

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1 | GENERAL

### A. General description

The Bank of Israel ("the Bank") is the central bank of the State of Israel. The Bank was established in 1954. It is situated in Jerusalem and has two branches in Tel Aviv. The Bank is independent in choosing its operations and in exercising its authorities in order to achieve the objectives and functions specified in the Bank of Israel Law, 5770-2010 ("the Law"). The Bank's institutions include a Monetary Committee and a Supervisory Council, and it is headed by the Governor.

Pursuant to the Law, the Bank's functions include: managing the monetary policy; holding and managing the foreign exchange reserves of the State; supporting the orderly activity of the foreign currency market in Israel; acting as banker of the Government; regulating the economy's payment and settlement systems so as to ensure their efficiency and stability; issuing currency; and regulating and guiding the cash system of the economy; and supervising and regulating the banking system.

In April 2019, the Bank began operating a "Credit Data System" which was designed in accordance with the Credit Data Law, 5776-2016 to help increase competition in the Israeli retail credit market.

### B. Definitions

In these financial statements:

1. **The Bank**—Bank of Israel.
2. **CPI**—the Consumer Price Index as published by the Israeli Central Bureau of Statistics or any other relevant linkage index.
3. **Adjusted amount**—the historical nominal amount adjusted to the CPI in respect of December 2003, in accordance with the provisions of Opinions 23 and 36 of the Institute of Certified Public Accountants in Israel.
4. **Reported amount or cost**—the adjusted amount at the transition date (December 31, 2003), with additional amounts in nominal values that were added after the transition date, less amounts subtracted after the transition date.
5. **Adjusted cost**—the adjusted cost of bonds is their par value plus the interest accrued thereon and the balance of the premium or discount not yet amortized. The premium or discount is amortized over the period from the date of purchase of the bond until the date of its redemption using the effective interest method.
6. **Nominal financial reporting**—financial reporting based on reported amounts.
7. **Fair value**—the amount for which an asset can be exchanged or a liability settled in a transaction entered into freely between a willing seller and a willing buyer who are both acting in an informed manner.

## NOTE 2 | SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of the financial statements on a consistent basis are as follows:

### A. Basis of reporting and measurement of the financial statements

#### 1. The financial reporting principles

The financial statements are prepared in accordance with generally accepted accounting principles in Israel (Israeli GAAP), adapted for the special activity of a central bank and consistent with the practice of other central banks. The financial statements are presented in conformity with the reporting format adapted for central banks. The main items presented in accordance with generally accepted accounting principles of central banks are:

- a. Revaluation accounts—as detailed in Section J below.
- b. Statement of Cash Flows—as detailed in Section R below.

#### 2. Measurement basis

##### a. Balance Sheet:

1. Investments in tradable securities are stated at fair value.
2. Investments in currency swaps are stated at cost with the addition of the outstanding amortized premium or discount, as applicable, except for net settled transactions which are shown at fair value.
3. Financial items are stated in the Balance Sheet at their nominal values at the Balance Sheet date.
4. Nonfinancial items (fixed assets and investments shown at cost) are stated in reported amounts, which do not necessarily represent their current realizable value or economic value.

##### b. Statement of Profit and Loss:

1. Income and expenses originating from nonfinancial items (such as depreciation, prepaid expenses and deferred income) or from provisions included in the Balance Sheet, are derived from the movement between the reported amount of the opening balance and the reported amount of the closing balance.
2. All other items of the Statement of Profit and Loss (such as interest income and interest expenses) are stated at their nominal values.

##### c. Statement of Changes in Deficit Equity:

The data on the Bank's equity and general reserve are presented in the Bank's financial statements in reported amounts (see Note 16).



## B. Short-term deposits

Deposits with original maturity of less than one year from the investment date. The deposits are shown according to their terms.

## C. Tradable securities

### 1. Foreign currency tradable securities

#### a. Bonds

Bonds are stated in the Balance Sheet at their fair value as of the Balance Sheet date. The fair value of quoted bonds is based on market prices. Unquoted bonds are revalued based on data obtained from outside sources.

The difference between the original cost of the bonds and their adjusted cost, in respect of each bond, is charged to the Statement of Profit and Loss.

The difference between the fair value of the bonds and their adjusted cost as well as unrealized differentials from indexation to an index published abroad which accrued on the principal in respect of each individual bond, are charged to the Revaluation accounts line item in the Balance Sheet.

Interest income, amortization of the premium or discount and realized linkage differentials are stated in the "Interest income from assets in foreign currency abroad, net" line item.

Gains or losses from the realization of bonds are stated in the Statement of Profit and Loss in the "Income from tradeable securities and derivative financial instruments, net" line item.

The balance of unrealized loss at year end, which is calculated separately in respect of each bond, is charged to the Statement of Profit and Loss and stated under "Gain from tradable securities and derivative financial instruments, net".

#### b. Shares

Shares are stated in the Balance Sheet at their fair value as of the Balance Sheet date. The difference between the fair value of the shares and their cost, calculated on externally managed index-tracking share portfolios at the individual portfolio level, is charged to the Revaluation accounts line item in the Balance Sheet.

Gains or losses from the realization of shares and dividend income are charged to the Statement of Profit and Loss and stated under "Gain from tradable securities and derivative financial instruments, net."

