

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 | GENERAL

A. General description of the Bank

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 other branches in Tel Aviv. The Bank is independent, and its objectives and operating methods are specified in the Bank of Israel Law, 5770-2010 ("the Law"). The Bank's institutions include a Monetary Committee and a Supervisory Council, and it is headed by the Governor.

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

B. Definitions

In these financial statements:

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

NOTE 2 | SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of reporting and measurement of the financial statements

1. The financial reporting principles

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

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

2. Measurement basis

a. Balance Sheet:

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

b. Statement of Profit and Loss:

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

c. Statement of Changes in Deficit Equity:

The data of the Bank's equity and general reserve are presented in the Bank's financial statements in reported amounts (see Note 15).

B. Tradable securities

1. Foreign currency tradable securities

a. Bonds

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

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

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

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

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

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

b. Shares

Shares are stated in the Balance Sheet at their fair value as of the Balance Sheet date. The difference between the fair value of the shares and their cost, calculated at the individual portfolio level, is charged to the "Revaluation accounts" line item in the Balance Sheet.

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

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

2. Local currency tradable securities

Tradable government bonds in local currency are stated in the Balance Sheet at their fair value as of the Balance Sheet date. The difference between the original cost of the bonds and their adjusted cost is charged to the Statement of Profit and Loss.

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

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

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

C. Financial instruments

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

1. Activity in financial instruments abroad

- a. Reverse Repurchase (R. Repo) and Repurchase (Repo) Agreements –
R. Repo transactions are treated as a secured debt, and are included under "Securities purchased under reverse repurchase agreements". Securities purchased in this context do not appear in the Balance Sheet. Repo transactions are composed of the sale of securities under an agreement to purchase them in the future and are treated as a secured debt. Accordingly, the securities sold in this context are not subtracted from the Bank's assets. The liability to purchase the securities is included under "Securities sold under repurchase agreements."

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

- b. Foreign currency swaps, forwards and spot transactions - These transactions are included in the Balance Sheet from the date of engagement as the sum of the differences between the foreign currency received and the foreign currency to be remitted in the future, with the addition of the balance of any unamortized premium, if applicable, and are shown in the "Derivative financial instruments" line item. In the Statement of Profit and Loss, the results of these transactions are included in the "Interest income from assets in foreign currency abroad, net" line item.

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

- c. Futures - The fair value of futures contracts on the Balance Sheet date is shown in Note 16 - "Commitments, financial instruments and contingent liabilities". In the Statement of Profit and Loss, the change in the value of the contracts is recorded under "Gain from securities and derivative financial instruments, net". Collaterals deposited against futures transactions are shown under "Demand deposits".

2. Activity in financial instruments in Israel

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

D. International financial institutions

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

E. Fixed assets and intangible assets

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

F. Banknotes and coins in circulation

Banknotes and coins in circulation that were issued by the Bank reflect the Bank's liability to their holders. This liability is shown in the Bank's Balance Sheet at face value.

G. Short-term loans

The balance of short-term loans (called *makam*, their Hebrew acronym) in the Balance Sheet reflects the redemption price of the loans held by the public, less the balance of unamortized discount. *Makam* sold by the Government to the Bank of Israel but not yet sold to the public is not included in this balance .

Makam are issued for a period of up to one year. The discount is the difference between the redemption price of the *makam* and the proceeds from their sale to the public .

The discount is amortized over the period from the date of issuance of the *makam* to its date of redemption.

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

H. Liabilities in respect of employee rights

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

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

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

Employee benefits liabilities are stated under "Other liabilities" in local currency.

I. Revaluation accounts

The following are the types of revaluation accounts:

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

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

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

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

J. Revenue recognition

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

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

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

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

Unrealized losses from foreign currency securities, from local currency securities, or a specific foreign currency are not offset against unrealized gains from other securities or foreign currencies .

