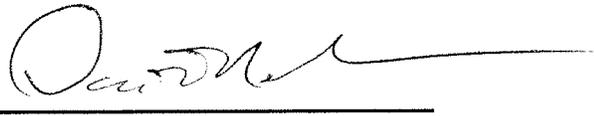


June 29, 2009
FINAL

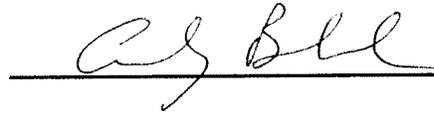
Modifications to and Determinations of Specific Reforms Details in Annex II of the Loan Guarantee Commitment Agreement

The Joint Economic Development Group (JEDG), as the joint consultative mechanism referred to in Section 5.03 of the Loan Guarantee Commitment Agreement, and proceeding under Section 4.02 of the Loan Guarantee Commitment Agreement, determines and modifies the “specific reforms” referred to in Section 4.02 by appending the following as Appendix 10 of Annex II.

Government of the United States of America:

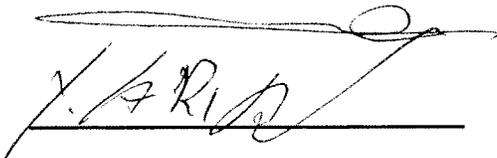


David Nelson
Acting Assistant Secretary of State for
Economic, Energy and Business Affairs



Andrew Baukol
Acting Assistant Secretary of the Treasury for
International Affairs

Government of the State of Israel:



Yarom Ariav
Director General
Ministry of Finance

**CONDITIONS FOR RELEASE OF THE U.S. FISCAL YEAR 2010 AND 2011
TRANCHES OF LOAN GUARANTEES, ALLOCATED (BUT NOT RELEASED)
TO ISRAEL ON 1 OCTOBER 2009 AND 2010, RESPECTIVELY.**

A. FY 2010 Tranche

Notwithstanding Appendices 1 through 9, the \$333.333 million U.S. Fiscal Year 2010 tranche of loan guarantees will be released upon determination by the U.S. Government that the Government of Israel has achieved all the following conditions:

1. Meet Spending and Budget Deficit Targets

- In 2009, total real central government spending¹ shall not increase by more than 1.7% plus 1.35% (3.05% in all) over 2008 expenditures.
- In 2009, the budget deficit shall not exceed 6% of GDP.

B. FY 2011 Tranche

Notwithstanding Appendices 1 through 9, the \$333.333 million U.S. Fiscal Year 2011 tranche of loan guarantees will be released upon determination by the U.S. Government that the Government of Israel has achieved all the following conditions:

1. Meet Spending and Budget Deficit Targets

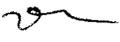
- In 2010, total real central government spending² shall not increase by more than 1.7% over 2009 expenditures.
- In 2010, the budget deficit shall not exceed 5.5% of GDP.

2. Enhance Fiscal Governance

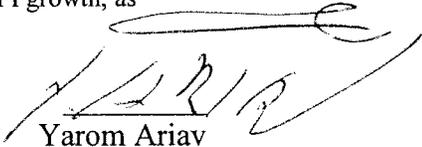
- By December 31, 2010, Israel shall create a long-term budget analysis of Israel's future social expenditures, including unfunded social mandates (such as health and pension system spending), and propose an action plan to prepare for the costs of changing demographic patterns.

¹ Defined as nominal central government spending in 2009 corrected by average 2009 CPI growth, as calculated by the Central Bureau of Statistics.

² Defined as nominal central government spending in 2010 corrected by average 2010 CPI growth, as calculated by the Central Bureau of Statistics.


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- During the 2009 Mid-Year Review or 2010 JEDG, the Government of Israel shall present a roadmap for the implementation of a new medium-term fiscal rule³.

3. Proceed with Structural Reforms

- Progress on privatization of Israel's state-owned seaports. By March 31, 2011, the Government of Israel shall offer for sale a portion of its shares in the Haifa and Ashdod seaports on the Tel Aviv Stock Exchange.
- Continued implementation of private-sector participation in electricity production. By March 31, 2011, private power plant construction shall be initiated in Israel.
- By March 31, 2011, the Government of Israel shall make progress on a reform of Israel's land authority that transfers commercial and residential land ownership to lessees holding multi-generation leases and, with the exception of special cases, gives local authorities and the private sector control over development and planning-related activities.