The balance of unrealized loss at year end, which is calculated on externally managed index-tracking share portfolios at the individual portfolio level, is charged to the Statement of Profit and Loss and stated under "Gain from tradable securities and derivative financial instruments, net".

## 2. Local currency tradable securities

Tradable government bonds in local currency are stated in the Balance Sheet at their fair value as of the Balance Sheet date. The fair value of bonds is based on quoted market prices. The difference between the original cost of the bonds and their adjusted cost is charged to the Statement of Profit and Loss in respect of each bond individually.

The difference between the fair value of the bonds and their adjusted cost as well as unrealized indexation differentials accrued on the principal are charged to the Revaluation accounts line item in the Balance Sheet.

Interest income, amortization of the premium or discount and realized linkage gains are stated in the "Interest income from the Government" line item.

The balance of unrealized loss, which is calculated separately in respect of each bond, is charged to the Statement of Profit and Loss at the end of the year and stated under "Gain from tradable securities and derivative financial instruments, net".

## D. Financial instruments

The Bank uses financial instruments in its monetary policy and foreign exchange activities, both in Israel and abroad.

### 1. Activity in financial instruments abroad

#### a. Reverse Repurchase Agreements (R. Repo) and Repurchase Agreements (Repo) –

R. Repo transactions are treated as a secured debt, and are included in the Balance Sheet under "Securities purchased under reverse repurchase agreements". Securities purchased in this context do not appear in the Balance Sheet.

Repo transactions are composed of the sale of securities under an agreement to purchase them in the future and are treated as a secured debt. Accordingly, the securities sold in this context are not subtracted from the Bank's assets. The liability to purchase the securities is included in the Balance Sheet under "Securities sold under repurchase agreements."

The results of these transactions are shown in the Statement of Profit and Loss in the "Interest income from assets in foreign currency abroad, net" line item.

#### b. Foreign currency exchange transactions –

##### 1. Foreign currency swaps, gross settled forwards and spot transactions

- These transactions are included in the Balance Sheet from the date of engagement as the sum of the differences between the foreign currency received and the foreign currency to be remitted in the future, with the addition of the balance of any unamortized premium, if applicable, and are shown in the Balance Sheet in the "Derivative financial instruments" line item as an asset or liability based on the

transaction balance. The results of these transactions are included in the Statement of Profit and Loss in the "Interest income from assets in foreign currency abroad, net" line item.

The Bank pays or receives collaterals in respect of some of these transactions, which are shown under "Other assets" in foreign currency assets abroad or under "Other liabilities" in foreign currency liabilities abroad. The interest received or paid in respect of these collaterals is shown in "Interest income from assets in foreign currency abroad, net"—from short-term deposits.

2. Net settled Non Deliverable Forwards (NDFs) are shown in the Balance Sheet at fair value in the "Derivative financial instruments" line item. The adjustment to fair value is carried to "Revaluation accounts" in the Balance Sheet. The balance of unrealized loss at year end, which is separately calculated for each NDF, is carried to the Statement of Profit and Loss and stated under "Gain from tradable securities and derivative financial instruments, net".

The results of NDFs are shown in the Statement of Profit and Loss in the "Gain from tradable securities and derivative financial instruments, net" line item.

The fair value of NDFs on the Balance Sheet date is shown in Note 17 - "Commitments, financial instruments and contingent liabilities".

- c. Futures - The fair value of futures contracts on the Balance Sheet date is shown in Note 17 - "Commitments, financial instruments and contingent liabilities". The change in the value of the contracts is recorded in the Statement of Profit and Loss under "Gain from tradable securities and derivative financial instruments, net". Collaterals deposited against futures transactions are shown under "Other assets" in foreign currency abroad. The interest received or paid in respect of these collaterals is shown in "Interest income from assets in foreign currency abroad, net"—from demand deposits.

## **2. Activity in financial instruments in Israel**

NIS/USD Forwards and Spot - The future receipt of USD less the future delivery of NIS with the addition of any unamortized premium or discount, if applicable. These transactions are shown net in the Balance Sheet under "Other assets" or "Other liabilities" in local currency. The results of these transactions are shown in the Statement of Profit and Loss under "Interest income from assets in foreign currency abroad, net".

## E. International financial institutions

- 1. International Monetary Fund – (IMF)** The International Monetary Fund (IMF) balances are managed in Special Drawing Rights (hereinafter, "SDRs") and presented in new shekels using the representative exchange rates published by the Bank of Israel as of the Balance Sheet date. Interest income on IMF balances are shown in the Statement of Profit and Loss under "Interest income from assets in foreign currency abroad, net".  
The liability to the IMF in respect of allocated SDRs is stated in "The International Monetary Fund and others" line item in the Balance Sheet. Interest expenses on the liability to the IMF are shown in the Statement of Profit and Loss under "Other interest expenses".
- 2. Bank for International Settlements – (BIS)** The Bank of Israel's participation in BIS is stated under local currency assets in the "Other assets" line item according to the cost in the currency in which the participation was paid, translated according to the exchange rate on the transaction date with the necessary reporting adjustments to reported amounts. Dividend income received from the BIS is shown in the Statement of Profit and Loss under "Miscellaneous expenses, net".

