

## FINANCIAL STATEMENTS

**BANK OF  
BALANCE SHEET AS**  
(millions)

	Notes	31.12.89	31.12.88
<b>Foreign assets</b>			
Gold, foreign exchange, and foreign securities		10,463	7,390
Other foreign assets		1	1
		<b>10,464</b>	<b>7,391</b>
<b>Government debt</b>			
Long-term debt	2	9,039	9,047
<b>Loans</b>			
At the discount window		4,234	3,547
Other	3	477	306
		<b>4,711</b>	<b>3,853</b>
<b>Securities</b>			
Tradable	4	1,017	746
Nontradable		30	112
		<b>1,047</b>	<b>858</b>
<b>Other accounts</b>	5	<b>348</b>	<b>373</b>
		<u><b>25,609</b></u>	<u><b>21,522</b></u>

<sup>a</sup> See note 1a.

For contingent liabilities, see Note 12.

The accompanying notes are an integral part of the financial statements.

**ISRAEL**  
**OF 31st DECEMBER 1989**  
of NIS\*)

	Notes	31.12.89	31.12.88
<b>Banknotes and coins in circulation</b>		<b>2,645</b>	<b>2,015</b>
<b>Foreign liabilities</b>			
Allocation of SDR	6	276	259
Accounts with the IMF and other foreign liabilities	7	64	61
		<b>340</b>	<b>320</b>
<b>Deposits of government and National Institutions</b>			
Foreign currency		2,743	2,944
Local currency	8	4,760	2,081
		<b>7,503</b>	<b>5,025</b>
<b>Deposits of banking corporations in Israel</b>			
<b>Foreign currency</b>			
Against resident deposits—restitutions		6,428	6,046
Against resident deposits—other		4,505	4,561
Against nonresident deposits		1,767	1,189
		<b>12,700</b>	<b>11,796</b>
<b>Local currency</b>		<b>1,114</b>	<b>1,180</b>
<b>Other deposits</b>	9	<b>71</b>	<b>68</b>
<b>Other accounts</b>	10	<b>916</b>	<b>798</b>
<b>Capital and general reserve</b>	11	<b>320</b>	<b>320</b>
		<b><u>25,609</u></b>	<b><u>21,522</u></b>

**STATEMENT OF INCOME AND EXPENSES FOR THE YEAR ENDING  
DECEMBER 31, 1989**  
(NIS million<sup>a</sup>)

	Notes	1989	1988
<b>Income<sup>b</sup></b>			
From investments abroad	13	1,855	1,522
From credit to the government		1,524	1,693
From loans		338	260
From securities	14	101	59
Other income		18	29
Total income		<b>3,836</b>	<b>3,563</b>
<b>Expenses<sup>b</sup></b>			
On foreign-currency deposits of the government and National Institutions		297	586
On local-currency deposits of the government and National Institutions		608	392
On foreign-currency deposits of banking corporations in Israel		1,736	1,795
On local-currency deposits of banking corporations in Israel		124	223
On other deposits and liabilities		75	81
Administrative and general expenses	15	82	69
Printing banknotes and minting coins		8	6
Total expenses		<b>2,930</b>	<b>3,152</b>
Excess of income over expenses		<b>906</b>	<b>411</b>
Plus income from the government subject to matched timing	16	81	43
<b>Net income</b>		<b>987</b>	<b>454</b>
<b>Appropriation statement</b>			
Transfer to the government		<b>987</b>	<b>454</b>

<sup>a</sup> See note 1a.

<sup>b</sup> Includes differentials arising from the adjustment of assets and liabilities denominated in or linked to foreign currency for changes in the exchange rate of foreign currencies against the new shekel.

The accompanying notes are an integral part of the financial statements.

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES FOR THE YEAR  
ENDING DECEMBER 31, 1989  
A. TOTAL  
(NIS million)**

	Balance on				Percent change over preceding year	
	Unadjusted		Adjusted <sup>a</sup>		Nominal	Real
	31.12.89	31.12.88	31.12.89	31.12.88		
<b>Assets</b>						
Foreign assets	10,464	7,391	10,464	8,921	41.6	17.3
Government debt	9,039	9,047	9,039	10,920	-0.1	-17.2
Loans						
Discount window	4,234	3,547	4,234	4,281	19.4	-1.1
Other	477	306	477	369	55.9	29.3
Securities	1,047	858	1,047	1,036	22.0	1.1
Other accounts	348	373	532 <sup>b</sup>	634	-6.7	-16.1
Total assets	<b>25,609</b>	<b>21,522</b>	<b>25,793</b>	<b>26,161</b>	19.0	-1.4
<b>Liabilities</b>						
Banknotes and coins in circulation	2,645	2,015	2,645	2,432	31.3	8.8
Foreign liabilities	340	320	340	386	6.3	-11.9
Deposits of government and National Institutions						
In foreign currency	2,743	2,944	2,743	3,554	-6.8	-22.8
In local currency	4,760	2,081	4,760	2,512	128.7	89.5
Foreign-currency deposits of banking corporations						
Against resident deposits						
Restitutions	6,428	6,046	6,428	7,298	6.3	-11.9
Other	4,505	4,561	4,505	5,505	-1.2	-18.2
Against nonresident deposits	1,767	1,189	1,767	1,435	48.6	23.1
Local-currency deposits of banking corporations	1,114	1,180	1,114	1,424	-5.6	-21.8
Other liabilities	987	866	987	1,045	14.0	-5.6
Capital and general reserve <sup>c</sup>	320	320	504	570	—	-11.6
Total liabilities	<b>25,609</b>	<b>21,522</b>	<b>25,793</b>	<b>26,161</b>	19.0	-1.4

