

**SUPPLEMENT DATED FEBRUARY 26, 2024 TO THE INFORMATION MEMORANDUM
DATED SEPTEMBER 1, 2023**



**STATE OF ISRAEL
BOND ISSUANCE PROGRAMME**

Promoters
**Development Company for Israel (International) Limited
Development Company for Israel (Europe) GmbH**

This supplemental information memorandum (the "**Supplement**") supplements the information memorandum dated September 1, 2023 (the "**Information Memorandum**") prepared for the purpose of giving information with regard to the issue of bonds ("**Bonds**") under the Bond Issuance Programme (the "**Programme**") of State of Israel (the "**Issuer**", "**Israel**" or the "**State of Israel**"). Terms and phrases which are defined in the Information Memorandum have the same meaning when used in this Supplement.

The purpose of this Supplement is to (a) update the important notices in relation to the Issuer's ratings; (b) incorporate by reference into the Information Memorandum the Amendment No. 1 (the "**Amendment No. 1**") to the Issuer's Annual Report on Form 18-K (the "**Form 18-K**") to the United States Securities and Exchange Commission (the "**SEC**"); (c) amend the risk factors in relation to certain recent developments; (d) update the "*Description of the Issuer*" section of the Information Memorandum to reflect the updated disclosure in the Amendment No. 1; and (e) include a new "Significant Change" statement in the "*General Information*" section of the Information Memorandum.

With effect from the date of this Supplement, the Information Memorandum shall be amended and/or supplemented as follows:

Important Notices

In the section entitled "*Important Notices*" beginning on page vi of the Information Memorandum, the first paragraph appearing immediately beneath the heading "*Ratings*" on page vii shall be updated as set out below:

"As of February 26, 2024, the long-term foreign currency sovereign credit ratings of the Issuer are: A2 (Moody's Investors Service Ltd ("**Moody's**")), AA- (S&P Global Ratings UK Limited ("**S&P**")) and A+ (Fitch (Hong Kong) Ltd ("**Fitch**")). The Programme and the Bonds to be issued have not been rated."

Information Incorporated by Reference

On June 30, 2023, the Issuer published its Form 18-K for the fiscal year ended December 31, 2022. Information in Exhibit D to the Form 18-K is incorporated in, and forms part of, the Information Memorandum.

On January 4, 2024, the Issuer filed the Amendment No. 1 with the SEC. The Amendment No. 1 updates the description of the State of Israel previously included in Exhibit D to the Form 18-K.

By virtue of this Supplement, the section "*Exhibit D-1: Summary Information and Recent Developments*" on pages 102 to 110 (inclusive) of the Amendment No. 1 shall be incorporated in, and form part of, the Information

Memorandum and the section entitled "*Information Incorporated by Reference*" beginning on page 33 of the Information Memorandum shall be deemed to be updated accordingly. The Amendment No. 1 is available at: <https://israelbondsintl.com/pdf/18K-2023-amendment1.pdf>.

The Amendment No. 1 has been filed with the Central Bank of Ireland (the "**Central Bank**"). Electronic copies of the Amendment No. 1 will be available on the Promoters' website at www.israelbondsintl.com and physical copies may also be inspected at their offices at the addresses specified on the last page of the Information Memorandum.

Where a document incorporated by reference in turn incorporates information by reference, such information does not form part of this Supplement for the purposes of the Prospectus Regulation. When used in this Supplement, Prospectus Regulation means Regulation (EU) 2017/1129.