## F. Fixed assets and intangible assets

1. Fixed assets and intangible assets are stated at cost with the addition of direct acquisition costs, less accumulated depreciation and impairment losses.
2. Improvements and enhancements are charged to the cost of the assets and depreciated over their useful lives, whereas maintenance and repair expenses are charged to the Statement of Profit and Loss as incurred.
3. Depreciation is calculated by the straight-line method based on the estimated useful life of the asset:
  - Buildings–50–67 years;
  - Equipment and furniture–10 years;
  - Vehicles–6.5 years;
  - Credit data system–4 years;
  - Computers–4 years;
  - Computer software–4 years.

## G. Banknotes and coins in circulation

Banknotes and coins in circulation that were issued by the Bank reflect the Bank's liability to their holders. This liability is shown in the Bank's Balance Sheet at face value. Expenses of printing banknotes and minting coins are shown in the Statement of Profit and Loss.

## H. *Makam* - Short-term loans

The Short-Term Loan Law, 5744-1984, authorizes the Government to issue short-term bills (called *makam*, their Hebrew acronym) to be sold only to the Bank of Israel. The Bank sells them to, and buys them from, the public in order to carry out its functions. The Government must deposit all proceeds from sales of these bills with the Bank of Israel and may not use the proceeds for any purpose other than repayment of the loan taken under said Law, or payment of the yield thereon. The purchase of bills from the Government by the Bank of Israel and the deposit of the proceeds from this purchase with the Bank of Israel are not reflected in the Bank's Balance Sheet. The balance of *makam* shown in the Balance Sheet reflects the *makam* sold by the government to the Bank of Israel and sold by the Bank of Israel to the public and it expresses the redemption price of bills held by the public, less the balance of the unamortized discount.

The discount is the difference between the redemption price of the *makam* and the proceeds from its sale to the public and is amortized over the period from the date of issuance of the *makam* to its maturity date, a period that does not exceed one year.

Expenses for amortization of the discount on the balance of the *makam* held by the public are shown in the Statement of Profit and Loss in "Interest expenses to banking corporations and the public."

## I. Liabilities for benefits to employees and pensioners

All liabilities in respect of employer-employee relations have corresponding reserves in accordance with Israeli law, relevant agreements, common practice and management's expectations.

Liabilities in respect of benefits to employees and pensioners (excluding short-term obligations) are measured using the "projected credit unit" method and calculated by an expert actuary using the method of estimation of cumulative benefits with probabilities considered on the basis of past experience. The discount rate applicable to the reserves is based on the yield curve of government bonds in Israel. The rate of future salary increases is estimated by management based on past experience, and on mortality rates and other demographic tables published by the Capital Market, Insurance and Saving Authority at the Ministry of Finance for pension funds.

The service cost and interest cost are stated in respect of the liabilities attributable to expenses in respect of benefits to employees and pensioners. Changes in the value of the liability arising from the difference between actual experience and estimated experience or from changes in actuarial assumptions represent unrealized actuarial gains or losses that are charged to the revaluation account of "Actuarial gains or losses from post-employment benefits to employees and pensioners", excluding benefits that are expected to be utilized during the employment term. The actuarial changes are charged to the Statement of Profit and Loss.

Liabilities for benefits to employees and pensioners are stated under "Other liabilities" in local currency.

## J. Revaluation accounts

The following are the types of revaluation accounts:

1. Revaluation accounts that include unrealized profits from exchange rate differentials on balances denominated in foreign currency, unrealized profits from indexation, the revaluation of tradable securities in local currency and foreign currency to their fair value and unrealized gains from adjustment of net settled NDFs to fair value.

These revaluation accounts are separately maintained for each item (currency, security, transaction, portfolio) and are recognized in the Statement of Profit and Loss when the item is fully or partially realized. No offsetting among different types of items is carried out. Revaluation accounts in respect of externally managed index-tracking portfolios are managed at the individual portfolio level.

Accumulated loss in the revaluation accounts relating to each item (currency, security, transaction, portfolio) that originates from price differentials, exchange rate differentials on foreign exchange reserves and indexation differentials is charged to the Statement of Profit and Loss at the end of the year (see also Section K below).

2. Revaluation account that consists actuarial gains or losses from post-employment benefits to employees and pensioners. Any accumulated actuarial losses at year end will result in a negative account balance.

## K. Revenue recognition

Income and expenditures are charged to the Statement of Profit and Loss on an accrual basis.

Realized gains or losses from balances in foreign currency and tradable securities in foreign and local currency are transferred to the Statement of Profit and Loss. These gains or losses are calculated on the basis of average cost of the balances of that asset.

Realized gains or losses from net settled derivative financial instruments are transferred to the Statement of Profit and Loss.

Unrealized gains are not transferred to the Statement of Profit and Loss but rather are charged to the "Revaluation accounts" line item in the Balance Sheet.

Unrealized losses are transferred to the Statement of Profit and Loss after offsetting unrealized gains of the same asset. These losses derive from the difference between the average cost of an asset and its fair value.

Unrealized losses from foreign currency tradable securities, from local currency tradable securities, or a specific foreign currency, and from net settled derivative financial instruments are not offset against unrealized gains from other securities or foreign currencies or from other net settled derivative financial instruments.