<sup>a</sup> See Note 1a. The CPI rose by 20.7 percent from December 1988 to December 1989.

<sup>b</sup> Includes NIS 184 million which is the difference between the adjusted and the unadjusted cost of nonfinancial assets.

<sup>c</sup> The difference between the adjusted and unadjusted figures includes a NIS 66 million adjustment to the real end-1989 value.

The accompanying notes are an integral part of the financial statements.

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**FOR THE YEAR ENDING DECEMBER 31, 1989**  
**B. IN FOREIGN CURRENCY<sup>a</sup>**  
(US \$ million)

	Balance on		Percent change over preceding year
	31.12.89	31.12.88	
<b>Assets</b>			
Foreign assets	5,330	4,091	30.3
Government debt <sup>a</sup>	3,759	4,089	-8.1
Loans <sup>a</sup>	218	141	54.6
Other accounts <sup>a</sup>	138	93	48.4
<b>Total assets</b>	<b>9,445</b>	<b>8,414</b>	<b>12.3</b>
<b>Liabilities</b>			
Foreign liabilities	173	177	-2.3
Deposits of government and National Institutions	1,397	1,630	-14.3
Deposits of banking corporations Against resident deposits			
Restitutions	3,275	3,347	-2.2
Other	2,295	2,525	-9.1
Against nonresident deposits	900	658	36.8
Other liabilities <sup>a</sup>	192	158	21.5
<b>Total liabilities</b>	<b>8,232</b>	<b>8,495</b>	<b>-3.1</b>
Foreign reserves held by Bank of Israel <sup>b</sup>	4,430	3,433	29.0

<sup>a</sup> Includes foreign-currency, foreign-currency linked, and unlinked components.

<sup>b</sup> Defined as gold, foreign exchange, and foreign securities *less* deposits of banks abroad and foreign-currency deposits of banking corporations in Israel against nonresident deposits.

The accompanying notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 1989

**1. Accounting policy**

**a. Unit of measurement**

The financial statements are presented in nominal new shekalim (NIS). The Statement of Changes in Assets and Liabilities is given in inflation-adjusted terms as well; the figures are adjusted by the Consumer Price Index (CPI) published on 15.1.90 (149.9; the index published on 15.1.89 stood at 124.2).

Income and expenses are on accrual basis and are included in the item 'other accounts', except for accrued interest and indexation differentials on local-currency securities, which are included in the item 'securities'.

**b. Foreign-currency assets**

Assets and liabilities in foreign currency are translated into NIS at the representative exchange rates in effect on the balance-sheet date. (No rates were announced on the last day of 1988; accordingly, those for the first trading day of 1989 are used for the 1988 financial statements.) The rates are as follows (NIS per unit):

	31.12.1989	31.12.1988
US \$	1.9630	1.8065
SDR	2.5974	2.4310
First currency basket <sup>1</sup>	2.1454	1.9920

SDR were translated using the SDR/US \$ ratio. Gold is stated at SDR 35 per fine ounce.

Foreign-currency linked assets and liabilities are valued at the representative rates in effect on the balance-sheet date and include linkage differentials.

Income and expenses in foreign currency are recorded in the Statement of Income and Expenses at the representative exchange rates in effect on the date of transaction.

**c. Securities**

Foreign securities are stated at their foreign-currency cost (weighted average purchase price) or market value, whichever is the lower; the calculation is for each type of security separately.

Local-currency tradable securities are recorded at their par value *plus* accrued interest

<sup>1</sup> This is the basket in effect until 31.7.1986. It consists of: US\$0.35; £0.1295; DM0.515; FFfr0.6832; FI 0.2187.

and indexation differentials or at market value, whichever is the lower; the calculation is for each type of security separately.

Nontradable securities are recorded at adjusted value, taking account of Opinion No. 46 of the Institute of Certified Public Accountants in Israel. Adjustment is by the last CPI published before the balance-sheet date.

#### **d. Premises and equipment**

Bank premises and equipment are stated at cost net of depreciation.

#### **e. Participation in international financial institutions**

The participation is included in the item 'other accounts' and stated at cost. The cost includes amounts required to maintain the value of the participation in foreign-currency terms, in accordance with the terms of the participation in the various institutions (for the participation in the IMF, see Note 7).

