BANK OF ISRAEL

FINANCIAL STATMENTS
FOR 2023

BANK OF ISRAEL

Financial Statements

For 2023

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FINANCIAL HIGHLIGHTS FOR 2023

a. The Economic Environment and its Effect on the Financial Statements

Global Economic Environment

In 2023, the inflation levels and interest rate environment remained high worldwide. Global economic activity continued to be restrained.

The inflation level, which spiked in 2022 and led to a sharp increase in the interest rate, was mitigated over the course of the year, and enabled central banks to slow the interest rate increases (Figure 1).

The world's leading equity indices recorded strong increases, led by the large tech stocks, and so did the majority of equity indices in which the foreign exchange reserves are invested.

Over the course of the year, trade was affected by uncertainty in the financial markets, among other things due to the restrictive monetary policy and the concern of its implications on real and financial activity. Toward the end of the year, the markets showed a positive trend against the backdrop of expected lowering of the interest rates by major central banks.

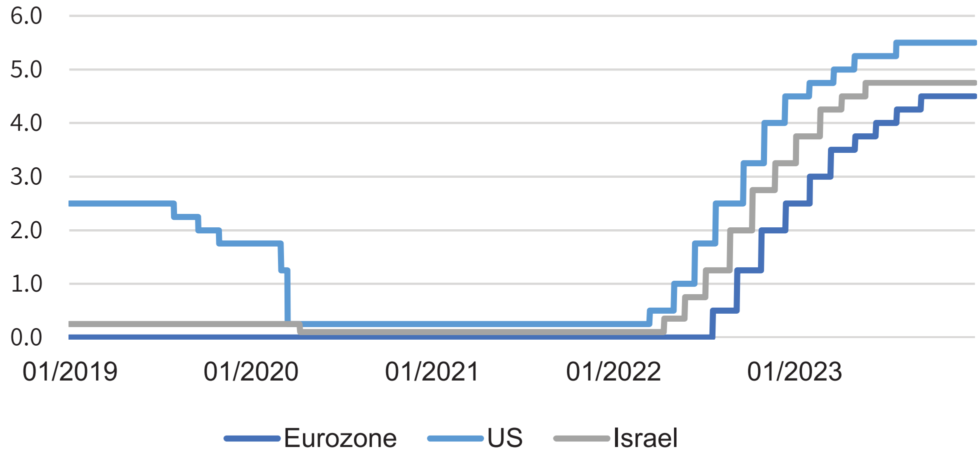
Bond yields, which reached high levels in the year, compared to recent years, declined markedly toward year end with the expected change in monetary policy of the major central banks.

The global economic developments described above are expressed in the value of the foreign exchange reserves on the Bank's Balance Sheet, and in the gains in their respect.

The rise in most equity indices in which the foreign exchange reserves are invested generated considerable revaluation gains in their respect, led by US equity investments.

In the bond market, the high interest rate environment increased the Bank's interest income on its foreign exchange reserves. The decline in yields at the end of the year due to the expected lowering of the interest rate, however, adversely affected stock prices and revaluation gains.

Figure 1
Interest rates in Israel, the US and Eurozone
2019-2023 (Percent)



Source: Bank of Israel.

Domestic Economic Environment

Similar to the developments around the world, in Israel too, the first half of 2023 was characterized by an increased inflation and interest rate environment.

The Bank of Israel continued to increase the interest rate in order to achieve its inflation target, and raised the interest rate from 3.25 percent at the beginning of the year to 4.75 percent at the end of May 2023.

Later in the year, the local inflation rate was gradually moderated, and the inflation rate for 2023 was 3 percent, compared with 5.3 percent in 2022.

The shekel's depreciation in the year was driven by the Israeli Government's proposed Judicial Reform and its expected effect on the Israeli economy.

In October, following the brutal attack perpetrated by Hamas terrorists on settlements of the West Negev, Israel launched the Swords of Iron War.

Once the war began, the shekel recorded a sharp depreciation.

The Bank of Israel initiated several plans to secure the orderly functioning of the financial markets and to support the economic activity and financial stability as described below:

a. Selling USD 8.5 billion of the foreign exchange reserves as part of an overall plan to sell up to USD 30 billion of foreign exchange reserves to moderate the shekel exchange rate fluctuations and supply the liquidity needed for the continued orderly functioning of the markets. The Bank also offered dollar liquidity to the market through swaps of up to USD 15 billion. In the context of this plan in 2023, transactions of about USD 0.4 billion were executed.

b. Executing repos with institutional investors and mutual funds against government and/or corporate bond collaterals to secure the normal functioning of the markets. In the context of this plan, transactions of about NIS 100 million were executed.

c. Offering a credit relief plan to small and micro businesses affected by the war:

   1. Monetary loans of up to NIS 10 billion to banks, back-to-back with credit extended to small and micro businesses based on predetermined terms. In the context of this plan, loans totaling NIS 6.4 billion were given, of which loans totaling NIS 2.1 billion were granted in 2023.

2. Reverse repo loans to nonbank lenders of up to NIS 1 billion, back-to-back with credit extended to small and micro businesses based on predetermined terms.

In late October, due to the Bank of Israel's activity in the forex market and the assessment then made of no other major fronts becoming involved in the war, the shekel was stabilized, and later even strengthened to its pre-war level. The shekel depreciated over the year in relation to the dollar by an annual rate of 3.1 percent, and against the euro by by 6.9 percent in relation to the euro (Figure 2).

Given the large scope of foreign exchange reserves, and their status as the bulk of the Bank's assets, changes in the exchange rates of the shekel against foreign currencies are likely to significantly impact the Bank's Balance Sheet and profits.

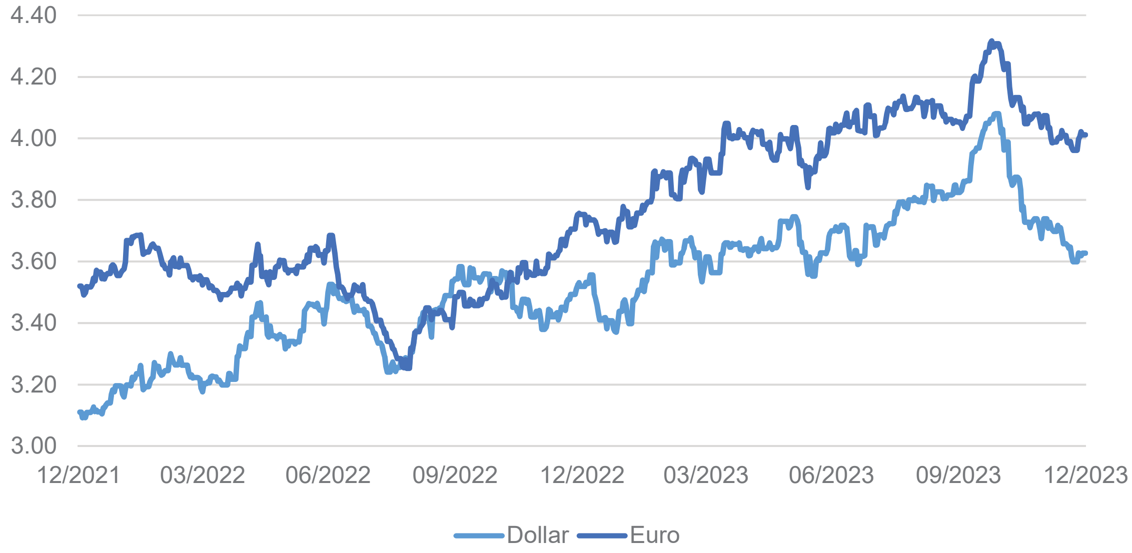
A depreciation of the shekel against foreign currencies, as experienced this year, increases the shekel value of the foreign exchange reserves and generates exchange rate valuation gains in shekel terms.

The increase in the shekel interest rate increased the Bank's interest expenses locally, the principal one being an increase in interest expenses on the monetary absorption tools, short-term bills (*Makam*), and time deposits operated under the adopted monetary policy.

The moderation of the domestic inflation rates in the year minimized the indexation component of interest income and resulted in a certain decrease therein.

These changes also affect the balance of actuarial liabilities in respect of employee and retiree benefits, which is measured using an actuarial mechanism that takes into account the shekel yield curve on government bonds and the inflation rate.

Figure 2
Developments in Dollar and Euro exchange rates against the Shekel
2022-23



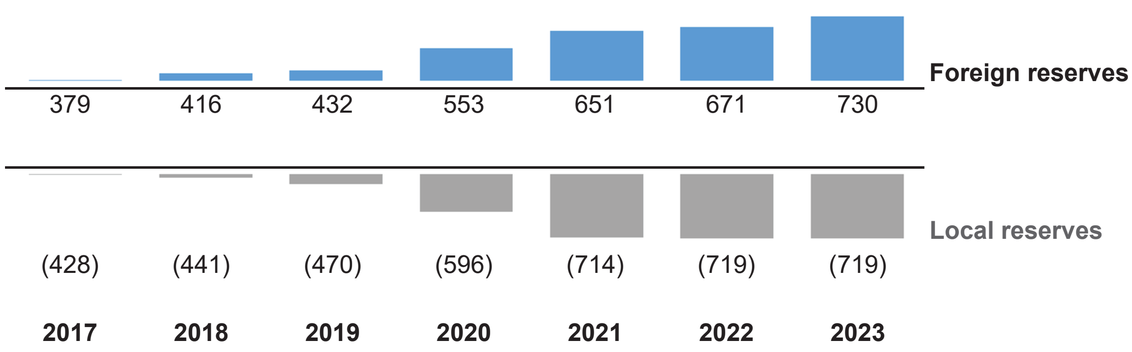
Source: Bank of Israel.

b. The Bank's Statement of Financial Position (Balance Sheet)

At the end of 2023, the Bank's Balance Sheet amounted to approximately NIS 855.4 billion, an increase of some NIS 29 billion compared with 2022 (about 3.5 percent).
The increase on the asset side results mainly from a NIS 47.7 billion increase in the Bank's foreign assets due to the increase in the fair value revaluation of the assets, mostly from stock revaluation and the rise in the shekel value of the assets as a result of the appreciation of major currencies against the shekel.

The increase in the Bank's Balance Sheet over the years, which was mostly affected by the increase in foreign exchange reserves, increased the currency imbalance in the Bank's Balance Sheet and consequently the effect of the changes in the foreign currency exchange rates against the shekel on the Bank's Balance Sheet and operating results (Figure 3).
There was a decrease of NIS 18.6 billion in local assets, mainly due to repayment of monetary loans extended to banking corporations during the COVID-19 pandemic.
The balance of the Bank's liabilities at the end of 2023 was NIS 844.9 billion, a decrease of NIS 29 billion compared with 2022 (about 3.3 percent).
The decline arises mainly from a decrease in monetary absorption tools, makam, and time deposits totaling NIS 23.7 billion against the backdrop of reduced surplus liquidity in the market, among other things due to foreign currency sales in the fourth quarter of 2023 and repayment of long-term loans granted during the COVID-19 pandemic.
The Bank's total Equity and Revaluation Reserves were positive in the year, totaling NIS 10.5 billion, with Deficit Equity of NIS -109.9 billion and Revaluation Reserves of NIS 120.4 billion from unrealized gains.
Unrealized gains are carried to Revaluation Reserves. When the gains are realized, they are reclassified from Revaluation Reserves to Net Income available for distribution. As per Section 76(b) to the Bank of Israel Law, 5770-2010 ("the BOI Law"), accumulated deficit is deducted from future earnings carried forward.

Figure 3
Developments of Reserves in the Bank's Balance Sheet 2019–23
(NIS million)



Source: Bank of Israel.

c. Statement of Profit or Loss

In 2023, the Bank recorded annual income of NIS 57.4 billion, compared with income of about NIS 14.9 billion in 2022 (Figure 4). The income mainly derives from investment and revaluation gains of foreign exchange reserves. The Bank's income from investment of the reserves without exchange rate differentials totals about NIS 56.5 billion, mostly consisting of revaluation gains on holding equities and revaluation gains and interest income on holding bonds in the backdrop of stock increases in most of the Bank's foreign exchange reserve portfolio, the continued interest rate increases around the world in 2023, and the year-end decline in yields caused by the expected reduction of interest rates around the world.

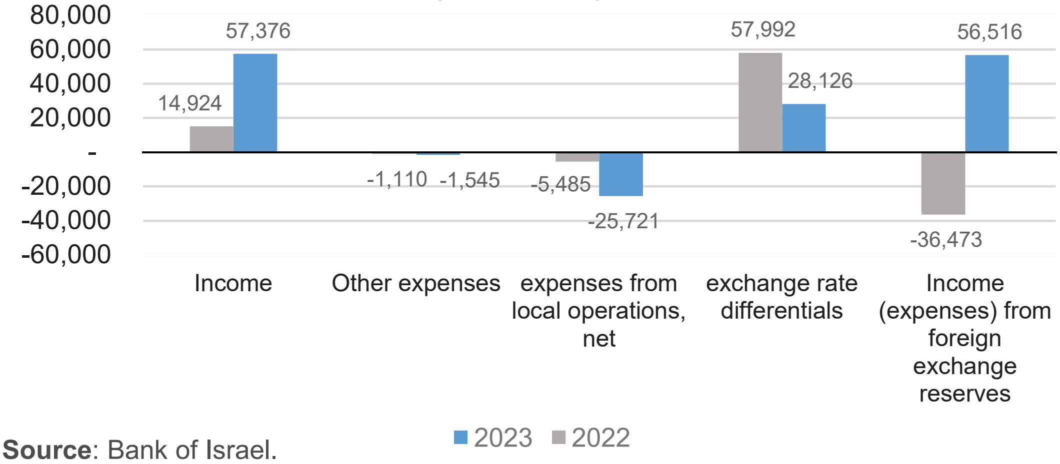
Exchange rate differential gains in 2023 totaled approximately NIS 28.1 billion following the shekel's depreciation against the major currencies in the reserves portfolio, and notably a decline of about 3.1 percent against the dollar and of 6.9 percent against the euro.

In contrast, the Bank's expenses from implementing the monetary policy, which mainly consist of interest expenses on the monetary absorption tools, *makam* and time deposits, totaled NIS 25.7 billion in the year (as opposed to expenses of NIS 5.5 billion in 2022), the outcome of the increase in the NIS interest rate.

The distribution of the Bank's profits is governed by Section 76(a) of the BOI Law, which states that the Bank's net income will not include unrealized gains as per the annual financial statements.

After allocating unrealized gains to a Revaluation Reserve of NIS 46.1 billion, the Bank's Net Income as per the BOI Law amounts to NIS 11.3 billion, which resulted in reducing the Bank's accumulated deficit by this amount to NIS 113.9 billion at the end of 2023. As discussed above, as per the BOI Law, accumulated deficit is deducted from carryforward earnings.