Losses recognized in the Statement of Profit and Loss are not offset against unrealized gains that will accrue in the future.

## L. Presentation currency

The financial statements are presented in New Shekels and rounded to the nearest million, unless otherwise stated.

Assets and liabilities denominated in or indexed to foreign currency are shown in New Shekels according to the representative exchange rates published by the Bank of Israel for the Balance Sheet date.

Income and expenses in foreign currency are included in the Statement of Profit and Loss at the representative exchange rates in effect on the date of each transaction.

Exchange rate differentials arising from the adjustment of assets and liabilities due to changes in the exchange rate include realized and unrealized exchange rate differentials.

Realized gains or losses from exchange rate differentials are carried to the Statement of Profit and Loss. Unrealized exchange rate differentials are charged to revaluation accounts on the Balance Sheet separately for each foreign currency .

A loss balance in the revaluation accounts at the end of the year is carried to the Statement of Profit and Loss and is not offset against future unrealized gains. Unrealized losses in one currency are not offset against unrealized gains in another currency.

Following are data on the Shekel exchange rates against other key currencies:

	As of December 31			Rate of change	
	2019	2018	2017	2019	2018
	NIS			Percent	
US Dollar	3.4560	3.7480	3.4670	(7.8)	8.1
Euro	3.8782	4.2916	4.1526	(9.6)	3.3
Pound Sterling	4.5597	4.7934	4.6819	(4.9)	2.4
Special Drawing Rights (SDRs) <sup>1</sup>	4.7887	5.2446	4.9374	(8.7)	6.2

<sup>1</sup>The SDR rate published by the IMF is determined according to a weighted basket of five currencies – the US Dollar, Euro, Japanese Yen, Pound Sterling and Chinese Yuan.



## M. Indexation

Indexed assets and liabilities in local currency are shown in accordance with the indexation terms determined for each balance.

Following are data on the CPI in Israel (based on the 2016 average):

	Year			Rate of change	
	2019	2018	2017	2019	2018
	Points			Percent	
For November	101.8	101.5	100.3	0.3	1.2
For December	101.8	101.2	100.4	0.6	0.8

## N. Interest rates

Some of the interest collected or paid by the Bank of Israel is based on the Bank of Israel interest rate or the Prime interest rate.

Following are data on the interest rates:

	As of December 31		
	2019	2018	2017
	Percent		
Bank of Israel interest rate	0.25	0.25	0.10
Prime interest rate	1.75	1.75	1.60

## O. Impairment of assets

The Bank applies Accounting Standard No. 15 (Revised), "Impairment of Assets" (hereinafter, "the Standard"), which establishes procedures that the Bank must apply to ensure that its assets in the Balance Sheet (to which the Standard applies) are not stated at an amount greater than the recoverable amount, i.e., the higher of the fair value less selling costs and the value in use (the present value of the estimated future cash flows expected to derive from the use and realization of the asset).

The Standard applies to all Balance Sheet assets, except for financial assets. The Standard also establishes presentation and disclosure rules for assets that have been impaired. Where the value of the asset in the Balance Sheet exceeds its recoverable amount, the Bank recognizes an impairment loss in the amount of the difference between the asset's book value and recoverable amount. A loss recognized in this manner is reversed only if changes occur in the estimates that were used to determine the recoverable amount of the asset from the date on which the last impairment loss was recognized.

## P. Use of estimates

The preparation of financial statements requires the Bank's management to use estimates and assumptions and to exercise judgment regarding transactions or issues whose final effect on the financial statements cannot be determined with precision. Even though the estimates or assumptions are based on management's best judgment, the final effect of such transactions or issues may be different from the estimates and assumptions made in their respect.

## Q. Offsetting financial assets and financial liabilities

Financial assets and liabilities are presented on the Balance Sheet in net amount only when the Bank has a legal and enforceable offsetting right, and when there is an intention to settle the asset or liability on a net basis or to realize the asset and settle the liability simultaneously.

## R. Statement of Cash Flows

These financial statements do not include a statement of cash flows because such statement provides no significant information beyond that presented in the financial statements; this practice corresponds with the general practice among some of the central banks worldwide.

## S. Taxes

According to the Bank of Israel Law, 5770–2010, regarding the payment of taxes, municipal taxes, levies and other mandatory payments, the Bank has the same status as the State of Israel. In addition, regarding the taxation of the Bank's global investments, the Bank is tax exempt on most of its investments in foreign securities. The tax expenses charged to the Bank on its global investments are shown in the Statement of Profit and Loss in the "Other expenses, net" line item.