#### **f. Employee pensions and severance pay**

Provision for employee pensions and severance pay is actuarially computed at the balance-sheet date. Part of the domestic securities is held against the employee pensions and severance pay liability. Income from these securities in excess of the current provision is set off against the increase in this liability in the Statement of Income and Expenses.

#### **g. Transfer to the government: matched timing**

Income from the government on account of government securities is, like all the Bank's income and expenses, recorded in the Statement of Income and Expenses on accrual basis. In order to prevent transfer to the government of accrued profits not yet matched by a cash flow, they are recorded here and are not included in the Bank's net profit transferred to the government.

Income for securities held against employee pension and severance pay liability is not subject to the matched-timing principle (see Note 1c).

### **2. Credit to the government—long-term debt**

The principal items under this head are:

a. NIS 7,315 million indexed to the first currency basket (see footnote to Note 1b) and carrying 8 percent interest also indexed to the basket. (The amount outstanding on 31.12.1988 was NIS 7,323 million.)

b. NIS 1,660 million (granted on 31.3.1988) at prime rate plus 2 percent. The average rate of interest during 1989 was 18.2 percent (annual rate, on basis of quarterly imputation). The corresponding figure for April–December 1988 is 17.4 percent.

Each year's interest and indexation differentials fall due on 31st December. Principal is repayable in annual instalments until 2012.

### **3. Other loans**

Consist mainly of medium and long term foreign-currency loans connected with exports; these loans are made out of a number of specific funds for such purposes as promotion and marketing.

### **4. Securities**

Tradable securities consist of government bonds, wholly or partly indexed to the CPI or the US\$; their market value is NIS 1,159 million (NIS 765 million on 31.12.1988).

Nontradable securities consist mainly of compulsory government bonds purchased from firms under the Government Loan (Sundry Provisions) Law, 5738–1977.

### **5. Other accounts (assets)**

This item consists mainly of (a) accrued interest and other accrued income; (b) participation in the following international financial institutions: International Bank for Reconstruction and Development, International Development Association, International Finance Corporation, Inter-American Development Bank, and Inter-American Investment Corporation; (c) premises and equipment net of depreciation.

### **6. Special Drawing Rights**

Allocation of special drawing rights amounted to SDR 106 million (same amount on 31.12.1988). The item 'gold, foreign exchange, and foreign securities' includes SDR 90,000 (SDR 46,000 on 31.12.1988).

### **7. Accounts with the IMF and other foreign liabilities**

Accounts with the IMF General Account: The quota stood at SDR 447 million on 31.12.89 (same amount on 31.12.88), or NIS 1,160 million (NIS 1,086 million on 31.12.88). Liabilities equalled the quota on both dates.

Other liabilities consist of NIS 56 million owing to international financial institutions and NIS 8 million on account of trade agreements (the corresponding figures for 31.12.1988 are NIS 52 million and NIS 9 million).

### **8. Local-currency deposits of government and National Institutions**

This item includes only government deposits, among them a special deposit of NIS 222 million (compared with NIS 89 million on 31.12.88) proceeds of government bond issues purchased by the Bank of Israel for the purpose of bond-price stabilization on the Tel Aviv Stock Exchange.

## **9. Other deposits**

These consist mainly of deposits of the U.S.–Israel Binational Industrial Research and Development Fund and a deposit of the U.S.–Israel Binational Science Fund.

## **10. Other accounts (liabilities)**

This item consists mainly of (a) income from the government subject to matched timing (see Notes 1g and 16); (b) accrued interest and amounts payable; and (c) provision for employee pensions and severance pay.

## **11. Capital and general reserve**

On the balance-sheet date, the Bank's capital stood at NIS 60 million, and the general reserve at NIS 260 million (same amounts on 31.12.1988).

## **12. Contingent liabilities**

The contingent liabilities are as follows: (a) uncalled amounts on account of shares and participations subscribed to international financial institutions—NIS 630 million (NIS 580 million on 31.12.1988); (b) documentary credits—NIS 39 million (NIS 44 million on 31.12.1988); and (c) guarantees—NIS 17 million (NIS 10 million on 31.12.1988).

## **13. Income from investments abroad**

In terms of U.S. dollars this amounted to \$466 million (\$124 million in 1988).

## **14. Income from securities**

This item includes income from government securities held by the Bank of Israel. It does not include income from securities held against the employee pensions and severance pay liability, which covered part of the increase in the liability (see note 1f).

## **15. Administrative and general expenses**

Administrative expenses excluding previous years' expenses and deflated by the average rise in the CPI, calculated on a monthly basis, fell by 1 percent (in 1988 they increased by 3 percent).

## **16. Transfer to the government: net income**

Net income (the amount to be transferred to the government) includes income from government securities accruing in previous years but received in the current year (or due by the end of the current fiscal year). Accumulated income subject to matched timing declined from NIS 325 million on 31.12.88 to NIS 244 million on 31.12.89, i.e., NIS 81 million was transferred to the government in 1989 (NIS 43 million in 1988).

BANK OF ISRAEL

THE GOVERNOR AND MANAGEMENT

May 31, 1990

*Governor*

MICHAEL BRUNO

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