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

K. Presentation currency

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

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

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

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

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

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

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

	As of December 31			Rate of change	
	2018	2017	2016	2018	2017
	NIS			Percent	
US Dollar	3.7480	3.4670	3.8450	8.1	(9.8)
Euro	4.2916	4.1526	4.0438	3.3	2.7
Pound Sterling	4.7934	4.6819	4.7252	2.4	(0.9)
Special Drawing Rights (SDRs) ¹	5.2446	4.9374	5.1689	6.2	(4.5)

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

L. Indexation

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

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

	As of December 31			Rate of change	
	2018	2017	2016	2018	2017
	Points			Percent	
For November	101.5	100.3	100.0	1.2	0.3
For December	101.2	100.4	100.0	0.8	0.4

M. Interest rates

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

Following are data on the interest rates:

	As of December 31		
	2018	2017	2016
	Percent		
Bank of Israel interest rate	0.25	0.10	0.10
Prime interest rate	1.75	1.60	1.60

N. Impairment of assets

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

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

O. Use of estimates

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

P. Offsetting financial assets and financial liabilities

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

Q. Statement of Cash Flows

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

R. Taxes

According to the Bank of Israel Law, 5770–2010, regarding the payment of taxes, municipal taxes, levies and other mandatory payments, the Bank has the same status as the State of Israel. In addition, regarding the taxation of the Bank's global investments, the Bank is tax exempt on most of its investments in foreign securities.

NOTE 3 | THE INTERNATIONAL MONETARY FUND (IMF)

	As of December 31		As of December 31	
	2018	2017	2018	2017
	NIS million		SDR million	
IMF quota	10,076	9,484	1,921	1,921
Less: Liability for the quota	(8,648)	(8,708)	(1,649)	(1,764)
Reserve Tranche	1,428	776	272	157
NAB loans	151	186	29	38
Special Drawing Rights (SDRs)	4,996	4,322	953	875
Total IMF balance¹	6,575	5,284	1,254	1,070

¹The balances bear interest pursuant to the IMF's terms.

A. State of Israel's participation in the IMF

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

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

B. NAB loans

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

The maximum credit line that the Bank provides the IMF is about SDR 340 million (NIS 1,783 million).

C. Special Drawing Rights (SDRs)

The balance includes SDRs allocated by the IMF to the State of Israel. Against these allocations the Bank of Israel has a liability towards the IMF with no repayment date, which is shown under the line item of "The International Monetary Fund and others." The State is not required to hold all the SDRs allocated to it.

The State of Israel is part of another IMF plan, "Voluntary Arrangement for the Purchase and Sale of SDRs". Within the framework of this plan, the State of Israel is asked to buy or sell some SDRs from other IMF members, as instructed by the IMF. These transactions are recorded in the balance of "Special Drawing Rights (SDRs)." The IMF has allocated to the State of Israel SDRs totaling about SDR 884 million. According to the Voluntary Arrangement for the Purchase and Sale of SDRs, Israel's SDR holdings are to range from 50 percent to a maximum of 145 percent of total SDRs allocated by the IMF to Israel. The IMF has undertaken to consult with the Bank before making any purchase or sale of SDRs in the context of the plan.

NOTE 4 | CREDIT TO THE GOVERNMENT

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

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

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

NOTE 5 | TRADABLE SECURITIES

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

NOTE 6 | FIXED ASSETS AND INTANGIBLE ASSETS

	Land and buildings ¹	Equipment and furniture, computers, software and vehicles	Total
	NIS million		
Cost:			
Balance as of January 1, 2018	379	444	823
Additions	83	172	255
Disposals	-	(3)	(3)
Balance as of December 31, 2018	462	613	1,075
Accumulated depreciation:			
Balance as of January 1, 2018	79	282	361
Additions	9	36	45
Disposals	-	(1)	(1)
Balance as of December 31, 2018	88	317	405
Depreciated balance as of December 31, 2018	374	296	670
Depreciated balance as of December 31, 2017	300	162	462

¹The Bank's property in Jerusalem including the depreciated cost of the structures thereon, amounts to approximately NIS 340 million as of December 31, 2018 (approximately NIS 265 million as of December 31, 2017). As of the report date, the Bank is not registered as the lessee of the Bank's properties. The lease expired on June 30, 2016. Since then, the Bank has been negotiating the renewal of the lease agreement with the Israel Land Authority (the ILA). Accordingly, the Bank may be required to pay lease fees when the lease is renewed.

