other communications by the depositary to participants and by participants to owners of beneficial interests in the global security, among themselves, subject to any statutory or regulatory requirements. Neither the depositary nor its nominee will consent or vote with respect to the global security. In usual procedures, the depositary would mail an omnibus proxy to Israel with respect to any vote or consent, assigning the consenting or voting rights to those participants to whose account debt securities are credited on the date for determining the holders entitled to consent or vote.

## **Payment**

Unless otherwise specified in the applicable prospectus supplement, the principal of and interest on the debt securities will be payable to the registered holders of the debt securities at the office of the fiscal agent to the registered holders of the debt securities on the related record date; provided, however, that unless otherwise specified, payments of interest will be paid by check mailed to the registered holders of the debt securities at their registered addresses.

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If any date on which principal or interest is due to be paid is not a business day, Israel may pay interest on the next day that is a business day. Interest will not accrue on that payment. For this purpose, business day means any day, other than a Saturday or Sunday, on which banks in The City of New York are open for business under applicable law or executive order to be closed.

The register of holders of debt securities will be kept at the New York office of the fiscal agent.

Any monies held by the fiscal agent in respect of any debt securities and remaining unclaimed for two years after those amounts have been paid or returned by the fiscal agent to Israel. The holders of those debt securities may thereafter seek payment only from Israel. The debt securities will not be returned to them for payment within five years after their maturity date.

Israel may replace the fiscal agent at any time, subject to the appointment of a replacement fiscal agent. The fiscal agent is not a trustee and does not have the same responsibilities or duties to act for such holders as would a trustee. Israel may maintain deposit accounts and conduct its ordinary course of business with the fiscal agent.

### **Default**

Unless otherwise specified in the applicable prospectus supplement, any of the following events will be an event of default with respect to the debt securities:

- (1) Israel fails to pay, when due, principal of or interest on any debt securities of that series and such failure continues for a period of 30 days;
- (2) Israel defaults in the performance or observance of or compliance with any other obligations under the debt securities of that series which is prejudicial to the interests of the holders of the debt securities of that series and is not remedied within 60 days after the holders are given written notice of the default to Israel at the office of the fiscal agent; or
- (3) Israel declares a moratorium with respect to the payment of principal of or interest on the debt securities of that series which is a default under the terms of the debt securities of that series.

### **Acceleration of Maturity**

*The following description relating to Acceleration of Maturity does not apply to any series of debt securities that has been designated as "Collective Action Securities — Acceleration of Maturity" below for a description of the corresponding terms of Collective Action Securities.*

Unless otherwise specified in the applicable prospectus supplement, if an event of default described in clause (1) or (3) above occurs with respect to any series of debt securities, each holder of debt securities of that series will have the right to declare the principal of and any accrued interest on those debt securities to be immediately due and payable. If an event of default described in clause (2) above occurs with respect to any series of debt securities, the holders of not less than 25% of the debt securities of that series then outstanding will have the right to declare the principal of and any accrued interest on all the debt securities of that series to be immediately due and payable. Debt securities held by Israel or on its behalf will not be considered "outstanding" for this purpose.

Holders of debt securities may exercise these rights only by giving a written demand to Israel and the fiscal agent at a time when the event of default is continuing.

### **Purchase of Debt Securities by Israel**

Israel may at any time purchase any debt securities in any manner including, without limitation, open market purchases, privately negotiated purchases, or purchases by tender, at any price. If purchases are made by tender, tenders must be available to all holders of debt securities of the same series. Any debt securities purchased by Israel may be held, resold or cancelled.

**Taxation by Israel; Additional Amounts**

Israel will make all payments of principal and interest in respect of the debt securities free and clear of, and without withholding or deduction, of any taxes imposed by or within Israel, unless required by law. In that event, Israel will pay additional amounts so that the holders of the debt securities would have been received by them had no withholding or deduction been required. Israel will not be required to pay any additional amount to a holder who is liable to pay such taxes in respect of debt securities because the holder has some connection with Israel other than the mere holding of the debt securities. Any holder who wants to receive these additional amounts would

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have to present the debt security for payment within 30 days of when payment is due. If the fiscal agent has not received the full amount of the payment by the due date, then any holder who wants to receive the additional amounts would have until 30 days after the date that the holders have been notified of the due date to present the debt security for payment. If no additional amount would be payable on a debt security presented for payment on the 30th day, any holder presenting that debt security for payment after the 30th day will only be entitled to the payment due, but not to any additional amounts until Israel has paid to the fiscal agent the amount of the payment due.