**NOTE 3 | FOREIGN CURRENCY TRADABLE SECURITIES**

	As of December 31	
	2019	2018
	NIS million	
Government bonds, multinational bonds and public sector bonds	216,280	207,813
Shares	67,180	48,474
Corporate bonds	32,093	25,781
Commercial securities	3,104	15,736
<b>Total</b>	<b>318,657</b>	<b>297,804</b>

**NOTE 4 | THE INTERNATIONAL MONETARY FUND (IMF)**

	As of December 31		As of December 31	
	2019	2018	2019	2018
	NIS million		SDR million	
IMF quota	9,200	10,076	1,921	1,921
Less: Liability for the quota	(7,590)	(8,648)	(1,585)	(1,649)
<b>Reserve Tranche</b>	<b>1,610</b>	<b>1,428</b>	<b>336</b>	<b>272</b>
<b>NAB loans</b>	<b>96</b>	<b>151</b>	<b>20</b>	<b>29</b>
<b>Special Drawing Rights (SDRs)</b>	<b>4,378</b>	<b>4,996</b>	<b>914</b>	<b>953</b>
<b>Total IMF balance<sup>1</sup></b>	<b>6,084</b>	<b>6,575</b>	<b>1,270</b>	<b>1,254</b>

<sup>1</sup>The balances bear interest pursuant to the IMF's terms.

**A. State of Israel's participation in the IMF**

Each member country of the IMF has a quota for its participation in the Fund's capital, a quota that is denominated in the SDR currency. The part of the quota that is paid in cash (the Reserve Tranche) is transferred to the IMF in foreign currency and may be withdrawn by the country, whereas the rest is deposited with the country's central bank in deposits and notes indexed to SDR.

The State of Israel is part of the IMF's Financial Transaction Plan. This plan determines a mechanism through which an IMF member country may exchange SDRs or foreign currency against its local currency and another country is asked to carry out a counter exchange. Executing transactions in the context of the Financial Transaction Plan modifies the quota composition between the Reserve Tranche and the other tranche which consists of deposits and notes placed in the central bank (liabilities for the quota).

## B. NAB loans

The State of Israel is part of the IMF's arrangement known as NAB (New Arrangements to Borrow). In accordance with this arrangement, countries, including Israel, provide a credit line to the IMF, in the context of which loans are extended with maturities of ten years. According to the arrangement, the loans may be repaid to each country at an earlier date at the country's request, should it need the money.

The maximum credit line that the Bank provides the IMF is about SDR 340 million (NIS 1,628 million).

## C. Special Drawing Rights (SDRs)

The balance includes SDRs allocated by the IMF to the State of Israel. Against these allocations the Bank of Israel has a liability toward the IMF with no repayment date, which is shown under the line item of "The International Monetary Fund and others". The IMF has allocated to the State of Israel SDRs totaling about SDR 884 million. See Note 12.

The State is not required to hold all the SDRs allocated to it.

The State of Israel is part of another IMF plan, "Voluntary Arrangement for the Purchase and Sale of SDRs". Within the framework of this plan, the State of Israel is required, as per the IMF's guidelines, to buy or sell some SDRs from other IMF members. These transactions are recorded in the balance of "Special Drawing Rights (SDRs)."

According to the "Voluntary Arrangement for the Purchase and Sale of SDRs", Israel's SDR holdings are to range from 50 percent to 145 percent of total SDRs allocated by the IMF to Israel at the most. The IMF has undertaken to consult with the Bank before any purchase or sale request of SDRs in the context of the plan.

## NOTE 5 | CREDIT TO THE GOVERNMENT

The item includes credit that was extended to the Government of Israel for investment, in conjunction with the United States Government, in binational foundations involved in research, industrial development and science.

The foundations deposited these sums in the Bank of Israel and they are shown in Other foreign currency liabilities on the Balance Sheet under the item of "The International Monetary Fund and others".

Both the credit and the fund deposits earn either fixed interest of 4–4.125 percent indexed to the CPI, or interest on the basis of LIBOR.



## NOTE 6 | TRADABLE SECURITIES

The item includes tradable government bonds in local currency, indexed to the last CPI known on the Balance Sheet date, as well as unindexed tradable government bonds. The bonds are shown in the Balance Sheet at fair value .

## NOTE 7 | FIXED ASSETS AND INTANGIBLE ASSETS

	Land and buildings <sup>1</sup>	Credit data system	Equipment and furniture, vehicles, computers and software	Total
NIS million				
<b>Cost:</b>				
Balance as of January 1, 2019	462	140	473	1,075
Additions	91	87	93	271
Disposals	-	-	(17)	(17)
<b>Balance as of December 31, 2019</b>	<b>553</b>	<b>227</b>	<b>549</b>	<b>1,329</b>
<b>Accumulated depreciation:</b>				
Balance as of January 1, 2019	88	-	317	405
Additions	5	35	67	107
Disposals	-	-	(16)	(16)
<b>Balance as of December 31, 2019</b>	<b>93</b>	<b>35</b>	<b>368</b>	<b>496</b>
<b>Depreciated balance as of December 31, 2019</b>	<b>460</b>	<b>192</b>	<b>181</b>	<b>833</b>
<b>Depreciated balance as of December 31, 2018</b>	<b>374</b>	<b>140</b>	<b>156</b>	<b>670</b>

<sup>1</sup>The cost of the land in Jerusalem and the depreciated cost of the structures thereon, amounts to approximately NIS 436 million as of December 31, 2019 (approximately NIS 340 million as of December 31, 2018). As of the report date, the Bank is not registered as the lessee of the Bank's properties. The lease expired on June 30, 2016. Since then, the Bank has been negotiating the renewal of the lease agreement with the Israel Land Authority (the ILA). Accordingly, the Bank may be required to pay lease fees when the lease is renewed.