Figure 4
The Bank's Profit and Loss Items for 2022-23
(NIS million)



Source: Bank of Israel.

d. Main Items

d.1 Foreign Assets and Liabilities - Foreign Exchange Reserves

In accordance with the BOI Law, the Bank is tasked with holding and managing the State's foreign exchange reserves. Countries hold foreign exchange reserves to assist them in times of crisis or emergency as an instrumental part of assessing their economic stability.

At the end of 2023, foreign exchange reserves[1] totaled NIS 742.4 billion, an increase of about NIS 59 billion compared with 2022 (Table 1).

After the Swords of Iron War began, the Bank of Israel sold to the public about USD 8.5 billion of the foreign exchange reserves (worth about NIS 34.3 billion) as part of an overall plan for selling up to USD 30 billion of foreign exchange reserves to mitigate the shekel's exchange rate fluctuations and supply the necessary liquidity for the markets' orderly functioning.

Notwithstanding the aforesaid, in the year, foreign exchange reserves grew due to their revaluation.

In 2023, gains from foreign exchange reserves totaled NIS 56.5 billion, mainly comprising revaluation gains from holding equities and revaluation gains and interest income from holding bonds.

The exchange rate differential gains from foreign exchange reserves amounted to NIS 28.3 billion (Table 1).

In dollar terms, Israel's foreign exchange reserves grew in 2023 by USD 10.5 billion—from USD 194.2 billion at the end of 2022 to USD 204.7 billion at the end of 2023.

In dollar terms, gains from foreign exchange reserves amounted to USD 15.5 billion and exchange rate differentials amounted to USD 1.4 million, mainly as a result of the dollar's depreciation against the euro and pound sterling due to the expected interest rate reductions in the US.

Table 1
Contribution of sectors to foreign exchange reserves

	2023	2022	2023	2022
	NIS million		USD million	
Foreign exchange reserves	742,424	683,454	204,695	194,218
Change in foreign exchange reserves	58,970	21,046	10,476	(18,775)
Bank of Israel				
Purchases (sales)	(34,282)	1,107	(8,546)	356
Gains (losses)	56,516	(36,473)	15,526	(11,691)
Exchange rate differentials	28,254	59,583	1,378	(6,317)
Other[1]	(574)	(176)	(143)	(50)
Total Bank of Israel	49,914	24,041	8,215	(17,702)
The Government[2]	9,070	4,026	2,243	1,160
The private sector[3]	(14)	(7,021)	18	(2,233)

[1] Includes the Bank's payments and receipts in foreign currency.

[2] Transfers to or from abroad by the Government and national institutions.

[3] Includes payment of the sector's income tax in foreign currency.

[1] This item on the Balance Sheet comprises foreign assets, which are part of the foreign exchange reserves, less foreign liabilities, which are included in the foreign exchange reserves.

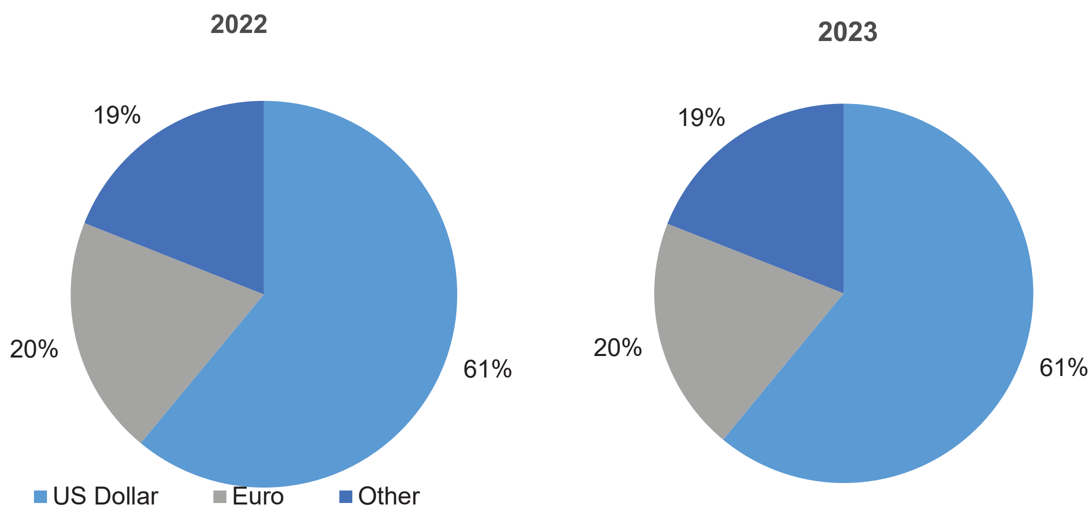
Composition of the Reserves

The asset and currency composition of the foreign exchange reserves (strategic allocation) is approved by the Monetary Committee at least annually in keeping with the targets of the foreign exchange reserve investment policy and subject to the risk level determined by the Committee. The Markets Department manages the reserves based on the strategic allocation and the degrees of freedom afforded to it by the Committee.

Currency Composition

From 2022, the currency benchmark of the foreign exchange reserves was modified due to changes in the foreign exchange reserves investment policy guidelines, including the introduction of a shekel return target which is designed to cover the long-term financing costs[2] of the reserves. In order to achieve the shekel return target, the exchange rate risk of the shekel was dispersed among currencies that are known as reserve currencies in countries with highly liquid, deep and diversified asset markets. The currency benchmark now consists of seven reserve currencies at the following shares: US dollar – 61 percent, euro – 20 percent, and the balance spread among the following currencies: pound sterling – 5 percent, Japanese yen – 5 percent, Australian dollar – 3.5 percent, Canadian dollar – 3.5 percent, and Chinese yuan – 2 percent. Figure 5 presents an actual year end reserve currency breakdown. The currency distribution affects the exchange rate differentials of these currencies against the shekel.

Figure 5
Currency Breakdown for end of 2022-23
(Percent)



Source: Bank of Israel.

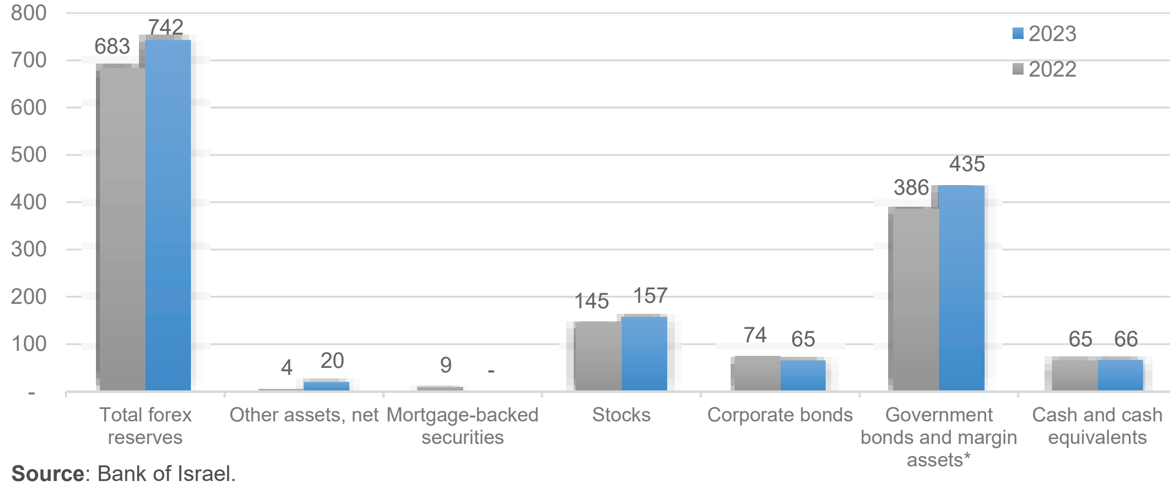
2 The financing cost of holding the reserves is the gap between the cost of raising the capital in shekels that is needed to hold the reserves and the return of the foreign exchange reserves in terms of the currency benchmark with the addition of the gain or loss from the currency exposure to the shekel (absorption cost).

Asset Composition

Figure 6 presents the asset composition of foreign exchange reserves.

Out of total reserves of about NIS 742.4 billion, the bulk of the reserves of NIS 657.2 billion is invested in tradable securities, of which about NIS 157 billion are in stocks and about NIS 500.2 billion are in bonds.

Figure 6
Composition of Foreign Exchange Reserve Assets 2022-23
(NIS billion)



Source: Bank of Israel.

Most of the bonds in a total of about NIS 434.8 billion comprise government bonds or spread assets[3] and NIS 65.5 billion comprise corporate bonds.

The increase in the level of the reserves in recent years has led to an increase in the share of risk assets out of total reserves. The increase in the share of risk assets out of total foreign exchange reserves causes an increase in profits over the long term, though it is liable to lead to losses in the short term.

Income (Expenses) from Foreign Exchange Reserves and Exchange Rate Differentials thereon

In 2023, income from the foreign exchange reserves, including exchange rate differentials thereon, totaled NIS 56.5 billion.

Income from revaluation, capital gains and dividends on stocks in the year totaled NIS 32.6 billion as a result of the considerable increase in most of the main stock indices in the reserve portfolio in the year.

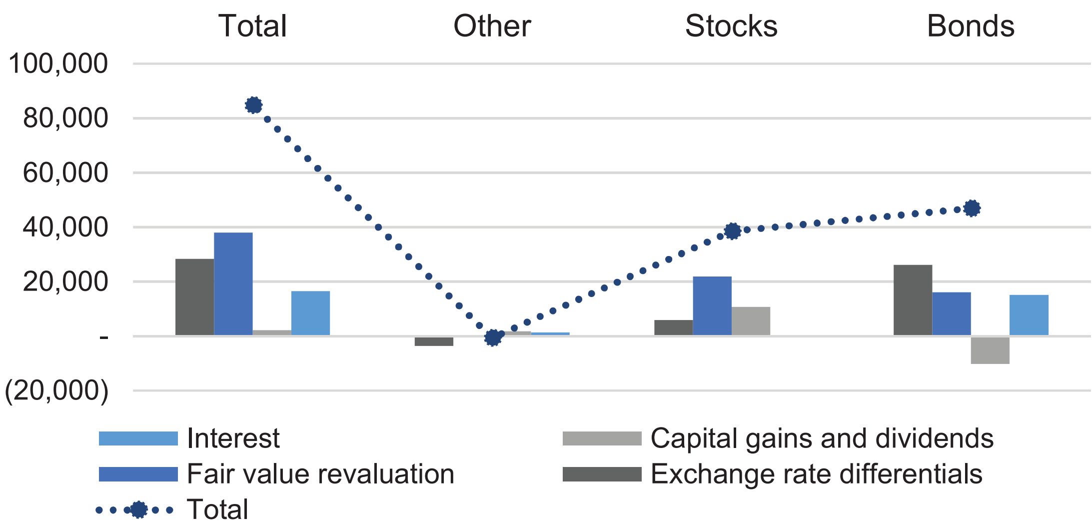
Income from revaluation, capital gains, and interest on bonds in the year totaled NIS 20.8 billion due to interest hikes around the world and increased revaluation gains at year end, among other things following the expected lowering of the Federal Reserve's interest rate in the US and by other central banks around the world.

Exchange rate differential gains on foreign exchange reserves totaled NIS 28.3 billion due to the depreciation of the shekel against the other main reserve currencies—about 3 percent against the dollar and 6.9 percent against the euro. Most of the exchange rate differential gains are accrued on the bond component, which represents the bulk of the reserves.

Following is a breakdown of income from foreign exchange reserves based on asset type as presented on the Bank's Balance Sheet:

[3] Spread assets carry higher yields to maturity than government bonds with similar maturities due to different exposure to credit risk, liquidity risk, operational factors, etc.

Figure 7
Composition of Income (Expenses) from Foreign Exchange Reserve, 2023
(NIS million)



Source: Bank of Israel.

d.2 Local Assets and Liabilities

In 2023, local assets totaled approximately NIS 108.3 billion, a decrease of NIS 18.6 billion from 2022.

The decrease in local assets is mainly a result of repayments of monetary loans extended to the banking system during the COVID-19 pandemic in favor of granting credit to small businesses and of repayments of local bonds purchased in the context of the Bank's intervention in the markets.

Interest income on local assets in 2023 totaled NIS 1.6 billion, mainly from local bond interest and indexation.

Local liabilities account for the majority of the Bank's liabilities, totaling NIS 827.3 billion in 2023, a decrease of NIS 18.2 billion from 2022.

The balance of *makam* and time deposits, which serve as monetary tools for absorbing excess market liquidity, was reduced in 2023 by about NIS 23.7 billion, to NIS 589.6 billion against the backdrop of reduced excess liquidity in the market.

This effect can also be attributed to the sale of dollars at a scope of some USD 8.5 billion made by the Bank shortly after the war began and to a decrease in the balance of monetary loans granted during the COVID-19 pandemic following their repayment.

Concurrently, the composition of the monetary absorption tools changed with an increase of NIS 94.2 billion in *makam*, whereas time deposits decreased by NIS 117.9 billion due to enhanced demand for *makam* simultaneously with the BOI interest hike.

In contrast, there was a small increase of NIS 5.1 billion in receivables at year end.

Total net expenses from local activities in 2023 amounted to about NIS 25.7 billion (2022 – expenses of NIS 5.5 billion). The main local expenses are attributed to interest expenses on monetary absorption tools, totaling NIS 24.4 billion in 2023 (202s – NIS 6.3 billion). The increase in interest expenses on these tools stems from the rise in the BOI interest rate until May of this year.

d.3 The Bank's Equity (Deficit) and Revaluation Reserves

In 2023, the overall balance of the Bank's Equity and Revaluation Reserves was positive at about NIS 10.5 billion, with Deficit Equity of NIS 109.9 billion and Revaluation Reserves of NIS 120.4 billion from unrealized gains.

Unrealized gains from fair value revaluation of assets included in the Bank's Profit or Loss are carried to Revaluation Reserves but are not included in Net Income, as defined in the BOI Law, which is used to determine the government distributable profits.[4] When the gains are realized they are reclassified from Revaluation Reserves to Net Income available for distribution.

In addition, as per IFRS, amounts resulting, for example, from changes in the Bank's actuarial provision for employee rights arising from changes in actuarial assumptions are also carried to Revaluation Reserves.

In 2022, the overall balance of the Bank's Deficit Equity and Revaluation Reserves was negative at NIS 47.5 billion, with Deficit Equity of NIS -121.2 billion and Revaluation Reserves of NIS 73.7 billion.

The increase of NIS 46.7 billion in Revaluation Reserves in 2023 originates from the increase in the fair value revaluation of foreign currency stocks and bonds and accrued unrealized exchange rate differentials on reserves in foreign currency due to the devaluation of the shekel against the main currencies of the reserve portfolio this year.