Any reference to “principal” or “interest” on the debt securities includes any additional amounts which may be payable on those debt securities.

## **Modifications**

*The following description relating to Modifications does not apply to any series of debt securities that has been designated Collective Action Securities — Meetings and Amendments” below for a description of the corresponding terms of Collective Action Securities.*

Unless otherwise specified in the applicable prospectus supplement, with the written consent of the holders of more than 50% in aggregate principal amount of the outstanding debt securities of a series, Israel and the fiscal agent may modify, amend or supplement the terms of the debt securities of that series, the fiscal agency agreement, in any way. Holders of more than 50% of the aggregate principal amount of any series may not take any action, demand, authorization, direction, notice, consent, waiver or other action provided by the fiscal agency agreement or the debt securities of that series without the consent of the holders of debt securities of that series.

For the purpose of this prospectus, “outstanding debt securities” does not include:

- previously canceled debt securities;
- debt securities called for redemption;
- debt securities which have become due and payable and for which sufficient funds to pay amounts owed under these debt securities have been received;
- debt securities of a series, which have been substituted with another series of debt securities; and
- for purposes of determining whether the holders of the requisite principal amount of outstanding debt securities of a series have given their consent, authorization, direction, notice, consent, waiver, amendment, modification or supplement under the fiscal agency agreement, directly or indirectly by Israel. *See “Collective Action Securities — Meetings and Amendments” below for additional qualifications to the application of this section to any series of debt securities that have been designated Collective Action Securities.*

Unless otherwise specified in the applicable prospectus supplement, no such action may, without the consent of the holder of each debt security of that series:

- change the due date for the payment of the principal of, or any installment of interest on, any debt security of that series;
- reduce the principal amount of any debt securities of that series;
- reduce the portion of the principal amount that is payable in the event of an acceleration of the maturity of any debt security;
- reduce the interest rate on any debt security of that series;
- change the currency in which any amount in respect of the debt securities of that series is payable or exclude the

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- Borough of Manhattan, The City of New York, as a required place at which payment with respect to interest, premium or principal is due, or
- shorten the period during which Israel is not permitted to redeem the debt securities of that series or permit Israel to redeem the debt securities of that series; to such action, Israel is not permitted to do so;
  - reduce the proportion of the principal amount of the debt securities of that series that is required:
    - to modify, amend or supplement the fiscal agency agreement or the terms and conditions of the debt securities of that series;
    - to make, take or give any request, demand, authorization, direction, notice, consent, waiver or other action; or
  - change the obligation of Israel to pay additional amounts.

Israel and the fiscal agent may, without the consent of any holder of the debt securities of a series, modify, amend or supplement the fiscal agency agreement or the debt securities of that series for the purpose of

- adding to the covenants of Israel;
- surrendering any right or power conferred upon Israel;
- securing the debt securities of that series pursuant to the requirements of the debt securities or otherwise;
- curing any ambiguity, or curing, correcting or supplementing any defective provision, contained in the fiscal agency agreement or the debt securities of that series;
- amending the fiscal agency agreement or the debt securities of that series in any manner that Israel and the fiscal agent may determine to be in the best interests of the holders of the debt securities of that series and that does not adversely affect the interest of any holder of debt securities of that series in any way.

Any modification, amendment or supplement made in accordance with the terms of the debt securities will be binding on all holders of the debt securities.

**Jurisdiction, Consent to Service and Enforceability**

The State of Israel is a foreign sovereign government. Consequently, it may be difficult for you to sue Israel or to collect upon a judgment against Israel. Israel has irrevocably agreed not to assert any defense based on immunity, including foreign sovereign immunity, from jurisdiction to which it might otherwise be entitled, in any federal court in the Southern District of New York or in any competent court in Israel. Israel has appointed the Chief Fiscal Officer for the Western Hemisphere of the Government of Israel in New York, New York, as its authorized agent upon whom process may be served. This appointment is limited to any debt securities which the holder of any debt securities may institute in any federal court in the Southern District of New York or any state court in New York. This appointment will be irrevocable until Israel pays all amounts due or to become due on or in respect of all the debt securities issuable under the terms of the debt securities. If for any reason the authorized agent ceases to be able to act as Israel's authorized agent or no longer has an address in New York, Israel will appoint another authorized agent. The Chief Fiscal Officer for the Western Hemisphere is not the agent for service for actions under the United States federal securities laws and Israel's waiver of immunity does not extend to such actions. Because Israel has not waived its sovereign immunity in connection with the United States federal or state securities laws, it will not be possible to obtain a United States judgment against Israel based on such laws unless Israel is not entitled under the Foreign Sovereign Immunities Act of 1976 to sovereign immunity with respect to such actions. Under the laws of the United States, Israel is not entitled to immunity from any form of execution.