## NOTE 8 | OTHER ASSETS

	As of December 31	
	2019	2018
NIS million		
Investment in BIS shares	282	282
Loans to employees	76	67
Other receivables	9	22
<b>Total other assets</b>	<b>367</b>	<b>371</b>

## NOTE 9 | BANKNOTES AND COINS IN CIRCULATION

	As of December 31	
	2019	2018
	NIS million	
NIS 20	1,035	953
NIS 50	3,077	3,127
NIS 100	15,944	16,176
NIS 200	64,561	63,176
Coins in circulation	2,553	2,429
Commemorative coins	6	6
Other <sup>1</sup>	2	2
<b>Total banknotes and coins in circulation</b>	<b>87,178</b>	<b>85,869</b>

<sup>1</sup>Special coin items in circulation.

## NOTE 10 | GOVERNMENT DEPOSITS

Government balances consist of balances in local currency and balances in foreign currency. Most of Government balances in the Bank of Israel can be offset against each other, excluding several extraordinary balances.

	As of December 31	
	2019	2018
	NIS million	
<b>Deposits in foreign currency<sup>1</sup></b>		
Current deposits	6,078	10,235
Other deposit	16	33
<b>Total deposits in foreign currency</b>	<b>6,094</b>	<b>10,268</b>
<b>Deposits in local currency<sup>2</sup>—Current</b>	<b>12,090</b>	<b>16,023</b>
<b>Total Government deposits</b>	<b>18,184</b>	<b>26,291</b>

### <sup>1</sup>Government deposits in foreign currency

The current deposits are used for financing budgetary activity. Some foreign currency government deposits bear interest at the rate paid on US Treasury bills with an average of six months to maturity. The average interest rate in 2019 was 2.09 percent (2018—2.07 percent).

### <sup>2</sup>Government deposits in local currency

The current deposits and the balances used for bond lending are designated for financing budgetary activity. Local currency current deposits bear (when in debit) or are paid (when in credit) interest to the Government at a rate ranging between the Bank of Israel's interest plus 1.5 percent and the Bank of Israel's interest on these balances based on certain brackets. The basic interest rate at the end of 2019 was 1.75 percent (2018—1.75 percent). A different interest rate is paid on the government balances used for bond lending and other government balances.

**NOTE 11 | DEPOSITS OF BANKING CORPORATIONS**

Deposits of banking corporations comprise local currency balances and foreign currency balances:

	As of December 31	
	2019	2018
	NIS million	
<b>Deposits in foreign currency<sup>1</sup>- <i>Pamach</i></b>	<b>485</b>	<b>672</b>
<b>Deposits in local currency<sup>2</sup></b>		
Time deposits	194,011	188,010
Demand deposits	45,202	41,734
<b>Total deposits in local currency</b>	<b>239,213</b>	<b>229,744</b>
<b>Total deposits in banking corporations</b>	<b>239,698</b>	<b>230,416</b>

**<sup>1</sup>Deposits in foreign currency**

Foreign currency demand deposits of the banking corporations (known by their Hebrew acronym, Pamach) serve as a liquid asset against nonresidents' foreign currency deposits based on their applicable reserve requirements.

**<sup>2</sup>Deposits in local currency**

a) The Bank of Israel receives time deposits in New Shekels from the banking corporations. The deposits are allocated by auction for terms of one day, one week and one month. The deposits are not considered liquid assets regarding the banking corporations' reserve requirements. In addition, deposits are received at the (overnight) deposit window available to the banking corporations at an interest rate of 0.1 percentage points below the Bank of Israel interest rate. The average interest rate for time deposits by auction on December 31, 2019 was 0.25 percent (on December 31, 2018 - 0.25 percent).

The average interest rate for time deposits by auction in 2019 was 0.25 percent (in 2018 - 0.12 percent).

The interest rate for deposits at the window on December 31, 2019 was 0.15 percent (on December 31, 2018 - 0.15 percent). The average interest rate for deposits at the window in 2019 was 0.15 percent (in 2018 - no deposits at the window).

b) The banking corporations' local currency demand deposits serve as a liquid asset against deposits in Israeli currency and Israeli residents' deposits in foreign currency.

**NOTE 12 | THE INTERNATIONAL MONETARY FUND AND OTHERS**

	As of December 31	
	2019	2018
	NIS million	
Allocated Special Drawing Rights <sup>1</sup>	4,236	4,641
Other <sup>2</sup>	116	126
<b>Total</b>	<b>4,352</b>	<b>4,767</b>

<sup>1</sup>Special Drawing Rights (SDRs) are sums of money that member countries in the IMF undertook to purchase from the Fund. No repayment date has been set for this liability and it bears interest according to the IMF's terms. The IMF allocates SDRs to its constituent countries commensurate with the size of their quotas (see Note 4).

As of December 31, 2019, Israel has been allocated approximately SDR 884 million.

<sup>2</sup> The item mainly includes liabilities to binational foundations (see Note 5).