The reduction of NIS 11.3 billion in Deficit Equity also arises from gains realized in the year from interest and selling stock partly executed to enhance the liquidity of the foreign exchange reserves due to the war, the temporary downscaling of stocks in the portfolio and realized exchange rate differentials arising from the adoption of the plan to sell USD 8.5 billion of foreign exchange reserves to the public.

Other Comprehensive Income includes a decrease of NIS 0.6 billion in the debit balance due to the decrease in the actuarial provision arising from changes in economic assumptions, the result of the increase in the shekel interest rate in the year.

[4] As per Section 76 to the Bank of Israel Law according to which net income does not include unrealized gains as per the annual financial statements.

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Building a better working world

AUDITORS' REPORT

To the Governor and the Supervisory Council of the BANK OF ISRAEL

We have audited the accompanying Statements of Financial Position of the Bank of Israel ("the Bank") as of December 31, 2023 and 2022, and the related Statements of Profit or Loss and Other Comprehensive Income, Changes in Equity (Deficit Equity) and Cash Flows of the Bank for each of the years ended December 31, 2023 and 2022 ("the financial statements"). These financial statements are the responsibility of the Bank's Supervisory Council, Governor, and Director General. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Israel, including those prescribed by the Auditors' Regulations (Auditor's Mode of 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 Bank's management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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, 2023 and 2022, and the results of its operations, changes in its equity (deficit equity) and cash flows for each of the years ended December 31, 2023 and 2022, in conformity with International Financial Reporting Standards ("IFRS").

Tel-Aviv, Israel
March 26, 2024

Kost Forer Gabbay and Kasierer
KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

STATEMENT OF FINANCIAL POSITION

	Note	December 31, 2023	December 31, 2022
		NIS million	
ASSETS			
Assets abroad			
Foreign exchange reserves	3		
Cash and cash equivalents		65,661	65,371
Foreign currency securities		657,223	613,876
Derivative financial instruments		534	757
Other assets		6,553	3,268
The International Monetary Fund		16,697	15,752
BIS investment	4	456	431
Total assets abroad		**747,124**	**699,455**
Local assets			
Local currency bonds	5	84,057	85,901
Loans to financial institutions	5	23,316	40,052
Other assets	6	220	216
Fixed assets and Intangible assets	7	683	706
Total local assets		**108,276**	**126,875**
Total assets		**855,400**	**826,330**

	Note	December 31, 2023	December 31, 2022
		NIS million	NIS million
LIABILITIES			
Liabilities abroad			
Foreign exchange reserves	3		
Derivative financial instruments		2,259	3,747
Other liabilities		1,985	11,823
The International Monetary Fund	3c	13,354	12,722
Total liabilities abroad		**17,598**	**28,292**
Local liabilities			
Banknotes and coins in circulation	8	129,194	119,426
Reserves of banking corporations against reserve requirement	5	64,412	74,012
Time deposits	5	285,289	403,216
Short-term bills (Makam)	5	304,336	210,127
Government reserves	5	29,872	29,051
Other liabilities	9	14,163	9,683
Total local liabilities		827,266	845,515
Total liabilities		**844,864**	**873,807**
Bank's equity (deficit equity) and reserves	10		
Bank's equity (deficit equity)			
Bank's equity and general reserve		3,985	3,985
Accumulated deficit		(113,881)	(125,146)
Revaluation reserves		120,432	73,684
Total Bank's equity (deficit equity) and reserves		**10,536**	**(47,477)**
Total liabilities and equity		**855,400**	**826,330**

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

Prof. Amir Yaron	Prof. Yehoshua (Shuki) Shemer	Shulamit Geri
A. Yaron	J. Shemer.	
Governorl	Chairman of the Supervisory Council	Director General and Senior Officer in charge of Finance

March 26, 2024

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended December 31,	
		2023	2022
	Note	NIS million	
Income (expenses) from activities abroad			
Gains (losses) from foreign exchange reserves			
Interest income, net	14	16,400	6,845
Gain or loss from fair value revaluation of financial assets	15	40,305	(43,147)
Miscellaneous expenses, net	16	(189)	(171)
Other expenses from activities abroad, net		(516)	(146)
Total income (expenses) from activities abroad, net		**56,000**	**(36,619)**
Income (expenses) from local activities			
Interest income, net	17	1,574	1,970
Interest expenses	17	(27,306)	(7,449)
Miscellaneous income, net	18	11	(6)
Total expenses from local activities		**(25,721)**	**(5,485)**
Exchange rate differentials	19	28,126	57,992
Income from financial activities		**58,405**	**15,888**
Expenses of printing banknotes and minting coins		(75)	(75)
General and administrative expenses	20	(994)	(925)
Other income, net	21	40	36
Income in the year		**57,376**	**14,924**

OTHER COMPREHENSIVE INCOME

Amounts that will not be subsequently reclassified to profit or loss:		
Gain from remeasurement of defined benefit plan	612	1,081
Gain from investments in equity instruments measured at fair value through other comprehensive income	25	33
Other comprehensive income	**637**	**1,114**
Comprehensive income	**58,013**	**16,038**

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

STATEMENT OF ALLOCATION OF PROFITS (LOSSES)*

	Note	Year ended December 31, 2023	2022
		NIS million	
Income in the year		57,376	14,924
Less: Allocation of unrealized gains to revaluation reserve	22	(46,111)	(36,408)
Total income (loss) recognized in the year		**11,265**	**(21,484)**
Accumulated deficit as of December 31		**(113,881)**	**(125,146)**

*) The statement of allocation of profits (losses) is used to calculate the net income as per Section 76 to the BOI Law (see also Note 22) and is not required by IFRS.

STATEMENT OF CHANGES IN EQUITY (DEFICIT EQUITY)

	Bank's Equity		Revaluation Reserves			
	Bank's Equity and General Reserve	Accumulated Deficit	Other Comprehensive Income (Loss)	Revaluation Reserves from Unrealized Gains	Total Revaluation Reserves	Total
	NIS million					
Balance as of January 1, 2022	3,985	(103,662)	(3,422)	39,584	36,162	(63,515)
Comprehensive income (loss)	-	(21,484)	1,114	[1]36,408	37,522	16,038
Balance as of December 31, 2022	**3,985**	**(125,146)**	**(2,308)**	**75,992**	**73,684**	**(47,477)**
Comprehensive income	-	11,265	637	[1]46,111	46,748	58,013
Balance as of December 31, 2023	**3,985**	**(113,881)**	**(1,671)**	**122,103**	**120,432**	**10,536**

[1] Amounts reclassified from income in the year to revaluation reserves, see Note 10 and Statement of Allocation of Profits.

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

STATEMENT OF CASH FLOWS

	Year ended December 31,	
	2023	2022
	NIS million	
<u>Cash flows from operating activities:</u>		
Income in the year	**57,376**	**14,924**
Adjustments to reconcile income in the year to net cash used in operating activities:		
<u>Adjustments to profit or loss items:</u>		
Interest income from foreign exchange reserves, net	(16,400)	(6,845)
Loss (gain) from fair value revaluation of financial assets, net	(40,305)	43,147
Other expenses from activities abroad, net	516	146
Tax expenses on foreign investments	76	92
Interest expenses on financial instruments from local activities, net	25,732	5,479
Exchange rate differentials on cash and cash equivalents	4,743	(17,559)
Exchange rate differentials on foreign exchange reserves	(32,997)	(42,024)
Exchange rate differentials on balances from local activities	128	1,591
Depreciation and amortization	98	134
	(58,409)	(15,839)
<u>Changes in asset and liability items:</u>		
Decrease (increase) in investment in foreign currency securities abroad	30,846	(122,197)
Decrease in derivative financial instruments abroad	1,292	1,536
Increase in collaterals on derivative financial instruments abroad	(121)	(3,565)
Decrease (increase) in short-term deposits abroad	(1,911)	3,490
Increase in reverse repos abroad	(12,262)	(6,798)
Decrease (increase) in other assets abroad	932	(861)
Increase in IMF deposits	(58)	(333)
Increase in investment in local currency bonds in Israel	1,393	829
Increase in loans to local financial institutions	16,702	100
Increase in other local assets	(3)	(1)
Decrease in local reserves of banking corporations	(9,712)	(7,657)
Decrease in local time deposits	(117,951)	(71,000)
Increase in short-term bills (makam)	83,303	94,102
Increase (decrease) in local government reserves	1,385	(21,407)
Increase in other local liabilities	5,135	1,996
Decrease in employee benefit liabilities	(26)	(64)
	(1,056)	(131,830)

	Year ended December 31,	
	2023	2022
	NIS million	
Cash paid and received during the year:		
Interest paid on reserves abroad	(786)	(126)
Interest received from reserves abroad	8,978	4,832
Interest paid on local reserves	(16,376)	(6,197)
Interest received from local reserves	2,057	1,869
Dividends received	3,626	3,111
Taxes on income paid	(76)	(92)
	(2,577)	3,397
Net cash used in operating activities	**(4,666)**	**(129,348)**
Cash flows from investing activities:		
Purchase of fixed assets and intangible assets	(72)	(57)
Repayment (grant) of loans to employees	3	(1)
Net cash used in investing activities	**(69)**	**(58)**
Cash flows from financing activities:		
Increase in banknotes and in coins in circulation	9,768	6,348
Net cash provided by financing activities	**9,768**	**6,348**
Exchange rate differentials on cash and cash equivalents	**(4,743)**	**17,559**
Increase in cash and cash equivalents	**5,033**	**(123,058)**
Cash and cash equivalents at beginning of year	**65,371**	**170,870**
Cash and cash equivalents at end of year	**65,661**	**65,371**

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 | GENERAL

1. 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 exercising its authorities in order to achieve the objectives and functions specified in the Bank of Israel Law, 5770-2010 ("the BOI Law"). The Bank's institutions include a Monetary Committee headed by the Bank's Governor, and a Supervisory Council headed by a member from among the public.

   Pursuant to the BOI Law, the Bank's functions include: managing the monetary policy; holding and managing the foreign currency reserves of the State; supporting the orderly activity of the foreign exchange 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; regulating and guiding the cash system of the economy; and supervising and regulating the banking system. The Bank also represents the State vis-a-vis international financial institutions, manages the State economy's digital information and statistics system and advises the Government on economic matters.

   In addition, under the Credit Data Law, 5776-2016, the Bank manages the Credit Data System, gathers the credit data from the available data sources, holds the credit data in a database and delivers them to the credit bureaus and to customers. Moreover, as per the Citizens of Israel Fund Law of 2014, the Bank manages the Citizens of Israel Fund.
2. The effects of the Swords of Iron War

   In October 2023, the Swords of Iron War erupted in Israel ("the war"). The ongoing war has led to a slowdown in business activity throughout the Israeli economy, as a result, among others, of the shutdown of enterprises in the south and north of Israel, the damage to local infrastructures, the nationwide military reserve draft for an indefinite period, and the disruption of economic activity in the entire country. The security conditions have led to fluctuations in financial conditions in the local markets and in commodity prices and foreign currency exchange rates. In response, the Bank of Israel initiated several plans to secure the normal operation of the financial markets and to support economic activity and financial stability during wartime.
3. Shortly after the Swords of Iron War began, the Bank of Israel adopted a plan to sell up to USD 30 billion of the foreign exchange reserves, and to supply dollar liquidity of up to USD 15 billion through swaps in an aim to mitigate the shekel exchange rate fluctuations and supply the necessary liquidity for the markets' orderly operation. In the context of this plan, the Bank sold USD 8.5 billion of foreign exchange reserves and executed swaps totaling USD 0.4 billion.

   The Bank carried out repos with institutional investors and mutual funds against government and/or corporate bonds as collateral to maintain the normal operation of the markets. In the context of this plan, repos of about NIS 95 million were executed.
4. Credit relief plan for small and micro businesses affected by the war:
   a. Monetary loans of up to NIS 10 billion to banks, back-to-back with credit extended to small and micro businesses based on predetermined terms. In the context of this plan, loans totaling NIS 6.4 billion were given, of which loans totaling NIS 2.1 billion were granted by December 31, 2023.
   b. Reverse repo loans to nonbank lenders of up to NIS 1 billion, back-to-back with credit extended to small and micro businesses based on predetermined terms.

   The war has increased Israel's risk premium and as a result, in early 2024, Moody's lowered Israel's credit rating (see Note 24).

c. Effects of inflation and interest hikes

Following global macroeconomic developments in the course of 2022, inflation rates soared in Israel and worldwide. To restrain price markups, central banks around the world, including the Bank of Israel, began raising their benchmark interest rate. At the end of 2023, the interest rate increases seemed to be concluded but the interest rate environment remained high during the year.

NOTE 2 | ACCOUNTING POLICIES

The accounting policies specified below have been consistently applied in the financial statements for all periods presented, unless otherwise stated.

a. Basis of reporting and measurement of the financial statements

1. The financial reporting principles

   The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

2. Measurement basis

   The Bank's financial statements have been prepared on a cost basis, except for the following items:

   a. Financial assets and financial liabilities measured at fair value through profit or loss;

   b. The Bank's shares in the Bank for International Settlements (BIS) which are designated and measured at fair value through other comprehensive income;

   c. Employee benefit liabilities, which are measured at the present value of the defined benefit plan.

3. Revenue recognition basis

   The criteria used by the Bank for recognizing income and expenses in the financial statements are as follows:

   a. Financial assets and financial liabilities measured at amortized cost – interest income is recognized using the effective interest method.

   b. Financial assets and liabilities measured at fair value through profit or loss – income is initially recognized using the effective interest method and subsequently recognized as an adjustment to the fair value of the financial asset.

   c. Assets and liabilities measured at fair value through other comprehensive income – including equity investments, the changes in fair value in the period are carried to other comprehensive income since these are investments that the Bank strongly intends to keep for the long term that are initially designated as such as per IFRS 9.

   d. Income and expenses from commissions and other income from services are recognized in profit or loss when the services are rendered.

b. Functional currency, presentation currency and foreign currency

The Bank's functional currency is the new Israeli shekel ("NIS"), the currency which represents the principal economic environment in which the Bank operates.

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

1. Transactions, assets and liabilities in foreign currency

   Transactions denominated in foreign currency are recorded upon initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at each reporting date into the functional currency at the exchange rate at that date. Exchange rate differentials are recognized in profit or loss. Nonmonetary assets and liabilities denominated in foreign currency and measured at cost are translated at the exchange rate at the date of the transaction.

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

	December 31,			Rate of change	
	2023	2022	2021	2023	2022
	NIS			Percent	
US Dollar	3.627	3.519	3.110	3.1	13.2
Euro	4.012	3.753	3.520	6.9	6.6
Pound Sterling	4.621	4.238	4.203	9.0	0.8
Special Drawing Rights (SDRs)[1]	4.868	4.649	4.409	4.7	5.4

[1] The SDR rate published by the IMF is calculated based on a weighted basket of five currencies – the US Dollar, Euro, Japanese Yen, Pound Sterling and Chinese Yuan.