Risk Factors

In the section entitled "*Risk Factors*" beginning on page 21 of the Information Memorandum:

- (i) the risk factor entitled "*Israel's political and military environment may continue to be volatile.*" on pages 22 to 23 of the Information Memorandum shall be updated as set out below:

"The Middle East and North Africa, including Israel, have experienced significant political instability, and Israel has been subject to ongoing security concerns. Since the establishment of the State of Israel in 1948, a number of armed conflicts have occurred between Israel and its Arab neighbours. Political instability in the Middle East has increased since the terrorist attacks of September 11, 2001, news of Iran's reported nuclear programme and the emergence of the ISIS terrorist organization. Since 2005, when Israel withdrew from the Gaza Strip, terrorist violence from Gaza has increased. On October 7, 2023, Hamas, a terrorist group, launched an unprecedented terror attack on Israel from the Gaza Strip. Following the attack, Israel's Minister of Defense declared a special state in the region, which was later extended to the entire country. Subsequently, Israel's Ministerial Committee for National Security Affairs decided to undertake military action, which resulted in drafting more than 300,000 reservists. In light of these developments, leaders from opposition parties joined the government as part of an emergency unity government. In the north, Israel has borders with Syria and Lebanon, where Hezbollah, another terrorist group, is active. Tensions have risen on these borders, necessitating Israel to take limited military action. Although Israel, together with the United States and other allies, is striving to prevent escalation of the war, there remains a risk that a wider regional conflict may yet occur. It is currently unclear how long this situation may continue. If the war escalates, or the level of instability and violence increases in the future, including through the involvement of additional actors in attacks against Israel, Israel's capital markets, the Israeli economy, Israel's sovereign credit ratings, the level of tourism in Israel and foreign investment in Israel, among other military, social and economic factors, may suffer.

Since January 2011, there has been political instability and civil unrest in numerous Middle Eastern and North African countries, including Bahrain, Libya, Egypt, Tunisia, Yemen and Syria. In the past, this unrest has resulted in the removal of long-standing leadership in several of the aforementioned countries and created turbulent political situations in others. As Israel is situated in the centre of this region, it closely monitors these events, aiming to protect its economic, political and security interests. The delicate relations between Israel and its neighbours could become even more fragile following domestic turmoil and regime changes. It should be noted that such instances of instability in the Middle East and North Africa region have not so far materially affected Israel's financial or political situation, and countries who have signed peace agreements with Israel have remained committed to them, regardless of internal political developments. However, there can be no assurance that such instability in the region will not escalate in the future, such instability will not spread to additional countries in

the region, current or new governments in the region will be successful in maintaining domestic order and stability, or Israel's economic or political situation will not thereby be affected.

In 2023, the Knesset's Constitution, Law and Justice Committee had been promoting a number of bills regarding the Israeli judicial system, commonly referred to as "Judicial Reform". One of the Judicial Reform amendments which was enacted by the Knesset provided that the Supreme Court could not limit or abrogate any decision or act by the government, any minister or certain other public officials on the grounds that such decision or act was unreasonable. Subsequently, on January 1, 2024, the Supreme Court voided this law. Any further proposed changes in the judicial system and opposing protests may negatively affect Israel and reduce Israel's attractiveness for international business. The occurrence of these events may negatively affect Israel's economic performance and its ability to repay principal and make payments on the Bonds."

- (ii) the risk factor entitled "*The current global economic climate and continued economic disruption in Europe may have an adverse effect on Israel's economy.*" on page 24 of the Information Memorandum shall be updated as set out below:

"Israel's economy is affected by current global economic conditions, including regional and international rates of economic growth. Recent political and economic developments in the global economy, including the war against Hamas, the military conflict in Ukraine and high rates of inflation and related economic curtailment initiatives (such as interest rate increases), have led to increased market volatility and decreased consumer confidence and may have a continuing negative impact on the European and global economy. The potential impact of such developments on Israel is uncertain.

Although Israel's economy has shown moderate rates of growth in recent years, there can be no assurance that Israel's economy will continue to grow if there should be a prolonged negative global economic climate.

As a result of the 2009 – 2012 sovereign debt crisis in Europe, there was significant price volatility in the secondary market for sovereign debt of European and other nations in the beginning of the decade. More recently, the impact of the war against Hamas and inflationary pressures caused in part by the Russia-Ukraine conflict have also impacted European sovereign debt markets. If such price volatility returns, it could lead to a decline in the recoverability and value of the market price of Israel's debt securities, including the Bonds. Sluggish economic growth or negative growth in the European Union, which is one of Israel's major trading partners, could have a material adverse impact on Israel's balance of trade and adversely affect Israel's financial condition."