## NOTE 13 | *MAKAM* - Short term loans

	As of December 31	
	2019	2018
	NIS million	
Redemption value of <i>makam</i> sold to the public	120,000	108,000
Less: Discount at time of sale to the public	(349)	(227)
<b>Proceeds from sale of <i>makam</i> to the public</b>	<b>119,651</b>	<b>107,773</b>
Plus: Amortization of discount difference for the period through the Balance Sheet date	219	95
<b>Total balance of <i>makam</i></b>	<b>119,870</b>	<b>107,868</b>

## NOTE 14 | OTHER LIABILITIES

	As of December 31	
	2019	2018
	NIS million	
Liabilities for benefits to employees and pensioners	6,916	5,900
Liabilities for employees' and other rights	67	71
Other payables <sup>1</sup>	692	705
<b>Total other liabilities</b>	<b>7,675</b>	<b>6,676</b>

<sup>1</sup> The balance mainly comprises accounts of statutory entities that are managed at the Bank of Israel.

### A. Liabilities for benefits to employees and pensioners

The liability mainly consists of actuarial obligations in respect of post-employment benefits to employees and pensioners. Post-employment benefits to employees and pensioners include payments of future annuities to Bank employees who commenced their employment before September 2002, retirement grants and other post-employment benefits, all in keeping with the pension agreement signed with the Bank's employees, pensioners and their survivors.

The Bank's obligation to pay pension and severance to employees who commenced their employment after September 2002 is covered by regular deposits to a recognized pension and severance pay fund on behalf of the individual employee. Since sums deposited in said manner are neither controlled nor managed by the Bank, neither they nor the liabilities against which they were deposited are recorded in the Balance Sheet.

The actuarial calculation is prepared using the "projected credit unit" method which consisted of evaluating the accrued benefits based on various parameters such as: early retirement rates, rates of pension payments to survivors and orphans, the levels of seniority and ranks of employees and the future salary increase rate as estimated by management and based on past experience.

The above calculation is based on mortality rates and other demographic tables published by the Capital Market, Insurance and Saving Authority at the Ministry of Finance for pension funds in Pension Circular 2017-3-6 regarding the preparation of actuarial calculations. The calculation is based on the assumption of an annual



real salary increase for employees as of December 31, 2019 according to employee seniority ranging between 1.89 percent and 4.81 percent (as of December 31, 2018—same). The discount rates underlying the liability are based on the yield curve of government bonds in Israel, ranging between 0.59 percent and 1.69 percent (as of December 31, 2018—between 2.16 percent and 2.95 percent). The change in the liability consists of increase of about NIS 1,042 million which mostly derived from the decline in the interest rate and was charged to the revaluation accounts in the Balance Sheet under "Actuarial losses from post-employment benefits to employees and pensioners" (Note 15). The remaining change in the liability for benefits to employees and pensioners in the amount of about NIS 271 million was charged to the Statement of Profit and Loss under "General and administrative expenses"—salaries and employees' rights, pension and benefits to employees and pensioners (Note 25).

The balance for 2018 represents the effect of the wage agreement signed between the Bank and the Ministry of Finance.

## B. Liabilities for employees' and other rights

This item includes liabilities for salary and other expenses, the majority of which are expected to be settled in the course of 2020.

## NOTE 15 | REVALUATION ACCOUNTS

Revaluation accounts include unrealized gains from exchange rate differentials on foreign currency balances, revaluation of foreign and local currency tradable securities and revaluation of net settled derivative financial instruments to fair value and actuarial gains or losses in respect of post-employment benefits to employees and pensioners (see Notes 2C, 2D, 2J and 2L above).

	As of December 31	
	2019	2018
	NIS million	
Balances denominated in foreign currency	94	27,376
Tradable securities in foreign currency and derivative financial instruments	20,412	6,822
Tradable securities in local currency	436	426
Actuarial losses from post-employment benefits to employees and pensioners	(2,986)	(1,944)
<b>Total revaluation accounts</b>	<b>17,956</b>	<b>32,680</b>



## NOTE 16 | SHARE CAPITAL AND GENERAL RESERVE

The data of the Share capital and general reserve in historical nominal values at December 31, 2019 and 2018 are: Share capital—NIS 60 million; the general reserve—NIS 260 million. The general reserve served in the past to increase the Bank's capital in accordance with Section 6 of the Bank of Israel Law, 5714-1954. In accordance with Section 76 of the Bank of Israel Law, 5770-2010, within three months from the end of each year, the Bank will transfer its actual profits to the Government according to the following provisions:

- a. If the equity is 2.5 percent or more of total assets, the Government will receive an amount equal to the net income, less any accumulated losses.
- b. If the equity exceeds 1 percent of total assets but is less than 2.5 percent of total assets, the Government will receive 50 percent of the net income, less any accumulated losses.
- c. If the equity is 1 percent or less of total assets, the Government will not receive any profits.

The Bank is permitted to record capital funds arising from accounting principles, provided that the balance of net income not transferred to the Government as aforementioned is added to retained earnings and not recognized as another capital item, unless agreed upon otherwise between the Governor and the Minister of Finance.

In accordance with these provisions, as of December 31, 2019, there is no obligation to transfer funds to the Government.