2. Monetary assets and liabilities in local currency linked as per their terms to the changes in the Israeli Consumer Price Index ("Israeli CPI") are adjusted at the relevant index at each reporting date according to the terms of the agreement.

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

	December 31,			Rate of change	
	2023	2022	2021	2023	2022
	Points			Percent	
November	112.8	109.1	103.6	3.3	5.3
December	112.6	109.4	103.9	3.0	5.3

c. 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 local interest rates:

	December 31,		
	2023	2022	2021
	Percent		
Bank of Israel interest rate	4.75	3.25	0.10
Prime interest rate	6.25	4.75	1.60

d. Financial instruments

1. Financial assets[5]:

Financial assets are measured upon initial recognition at fair value plus costs that are directly attributable to the acquisition of the financial assets, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.
The Bank classifies and measures debt instruments in the financial statements based on the following criteria:
(a) The bank's business model for managing financial assets; and
(b) The contractual cash flow terms of the financial asset.

a. Debt instruments are measured at amortized cost when:
The Bank's business model is to hold the financial assets in order to collect their contractual cash flows, and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
After initial recognition, the instruments in this category are measured according to their terms at amortized cost using the effective interest rate method, less any provision for impairment.

b. Debt instruments are measured at fair value through profit or loss when:
A financial asset that is a debt instrument does not meet the criteria for measurement at amortized cost or at fair value through other comprehensive income. After initial recognition, the financial asset is measured at fair value and gains or losses from fair value adjustments are recognized in profit or loss.
Interest income on these debt instruments is initially recognized using the effective interest method and the balance is recognized as an adjustment to the fair value of the financial assets.

c. Investments in equity instruments and derivative financial assets:
Investments in equity instruments and derivative financial assets are normally measured at fair value through profit or loss.

d. Investments in assets measured at fair value through other comprehensive income (BIS investment):
Changes in fair value in the period are carried to other comprehensive income. See also Note 4.

5 The measurement categories are detailed in Note 12.

2. Impairment of financial assets

At the end of each reporting period, the Bank evaluates the loss allowance for financial debt instruments that are not measured at fair value through profit or loss.

The Bank distinguishes between two types of loss allowances:

a. Debt instruments for which credit risk has not increased significantly since initial recognition, or for which credit risk is low—the loss allowance recognized in respect of this debt instrument is measured at an amount equal to the expected credit losses within 12 months from the reporting date or

b. Debt instruments for which credit risk has increased significantly since initial recognition, and for which credit risk is not low—the loss allowance recognized is measured at an amount equal to the expected credit losses over the instrument's remaining term.

An impairment loss on debt instruments measured at amortized cost is recognized in profit or loss with a corresponding loss allowance that is offset from the carrying amount of the financial asset. The impairment loss on debt instruments measured at fair value through Other Comprehensive Income is recognized in profit or loss with a corresponding loss allowance that is recorded in other comprehensive income and not as a reduction of the carrying amount of the financial asset in the statement of financial position.

The Bank applies the low credit risk simplification in IFRS 9, according to which the bank assumes the debt instrument's credit risk has not increased significantly since initial recognition if on the reporting date it is determined that the instrument has a low credit risk, for example when the instrument has an external rating of "investment grade".

3. Financial liabilities

a. Financial liabilities measured at fair value through profit or loss:
The Bank measures financial liabilities for derivatives at fair value through profit or loss.
At the time of initial recognition, these liabilities are measured at fair value whereby transaction costs are charged to profit or loss.

b. Financial liabilities measured at amortized cost:
Financial liabilities other than derivatives are initially recognized at fair value less transaction costs that are directly attributable to the issue of the financial liability.
After initial recognition, the Bank measures all financial liabilities at amortized cost using the effective interest rate method.

4. Derecognition of financial liabilities

A financial liability is extinguished when the debtor discharges the liability by paying in cash or other financial assets; or is legally released from the liability.

5. Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position if there is a current legally enforceable right to set off the recognized amounts and there is an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously. The right of offset must be legally enforceable not only during the ordinary course of business of the parties to the contract but also in the event of bankruptcy or insolvency of one of the parties. In order for the right of set-off to be currently available, it must not be contingent on a future event, there may not be periods during which the right is not available, or there may not be any events that will cause the right to expire.

e. Provisions

A provision is recognized when as a result of a past event, the Bank has a present legal or constructive obligation that can be measured reliably and reasonably and it is probable that an outflow of resources incorporating economic benefits will be required to settle the obligation. The amount recognized as a provision is measured as the best estimate of the expense needed to settle the present obligation at the end of the reporting period. When the effect of the time value of money is material, the provision amount is the present value of the expected expense that will be incurred to settle the obligation.

f. Change in accounting policy—initial adoption of new IFRSs and amendments to existing accounting standards

1. Amendment to IAS 8, "Accounting Policies, Changes to Accounting Estimates and Errors"
   In February 2021, the IASB issued an amendment to IAS 8, "Accounting Policies, Changes to Accounting Estimates and Errors" ("the Amendment"), in which it introduces a new definition of "accounting estimates". Accounting estimates are defined as "monetary amounts in financial statements that are subject to measurement uncertainty". The Amendment clarifies the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors.
   The Amendment applies prospectively for annual reporting periods beginning on or after January 1, 2023, and is applicable to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period.
   The application of the Amendment did not have a material impact on the Bank's financial statements.
2. Amendment to IAS 1 - Disclosure of Accounting Policies
   In February 2021, the IASB issued an amendment to IAS 1, "Presentation of Financial Statements" ("the Amendment"), which replaces the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. One of the main reasons for the Amendment is the absence of a definition of the term 'significant' in IFRS, whereas the term 'material' is defined in several standards and particularly in IAS 1.
   The Amendment applies for annual periods beginning on or after January 1, 2023.
   The application of the Amendment had an effect on the Bank's accounting policy disclosures but not on the measurement, recognition, or presentation of any items in the financial statements.

g. Significant accounting judgments, estimates and assumptions used in the preparation of the financial statements

In the process of applying the significant accounting policies, the Bank has made the following judgments that have the most significant effect on the amounts recognized in the financial statements:

1. Evaluating the business model

The Bank evaluates the objective of the business model according to which financial assets are held in a portfolio, since it optimally reflects the method of managing the assets and the communication of information to Management. The information taken into account consists of:

- The objective of holding the portfolio for trade, for generating contractual cash flows etc.;
- The frequency, value and timing of sales (both in the past and in the future);
- The method of evaluating and reporting the performances of the business model and financial assets to key management personnel in the Bank;

- The risks affecting the business model performances and their management;
- The method of remuneration of investment managers. For example, is the remuneration based on the fair value of the managed assets or on the contractual cash flows received;
- Whether the contractual cash flows received (such as interest income) represent a significant portion of the portfolio returns.

2. Calculation of the allowance for expected credit losses

The Bank evaluates the allowance for expected credit losses (ECLs) in respect of the entire instruments measured at amortized cost or of debt instruments measured at fair value through other comprehensive income (FVTOCI). ECLs are calculated based on the following formula: ECL = PD*LGD*EAD.

a. PD = probability of default (%) is the likelihood over a specified period that a borrower will not be able to make scheduled repayments. PD is estimated for a specific date based on statistical rating models using rating tools that are adapted to the various counterparty and exposure categories. The PD for foreign counterparties within a period of one year relies on Bloomberg's default risk (DRSK) models for corporations and Bloomberg's sovereign risk function (SRSK) using financial, macroeconomic and credit score data.

b. LGD = loss given default (%) is the estimated loss in the event of default on a loan based on the difference between the cash flows receivable as per the contract and cash flows the lender expects to actually receive, also given the cash flows that may be received from collaterals. The LGD relies on the default recovery rate (RR).

c. EAD = exposure at default of a financial asset calculated as the gross carrying amount (including accrued interest).

3. Employee benefits

See Note 9a for the principles underlying the actuarial calculation.

4. Fair value

See Note 12 for the fair value measurement techniques.

5. Provisions

A provision is recognized when as a result of a past event, the Bank has a present legal or constructive obligation that can be measured reliably and reasonably and it is probable that an outflow of resources incorporating economic benefits will be required to settle the obligation.

The amount recognized as a provision is measured as the best estimate of the expense needed to settle the present obligation at the end of the reporting period. When the effect of the time value of money is material, the provision amount is the present value of the expected expense that will be incurred to settle the obligation.

NOTE 3 | FOREIGN EXCHANGE RESERVES

In accordance with the BOI Law, the Bank is charged with holding and managing the State's foreign exchange reserves and supporting the orderly functioning of Israel's foreign exchange market.

The foreign exchange reserves are foreign currency assets and liabilities held by the Bank of Israel outside of Israel for the purpose of performing the Bank's duties.

The foreign exchange reserves are invested in various financial instruments, most of which are internally managed by the Bank and some that are managed externally, all in the context of the investment policy outlined by the Monetary Committee.

Below is the composition of foreign exchange reserves according to investment type:

		December 31,	
		2023	2022
	Note	NIS million	
Cash and cash equivalents	3a	**65,661**	**65,371**
Securities (a)			
Government bonds		361,734	334,230
Fully government-guaranteed, multinational and public sector bonds		73,033	51,464
Corporate bonds		65,476	73,908
Mortgage-backed securities		-	9,244
Stocks		156,980	145,030
Total securities		**657,223**	**613,876**
Other assets (b)			
Short-term deposits	3b1	2,209	-
Securities purchased in r. repos	3b2	1,904	-
Various assets	3b3	2,440	3,268
Total other assets		**6,553**	**3,268**
The IMF (b)	**3c**	**16,697**	**15,752**
Other liabilities (b)			
Securities sold in repos	3b2	(1,904)	(11,640)
Various liabilities	3b3	(81)	(183)
Total other liabilities		**(1,985)**	**(11,823)**
Derivative financial instruments (a)	**3d**		
Assets		534	757
Liabilities		(2,259)	(3,747)
Total derivative financial instruments		**(1,725)**	**(2,990)**
Total foreign exchange reserves		**742,424**	**683,454**

Financial instrument measurement categories:
a. Fair value through profit or loss.
b. Amortized cost.

Below is the composition of foreign exchange reserves according to currency type at each year end:

	December 31,	
	2023	2022
	Percent	
USD	61	61
Euro	20	20
Other	19	19
Total	100	100

NOTE 3a | CASH AND CASH EQUIVALENTS

Accounting policy

Cash consists of cash that is readily usable and demand deposits.

Cash equivalents are highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of investment or with a maturity of more than three months, but which are redeemable on demand without penalty and which form part of the Bank's cash management.

Below is the composition of the Bank's cash and cash equivalents:

	December 31,	
	2023	2022
	NIS million	
Cash in central banks	57,925	59,685
Deposits in central banks	7,059	4,511
Other cash and cash equivalents	677	1,175
Total cash and cash equivalents	**65,661**	**65,371**

The interest rates in 2023 on the principal cash balances in central banks range between 5.3 percent for dollar balances and 2 to 4 percent for euro balances (the interest rates in 2022 ranged between 0.07 to 4.3 percent for dollar balances and between -0.5 to 1.5 percent for euro balances).

As of December 31, 2023, the average interest rate on deposits in central banks that mature within three months was 4.6 percent (as of December 31, 2022, the average interest rate was 3.11 percent).

NOTE 3b | OTHER ASSETS AND LIABILITIES ABROAD

1. Time deposits in central banks whose original maturity exceeds three months from the investment date and that do not meet the criteria of cash equivalents are included in other assets. The deposits are stated at their amortized cost based on their deposit terms. The average interest rate on these deposits as of December 31, 2023 was 3.8 percent (as of December 31, 2022, there was no deposit balance).
2. Securities purchased in r. repos consist of securities purchased subject to a reverse repurchase agreement and are accounted for as secured debt. Securities purchased in r. repos are not stated on the Balance Sheet. Securities sold in repos consist of securities sold as per repurchase agreements and are accounted for as secured debt. Consequently, they are not derecognized from the Bank's assets.
3. Various assets / liabilities – mainly include:
    a. Collaterals that are provided by the Bank or provided in favor of the Bank vis-à-vis different financial institutions, in accordance with the Bank's exposure to derivative financial instruments (when the collaterals are provided in favor of the Bank, they are stated in liabilities).
    b. Restricted cash used to secure forwards and derivative transactions. The restricted cash is shown in accordance with its terms of deposit.

NOTE 3c | THE INTERNATIONAL MONETARY FUND (IMF)

In accordance with Section 82 of the BOI Law, "Representing the State vis-à-vis International Financial Institutions", the Bank of Israel represents the State in the IMF.
The IMF created an international reserve asset known as Special Drawing Rights ("SDRs").
The entire operations, assets and liabilities in respect of the IMF are denominated in SDR.
The SDR rate is published by the IMF and calculated based on a weighted currency basket that includes the following currencies: US dollar; euro; Japanese yen; pound sterling; and Chinese yuan. The IMF is considered a senior creditor.
The IMF has never realized a loss on loans in the context of its loan agreements. Since all the claims are against the IMF, Israel has no credit exposure to third parties in respect of these loans.

Below is the concentration of assets and liabilities in the IMF:

	December 31,		December 31,	
	2023	2022	2023	2022
	NIS million		SDR million	
IMF quota	9,350	8,929	1,921	1,921
NAB loans	3	15	1	3
SDRs	14,062	13,036	2,888	2,804
Total IMF assets	23,415	21,980	4,810	4,728
Deposits	(974)	(705)	(201)	(152)
Banknotes deposited at Bank of Israel	(5,858)	(5,594)	(1,203)	(1,203)
Total IMF liabilities in local currency	(6,832)	(6,299)	(1,404)	(1,355)
Interest receivable for IMF balance	114	71	24	15
IMF balance	**16,697**	**15,752**	**3,430**	**3,388**
Allocated SDRs	(13,262)	(12,665)	(2,725)	(2,725)
Interest payable for allocated SDRs	(92)	(57)	(18)	(12)
Total IMF balance[1]	**3,343**	**3,030**	**687**	**651**

[1] The balances bear interest pursuant to the IMF's terms. As of December 31, 2023, the interest rate is 4.1 percent (as of December 31, 2022 – 2.92 percent).

Assets and liabilities in the IMF

a. IMF quota

Israel has been a member of the IMF since July 12, 1954. Each member country of the IMF has a quota for its participation in the Fund's capital, a quota denominated in SDR. The IMF quota determines the maximum amount of financial resources that the IMF member country is obligated to provide it. A country pays 25 percent of its quota in standard foreign currencies or in SDRs and the remaining 75 percent in its own currency. The part of the quota that is paid in cash may be withdrawn by the country, whereas the rest is deposited with the country's central bank in deposits and notes indexed to SDR (see paragraphs d and e below). The quota defines the IMF member country's voting power in IMF resolutions.