- (iii) the risk factor entitled "*The successful development of Israel's natural gas reserves involves certain risks that may make expected natural gas production levels unobtainable.*" on page 24 of the Information Memorandum shall be updated by inserting the following sentence immediately after the term "all of which may in fact vary considerably from Israel's current assumptions concerning royalties and tax revenues.":

"Moreover, certain of Israel's neighbouring countries have asserted mineral rights with respect to certain natural gas reserves to which Israel currently lays claim."

- (iv) the following additional risk factor shall be inserted immediately beneath the risk factor entitled "*The successful development of Israel's natural gas reserves involves certain risks that may make expected natural gas production levels unobtainable.*" on page 24 of the Information Memorandum:

"Cybersecurity breaches on Israel's banking sector, if experienced, may have deleterious impacts.

The sophistication of new technologies has increased the scope of cyber-attacks and the risk that the Israeli banking sector may become subject to such cyber-attacks. This has heightened the need for regulators to expand financial resources and to hire and deploy staff that possess expertise in technology and cybersecurity.

The scope of cyber-attacks may continue to develop due to the adoption and promotion of innovation and digital transformation in Israel's banking system. In view of the trends in cyber-attacks observed in previous years, cyber-attacks may also intensify due to the increased sophistication and activities of the attackers. This includes a continuing upward trend in both the number of events and their sophistication; the exploitation of vulnerabilities (both recognised and unrecognised) in order to carry out attacks; diverse abilities and intentions on the part of attackers; and continued exploitation of the supply chain as a vector of attack.

As cyber-attacks continue to evolve in scope and sophistication, Israeli banking system entities (entities supervised by the Banking Supervision Department) and the Banking Supervision Department are concentrating efforts to increase cyber resilience and cyber defence capabilities. Any such cyber-attacks and/or cybersecurity breaches may disrupt the functioning of, or cause economic harm to, the Israeli banking sector and the Israeli economy."

Description of the Issuer

In the section entitled "*Description of the Issuer*" beginning on page 61 of the Information Memorandum, the text on pages 62 and 63 of the Information Memorandum shall be updated as set out below:

"Description of the Issuer, Including its Economy

State of Israel is a sovereign issuer, located in the State of Israel.

The Israeli economy grew by 6.5% in 2022, as compared to growth rates of 9.3% in 2021, -1.5% in 2020, 3.8% in 2019 and 4.1% in 2018. GDP growth in 2022 was mainly due to the continued growth of private consumption and the high levels of exports and investments. During the first quarter of 2022, GDP contracted by 2.4% (annual rate, seasonally adjusted, quarter on quarter). This contraction can be attributed to the exceptionally high level of growth in the fourth quarter of 2021 rather than any trend toward economic slowdown. Indeed, in the second quarter of 2022, the economy recovered with GDP growing by 6.3%, followed by GDP growth of 2.7% in the third quarter and 4.3% in the fourth quarter of 2022 (annual rate, seasonally adjusted, quarter on quarter). During the first quarter of 2023, GDP grew by 2.6%, followed by 2.9% in the second quarter of 2023, 1.8% in the third quarter of 2023, and a first estimate of -19.4% in the fourth quarter of 2023 (each an annual rate, seasonally adjusted, quarter on quarter). The GDP growth in the first quarter of 2023 was primarily attributable to a rise in investments and the growth in the second quarter of 2023 was mainly attributable to a rise in public expenditure and exports, while the growth in the third quarter is attributable to the growth of exports.

The outbreak of the war on October 7, 2023 has significantly affected the Israeli economy, including fourth quarter growth in 2023. The war has led to damage to private consumption, investments, foreign trade, and the disruption of several industries (including construction, agriculture and tourism industries). In the face of these, public consumption is expected to increase, thus mitigating to some extent the

negative effects on growth. In total, based on preliminary estimates, Israel's GDP is expected to increase by approximately 2% in 2023 compared to 2022.