NOTE 7 | OTHER ASSETS

	As of December 31	
	2018	2017
	NIS million	
Investment in BIS shares	282	282
Loans to employees	67	73
Other receivables	22	26
Total other assets	371	381

NOTE 8 | BANKNOTES AND COINS IN CIRCULATION

	As of December 31, 2018		As of December 31, 2017	
	Quantity	NIS	Quantity	NIS
	Million		Million	
NIS 20	47.66	953	48.53	971
NIS 50	62.54	3,127	67.26	3,363
NIS 100	161.76	16,176	173.37	17,337
NIS 200	315.88	63,176	290.92	58,185
Coins in circulation		2,429		2,339
Other ¹		2		2
Commemorative banknotes and coins		6		5
Total banknotes and coins in circulation		85,869		82,202

¹Special coin items in circulation.

NOTE 9 | GOVERNMENT DEPOSITS

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

	As of December 31	
	2018	2017
	NIS million	
Deposits in foreign currency¹		
Current deposits	10,235	7,174
Other deposit	33	366
Total deposits in foreign currency	10,268	7,540
Deposits in local currency²—Current	16,023	19,394
Total Government deposits	26,291	26,934

¹ Government deposits in foreign currency

The current deposits are used for financing budgetary activity. Some foreign currency government deposits bear interest at the rate paid on US Treasury bills with an average of six months to maturity. The average interest rate in 2018 was 2.12 percent (2017—1.02 percent).

² Government deposits in local currency

The current deposits and the balances used for bond lending are designated for financing budgetary activity. Until March 31, 2017, local currency current deposits bore (when in debit) or were paid (when in credit) interest at the Prime rate. Effective from April 1, 2017, local currency current deposits bear (when in debit) or are paid (when in credit) interest to the Government at a rate ranging between the Bank of Israel's interest plus 1.5 percent and the Bank of Israel's interest on these balances based on certain brackets. The average benchmark interest rate at the end of 2018 was 1.75 percent (2017—1.6 percent). A different interest rate is paid on the government balances used for bond lending and other government balances.

NOTE 10 | DEPOSITS OF BANKING CORPORATIONS

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

	As of December 31	
	2018	2017
	NIS million	
Deposits in foreign currency¹- <i>Pamach</i>	672	724
Deposits in local currency²		
Time deposits	188,010	194,003
Demand deposits	41,734	40,475
Total deposits in local currency	229,744	234,478
Total deposits in banking corporations	230,416	235,202

¹Deposits in foreign currency

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

²Deposits in local currency

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

The average interest rate for time deposits by auction on December 31, 2018 was 0.25 percent (on December 31, 2017 - 0.10 percent).

The average interest rate for time deposits by auction in 2018 was 0.12 percent (in 2017 - 0.1 percent).

The interest rate for deposits at the window on December 31, 2018 was 0 percent (on December 31, 2017 - 0 percent).

The average interest rate for deposits at the window in 2018 was 0 percent (in 2017 - 0 percent).

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

NOTE 11 | THE INTERNATIONAL MONETARY FUND AND OTHERS

	As of December 31	
	2018	2017
	NIS million	
Allocated Special Drawing Rights ¹	4,641	4,367
Other ²	126	116
Total	4,767	4,483

¹ Special Drawing Rights (SDRs) are sums of money that member countries in the IMF undertook to purchase from the Fund. No repayment date has been set for this liability and it bears interest according to the IMF's terms. The IMF allocates SDRs to its constituent countries commensurate with the size of their quotas (note 3).