In December 2023, the IMF Board of Governors approved a 50 percent increase in the IMF's total quotas to SDR 715.7 billion. The increase in quotas is distributed among the member countries on a pro rata basis. The increased quotas will become effective once the two following conditions are met: (1) written consents are obtained from countries that account for at least 85 percent of the IMF's total quotas; and (2) consent for minimizing the credit line granted by NAB (New Arrangements to Borrow) is obtained from NAB participants.

In December 2023, the Bank of Israel's Monetary Committee resolved to approve the increased quota. The resolution to increase the quotas is expected to enhance Israel's quota from the current SDR 1,921 million to SDR 2,881 million following the IMF's approval in 2024. Through the date of signing the financial statements, the process has not been completed by the IMF.

As of December 31, 2023, Israel has 20,668 votes on the IMF accounting for 0.41 percent of total votes (unchanged from December 31, 2022).

b. NAB loans

The State of Israel has been part of the IMF's credit arrangement known as NAB (New Arrangements to Borrow) since September 2010. The arrangements are expected to be minimized in keeping with the increase in the quotas of the member countries.

As of December 31, 2023, the maximum credit line that the Bank of Israel provides the IMF is SDR 680 million (NIS 3,310 million) (as of December 31, 2022, the maximum credit line that the Bank of Israel provided the IMF was about SDR 680 million (NIS 3,161 million)). Once the IMF quotas are increased by 50 percent and the NAB credit line is reduced accordingly, the credit line that the Bank of Israel provides the IMF will be reduced from SDR 680 million to SDR 569.25 million.

c. Special Drawing Rights (SDRs)

SDRs are reserve assets that are equivalent to foreign currency that are allocated by the IMF to the member countries pro rata to their quota. The value of SDRs as reserve assets derives from the member countries' obligation to hold and receive SDRs and honor various commitments relating to the operation of this system. The IMF member countries may exchange the reserves against foreign currency.

The balance bears interest at the IMF's terms.

d. Deposits

Deposits are comprised of two types: (1) deposits used for IMF transactions and operations (such as membership fees, purchases, repurchases, loan repayment and NIS sales); and (2) deposits used for IMF related general and administrative expenses in local currency and within the State's jurisdiction. These deposits are denominated in local currency and indexed to the SDR rate as published by the IMF.

e. Banknotes deposited at the Bank of Israel

Banknotes issued by the Bank against the IMF quota for participation in the IMF's equity and deposited at the Bank. These notes are denominated in local currency and indexed to the SDR rate as published by the IMF.

f. Allocated SDRs

Member countries' purchase commitments to the IMF. The commitments do not have a maturity date and they bear interest at the IMF's terms. The IMF allocates SDRs to its member countries pro rata to their quota.

The Bank's balances at the IMF are measured at amortized cost and revalued to the SDR rate published by the IMF. Exchange rate revaluation gains and losses from the revaluation of IMF assets and liabilities are carried to profit or loss.

NOTE 3d | DERIVATIVE FINANCIAL INSTRUMENTS

This item consists of foreign currency transactions such as spots, forwards, and currency swaps, all of which are included in the Statement of Financial Position from the date of entering into such transactions. The Bank pays or receives collaterals in respect of some of these transactions (see Note 3b3 above).

	December 31,	
	2023	2022
	NIS million	
a. Special commitments – derivative financial instruments		
Foreign exchange transactions		
Future receipt of foreign currency (currency swaps, forwards, spot)	92,493	135,107
Future delivery of foreign currency (currency swaps, forwards, spot)	93,174	137,141
Equity indices futures at fair value[1]		
Obligation to sell	(9)	331
Interest futures at fair value[1]		
Obligation to buy	-	31
Obligation to sell	(9)	34
Bond futures at fair value[1]		
Obligation to buy	1,271	(105)
Obligation to sell	(27)	262

[1] Off balance sheet.

NOTE 4 | BIS INVESTMENT

Accounting policy

The BIS investment is accounted for as an investment in an equity instrument.

On the date of initial recognition, the Bank made an irrevocable choice and classified the BIS investment as a strategic investment and therefore changes in its fair value are recognized in other comprehensive income and accumulate in the equity investment revaluation reserve as per IFRS 9. The changes are not carried to profit or loss in the future not even when the investment is derecognized. Income from dividends is recognized in the Statement of Profit or Loss on the date the right to receive the dividends is established since they represent a return on capital and not a return of the invested capital to the shareholders.

In accordance with Section 82 of the BOI Law, the Bank represents the State of Israel vis-à-vis the Bank for International Settlements ("BIS"). BIS is an international organization of central banks designed to cultivate international currency and financial collaborations and to serve as a bank for all central banks.

The Bank of Israel holds 3,211 shares in the BIS at a value of about NIS 456 million as of December 31, 2023 (as of December 31, 2022—about NIS 431 million). The shares are held as part of the Bank's duties as a central bank and naturally are long positions. Each shareholder is entitled to receive its share of BIS's NAV with a 30 percent discount. BIS shares can only be transferred with BIS's advance consent. The Bank of Israel has no intention to sell its BIS shares.

The Bank calculates the fair value of the investment pro rata to its share of BIS's capital (Level 3) less 30 percent. The 30 percent is deducted for repurchases of shares made by BIS from the 1970s and due to the decision of the Hague Court of Appeal from 2001.

When investing in BIS, the Bank of Israel is required to assume additional undertakings toward the institution beyond the actual callable capital, which may be exercised by the institution only in times of need, a scenario that is relatively unlikely. The balance of the above undertakings as of December 31, 2023 is NIS 59 million (December 31, 2022—NIS 56 million).

NOTE 5 | LOCAL FINANCIAL INSTRUMENTS[1]

	December 31, 2023		December 31, 2022	
	Carrying amount	Average interest rate	Carrying amount	Average interest rate
	NIS million	Percent	NIS million	Percent
Financial assets:				
Local currency bonds (a)				
Government bonds	81,732	0.06	83,135	0.17
Corporate bonds	2,325	0.26	2,766	0.41
	84,057		**85,901**	
Loans to financial institutions				
Loans to banking corporations (b)	**23,316**	0.1;-0.1 ;BOI interest – 1.5	**40,052**	-0.1 ;0.1
Financial liabilities:				
Reserves of banking corporations against reserve requirement (d)				
Local currency reserves	63,231		72,939	
Foreign currency reserves – foreign currency deposits	1,181		1,073	
	64,412		**74,012**	
Monetary absorption tools				
Time deposits (e)	285,289	4.51	403,216	1.25
Short-term bills (makam) (f)	304,336	4.53	210,127	1.88
	589,625		**613,343**	
Government reserves (g)				
Local currency reserves	20,314	5.28	19,844	1.62
Foreign currency reserves	9,558	5.25	9,207	2.32
	29,872		**29,051**	

[1] For financial risks, see Note 11.

Details of local financial instruments:

a. Local currency bonds

The bonds consist of government and corporate bonds that are indexed to the known Israeli CPI as of the balance sheet date and unindexed government and corporate bonds.

The bonds are stated at amortized cost subject to impairment.

In the context of the policy for intervention in the local markets, the Bank launched several plans for buying government and corporate bonds on the secondary market. The plans were concluded at the end of 2021.

The carrying amount of the investment in corporate bonds as of December 31, 2023, includes an allowance for ECLs totaling about NIS 7 million (December 31, 2022—about NIS 12 million), which reduced the carrying amount of the investment and was carried to the Statement of Profit or Loss.

The credit ratings of local currency corporate bonds:

	Corporate bonds					
	December 31, 2023					
	AAA	AA+, AA, AA-	A+, A, A-	BBB+	ECL	Total
NIS million	434	1,284	613	1	(7)	2,325
Percent	19	55	26	0	-	100
	December 31, 2022					
NIS million	600	1,403	760	15	(12)	2,766
Percent	22	51	27	0	-	100

b. Loans to banking corporations

1. Against the backdrop of the COVID-19 crisis, the Monetary Committee decided to adopt a special plan consisting of long-term loans. According to the plan, loans were granted to banking corporations for periods of 3 and 4 years, in several installments, bearing interest of 0.1 percent and (-0.1) percent as long as the banks provided credit to small and micro businesses. Total loans granted in the context of the plan were in an aggregate of NIS 40 billion. The plan ended in July 2021.
2. As a result of the effects of the Swords of Iron War, the Monetary Committee decided on a credit relief plan for small and micro businesses, under which loans were offered to banks back-to-back with loans provided by the banks to small and micro businesses affected by the war that met certain criteria. Under the plan, through the Balance Sheet date, loans totaling NIS 2.1 billion had been given (in 2024, loans in another amount of NIS 4.3 billion had been given) for periods of two and three years bearing a variable rate of the BOI interest rate minus 1.5 percent. The plan ended in February 2024 in respect of credit granted by January 2024.

   The collateral per loan transaction is not lower than the value of the loan granted plus a certain margin and therefore no allowance for ECLs was recorded.

c. Reserves of banking corporations against reserve requirement

they represent demand deposits of banking corporations in local currency and in foreign currency (dollar) and are used as liquid assets against deposits of Israeli or foreign residents in accordance with the respective reserve requirements. The reserve requirements depend on the deposit type: 6 percent on time deposits, 3 percent on week to year deposits and no reserve requirement for deposits over a year. The Bank of Israel does not pay the banking corporations interest on the reserve requirements or on excess reserves.

d. Time deposits

The Bank of Israel receives from the banking corporations time deposits in NIS as per Section 36(2) of the BOI Law. The deposits are received via auction for periods of one day, one week, and liquidity period. The deposits are not used as a liquid asset against the banking corporations' reserve requirement. Deposits are also received at the deposit window that is available to the banking corporations with an interest rate of 0.5 percent below BOI interest.

As of December 31, 2023, the interest rate on time deposits is 4.75 percent (December 31, 2022—3.25 percent).

In 2023, the average interest rate on auction time deposits was 4.51 percent (2022—1.25 percent).

As of December 31, 2023, the interest rate on deposits at the deposit window was 4.25 percent (December 31, 2022—2.75 percent).

In 2023, the average interest rate on deposits at the deposit window was 4.01 percent (2022—0.96 percent).

e. Short-term bills (makam) – these are securities auctioned to the public by the Bank of Israel as one of the monetary tools used by the Bank. The bills are issued for a maximum period of one year, are unindexed, and interest free. They are sold and traded at a discount to their face value and presented in the financial statements at amortized cost.

f. Government reserves – These comprise the Government's local currency and foreign currency reserves held by the Bank and can be offset against each other, except for certain irregular reserves.

1. Government reserves in local currency consist of current balances and balances used for lending bonds for financing budget operations. For current credit and debit balances, the Bank of Israel charges or pays the Government interest ranging between the BOI interest rate + 1.5 percent and the BOI interest rate at various brackets. Government reserves that are used for lending bonds and other balances are subject to different interest rates.
2. Government reserves in foreign currency mainly consist of current balances used for financing the budget operations. Some of these balances are subject to interest at the rate of the interest on US Treasury notes with average maturity of 6 months.

NOTE 6 | OTHER LOCAL ASSETS

	December 31,	
	2023	2022
	NIS million	
Credit to the Government[1]	120	116
Loans to employees	87	90
Various receivables	13	10
Total other assets	**220**	**216**

[1]This line item consists of credit extended to the Israeli Government for joint investment with the U.S. Government in binational industrial and scientific R&D foundations which are mainly denominated in USD.

The binational foundations deposit the amounts in the Bank of Israel and they are stated in the Statement of Financial Position under local liabilities in the line item "other local currency liabilities".

The credit and deposits bear fixed interest of 4 percent and 4.125 percent, respectively, and are indexed to the CPI or bear interest of SOFR (formerly: LIBOR).

NOTE 7 | Fixed assets and intangible assets

Accounting policy – fixed assets

Fixed assets are stated at cost. The assets are depreciated when they reach the necessary position and condition to be able to operate as intended by management.

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 profit or loss as incurred.

Depreciation is calculated by the straight-line method based on the estimated useful life of the asset:

Buildings (excluding the land component)–1.5 –2 percent;

Equipment and furniture–10 percent;

Vehicles–15 percent;

Computers–25 percent;

Accounting policy – intangible assets

Separately acquired intangible assets are measured on initial recognition at cost including directly attributable costs. Expenditures relating to internally generated intangible assets, excluding capitalized development costs, are recognized in profit or loss when incurred.

Intangible assets with a finite useful life are amortized on a straight-line basis over their useful life, and reviewed for impairment whenever there is an indication that the asset may be impaired. The amortization period and the amortization method for an intangible asset are reviewed at least at each year end.

The useful life of intangible assets is estimated at 4 years with an annual amortization rate of 25 percent.

Below is the composition of the balances and changes therein for 2022–23:

	Land and buildings[1]	Equipment, furniture and vehicles	Computers and electronic equipment	Total	Intangible assets	Total
	NIS million					
Cost:						
Balance as of January 1, 2022	613	111	439	1,163	300	1,463
Additions	8	2	4	14	43	57
Balance as of December 31, 2022	**621**	**113**	**443**	**1,177**	**343**	**1,520**
Additions	12	2	21	35	40	75
Disposals	-	(1)	(2)	(3)	-	(3)
Balance as of December 31, 2023	**633**	**114**	**462**	**1,209**	**383**	**1,592**
Accumulated depreciation:						
Balance as of January 1, 2022	111	65	302	478	202	680
Additions	11	8	71	90	44	134
Balance as of December 31, 2022	**122**	**73**	**373**	**568**	**246**	**814**
Additions	11	8	39	58	40	98
Disposals	-	(1)	(2)	(3)	-	(3)
Balance as of December 31, 2023	**133**	**80**	**410**	**623**	**286**	**909**
Depreciated balance as of December 31, 2023	**500**	**34**	**52**	**586**	**97**	**683**
Depreciated balance as of December 31, 2022	**499**	**40**	**70**	**609**	**97**	**706**

[1] The cost of the property in the Jerusalem Campus and the depreciated cost of the buildings thereon, amount to approximately NIS 472 million as of December 31, 2023 (approximately NIS 470 million as of December 31, 2022). The Bank is negotiating with the lessor, Israel Land Authority ("the ILA"), to renew the lease. As of the financial statement publication date, the amount of renewed lease fees is NIS 13 million, yet the Bank has filed an objection to this amount and a reduction may be achieved.

NOTE 8 | BANKNOTES AND COINS IN CIRCULATION

Accounting policy

Banknotes and coins in circulation that were issued by the Bank reflect the Bank's liability to their holders and does not include the banknotes and coins held by the Bank. This liability is shown in the Bank's Statement of Financial Position at face value. Expenses of printing banknotes and minting coins are shown in the Statement of Profit or Loss.

Following are details of banknotes and coins in circulation:

	December 31,	
	2023	2022
	NIS million	
NIS 20	1,255	1,202
NIS 50	4,248	4,085
NIS 100	20,001	18,701
NIS 200	100,507	92,411
Coins in circulation	3,175	3,019
Commemorative banknotes and coins	6	6
Other[1]	2	2
Total banknotes and coins in circulation	**129,194**	**119,426**

[1] Special coin items in circulation.