Public Finance and Trade

Balance of Payments and Foreign Trade

Israel had a current account surplus of 3.9% of GDP in 2022, which was the 20th consecutive year in which a positive surplus in the current account was recorded. In the first quarter of 2023, the current account surplus amounted to 4.8% of GDP (on a seasonally adjusted basis) followed by 4.0% of GDP in the second quarter of 2023 (on a seasonally adjusted basis) and 5.2% of GDP in the third quarter of 2023 (on a seasonally adjusted basis).

Israel is a 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 both the United States and the European Union.

Israel's net exports have grown significantly in recent years from \$2.9 billion in 2018 to \$17.0 billion in 2022. The growth in net exports in recent years has mostly been driven by the export of services. In the first quarter of 2023, the net exports surplus amounted to \$3.2 billion followed by \$4.2 billion in the second quarter of 2023 and followed by \$2.7 billion in the third quarter of 2023 (each on a seasonally adjusted basis).

In 2022, 27.3% of Israel's exported goods (excluding aircrafts, ships and diamonds) were to the European Union (an increase from 25.4% in 2021), 21.7% were to the United States (a decrease from 23.2% in 2021), 22.8% were to Asia (a decrease from 22.9% in 2021) and 28.3% were to other markets (a decrease from 28.5% in 2021). In 2022, 31.5% of Israel's imported goods (excluding aircraft, ships and diamonds) originated from the European Union (a decrease from 34.7% in 2021), 27.7% from Asia (an increase from 26.5% in 2021), 8.7% from the United States (a decrease from 9.2% in 2021) and 32.1% from other countries (an increase from 29.6% in 2021).

Fiscal Policy

Budget proposals in Israel are constrained by two parameters. The first is a deficit ceiling that sets the maximum deficit-to-GDP ratio, which has been modified several times. The second is an expenditure ceiling that sets a maximum year-to-year growth in government expenditure. Under the current formula prescribed by Israeli law, the expenditure ceiling is based on the average population growth rate over the three years prior to the submission of the budget, plus the ratio of the medium-term debt target (50%) to the current debt-to-GDP ratio.

In 2020, as a result of COVID-19-related expenditures and lower than expected revenues, the deficit rose to 11.3% of GDP, which was significantly above the deficit target set for the year and similarly, the public debt-to-GDP ratio for 2020 increased to 70.9%. In 2021, the deficit decreased to 4.4% of GDP, which was lower than the deficit target as state revenues exceeded expectations and there were lower than expected COVID-19-related expenditures, and the public debt-to-GDP ratio in 2021 decreased to 67.8%. In light of higher than expected revenues and lower than expected expenditure, as a result of the COVID-19 recovery, a cumulative budget surplus of approximately NIS 9.9 billion (0.6% of GDP) was measured in 2022, resulting in a debt-to-GDP of 60.5%. Based on preliminary data, in 2023 the deficit rose to 4.2% of GDP and the public debt-to-GDP ratio for 2023 increased to 62.0%.

In May 2023, the budgets for the years 2023-2024 were approved. In December 2023, the budget for 2023 was amended to reflect and allow for changes in the expenditure due to the war. The budget for 2024 was amended for the same reason in February 2024. On February 8, 2024, the Knesset approved a first reading of the amended 2024 budget.

Inflation and Monetary Policy

The average annual inflation rate over the last decade (2012 to 2022) was approximately 0.9%, slightly below the Government's target range of 1%-3%. The changes in the Consumer Price Index ("CPI") reflect a rise in prices of commodities, housing and agricultural products in Israel. Measured at year-end, the CPI growth rate returned to positive values in 2017 at 0.4%, grew by 0.8% in 2018 and 0.6% in 2019 and decreased by 0.7% in 2020. In 2021, the CPI increased by 1.5%, which was within the target of the Bank of Israel for the first time since 2013. In 2022, the CPI increased by an annual average of 4.4%, as inflation rose worldwide. Between January 2023 and January 2024, the CPI increased by 2.6% as prices gradually return to the target range. In 2022, due to rising inflation, the Bank of Israel increased the interest rate ten times and it was at 4.75% by the end of 2023. On January 1, 2024 the Bank of Israel reduced the interest rate by 0.25% to 4.5%. The real interest rate (nominal interest rate less inflation expectations) averaged -0.9%, -0.8%, 0.1%, -1.8% and -1.7% in 2018, 2019, 2020, 2021 and 2022, respectively. As of September 30, 2023, the real interest rate was 0.78%.