As of December 31, 2018 Israel has been allocated approximately SDR 884 million.

² The item mainly includes liabilities to binational foundations.

NOTE 12 | *MAKAM*

	As of December 31	
	2018	2017
	NIS million	
Redemption value of <i>makam</i> sold to the public	108,000	92,000
Less: Discount at time of sale to the public	(227)	(126)
Proceeds from sale of <i>makam</i> to the public	107,773	91,874
Plus: Amortization of discount difference for the period through the Balance Sheet date	95	71
Total balance of <i>makam</i>	107,868	91,945

The Short-Term Loan Law, 5744-1984, authorizes the Government to issue short-term bills to be sold only to the Bank of Israel. The Bank sells them to, and buys them from, the public in order to carry out its functions. The Government must deposit all proceeds from sales of these bills with the Bank of Israel and may not use the proceeds for any purpose other than repayment of the loan taken under said Law, or payment of the yield thereon. The purchase of bills from the Government by the Bank of Israel and the deposit of the proceeds from this purchase with the Bank of Israel are not reflected in the Bank's Balance Sheet.

The balance of *makam* shown in the Balance Sheet reflects the redemption value of bills held by the public, less the balance of the unamortized discount.

NOTE 13 | OTHER LIABILITIES

	As of December 31	
	2018	2017
	NIS million	
Liabilities in respect of benefits to employees and pensioners	5,900	6,334
Liabilities for employees' and other rights	71	77
Other payables ¹	705	738
Total other liabilities	6,676	7,149

¹The balance mainly comprises a liability to entities that manage an account at the Bank of Israel.

A. Liabilities in respect of benefits to employees and pensioners

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

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

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

The above calculation is based on mortality rates and other demographic tables published by the Capital Market, Insurance and Saving Authority at the Ministry of Finance for pension funds in Pension Circular 2017-3-6 regarding the preparation of actuarial calculations. The calculation is based on the assumption of an annual real salary increase for employees as of December 31, 2018 according to employee seniority ranging between 1.89 percent and 4.81 percent (as of December 31, 2017—same). The discount rates underlying the liability are based on the yield curve of government bonds in Israel, ranging between 2.16 percent and 2.95 percent. The change in the liability consists of a decrease of about NIS 372 million which was charged to the revaluation account of "Actuarial gains or losses from benefits to employees and pensioners" (Note 14), and an increase of about NIS 244 million which was charged to "General and administrative expenses—Salaries and

employees' rights and Pension and benefits to employees and pensioners" (Note 24).

In December 2018, the Bank and the Ministry of Finance reached an understanding regarding a wage agreement which will only become effective after the consent of the Bank's employees is obtained. This consent was obtained in February 2019. The effect of the adoption of the wage agreement as included in the line item of "Liabilities in respect of benefits to employees and pensioners" is immaterial.

B. Liabilities for employees' and other rights

This item includes liabilities in respect of salary and other expenses which are expected to be settled in the course of 2019.

NOTE 14 | REVALUATION ACCOUNTS

Revaluation accounts include unrealized gains from exchange rate differentials on foreign currency balances, revaluation of tradable securities to fair value and actuarial gains or losses in respect of benefits to employees and pensioners (see Notes 2B, 2I and 2K above).

	As of December 31	
	2018	2017
	NIS million	
Balances denominated in foreign currency	27,376	3,150
Tradable securities in foreign currency	6,822	11,853
Tradable securities in local currency	426	807
Actuarial gains or losses from benefits to employees and pensioners	(1,944)	(2,316)
Total revaluation accounts	32,680	13,494

NOTE 15 | BANK'S EQUITY AND GENERAL RESERVE

The data of the Bank's equity and general reserve in historical nominal values at December 31, 2018 and 2017 are: the Bank's equity—NIS 60 million; the general reserve—NIS 260 million. The general reserve served in the past to increase the Bank's capital in accordance with Section 6 of the Bank of Israel Law, 5714-1954.