NOTE 9 | OTHER LOCAL LIABILITIES

	December 31,	
	2023	2022
	NIS million	
Liabilities for benefits to employees and pensioners (a)	5,432	6,083
Liabilities for employees' and other rights (b)	86	72
Other payables[1]	8,645	3,528
Total other liabilities	**14,163**	**9,683**

[1] The balance mainly comprises accounts of statutory entities that are managed at the Bank of Israel.

a. Liabilities for benefits to employees and pensioners

Accounting policy

1. Short-term employee benefits

Benefits that are expected to be settled wholly within twelve months after the end of the annual reporting period in which the employees render the related services. These benefits include salaries, recreation, and employer's National Insurance contributions and are recognized as expenses as the services are rendered. A liability in respect of salary bonuses is recognized when the Bank has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amounts can be made.

2. Post-employment benefits

The plans are normally financed by contributions to insurance companies and classified as defined contribution plans or as defined benefit plans.

The Bank has defined contribution plans pursuant to Section 14 of the Severance Pay Law under which the Bank pays fixed contributions and will have no legal or constructive obligation to pay further contributions even if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods.

Contributions to the defined contribution plan in respect of severance or remuneration are recognized as an expense when contributed concurrently with performance of the employee's services.

The Bank also operates a defined benefit plan in respect of pension, severance pay and other benefits to employees insured under budgetary pension and redemption of sick leave. The liability for termination of employment is measured using actuarial value under the projected unit credit method. The actuarial assumptions include expected salary increases and rates of employee turnover based on the estimated timing of payment. The amounts are presented based on discounted expected future cash flows. This uses a discount rate determined by reference to market yields at the reporting date on government bonds with a term that is consistent with the estimated term of the severance pay obligation.

The Bank's net obligation for post-employment benefits, which is computed based on actuarial assumptions, is for the future benefit due to the employees for service rendered in the current period and in prior periods and taking into account expected salary increases. The amount of these benefits is discounted to its present value. The discount rate is determined by reference at the reporting date to market yields on government bonds whose term is consistent with the term of the Bank's obligation.

Remeasurements of the net liability are recognized in Other Comprehensive Income in the period in which they occur.

3. Other long-term employee benefits

The Bank's employees are entitled to benefits in respect of utilizing vacation days and sick days, and some of them are also eligible for grants and adaptation grants. These benefits are accounted for as other long-term benefits since the Bank estimates that these benefits will be used and the Bank's respective obligation will be settled during the employment period and more than twelve months after the end of the annual reporting period in which the employees render the related service.

The liability for other long-term employee benefits is measured using the actuarial value under the projected unit credit method similar to the liability for post-employment benefits.

Remeasurements of the net liability are recognized in profit or loss in the period in which they occur.

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 are recognized by the Bank as budgetary pension insureds, 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 are not insured under budgetary pension is covered by regular deposits to a recognized pension and severance pay fund on behalf of the individual employee. The sums deposited in said manner are neither controlled nor managed by the Bank.

a. Post-employment benefits

1. Defined contribution plans

Section 14 of the Severance Pay Law, 1963 applies to part of the compensation payments, pursuant to which the fixed contributions paid by the Bank into pension funds and/or policies of insurance companies release the Bank from any additional liability to employees for whom said contributions were made. These contributions and contributions for benefits represent defined contribution plans.

	Year ended December 31,	
	2023	2022
	NIS million	
Expenses in respect of defined contribution plans	33	29

The Bank accounts for that part of the payment of compensation that is not covered by contributions in defined contribution plans, as above, as a defined benefit plan for which an employee benefit liability is recognized.

2. Defined benefit plans

Changes in the defined benefit obligation:

2023

		Expenses recognized in profit or loss					Gain (loss) from remeasurement in other comprehensive income			
	Balance as of January 1, 2023	Current service cost	Net interest expense	Past service cost and effect of settlements	Total expense recognized in profit or loss for the period	Payments	Actuarial gain arising from changes in financial assumptions	Actuarial gain arising from experience adjustments	Total effect on other comprehensive income for the period	Balance as of December 31, 2023
	NIS millions									
Defined benefit obligation	6,083	56	220	(7)	269	(308)	(610)	(2)	(612)	5,432

2022

		Expenses recognized in profit or loss					Gain (loss) from remeasurement in other comprehensive income			
	Balance as of January 1, 2022	Current service cost	Net interest expense	Past service cost and effect of settlements	Total expense recognized in profit or loss for the period	Payments	Actuarial gain arising from changes in financial assumptions	Actuarial loss arising from experience adjustments	Total effect on other comprehensive income for the period	Balance as of December 31, 2022
	NIS millions									
Defined benefit obligation	7,257	68	147	(17)	198	(291)	(1,095)	14	(1,081)	6,083

b. The principal assumptions underlying the defined benefit plan

	December 31,	
	2023	2022
	Percent	
Average discount rate[1]	4.1-4.5	3.58-3.68
Expected rate of salary increase	3.2	1.89-4.81
	Years	
Expected life of the obligation	12.1	13

[1] The discount rate is based on the interest curve of Israel Government bonds.

c. Amount, timing and uncertainty of future cash flows:

Below are reasonably possible changes at the end of the reporting period in each actuarial assumption, assuming that all other actuarial assumptions are constant:

Assumption	Type of change	Percent of change	Type of effect	Percent of effect	Effect in NIS millions
Discount interest	Increase (add)	1	Decrease	(10.2)	(510)
Discount interest	Decrease (less)	1	Increase	12.3	615
Expected rate of salary increase (after 2027)	Increase (times)	0.5	Decrease	(0.1)	(5)
Expected rate of salary increase (after 2027)	Decrease (times)	0.5	Increase	0.1	5
Early retirement	Increase (times)	20	Increase	0.5	24
Early retirement	Decrease (times)	20	Decrease	(0.5)	(26)
Mortality	Increase (times)	20	Decrease	(3.9)	(192)
Mortality	Decrease (times)	20	Increase	4.9	247

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 2024.

NOTE 10 | BANK'S EQUITY (DEFICIT) AND RESERVES

		December 31,	
		2023	2022
	See	NIS million	
Bank's equity			
Bank's equity and general reserve	10a	3,985	3,985
Accumulated deficit	10b	(113,881)	(125,146)
		(109,896)	(121,161)
Revaluation reserves	10c		
Outstanding other comprehensive income (loss)			
Equity instruments designated to fair value through other comprehensive income	10c(a)(1)	174	149
Remeasurement of defined benefit plan	10c(a)(2)	(1,845)	(2,457)
		(1,671)	(2,308)
Revaluation reserves from unrealized gains			
Unrealized exchange rate differentials on foreign currency balances	10c(b)(1)	78,965	57,020
Unrealized gains from fair value adjustments of:	10c(b)(2)		
Bonds		3,471	219
Stocks		37,024	16,862
Derivative financial instruments		64	70
Other accounting adjustments[1]		2,579	1,821
		122,103	75,992
Total revaluation reserves		**120,432**	**73,684**
Total Bank's equity (deficit) and reserves		**10,536**	**(47,477)**

[1] The balance mainly includes CPI linkage differentials on securities in local currency.

10.a. The Bank's equity and general reserve

The Bank's equity in historical nominal values as of December 31, 2023 and 2022 was NIS 60 million and the general reserve was NIS 260 million. The general reserve served in the past to increase the Bank's capital in accordance with Section 6 of the BOI Law.

The Bank's equity and general reserve in reported amounts after adjustment to the CPI of December 2003 is NIS 3,985 million.

10.b. Accumulated deficit

Net gains or losses as defined in the BOI Law that are not distributed to the Government are carried to accumulated deficit (see Note 22 on distributable profits).

10.c. Revaluation reserves

Revaluation reserves consist of gains (losses) accumulated from the revaluation or remeasurement of items (assets or liabilities) that are recognized as per IFRS as other comprehensive income as well as accumulated unrealized gains from revaluation of items included in net income.

a. Outstanding other comprehensive income (loss)

These amounts are carried as per IFRS to capital reserves from revaluation of assets or liabilities.

a.1 Revaluation reserve from equity instruments designated to fair value through other comprehensive income

The Bank made an irrevocable choice to classify its investment in BIS as a strategic share investment that is measured at fair value through other comprehensive income. Gains and losses arising from changes in share prices or from exchange rate revaluation are carried to other comprehensive income under this reserve. These amounts are not reclassified when part of the investment is carried to gains. The relative part of the reserve is reclassified from the reserve to accumulated deficit.

a.2 Revaluation reserve from remeasurement of defined benefit plan

Remeasurements of the Bank's defined benefit plan consist of adjustments to actuarial assumptions. They are recognized in other comprehensive income under this reserve. They are not subsequently recognized in profit or loss.

b. Revaluation reserves from unrealized gains

These revaluation reserves consist of unrealized gains from exchange rate differentials on foreign currency balances and gains from revaluation of financial instruments in foreign currency to fair value. These gains are included in the Bank's annual profit or loss but according to the BOI Law are not included in distributable net income and therefore they are carried to revaluation reserves until they are actually realized.

b.1 Revaluation reserve from unrealized gains from exchange rate differentials on foreign currency balances

The Bank recognizes gains and losses from exchange rate differentials in the Statement of Profit or Loss (other than assets measured at fair value through other comprehensive income). In keeping with the Bank's duty to manage foreign exchange reserves for implementing the monetary policy and securing financial stability, the Bank holds unhedged foreign currency balances.

In accordance with the BOI Law, unrealized gains are not included in distributable net income. The revaluation of exchange rate differentials is not viewed as realization until the currency balance is partially or fully written down. The amount recognized as realized is calculated at rate at which the reserves were sold vis-à-vis the weighted average cost of buying the foreign currency. Realized gains or losses from exchange rate differentials are carried to accumulated deficit and can be distributed.
The calculation of realized gains is made separately for each currency, no offsetting among different types of items is carried out. The balance of an accumulated loss on a certain currency, if any, is not carried to the revaluation reserve.

b.2 Revaluation reserve from unrealized gains from fair value adjustments

This revaluation reserve comprises gains from fair value changes of financial instruments measured at fair value through profit or loss. When these instruments are sold or derecognized, the accumulated gain or loss previously recognized is reclassified to accumulated deficit.

The calculation is made separately for each security and balances of different assets are not offsetable. The balance of an accumulated loss on a security, if any, is not carried to the revaluation reserve.

NOTE 11 | RISK MANAGEMENT

The Bank's activities expose it to various types of financial risks such as credit risk, liquidity risk, concentration risk and market risks (interest and currency). Similar to other central banks, the Bank's activities also expose it to operational risk. As specified in the BOI Law, the Bank of Israel has objectives and functions. The Bank's activities and risk management policy derive from those objective and functions. The Bank's financial results derive from its policy. The Bank's financial risks can mainly be attributed to managing foreign exchange reserves and conducting transactions in the local market.

As per the BOI Law, the Bank is charged with holding and managing the State's foreign exchange reserves. Holding foreign exchange reserves provides countries sufficient foreign currency that can be used in the market during a crisis or emergency (such as during a war or natural disaster). The foreign exchange reserves also allow central banks to act in the foreign exchange market when needed.

To fulfill these functions, the Monetary Committee, which is headed by the Governor and also consists of representatives from among the public, in consultation with the Minister of Finance, outlines the reserves' investment policy guidelines and monitors their implementation. The guidelines delineate the investment policy objectives and risk management framework. They include the types of assets that can be invested in, the risk profile, and the quantitative and qualitative limitations on the types of assets that can be invested.[6]

The Markets Department is in charge of implementing the policy set forth by the Monetary Committee, in line with the division of authorities between the Committee and the Markets Department, and based on the degrees of freedom determined by the Committee.

The Department's investment committee is in charge of supervising and applying means for monitoring financial risks to ascertain that the Bank's activities are commensurate with the risk profile and degrees of management freedom outlined by the committee.

The Risk Management Unit in the Markets Department is in charge of regularly monitoring financial risk management and compliance by implementing risk identification, measurement, management, and reporting principles and methodologies.

The Markets Department reports the financial and other risks to which the Bank is exposed in respect of investment of foreign exchange reserves to the Monetary Committee on a monthly basis.

Monetary policy and financial stability measures are applied in the local market mainly using deposits and loans to banking corporations and financial institutions and by issuing *makam*. Moreover, in times of crisis, when measures need to be taken in the local market, they are taken using financial instruments such as government bonds and corporate bonds.

The Markets Department is in charge of monitoring and applying tools for mitigating risks such as requiring proper collaterals for loans to the local market.

[6] See more information in the report of foreign exchange reserve investments for 2023.

1. Credit risk

Credit risk is the risk that a counterparty to a financial instrument transaction will not meet its obligations, leading to a loss to the Bank. The Bank is mainly exposed to credit risk from investments in debt instruments for managing the foreign exchange reserves. There is also a certain credit risk arising from debt instruments purchased in the Bank's local activities, but it is assessed as very low.

Foreign exchange reserve management

The Bank manages its credit risk exposure by setting specific investment rules and a system of quotas for countries, issuers and banks which is updated annually or as needed. The rules are governed by a regulated methodology that relies on credit ratings, liquidity, product level, market depth, equity and other parameters that apply to the specific country, issuer or bank.
The rules determine credit risk exposure quotas for countries, financial institutions (brokers, banks and international institutions) and issuers. They also prescribe concentration limitations and minimum credit ratings based on international rating agencies.
Foreign exchange futures and reverse repo transactions are backed by collaterals to which haircuts are applied, with daily updated margins and carried out based on market price fluctuations.
The credit portfolio is also diversified using different instruments in the financial markets such as fixed interest and variable rate interest bonds (government, public sector, and multinational bonds) and other liquid securities.
Procedures have been defined for managing exceptions to rules and violations of investment rules.

Local market activity

Assets and liabilities denominated in local currency are mainly used to apply the monetary policy and maintain financial stability. They consist of deposits and loans to banking corporations and financial institutions, *makam* issuances, and government and corporate bonds.
The main objective of the Bank's local activities is to implement its monetary policy and therefore the Bank's credit risks in respect of assets denominated in local currency are managed under the monetary policy's requirements.
In respect of loans to banking corporations, the Bank minimizes credit risk using collaterals that consist of central bank deposits and high quality securities placed in the bank such as notes issued by the Government and by corporations and mortgage portfolios only against special loan plans as defined by the Monetary Committee. The value of the security underlying each transaction cannot be lower than the value of the loan plus a certain margin.
If the value of the security falls below the predetermined level, the Bank requires the counterparty to produce other collaterals based on the revaluation of the securities.

a. Credit quality analysis

The following tables present a breakdown of the credit ratings of debt assets in the foreign exchange reserves, by type of instrument and currency. The classification into external credit ratings relies on Moody's credit ratings for corporate bonds. The classification is based on the outlook forecast.

