



Bank of Israel

Comptroller's Office

Financial Statements for 2006

Israel's Payment
and Settlement Systems

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Bank of Israel

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CONTENTS

Auditors' Report.....	5
Balance Sheet as of December 31, 2006.....	7
Profit and Loss Account for the Year Ended December 31, 2006.....	8
Statement of Changes in Equity for the Year Ended December 31, 2006 .	9
Notes to the 2006 Financial Statements.....	10
Explanatory Remarks to the Financial Statements for 2006.....	37
The Payment and Settlement Systems - 2006.....	59



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Independent Auditors' Report to the Governor and Management of the Bank of Israel

We have audited the accompanying balance sheet of the Bank of Israel (hereinafter "the Bank") as of December 31, 2006, and the related statements of operations and changes in equity of the Bank for the year then ended (hereinafter "the financial statements") appearing on pages 7 to 36. These financial statements are the responsibility of the Governor and Management of the Bank. Our responsibility is to express an opinion on these financial statements based on our audit.

The financial statements of the Bank as of December 31, 2005 and for the year then ended, were audited by another auditor whose report thereon, dated March 26, 2006, was unqualified.

We conducted our audit in accordance with generally accepted auditing standards, including standards prescribed by the Auditors Regulations (Manner of Auditor's Performance) 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Management of the Bank, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2006, and the results of its operations and changes in equity for the year then ended in conformity with generally accepted accounting principles, adapted for principles applicable to central banks, as detailed in Note 1A.

As explained in Note 1C, the abovementioned financial statements are stated in reported amounts, in accordance with the standards of the Israeli Accounting Standards Board.

Somekh Chaikin
Certified Public Accountants (Isr.)

May 21, 2007

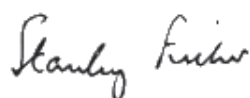
BANK OF ISRAEL
BALANCE SHEET AS OF DECEMBER 31, 2006 (TEVET 10, 5767)
(NIS million, reported amounts)

	Notes	December 31			Notes	December 31	
		2006	2005			2006	2005
Assets				Liabilities and capital			
Foreign currency financial assets abroad ^a	2	139,860	142,543*	Foreign currency financial liabilities abroad ^a	2	17,103	14,314*
International financial institutions	3	1,357	1,769	International financial institutions	8	736	767
				Banknotes and coins in circulation	9	25,539	24,410
Credit to the government	4	2,805	3,431	Deposits of the government	10	6,082	6,927
				Makam deposit	11	95,540	83,732
Loans	5	8,320	1,064	Deposits of banking corporations	12	14,096	18,816
Local currency securities	6	3,143	3,401				
Other assets	7	476	626	Other liabilities	13	3,546	3,438
				Revaluation accounts	14	4,890	12,084
				Share capital and general reserve	15	3,985	3,985
				Accumulated losses		(15,556)	(15,639)
Total		155,961	152,834	Total		155,961	152,834

* Reclassified.

^a In economic terms this refers to the 'foreign exchange reserves,' which comprises the balance in the 'foreign currency financial assets abroad' item less the balance in the 'foreign currency financial liabilities abroad' item. The foreign currency reserves as at December 31, 2006 totaled NIS 122,757 million, and at December 31, 2005 totaled NIS 128,229 million. (See Note 2.)

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



Stanley Fischer
Governor



Yaakov Danon
Director General

May 21, 2007