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## COLLECTIVE ACTION SECURITIES

Israel may designate a particular series of debt securities to be “Collective Action Securities,” the specific terms of which will be determined by the terms of the debt securities relating to such securities. Collective Action Securities will have the same terms and conditions as the securities described under the heading “Debt Securities — Default.” Such Collective Action Securities shall contain different provisions relating to certain aspects of default, acceleration, meetings and voting of holders and waivers, as follows:

### Acceleration of Maturity

If an event of default described under the heading “Debt Securities — Default” above occurs and is continuing with respect to any series of debt securities designated Collective Action Securities, the holders of at least 25% of the aggregate principal amount of the outstanding debt securities of that series, acting as a committee, shall declare all the debt securities of that series to be due and payable immediately. Holders of less than 25% of the aggregate principal amount of that series may not, on their own, declare the debt securities of that series to be due and payable immediately. Holders of debt securities may, however, provide a written demand to Israel at the office of the fiscal agent at a time when the event of default is continuing.

Upon any declaration of acceleration, the principal, interest and all other amounts payable on the debt securities of that series will be due and payable on the date Israel receives written notice of the declaration, unless Israel has remedied the event or events of default prior to receiving the notice. The holders of the aggregate principal amount of the outstanding debt securities of that series may rescind a declaration of acceleration if the event or events of default have been cured or waived.

### Meetings and Amendments

**General.** A meeting of holders of any series of debt securities that have been designated Collective Action Securities may be called at any time by:

- to make, give or take any request, demand, authorization, direction, notice, consent, waiver or other action provided by the terms of the debt securities of that series to be made, given or taken by holders of debt securities of that series; or
- to modify, amend or supplement the terms of the debt securities of that series or, insofar as affects the debt securities of that series, to take any action in any way.

Israel may at any time call a meeting of holders of a series of debt securities that have been designated Collective Action Securities for the purpose of discussing the action they propose to take. The meeting will be held at the time and place determined by Israel. The fiscal agent will call a meeting of the holders of the debt securities of a series if 10% in aggregate principal amount of all debt securities of the series then outstanding (as defined in the fiscal agency agreement) have delivered a written request to the fiscal agent setting forth the action they propose to take.

**Notice.** The notice of a meeting will set forth the time and place of the meeting and in general terms the action proposed to be taken at the meeting as provided in the terms of the debt securities. In addition, this notice shall be given between 30 and 60 days before the meeting date; however, if the meeting is reconvened after adjournment for lack of a quorum, this notice shall be given between 15 and 60 days before the meeting date.

**Voting; Quorum.** A person that holds outstanding debt securities of a series or is duly appointed to act as a proxy for a holder of the debt securities will vote at a meeting of holders of the debt securities of that series. Holders or proxies representing a majority of the aggregate principal amount of the outstanding debt securities of that series will normally constitute a quorum with respect to that series of debt securities. However, if a meeting is adjourned for a lack of a quorum, holders or proxies representing 25% of the aggregate principal amount of the outstanding debt securities of a series will constitute a quorum with respect to that series of debt securities if the meeting is rescheduled. For purposes of a meeting of holders that proposes to discuss “reserved matters”, which are specified below, including amendments to the debt securities, holders or proxies representing 75% of the aggregate principal amount of the outstanding debt securities will constitute a quorum.



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**Regulations.** The fiscal agent may make reasonable and customary regulations as it deems advisable for any meeting with respect to:

- the proof of the holding of debt securities of a series;
- the adjournment and chairmanship of such meeting;
- the appointment and duties of inspectors of votes, certificates and other evidence of the right to vote; and
- other matters concerning the conduct of the meeting that the fiscal agent deems appropriate.