	December 31, 2023						
	NIS million						
	AAA	AA	A	BBB	Lower rating	Unrated	Total
Cash and cash equivalents	45,584	8,802	10,841	-	2	432	65,661
Government bonds	213,174	114,746	33,814	-	-	-	361,734
Fully government-guaranteed multinational and public sector bonds	46,026	25,241	1,766	-	-	-	73,033
Corporate bonds	-	815	26,182	31,501	6,969	9	65,476
Total	**304,784**	**149,604**	**72,603**	**31,501**	**6,971**	**441**	**565,904**

	December 31, 2022					
	NIS million					
	AAA	AA	A	BBB	Lower rating	Total
Cash and cash equivalents	55,818	7,248	2,305	-	-	65,371
Government bonds	217,092	74,295	42,843	-	-	334,230
Fully government-guaranteed multinational and public sector bonds	23,590	25,673	2,201	-	-	51,464
Corporate bonds	815	3,101	33,747	25,270	10,975	73,908
Mortgage-backed securities	9,244	-	-	-	-	9,244
Total	**306,559**	**110,317**	**81,096**	**25,270**	**10,975**	**534,217**

b. Concentration risk

Excessive concentration arises when a number of counterparties are engaged in similar business activities, in the same geographical region, or have certain economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political, or other conditions. Risk concentration indicates the relative sensitivity of the Bank’s performance to developments affecting a particular industry or geographical location.

In order to avoid high risk concentration, the Bank’s policies and procedures include specific guidelines to maintain a diversified investment portfolio.

The excessive geographic risk concentration underlying the Bank's financial assets and liabilities is as follows:

	December 31, 2023				
	NIS million				
	Israel	Europe	USA	ROW	Total
Assets					
Assets abroad					
Cash and cash equivalents	-	19,745	34,631	11,285	65,661
Foreign currency bonds	-	186,381	180,962	132,900	500,243
Stocks	-	18,334	109,778	28,868	156,980
Derivative financial instruments	-	357	177	-	534
Other foreign currency assets	-	5,052	1,182	319	6,553
The IMF	-	-	-	16,697	16,697
BIS investment	-	-	-	456	456
Local assets					
Local currency bonds	84,057	-	-	-	84,057
Loans to financial institutions	23,316	-	-	-	23,316
Other assets	220	-	-	-	220
Total assets	**107,593**	**229,869**	**326,730**	**190,525**	**854,717**
Liabilities					
Liabilities abroad					
Derivative financial instruments	-	1,660	100	499	2,259
Other foreign currency liabilities	-	1,934	51	-	1,985
The IMF	-	-	-	13,354	13,354
Local liabilities					
Banknotes and coins in circulation	129,194	-	-	-	129,194
Reserves of banking corporations against reserve requirement	64,412	-	-	-	64,412
Time deposits	285,289	-	-	-	285,289
Short-term bills (makam)	304,336	-	-	-	304,336
Government reserves	29,872	-	-	-	29,872
Other local currency liabilities	14,163	-	-	-	14,163
Total liabilities	**827,266**	**3,594**	**151**	**13,853**	**844,864**

	December 31, 2022				
	NIS million				
	Israel	Europe	USA	ROW	Total
<u>Assets</u>					
Assets abroad					
Cash and cash equivalents	-	59,002	2,645	3,724	65,371
Foreign currency bonds	-	86,293	178,695	203,858	468,846
Stocks	-	20,193	92,279	32,558	145,030
Derivative financial instruments	-	3,226	(31,740)	29,271	757
Other foreign currency assets	-	1,639	1,629	-	3,268
The IMF	-	-	-	15,752	15,752
BIS investment	-	-	-	431	431
Local assets					
Local currency bonds	85,901	-	-	-	85,901
Loans to financial institutions	40,052	-	-	-	40,052
Other assets	216	-	-	-	216
Total assets	**126,169**	**170,353**	**243,508**	**285,594**	**825,624**
<u>Liabilities</u>					
Liabilities abroad					
Derivative financial instruments	-	15,970	(157,107)	144,884	3,747
Other foreign currency liabilities	-	9,420	2,271	132	11,823
The IMF	-	-	-	12,722	12,722
Local liabilities					
Banknotes and coins in circulation	119,426	-	-	-	119,426
Reserves of banking corporations against reserve requirement	74,012	-	-	-	74,012
Time deposits	403,216	-	-	-	403,216
Short-term bills (makam)	210,127	-	-	-	210,127
Government reserves	29,051	-	-	-	29,051
Other local currency liabilities	9,683	-	-	-	9,683
Total liabilities	**845,515**	**25,390**	**(154,836)**	**157,738**	**873,807**

2. Market risk

Market risk is the risk that the value of a financial instrument will fluctuate due to changes in market data such as interest rates, prices, or exchange rates. Market risk includes currency risk, interest rate risk, and other price risks. Market risk derives from investment in financial instruments of interest rates, currencies, and capital, which are exposed to general and specific market fluctuations and to changes in market price volatility levels.

The market risk of the foreign exchange reserves is limited through the CvaRp risk measure.

CVaRp (Conditional Value at Risk) is used to quantify the market risk (price risk and currency risk). It measures the risk in terms of the expected loss on an investment portfolio in a specific time period, for a given probability (p).

Each year, the Committee approves the risk level in terms of CVaR for the coming year, the asset allocation, and the duration (duration is an indicator of the sensitivity of prices to changes in the interest rate) of the reserves portfolio, in accordance with the annual level of risk that was set. The Committee also sets the permitted deviations from the currency allocation, from the asset allocation, and portfolio duration.

Market risk is monitored and managed by daily measurement of the CVaRp risk index, portfolio duration, currency allocation, and other risk indices. Managing market risk also includes analyzing scenarios and stress scenarios.

The risk profile[7] was defined by the Monetary Committee so that given the worst 5 percent of outcomes (p), the average loss will not exceed 900 basis points ($CVaR_{5\%}$=900 basis points) over a 1-year horizon, in terms of the currency benchmark.

In the investment policy guidelines, the risk profile determines the maximum risk permitted. Each year, the Committee determines the risk level at which it strives to be. For 2023, the Committee determined that the CVaR would be 530 basis points (in 2022—680 basis points).

a. Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will change due to changes in foreign currency exchange rates against the shekel. The value of the bank's assets is exposed, subject to the currency composition of the assets, to the risk of changes in the exchange rates of its foreign currencies against the shekel. The overall exposure can be mitigated, reducing the foreign exchange rate risk against the shekel by investing in a range of currencies that does not include the shekel, since according to the guidelines underlying the foreign exchange reserve investment policy outlined by the Monetary Committee, the investment is only allowed in foreign countries.

The Bank's main exposure to foreign exchange rate risk arises from the investments in foreign exchange reserves. At the end of 2023, the target currency composition of foreign exchange reserves comprises seven currencies in keeping with the new guidelines, and is 61 percent in USD, 20 percent in euro, 5 percent in pound sterling, 5 percent in Japanese yen, 3.5 percent in Australian dollar, 3.5 percent in Canadian dollar and 2 percent in Chinese yuan (in 2022 – the composition was the same). Based on the guidelines of the Bank's investment policy, a maximum 10 percent deviation from the target currency composition is allowed based on the strategic allocation for that year and another deviation of up to 2 percent of the allocation in the short and medium range.

[7] This risk profile went into effect in April 2021 with the guidelines going into effect (before the change, the maximum average loss over a 1-year horizon was 475 basis points).

The Bank's overall currency exposure:

	December 31, 2023				
	NIS million				
	USD	Euro	NIS	Other	Total
<u>Assets</u>					
Assets abroad					
Cash and cash equivalents	36,279	15,219	-	14,163	65,661
Foreign currency bonds	222,648	105,814	-	171,781	500,243
Stocks	109,778	18,334	-	28,868	156,980
Derivative financial instruments	13,970	4,050	-	(17,486)	534
Other foreign currency assets	3,046	3,400	-	107	6,553
The IMF	-	-	-	16,697	16,697
BIS investment	-	-	-	456	456
Local assets					
Local currency bonds	-	-	84,057	-	84,057
Loans to financial institutions	-	-	23,316	-	23,316
Other assets	120	-	100	-	220
Total assets	**385,841**	**146,817**	**107,473**	**214,586**	**854,717**
<u>Liabilities</u>					
Liabilities abroad					
Derivative financial instruments	(65,608)	398	-	67,469	2,259
Other foreign currency liabilities	1,967	17	-	1	1,985
The IMF	-	-	-	13,354	13,354
Local liabilities					
Banknotes and coins in circulation	-	-	129,194	-	129,194
Reserves of banking corporations against reserve requirement	1,181	-	63,231	-	64,412
Time deposits	-	-	285,289	-	285,289
Short-term bills (makam)	-	-	304,336	-	304,336
Government reserves	8,488	338	20,314	732	29,872
Other local currency liabilities	-	-	14,163	-	14,163
Total liabilities	**(53,972)**	**753**	**816,527**	**81,556**	**844,864**
Total net balance sheet currency	**439,813**	**146,064**	**(709,054)**	**133,030**	**9,853**
Off-balance sheet balances:					
Futures	**1,207**	**40**	**-**	**(21)**	**1,226**
Total currency exposure	**441,020**	**146,104**	**(709,054)**	**133,009**	**11,079**
Effect on profit or loss:					
1% exchange rate increase	15,996	5,861			
1% exchange rate decrease	(15,996)	(5,861)			

	December 31, 2022				
	NIS million				
	USD	Euro	NIS	Other	Total
Assets					
Assets abroad					
Cash and cash equivalents	2,418	51,758	-	11,195	65,371
Foreign currency bonds	210,618	75,240	-	182,988	468,846
Stocks	95,934	18,406	-	30,690	145,030
Derivative financial instruments	(29,309)	3,026	-	27,040	757
Other foreign currency assets	1,050	2,102	-	116	3,268
The IMF	-	-	-	15,752	15,752
BIS investment	-	-	-	431	431
Local assets					
Local currency bonds	-	-	85,901	-	85,901
Loans to financial institutions	-	-	40,052	-	40,052
Other assets	116	-	100	-	216
Total assets	**280,827**	**150,532**	**126,053**	**268,212**	**825,624**
Liabilities					
Liabilities abroad					
Derivative financial instruments	(145,075)	14,979	-	133,843	3,747
Other foreign currency liabilities	7,369	4,454	-	-	11,823
The IMF	-	-	-	12,722	12,722
Local liabilities					
Banknotes and coins in circulation	-	-	119,426	-	119,426
Reserves of banking corporations against reserve requirement	1,073	-	72,939	-	74,012
Time deposits	-	-	403,216	-	403,216
Short-term bills (makam)	-	-	210,127	-	210,127
Government reserves	8,559	250	19,844	398	29,051
Other local currency liabilities	-	-	9,683	-	9,683
Total liabilities	**(128,074)**	**19,683**	**835,235**	**146,963**	**873,807**
Total net balance sheet currency	**408,901**	**130,849**	**(709,182)**	**121,249**	**(48,183)**
Off-balance sheet balances:					
Futures	151	380	-	22	553
Total currency exposure	**409,052**	**131,229**	**(709,182)**	**121,271**	**(47,630)**
Effect on profit or loss:					
1% exchange rate increase	14,395	4,925			
1% exchange rate decrease	(14,395)	(4,925)			

b. Interest rate risk

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
The Bank's exposure to fair value interest rate risk mainly arises from its investments of the foreign exchange reserves. A significant portion of the foreign exchange reserves is invested in government bonds. The value of fixed rate interest instruments is affected by changes in interest rates in these countries which affect prices. Based on the investment policy, every currency portfolio is allocated a target portfolio duration.
The portfolio duration measures the sensitivity of the investments to changes in interest rates. At the end of 2023, the modified duration of the foreign exchange reserves was 2.4 years (at the end of 2022 – 2.1 years). This means that a 1 percent decrease in the interest rate translates into a 2.4 percent increase in bond prices. The interest rate risk is monitored by a daily measurement of the portfolio's duration.

Analysis of the sensitivity of the Bank's profits to changes in the interest rate on the foreign exchange reserve portfolio:

	In currency benchmark terms[8] and in basis points			
	2023		2022	
	100bp	**50bp**	100bp	50bp
Increase	**(194)**	**(97)**	(160)	(80)
Decrease	**196**	**98**	158	79

In local market activities, this risk mainly arises from changes in the value of collaterals received in liquidity transactions. Regarding collateral, the risk of loss of value is reduced by using margins and haircuts that reduce the collaterals' value and allow the scope of the collateral received to be higher than the effective loan amount.

3. Liquidity risk

Liquidity risk is the risk arising from the inability to sell a financial instrument when needed or from a loss incurred in a sale due to the absence of market depth as well as the risk that the Bank will encounter difficulties in meeting cash-settled or other financial asset settled financial liabilities.
To allow immediate response to financial challenges arising in an emergency or crisis, a suitable portion of the foreign exchange reserves must be invested in assets that are readily available in large amounts with short notice and without impairment to the realization value.
The assets in which the reserves are invested are classified according to liquidity levels, from highly liquid assets that are readily realizable within less than a month to low liquidity assets whose realization period exceeds three months. The Monetary Committee sets a minimum investment grade for high liquidity assets and a maximum investment grade for low liquidity assets.
The Markets Department defines the various liquidity levels and classifies the reserves into the various liquidity levels on an ongoing basis and reports them on a quarterly basis to the Monetary Committee.
The table below summarizes the maturity profile of the financial assets and liabilities included in the Bank's foreign exchange reserves based on contractual undiscounted payments. The asset liquidity level does not necessarily depend on the asset maturity date.

8 The currency benchmark is the currency basket used for measuring the returns on the foreign exchange reserves. See more information in the annual review of foreign exchange reserve management.