In accordance with Section 76 of the Bank of Israel Law, 5770-2010, within three months from the end of each year, the Bank will transfer its profits to the Government according to the following provisions:

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

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

In accordance with these provisions, as of December 31, 2018 there is no obligation to transfer funds to the Government.

NOTE 16 | COMMITMENTS, FINANCIAL INSTRUMENTS AND CONTINGENT LIABILITIES

	As of December 31	
	2018	2017
	NIS million	
a. Commitments (off-balance sheet)		
Documentary credit	4	5
b. Financial instruments		
Currency swaps and forwards:		
Fair value	1,139	(1,703)
Future receipts of foreign currency	126,875	104,879
Future payments of foreign currency	125,071	106,241
Stock index futures - fair value:		
Long	(21)	30
Short	-	(70)
Interest rate futures - fair value:		
Long	-	(19)
Short	(8)	30
Bond futures - fair value:		
Long	555	23
Short	(33)	10

c. Contingent liabilities

1) When investing in the Bank of International Settlements (BIS), the Bank of Israel was required to assume additional undertakings toward the institution beyond the actual callable capital, which may be exercised by the institutions only in times of need, a scenario which is relatively unlikely. The balance of the above undertakings as of December 31, 2018 was NIS 63 million (December 31, 2017 - NIS 59 million).

2) There are several claims pending against the Bank of Israel. However, no provision has been recorded in the Bank's books in respect of these claims as it is the Bank's opinion, based on the opinion of its Legal Department, that the probability of these claims being upheld is low, or that the sums involved are not significant.



NOTE 17 | INTEREST INCOME FROM ASSETS IN FOREIGN CURRENCY ABROAD, NET

	Year ended December 31	
	2018	2017
	NIS million	
Demand deposits	(298)	(241)
Short-term deposits	(14)	(37)
Tradable securities	4,136	2,727
Securities purchased under R. Repo agreements or sold under Repo agreements	4	(8)
Derivative financial instruments	1,741	1,204
The International Monetary Fund	50	23
Total	5,619	3,668

NOTE 18 | INTEREST INCOME FROM THE GOVERNMENT

	Year ended December 31	
	2018	2017
	NIS million	
Binational foundations ¹	78	76
Tradable securities in local currency	376	254
Total	454	330

¹See Note 4 above.

NOTE 19 | INTEREST EXPENSES TO BANKING CORPORATIONS AND THE PUBLIC

	Year ended December 31	
	2018	2017
	NIS million	
<i>Makam</i>	155	140
Time deposits ¹	213	175
Total	368	315

¹See Note 10 above.



NOTE 20 | INTEREST EXPENSES TO THE GOVERNMENT

	Year ended December 31	
	2018	2017
	NIS million	
Balances in local currency	300	308
Balances in foreign currency	33	7
Total	333	315

NOTE 21 | OTHER INTEREST EXPENSES

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

NOTE 22 | GAIN FROM SECURITIES AND DERIVATIVE FINANCIAL INSTRUMENTS, NET

	Year ended December 31	
	2018	2017
	NIS million	
Tradable securities in foreign currency ¹	415	2,504
Derivative financial instruments ²	458	(30)
Total	873	2,474

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

² Financial income and expenses from the realization of derivative financial instruments.



NOTE 23 | MISCELLANEOUS EXPENSES, NET

	Year ended December 31	
	2018	2017
	NIS million	
In local currency	(6)	(5)
In foreign currency	46	31
Total¹	40	26

¹ This item includes expenses (income) from fees from the Bank's financial activities, from international financial institutions and from loans to employees.

NOTE 24 | GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31	
	2018	2017
	NIS million	
Salaries and employees' rights	346	(* 335)
Pension and benefits to employees and pensioners ¹	214	208
General expenses	152	(* 146)
Total	712	689

(*) Reclassified

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

NOTE 25 | OTHER EXPENSES

This item mainly includes tax expenses on foreign investments and income from various fees. In 2018, this item also includes dividend income.