**Amendments.** Israel, the fiscal agent and the holders may generally modify or take actions with respect to the fiscal agency agreement for any series with:

- the affirmative vote of the holders of more than 66 2/3% in aggregate principal amount of the outstanding debt securities of that series at a meeting called and held meeting; or
- the written consent of the holders of more than 66 2/3% in aggregate principal amount of the outstanding debt securities of that series.

However, the holders of not less than 75% in aggregate principal amount of the outstanding debt securities of that series, voting at a meeting, must consent to any amendment, modification, change or waiver with respect to the debt securities of that series that would:

- change the due date for the payment of the principal of, or any installment of interest on, the debt securities of that series;
- reduce the principal amount of the debt securities of that series;
- reduce the portion of the principal amount that is payable in the event of an acceleration of the maturity of the debt securities of that series;
- reduce the interest rate on any debt securities of that series;
- change the currency in which any amount in respect of the debt securities of that series is payable or exclude the Borough of Manhattan as the required place at which payment with respect to interest, premium or principal is payable;
- shorten the period during which Israel is not permitted to redeem the debt securities of that series or permit Israel to redeem the debt securities of that series; to such action, Israel is not permitted to do so;
- change the obligation of Israel to pay any additional amounts;
- change the definition of “outstanding” with respect to the debt securities of that series;
- change the governing law provision of the debt securities of that series;
- change Israel’s appointment of an agent for the service of process in the United States or Israel’s agreement not to claim and to waive its sovereign or otherwise immunity in respect of any suit, action or proceeding arising out of or relating to the fiscal agency agreement or the debt securities of that series;
- change the status of the debt securities of that series, as described under “Debt Securities — Status of the Debt Securities” above;
- in connection with an offer to acquire all or any portion of the debt securities of that series, amend any event of default under the debt securities of that series;
- reduce the proportion of the principal amount of the debt securities of that series that is required:
  - to modify, amend or supplement the fiscal agency agreement or the terms and conditions of the debt securities of that series;
  - to make, take or give any request, demand, authorization, direction, notice, consent, waiver or other action.



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Israel refers to the above subjects as “reserved matters.” A change to a reserved matter, including the payment terms of any series of designated Collective Action Securities, can be made without your consent, as long as a supermajority of the holders (that is, the holders of a certain amount of the outstanding notes) agrees to the change.

If both Israel and the fiscal agent agree, they may, without the vote or consent of any holder of debt securities of a series, modify, amend, supplement the agreement or the debt securities of any series for the purpose of:

- adding to the covenants of Israel;
- surrendering any right or power conferred upon Israel;
- securing the debt securities of that series pursuant to the requirements of the debt securities or otherwise;
- curing any ambiguity or curing, correcting or supplementing any defective provision contained in the fiscal agency agreement or the debt securities of that series;
- amending the fiscal agency agreement or the debt securities of that series in any manner that Israel and the fiscal agent may determine to be in the best interests of the holders of the debt securities of that series and that does not adversely affect the interest of any holder of debt securities of that series in any material respect.

Any modification, amendment or supplement approved in the manner described in this section shall be binding on the holders of debt securities of that series.

For purposes of determining whether the required percentage of holders of any series of debt securities that have been designated Collective Action Securities has approved any amendment, modification or change to, or waiver of, such debt securities or the required percentage of holders has delivered a notice of acceleration, debt securities owned, directly or indirectly, by or on behalf of Israel or any entity owned or controlled by the federal government of Israel will be disregarded and deemed not to be “outstanding”, except that in determining whether the fiscal agent shall be protected in relation to any modification, change or waiver, or any notice from holders, only debt securities that the fiscal agent knows to be so owned shall be so disregarded. “public sector instrumentality” means the Bank of Israel, any department, ministry or agency of the federal government of Israel or any corporation, partnership, trust, or other entity owned or controlled by the federal government of Israel or any of the foregoing and “control” means the power, directly or indirectly, to direct the management of or elect or appoint a majority of the board of directors or other persons performing the functions of the board of directors of a corporation, trust, financial institution or other entity.

## **Further Issues of Debt Securities of a Series**

From time to time, without the consent of holders of the debt securities of any series that have been designated Collective Action Securities, Israel may create and issue additional debt securities with the same terms and conditions as those of the debt securities of that series (except for the amount of the first interest payment and the issue price), provided that such additional debt securities do not have, for purposes of the U.S. federal tax laws, a greater amount of original issue discount than the debt securities of that series have as of the date of issuance of such additional debt securities. Israel may also consolidate the additional debt securities to form a single series.