## NOTE 17 | COMMITMENTS, FINANCIAL INSTRUMENTS AND CONTINGENT LIABILITIES

	As of December 31	
	2019	2018
	NIS million	
<b>a. Commitments (off-balance sheet)</b>		
Documentary credit	-	4
<b>b. Financial instruments</b>		
<b>Currency swaps and forwards:</b>		
Net fair value (Currency Swaps, Forwards, NDFs)	(301)	1,139
Future receipts of foreign currency (Currency Swaps, Forwards, Spots)	123,519	126,875
Future payments of foreign currency (Currency Swaps, Forwards, Spots)	123,651	125,071
<b>Stock index futures - fair value:</b>		
Long	(2)	(21)
Short	(28)	-
<b>Interest rate futures - fair value:</b>		
Long	1	-
Short	-	(8)
<b>Bond futures - fair value:</b>		
Long	(95)	538
Short	32	(33)

### c. Contingent liabilities

- When investing in the Bank of International Settlements (BIS), the Bank of Israel was required to assume additional undertakings toward the institution beyond the actual callable capital, which may be exercised by the institutions only in times of need, a scenario which is relatively unlikely. The balance of the above undertakings as of December 31, 2019 was NIS 58 million (December 31, 2018 - NIS 63 million).
- There are several claims pending against the Bank of Israel. However, no provision has been recorded in the Bank's books in respect of these claims as it is the Bank's opinion, based on the opinion of its Legal Department, that the probability of these claims being upheld is low, or that the sums involved are not significant.



## NOTE 18 | INTEREST INCOME FROM ASSETS IN FOREIGN CURRENCY ABROAD, NET

	Year ended December 31	
	2019	2018
	NIS million	
Demand deposits	79	(298)
Short-term deposits	(2)	(14)
Tradable securities	4,227	4,136
Securities purchased under R. Repo agreements or sold under Repo agreements	-	4
Derivative financial instruments	1,771	1,741
The International Monetary Fund	58	50
<b>Total</b>	<b>6,133</b>	<b>5,619</b>

## NOTE 19 | INTEREST INCOME FROM THE GOVERNMENT

	Year ended December 31	
	2019	2018
	NIS million	
Binational foundations <sup>1</sup>	78	78
Tradable securities in local currency	87	376
<b>Total</b>	<b>165</b>	<b>454</b>

<sup>1</sup>See Note 5.

## NOTE 20 | INTEREST EXPENSES TO BANKING CORPORATIONS AND THE PUBLIC

	Year ended December 31	
	2019	2018
	NIS million	
<i>Makam</i> - Short term loans	372	155
Time deposits <sup>1</sup>	441	213
<b>Total</b>	<b>813</b>	<b>368</b>

<sup>1</sup>See Note 11.

**NOTE 21 | INTEREST EXPENSES TO THE GOVERNMENT**

	Year ended December 31	
	2019	2018
	NIS million	
Balances in local currency	322	300
Balances in foreign currency	23	33
<b>Total</b>	<b>345</b>	<b>333</b>

See Note 10.

**NOTE 22 | OTHER INTEREST EXPENSES**

This item consists mainly of interest expenses in respect of deposits of the US-Israel Binational Industrial Research and Development Foundation, a deposit of the US-Israel Binational Science Foundation and international financial institutions. See Note 5.

**NOTE 23 | GAIN FROM TRADABLE SECURITIES AND DERIVATIVE FINANCIAL INSTRUMENTS, NET**

	Year ended December 31	
	2019	2018
	NIS million	
Tradable securities in foreign currency <sup>1</sup>	4,087	415
Derivative financial instruments <sup>2</sup>	144	458
<b>Total</b>	<b>4,231</b>	<b>873</b>

<sup>1</sup>Dividend income, gain and loss from sale of securities and net loss from impairment of securities at the end of the year.

<sup>2</sup>Financial income and expenses from the realization of derivative financial instruments and loss from impairment of net settled NDFs.

**NOTE 24 | MISCELLANEOUS EXPENSES, NET**

	Year ended December 31	
	2019	2018
	NIS million	
In local currency	(5)	(6)
In foreign currency	44	46
<b>Total</b>	<b>39</b>	<b>40</b>

This item includes mainly expenses (income) from fees from the Bank's financial activities, from international financial institutions and from loans to employees.



## NOTE 25 | GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31	
	2019	2018
	NIS million	
Salaries and employees' rights	386	346
Pension and benefits to employees and pensioners <sup>1</sup>	223	214
Depreciation and amortization	107	46
General expenses	160	106
<b>Total</b>	<b>876</b>	<b>712</b>

<sup>1</sup> Expenses in respect of actuarial obligation for post-employment benefits to employees and pensioners and a long-term liability.

## NOTE 26 | OTHER EXPENSES, NET

	Year ended December 31	
	2019	2018
	NIS million	
Tax expenses on foreign investments	40	48
Income from fees <sup>1</sup>	17	7
Miscellaneous income <sup>2</sup>	-	36
<b>Total</b>	<b>23</b>	<b>5</b>

<sup>1</sup> This item includes mainly income from fees from the Credit Data System and the Real Time Gross Settlement System.

<sup>2</sup> In 2018, this item mainly included dividend income from banks in liquidation.

## NOTE 27 | EVENTS AFTER THE BALANCE SHEET DATE

In early 2020, the world experienced a new risk to global activity as a result of the Coronavirus outbreak and spread. As of the financial statement approval date, the effect of the development of events in the virus' spread and its implications on the financial statements for 2020 cannot be predicted.