Over the past five years (measured from October 2, 2018 to September 29, 2023), the NIS/USD exchange rate has averaged at 3.4487 NIS to 1.00 USD, fluctuating between a high of 3.8620 (recorded on March 17, 2020) and a low of 3.0740 (recorded on November 17, 2021). The exchange rate as of September 29, 2023 stood at 3.824 NIS/USD.

Recent Developments

On October 7, 2023, Hamas, a terrorist group, launched an unprecedented terror attack on Israel from the Gaza Strip. Following the attack, Israel's Minister of Defense declared a special state in the region, which was later extended to the entire country. Subsequently, Israel's Ministerial Committee for National Security Affairs decided to undertake military action, which resulted in drafting more than 300,000 reservists. In light of these developments, leaders from opposition parties joined the government as part of an emergency unity government. In October 2023, 18% of the employed population was absent from work due to the war, including 139,000 reservists. In January 2024, 5% of the employed population remained absent from work due to the war, including 112,000 reservists.

In the north, Israel has borders with Syria and Lebanon, where Hezbollah, another terrorist group, is active. Tensions have risen on these borders, necessitating Israel to take limited military action. Although Israel, together with the United States and other allies, is striving to prevent escalation of the war, there remains a risk that a wider regional conflict may yet occur. It is currently unclear how long this situation may continue.

For further information regarding the international reaction to the war, the economic effects of the war and the government initiatives in response to the war, see the section entitled "*October 7, 2023 Attack on Israel and the War in Gaza*" in the Amendment No. 1, incorporated by reference in the Information Memorandum."

Additional Information

The paragraph entitled "No Significant Change" on page 81 of the Information Memorandum shall be updated as set out below:

"Save as disclosed in the section entitled "*Exhibit D-1: Summary Information and Recent Developments*" in the Amendment No. 1, incorporated by reference in the Information Memorandum, there has been no significant change in relation to public finance and trade, the tax and budgetary systems, the gross public debt, the foreign trade and balance of payment figures, the foreign exchange reserves, the financial position and resources and the income and expenditure figures of the Issuer since the fiscal year ended December 31, 2022."

This Supplement is supplemental to, forms part of and must be read in conjunction with, the Information Memorandum.

This Supplement has been approved by the Central Bank, as competent authority under the Prospectus Regulation, as a base prospectus supplement issued in compliance with the Prospectus Regulation.

The Issuer accepts responsibility for the information contained in this Supplement. To the best of the knowledge and belief of the Issuer, the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

To the extent that there is any inconsistency between (a) any statement in this Supplement or any statement incorporated by reference into the Information Memorandum by this Supplement and (b) any other statement in or incorporated by reference in the Information Memorandum, the statements in (a) above will prevail.

Save as disclosed in this Supplement, there has been no other significant new factor, material mistake or material inaccuracy relating to information included in the Information Memorandum which is capable of affecting the assessment of Bonds issued under the Programme since the publication of the Information Memorandum.

Investors should be aware of their rights under Article 23(2) of the Prospectus Regulation. An investor which has agreed, prior to the date of publication of this Supplement, to purchase or subscribe for Bonds issued under the Programme may withdraw its acceptance before the end of the period of two working days beginning with the first working day after the date on which this Supplement is published in accordance with the Prospectus Regulation. The final date of the right of withdrawal shall be February 28, 2024. Investors wishing to withdraw their acceptances should contact the Promoters for details of how to exercise this right.