4. Address Food Standards Issue

- Recognizing that, in accordance with the SPS provisions of the GATT, standards that apply to imported foods in Israel reflect risk assessments in accordance with (a) generally accepted international practices in risk assessment, (b) specific local conditions in Israel, and (c) any unique hazards that may be identified with regard to a particular source country (including the US) at a particular point in time.
- In light of the above, by December 31, 2009, the U.S. Government will supply the Government of Israel with specific questions regarding safety standards for the import of processed foods and raw materials for foods to Israel. The Government of Israel shall provide to the U.S. Government by December 31, 2010, answers regarding safety standards required for the import of food to Israel.

5. Continue Progress on Intellectual Property Rights Protection

- During 2010, Israel shall continue consultations with the USG regarding levels of intellectual property rights protection and address intellectual property issues in such areas as undisclosed test data and the period of patent term extension.

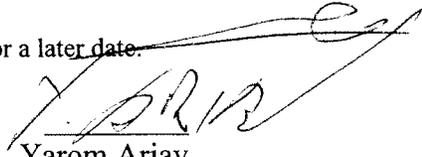
C. Verification

So that the U.S. Government can verify that Israel has achieved the above conditions connected to the FY2010 and FY2011 tranches, the Ministry of Finance shall issue a

³ Defined as a rule directly guiding expenditure growth and budget deficits through 2015 or a later date.


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report to the U.S. Departments of State and the Treasury no later than March 31, 2010 and March 31, 2011 that details Israel's progress on each of the above conditions during the preceding year. Included in the report will be a budget breakdown showing central government expenditures and deficits in 2009 and 2010, respectively, including the results of these major government accounts: interest payments, mandatory social spending, discretionary nonmilitary spending, military spending, disengagement and conflict spending, and Government Hospital spending. Distributed information must draw from (and match) public data sources found at either the Central Bank, Ministry of Finance, or Central Bureau of Statistics website. The Government of Israel shall inform the U.S. Departments of State and Treasury at the time of the distribution of the annual report which public data source Israel has used.

Within two months of receipt of the Government of Israel's March 2010 and 2011 reports, the U.S. Government shall make a written determination whether Israel has achieved the above stated conditions and whether the U.S. Government releases the FY2010 and FY 2011 tranches, respectively, for use by the State of Israel.

The U.S. Government confirms its determination that pursuant to the second sentence of Section 4.02(b) of the Loan Guarantee Commitment Agreement, loan guarantees originally scheduled to be issued prior to FY2010 are released for use by the State of Israel, subject to the deduction required by the fourth proviso under the heading "Loan Guarantees to Israel" in the Emergency Wartime Supplemental Appropriations Act, 2003 (P.L. 108-11) (the "Act"). Therefore, all amounts of loan guarantees authorized to be used by Israel under the Loan Guarantee Program, except for the FY2010 and FY2011 tranches, and except for amounts previously used to guarantee Israeli borrowings or subject to past or future deductions (as provided below), are currently available for use by Israel, subject to the deductions required by the Act. All other terms and conditions of the Loan Guarantee Commitment Agreement shall continue to apply to these guarantees.

D. Mid-Year Review

Recognizing the variable global economic climate, and the need for continued policy dialogue between annual JEDG meetings, especially on medium-term fiscal frameworks and a new Israeli fiscal rule, the U.S. and Israel hereby establish a mid-year review of the conditions associated with the FY2010 and FY2011 tranches, which shall be held between the annual meetings of the Joint Economic Development Group (JEDG). At the mid-year review, the U.S. and Israeli governments are authorized to amend conditions through a new appendix and introduce new subjects for discussion, as needed.

E. Other

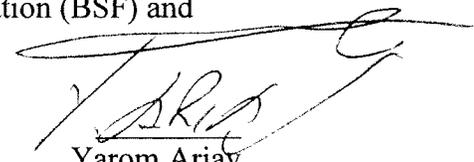
- The U.S. and Israel agree to explore ways to expand their partnership in energy and technology R&D activities under the auspices of the Binational Industrial Research and Development (BIRD), Binational Science Foundation (BSF) and



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Binational Agricultural Research and Development (BARD) bilateral research foundations.

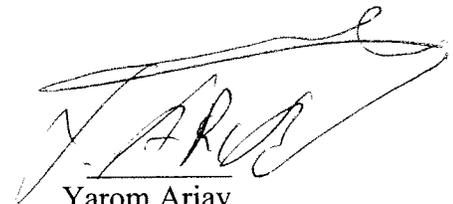
- The amount of guarantees that may be issued shall be reduced by an amount equal to the amount extended or estimated to have been extended by the GOI for activities which the President of the United States determines are inconsistent with the objectives and understandings reached between the United States and the Government of Israel regarding implementation of the loan guarantee program.



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