	December 31, 2023					
	NIS million					
	On call to 3 months	4 months to a year	1 to 5 years	Over 5 years	No maturity date	Carrying amount
Assets abroad						
Cash and cash equivalents	65,661	-	-	-	-	**65,661**
Foreign currency securities	65,265	113,031	234,346	87,601	156,980	**657,223**
Derivative financial instruments	353	181	-	-	-	**534**
Other foreign currency assets	1,904	2,209	-	-	2,440	**6,553**
The IMF	-	-	-	3	16,694	**16,697**
Liabilities abroad						
Derivative financial instruments	933	1,326	-	-	-	**2,259**
Other foreign currency liabilities	1,921	-	-	-	64	**1,985**
Total foreign exchange reserves	**130,329**	**114,095**	**234,346**	**87,604**	**176,050**	**742,424**

	December 31, 2022					
	NIS million					
	On call to 3 months	4 months to a year	1 to 5 years	Over 5 years	No maturity date	Carrying amount
Assets abroad						
Cash and cash equivalents	65,371	-	-	-	-	**65,371**
Foreign currency securities	-	-	396,307	72,539	145,030	**613,876**
Derivative financial instruments	-	-	757	-	-	**757**
Other foreign currency assets	-	-	-	-	3,268	**3,268**
The IMF	-	-	-	15	15,737	**15,752**
Liabilities abroad						
Derivative financial instruments	-	-	3,747	-	-	**3,747**
Other foreign currency liabilities	11,640	-	-	-	183	**11,823**
Total foreign exchange reserves	**53,731**	**-**	**393,317**	**72,554**	**163,852**	**683,454**

4. Operational risk

The Bank is exposed to operational risks. Operational risk is the risk of loss resulting from ineffective or failed internal processes, people, systems, or external events that can disrupt the flow of business operations. The Bank is exposed to the following subcategories of operational risks: legal, IT, HR, physical security, cybersecurity, projects, third parties, business continuity and regulation. Operational risks can lead to a financial loss, damage to reputation, or failure in achieving the Bank's business targets. In response, the Bank has developed a central risk management system that identifies and mitigates the operational risks and enhances its internal control system.

NOTE 12 | FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Accounting policy

Fair value is the price that would be received when selling an asset or the price paid to transfer a liability in an orderly transaction between market participants at the measurement date whether or not the price can be directly measured or evaluated using a valuation technique.

Fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, and in the absence of a principal market, in the most advantageous market.

The fair value of an asset or a liability is measured using the assumptions that market participants use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair value measurement of a nonfinancial asset takes into account a market participant's ability to produce economic benefits through the optimal use of the asset or through its sale to another market participant that will optimally use the asset.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities measured based on the lowest level input at fair value or for which fair value is disclosed are categorized into levels within the fair value hierarchy that is significant to the entire fair value measurement:

Level 1 - quoted prices (unadjusted) in active markets of identical assets or liabilities which represent actual market transactions and that occur on a regular basis.

Level 2 - inputs other than quoted prices included within Level 1 that are observable directly or indirectly.

Level 3 - inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

The investment instruments held by the Bank are mostly ranked as Level 1 (quoted market prices) in the fair value hierarchy.

The fair value of the financial assets and financial liabilities shown in the Statement of Financial Position:

	Fair value at December 31,		Fair value hierarchy	Parameters used to measure fair value
	2023	2022		
	NIS million			
Financial assets / liabilities at fair value through profit or loss:				
Government bonds	361,734	334,230	Level 1,2	Quoted price in active market / Interest curve
Fully government-guaranteed multinational and public sector bonds	73,033	51,464	Level 1,2	Quoted price in active market / Interest curve
Corporate bonds	65,476	73,908	Level 1	Quoted price in active market
Mortgage backed securities	-	9,244	Level 1	Quoted price in active market
Stocks	156,980	145,030	Level 1	Quoted price in active market
Derivative financial instruments - assets	534	757	Level 2	Interest curve
Derivative financial instruments – liabilities	(2,259)	(3,747)	Level 2	Interest curve
Total financial assets / liabilities at fair value through profit or loss	**655,498**	**610,886**		
Financial assets at fair value through other comprehensive income:				
BIS investment	456	431	Level 3	Fair value adjustments to net book value

The fair value and carrying amount of the financial assets and the financial liabilities shown in the Statement of Financial Position:

	December 31, 2023			December 31, 2022			Fair value hierarchy	Inputs used to measure fair value
	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference		
Financial assets at amortized cost:								
Short-term deposits*	2,209	2,209	-	-	-	-	Level 2	Carrying amount
Other foreign currency assets*	2,440	2,440	-	3,268	3,268	-	Level 2	Carrying amount
The IMF*	16,697	16,697	-	15,752	15,752	-	Level 2	Carrying amount
Local currency bonds	70,072	84,057	(13,985)	73,874	85,901	(12,027)	Level 1	Quoted price in active market
Loans to financial institutions*	23,316	23,316	-	40,052	40,052	-	Level 2	Carrying amount
Other local assets*	220	220	-	216	216	-	Level 2	Carrying amount
Financial liabilities at amortized cost:								
Securities sold in repos*	(1,904)	(1,904)	-	(11,640)	(11,640)	-	Level 2	Carrying amount
Other liabilities abroad*	(81)	(81)	-	(183)	(183)	-	Level 2	Carrying amount
The IMF*	(13,354)	(13,354)	-	(12,722)	(12,722)	-	Level 2	Carrying amount
Banknotes and coins in circulation*	(129,194)	(129,194)	-	(119,426)	(119,426)	-	Level 2	Carrying amount
Reserves of banking corporations against reserve requirement*	(64,412)	(64,412)	-	(74,012)	(74,012)	-	Level 2	Carrying amount
Time deposits*	(285,289)	(285,289)	-	(403,216)	(403,216)	-	Level 2	Carrying amount
Short-term bills (makam)	(304,694)	(304,336)	(358)	(209,300)	(210,127)	827	Level 1	Quoted price in active market
Government reserves*	(29,872)	(29,872)	-	(29,051)	(29,051)	-	Level 2	Carrying amount
Other local liabilities*	(14,163)	(14,163)	-	(9,683)	(9,683)	-	Level 2	Carrying amount

* The carrying amount approximates the fair value.

NOTE 13 | CONTINGENT LIABILITIES

Contingent liabilities are potential commitments that might arise from uncertain future events that are not controlled by the Bank and present obligations that have not been recognized since they cannot be measured reliably or for which payment is unlikely. Contingent liabilities are not recognized in the financial statements but are disclosed if they are material.

1. 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.
2. Renewal of the Bank's lease agreement – See Note 7.

NOTE 14 | INTEREST INCOME FROM FOREIGN EXCHANGE RESERVES, NET

	Year ended December 31,	
	2023	2022
	NIS million	
From demand deposits	1,222	127
From securities	15,116	6,660
From deposits, various assets and various liabilities	115	23
From securities purchased under r. repo agreements or sold under repo agreements	(696)	(148)
From the IMF	643	183
Total	**16,400**	**6,845**

NOTE 15 | GAIN OR LOSS FROM FAIR VALUE REVALUATION OF FINANCIAL ASSETS FROM ACTIVITIES ABROAD

This line item consists of both realized and unrealized gains (losses).
Realized gains (losses) derive from sold or derecognized financial instruments.
Unrealized gains (losses) derive from financial instruments which the Bank keeps holding as part of its investments.
Following are the realized and unrealized gains (losses) according to type of financial instrument:

	Year ended December 31,	
	2023	2022
	NIS million	
From bonds[1]		
Realized	(10,294)	(4,729)
Unrealized	16,024	(22,464)
	5,730	**(27,193)**
From stocks[2]		
Realized	10,702	3,026
Unrealized	21,881	(20,932)
	32,583	**(17,906)**
From derivative financial instruments[3]		
Realized	1,914	1,972
Unrealized	78	(20)
	1,992	**1,952**
Total	**40,305**	**(43,147)**

[1] Bonds
Realized – Cumulative profit or loss from a sale accumulated from the date of purchase.
Unrealized – revalued to fair value of financial assets measured at fair value through profit or loss.
[2] Stocks
Realized – Cumulative profit or loss from a sale accumulated from the date of purchase, including dividend income.
Unrealized – revalued to fair value of financial assets measured at fair value through profit or loss.
[3] Derivative financial instruments
Realized – Income or expenses from the realization of derivative financial instruments accrued from the date of purchase and revaluation to fair value up to the amount of interest accruals inherent in the transaction.
Unrealized – revalued to fair value of financial assets measured at fair value through profit or loss.

NOTE 16 | MISCELLANEOUS EXPENSES FROM ACTIVITIES ABROAD, NET

	Year ended December 31,	
	2023	2022
	NIS million	
Tax expenses on investments abroad[1]	76	92
Foreign currency commissions[2]	113	79
Total	**189**	**171**

[1] The Bank is tax exempt on foreign securities for most of its global investments.
[2] This line item mainly includes expenses from commissions on the Bank of Israel's financial activity.

NOTE 17 | INTEREST FROM LOCAL FINANCIAL INSTRUMENTS

Following are details of interest income and expense from the Bank's local activity:

	Year ended December 31,	
	2023	2022
	NIS million	
Interest income:		
From local currency government bonds[1]	1,336	1,718
From corporate bonds[1]	97	138
From loans to financial institutions[1]	22	24
Other interest income[2]	119	90
	1,574	1,970
Interest expenses:		
On short-term bills (makam)[1]	(10,906)	(1,041)
On time deposits[1]	(13,537)	(5,257)
On government local currency balances[1]	(2,250)	(985)
On government foreign currency balances[1]	(244)	(53)
Other interest expenses[2]	(369)	(113)
	(27,306)	(7,449)
Total net interest expense from local financial instruments	**(25,732)**	**(5,479)**

[1] See Note 5.
[2] See Note 6.

NOTE 18 | MISCELLANEOUS INCOME (EXPENSES) FROM LOCAL ACTIVITIES, NET

This line item mainly consists of income from commissions deriving from the Bank's financial activity in the local market.

NOTE 19 | EXCHANGE RATE DIFFERENTIALS

Exchange rate differentials are classified as realized when the foreign currency reserve is partially or fully written down. The amount recognized as realized is calculated at the exchange rate underlying the sale of the reserves as opposed to the weighted average cost of purchasing the foreign currency.

The calculation of realized gains is done separately for each currency without offsetting of other foreign exchange reserves.

Following is a breakdown of the Bank's income and expenses from realized and unrealized exchange rate differentials based on the different items:

	Year ended December 31,	
	2023	2022
	NIS million	
Foreign exchange reserves	28,254	59,583
Government reserves	564	(736)
Reserves of banking corporations	(114)	(202)
Other	(578)	(653)
Total	**28,126**	**57,992**
Realized exchange rate differentials	7,404	1,937
Unrealized exchange rate differentials	20,722	56,055

This line item mainly consists of exchange rate differentials on reserves in euro and dollar due to the devaluation of the shekel against these currencies both in 2023 and in 2022.

NOTE 20 | GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31,	
	2023	2022
	NIS million	
Employee salaries and rights	465	425
Pension and post-retirement benefits[1]	269	209
Depreciation and amortization	98	134
General expenses	162	157
Total	**994**	**925**

[1] Expenses in respect of actuarial obligation for post-employment benefits to employees and pensioners.

As for payment of taxes, municipal taxes, levies and other mandatory duties, as per the BOI Law, the Bank is taxed under the same tax regime as the State.

NOTE 21 | OTHER INCOME, NET

This item includes mainly income from fees from the Credit Data System and the Real Time Gross Settlement System.

NOTE 22 | DISTRIBUTABLE PROFITS

The distribution of the Bank's profits is governed by the BOI Law. According to Section 76(a) of the Law, the Bank's net income will not include unrealized gains as per the annual financial statements. Distributable profits are determined based on the income or loss as per IFRS (before other comprehensive income) with the following adjustments:

- Unrealized gains from exchange rate differentials on foreign currency balances accumulated in the reporting year are excluded from distributable profits;
- Unrealized gains from fair value revaluation accumulated in the reporting year are excluded from distributable profits;
- Unrealized gains from exchange rate differentials on foreign currency balances reported in previous periods and realized in the reporting year are included in distributable profits;
- Unrealized gains from fair value revaluation reported in previous periods and realized in the reporting year are included in distributable profits;
- Unrealized revaluation losses at year end are offset against credit balances in the proper revaluation reserve at the item level (currency or security) up to the amount of the credit balance. Balances that are not offset are excluded from distributable profits.

As per Section 76 of the BOI Law, within three months from each fiscal year end, the Bank will distribute to the Government its actual profits in keeping with the following guidelines:

If the Bank's capital is 2.5 percent or more of total assets, an amount equivalent to the net profit less the surplus balance if it is negative, shall be transferred to the Government.

If the Bank's capital exceeds 1 percent of total assets but is less than 2.5 percent of total assets, an amount equal to 50 percent of net profits less the surplus balance if it is negative shall be transferred to the Government.

If the Bank's capital is 1 percent or less of total assets, profits shall not be transferred to the Government.

The Bank may record capital funds arising from the application of IFRS provided that the balance of net income that has not been distributed to the Government will be included in retained earnings and not recognized as a separate capital item, unless otherwise agreed between the Governor and the Minister of Finance.

The calculation of the income (loss) carried to accumulated deficit as per the BOI Law is as follows:

	Year ended December 31,	
	2023	2022
	NIS million	
Income in the year	**57,376**	**14,924**
Allocation to revaluation reserve:		
Unrealized exchange rate differentials	21,945	56,955
Unrealized gains from fair value adjustments	23,408	(21,866)
Other accounting adjustments[1]	758	1,319
	46,111	36,408
Total income (loss) recognized in the year	**11,265**	**(21,484)**

[1] CPI linkage differentials.

NOTE 23 | SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

1. In the course of 2023, the Bank increased the BOI interest rate four times by a total of 1.5 percent to 4.75 percent at the end of 2023.
2. In July 2023, a collective employment agreement was signed between various employers and the General Federation of Workers in Israel (the Histadrut), representing a benchmark salary agreement for the public sector for 2020–27, which includes salary increments and other benefits. On October 31, 2023, the Bank's Management chose to join the agreement by signing a letter of accession which is in effect from the salary for December 2023.

   The main terms of the agreement that apply to the Bank, as expressed in the future are a gradual salary increment of 6 percent, gradual salary increment of NIS 500, and onetime bonus of NIS 6,000. The agreement also consists of gradually shortening the fulltime workweek by two hours from 42 weekly hours to 40 weekly hours.
3. Once the Swords of Iron War broke out, the Bank sold about USD 8.5 billion in the context of a foreign currency sale plan of USD 30 billion to moderate the shekel's exchange rate fluctuations and supply the necessary liquidity for the normal operation of the markets. In addition to this plan, swaps were entered into in the market in a total of USD 0.4 billion in the context of the Bank's USD 15 billion swap plan.
4. In December 2023, the Monetary Committee resolved to approve an increase in Israel's IMF quota from SDR 1,921 million to SDR 2,881 million. Through the date of signing the financial statements, the IMF process has not yet been completed. See also Note 3b.

NOTE 24 | EVENTS AFTER THE REPORTING DATE

1. In January 2024, the Bank of Israel reduced the interest rate by 0.25 percent to 4.5 percent for the first time since the COVID-19 pandemic. See more information in the financial highlights section above.
2. On February 9, 2024, Moody's announced the lowering of Israel's credit rating by one notch to A2 with a negative outlook (which is likely to result in another future credit rating reduction). This is the first rating decrease since Israel's credit began being rated in 1998. The reason for the lowered credit rating is the uncertainty of when and how the Swords of Iron War will end. The cause for the negative outlook is the uncertainty involving the war's escalation and expansion into the north of Israel. As of the financial statement approval date, it is impossible to quantify the effect of the credit rating reduction on the financial statements for 2024.