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### **GOVERNING LAW**

The fiscal agency agreement and the debt securities will be governed by and interpreted in accordance with the laws of the State of Israel. The laws of the State of Israel govern all matters governing authorization and execution of the debt securities by Israel.

### **PLAN OF DISTRIBUTION**

Israel may sell the debt securities: (a) through underwriters or dealers; (b) through agents; or (c) directly to one or more institutional investors. The following information in this prospectus supplement will include:

- the names of any underwriters or agents,
- the purchase price of the debt securities of that series,
- the net proceeds to Israel from the sale of such debt securities,
- any underwriting discounts, agent commissions or other items constituting underwriters' or agents' compensation, and
- any discounts or concessions allowed or reallocated or paid to dealers.

The underwriters may change any initial public offering price and any discounts or concessions allowed or reallocated or paid to dealers.

Any underwriters or agents used in the sale may sell the debt securities either on a "best efforts" or on a firm commitment basis. If the underwriters sell the debt securities on a firm commitment basis, the underwriters will acquire the debt securities for their own account and may resell the debt securities from time to time, including negotiated transactions, at a fixed public offering price or at varying prices determined by the underwriters at the time of sale. Israel may sell the debt securities to the public either through underwriting syndicates represented by managing underwriters or directly by underwriters. Unless otherwise set forth in this prospectus supplement, the obligations of the underwriters to purchase the debt securities will be subject to certain conditions precedent and the underwriters will not be obligated to purchase any of the debt securities offered thereby if any are purchased.

Israel may agree to indemnify agents and underwriters against certain liabilities, including liabilities under the United States Securities Act of 1933. In connection with the sale of the debt securities, payments the agents or underwriters may be required to make in respect of any of these liabilities. Agents and underwriters may engage in transactions with Israel.

### **OFFICIAL STATEMENTS**

Information included herein and the registration statement which is identified as being derived from a publication of Israel or one of its government entities or the Bank of Israel is included on the authority of such publication as a public official document of Israel or the Bank of Israel. All other information included herein is included as a public official statement made on the authority of the Director General of the Ministry of Finance of Israel, in his capacity as such.

### **VALIDITY OF THE DEBT SECURITIES**

The validity of the debt securities will be passed upon for Israel by Arnold & Porter LLP, New York, New York and Washington, D.C. and by Joel Baris, Legal Advisor to the Ministry of Finance of the State of Israel. As to all matters of Israeli law, Arnold & Porter may rely on the opinion of the Ministry of Finance. All statements with respect to matters of Israeli law in the prospectus have been passed upon by the Legal Advisor to the Ministry of Finance.

upon his authority.

**AUTHORIZED REPRESENTATIVE**

The Authorized Representative of the State of Israel in the United States of America is the Chief Fiscal Officer for the Western Hemisphere of Israel, 800 Second Avenue, 17th Floor, New York, New York 10017.

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**ISSUER**

Government of Israel  
Ministry of Finance  
1 Kaplan Street  
Hakiria, Jerusalem 91131  
Israel

**REGISTRAR, FISCAL, TRANSFER AND  
PRINCIPAL PAYING AGENT**

Citibank, N.A.  
Citigroup Centre 2, 21<sup>st</sup> Floor  
Canada Square  
Canary Wharf  
London E14 5LB

**LUXEMBOURG LISTING AGENT**

Dexia  
69 Route d'Esch  
L-2953  
Luxembourg

**LEGAL ADVISORS**

To Israel:  
as to Israeli law  
Joel Baris, Adv.  
Legal Advisor  
Ministry of Finance  
1 Kaplan Street  
Jerusalem 91131  
Israel  
as to U.S. law  
Arnold & Porter LLP  
399 Park Avenue  
New York, NY 10022

To the Underw  
as to Israeli  
Meitar, Liquornik, Geva &  
16 Abba Hillel Si  
12<sup>th</sup> Floo  
Ramat Ga  
Israel  
as to U.S. l  
Cravath, Swaine &  
825 Eighth A  
New York, NY



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# State of Israel

**\$2,000,000,000**

**\$1,000,000,000 3.15% Bonds due 2023**

**\$1,000,000,000 4.50% Bonds due 2043**

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## PROSPECTUS SUPPLEMENT

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*Joint Book-Running Managers*

**Barclays  
Citigroup  
Goldman, Sachs & Co.**

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**January 29, 2013**

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