

NOTES TO THE FINANCIAL STATEMENTS FOR 2009



1. Accounting policies

a. General

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

The main items presented in accordance with generally accepted accounting principles of central banks are:

1. Revaluation accounts—as detailed in Section 1.m below.
2. Cash-flow statements—as detailed in Section 1.t below.

The comparative figures for 2008 have been reclassified in several items for amounts which are insignificant.

b. Definitions

In these financial statements:

1. **"The Bank"**—the Bank of Israel.
2. **"CPI"**—the Consumer Price Index as published by the Central Bureau of Statistics.
3. **"Adjusted amount"**—the nominal historical 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"**—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. **"Nominal financial reporting"** - financial reporting based on reported amounts.
6. **"Fair value"**—the amount for which it was possible to acquire or sell an asset (to undertake or repay a liability) in a current transaction between parties acting voluntarily.

c. Financial statements in reported amounts

1. In October 2001, the Israel Accounting Standards Board published Accounting Standard No. 12, "Discontinuance of Adjustment of Financial Statements". Pursuant to this standard, and in accordance with Accounting Standard No. 17, which was published in December 2002, the adjustment of financial statements for the effect of inflation was discontinued as of January 1, 2004.



2. In the past, the Bank prepared its financial statements on the basis of historical cost, with no adjustment for changes in purchasing power of the Israeli currency. In the financial statements for 2005, comparative figures for the year ending December 31, 2003, were recalculated on a historical-cost basis, adjusted for changes in the CPI as required by Accounting Standard No. 12, in order to prepare for the transition to nominal financial reporting.

The adjusted amounts at December 31, 2003 constituted the starting point for the nominal financial report as of January 1, 2004. Any additions and disposals made during the period were included in their nominal values.

3. Amounts of non-monetary assets do not necessarily reflect their realizable value or current economic value, but only the reported amounts of those assets.
4. The term "cost" in these financial statements, denotes the reported amount of cost.

d. Reporting principles

1. Balance Sheet:
 - a. Non-monetary items (mainly fixed assets and investments shown at cost) are stated in reported amounts.
 - b. Monetary items are stated in the balance sheet at their nominal values at the balance sheet date.
 - c. The balance sheet is presented in the format generally accepted by central banks worldwide.
2. Statement of Operations:
 - a. Income and expenses originating in non-monetary items (e.g. depreciation, prepaid expenses, and deferred income) or from provisions included in the balance sheet, are derived from the difference between the reported amount of the opening balance and the reported amount of the closing balance.
 - b. All other operating items (such as interest income and expense) are stated at their nominal values.

3. Statement of Changes in Equity:

In accordance with the Bank of Israel Law, 5714-1954, the Bank must transfer its net profits to the government within 60 days of the end of its business year. In 2009, the Bank showed a profit (in 2008 it incurred a loss). This profit was offset against the retained accumulated losses, so that there was no obligation to transfer funds to the government.

On February 8, 2010, a first reading of the proposed new Bank of Israel Law was passed. This law will likely affect the Bank's activity and the way in which it transfers its profits to the government. The law in no way affects the 2009 financial statements.

e. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Bank's management to make estimates and assumptions regarding transactions or matters, the final effect of which on the financial statements cannot be determined with precision at the time the statements are prepared. Even though the estimates and assumptions are based on management's best judgment, the final effect of such transactions or matters may be different from the estimates and assumptions made in their respect.

f. Income recognition

Income and expenditure are charged to the Statement of Operations on an accrual basis.

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

Unrealized profits are not transferred to the Statement of Operations, instead they are charged to the "Revaluation accounts" line in the balance sheet.

Unrealized losses are transferred to the Statement of Operations after offsetting unrealized profits in the same asset. These losses originate in 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 profits from other securities or foreign currency.

Losses recognized in the Statement of Operations are not offset against unrealized profits accrued in the future.

g. Securities

Foreign currency securities

Tradable foreign currency securities are stated in the balance sheet at their fair value at the balance sheet date. The fair value of quoted securities is based on market prices. Unquoted securities are revalued on the basis of data obtained from outside sources. Securities with maturity dates of up to three months are stated at an adjusted cost that constitutes a reasonable approximation of their fair value.

The adjusted cost of securities is their face value plus the interest, indexation differentials 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 until the date of redemption.

The difference between the original cost of the securities and their face value plus



interest and the balance of the premium or discount not yet amortized is charged to the Statement of Operations.

Indexation differentials published overseas accumulated on the principal and not yet realized, as well as the difference between the fair value of the securities and their adjusted cost, are charged to the "Revaluation account" line in the balance sheet.

Interest income and amortization of the premium or discount are charged to the Statement of Operations on an accrual basis, and are stated in the item "Interest income from assets in foreign currency abroad".

Income from the disposal of securities is stated under "Other financial income from (expenses on) securities and derivative financial instruments".

The balance of the unrealized losses is charged to the Statement of Operations at the end of the year and stated under "Other financial income from (expenses on) securities and derivative financial instruments".

Local currency securities

Tradable local currency government securities are stated in the balance sheet at their fair value.

The difference between the original cost of securities and their face value, plus interest and the balance of the premium or discount not yet amortized, is charged to the Statement of Operations.

Indexation differentials accumulated on the principal and as yet unrealized, as well as the difference between the fair value of the securities and their adjusted cost, are charged to the "Revaluation accounts" line in the balance sheet.

Interest income from local-currency securities and amortization of the premium or discount are charged to the Statement of Operations on an accrual basis, and stated under "Interest income from the government".

The balance of unrealized losses is charged to the Statement of Operations at the end of the year and stated under "Other financial income from (expenses on) securities and derivative financial instruments".

h. International financial institutions

International Monetary Fund (IMF)

The Bank of Israel's participation in the IMF less its liabilities on account of this participation, is shown on the Assets side of the "International Monetary Fund" item.

The Bank's Special Drawing Rights Holdings (SDR Holdings) are shown on the Assets side of the balance sheet under the item "International Monetary Fund".

Liabilities in respect of Drawing Rights granted by the IMF are shown on the liabilities side of the "International financial institutions" item.

Balances related to other international financial institutions and investment in shares of the Bank for International Settlements (BIS)

The Bank of Israel's participation in other international financial institutions includes initial participation in their capital and additional participation payments towards increases in these institutions' capital. The Bank of Israel's participation in other international financial institutions is shown on the Assets side of the "International financial institutions" item according to the cost in the currency in which the participation was paid, expressed at the exchange rate on the transaction date. Liabilities to international financial institutions are shown on the Liabilities side of the "International financial institutions" item.

i. Fixed assets

1. Fixed assets are stated at cost less accumulated depreciation. Cost includes expenses directly attributable to the purchase of the asset.
2. Improvements and enhancements are charged to the cost of the assets, whereas maintenance and repairs expenses are charged to the Statement of Operations as incurred.
3. Depreciation is calculated by the straight-line method on the basis of the estimated useful life of the asset:
Buildings—fifty to sixty-seven years;
Motor vehicles—six and a half years;
Computers—four years;
Equipment—10 years.
4. Purchases of fixed assets in insignificant amounts are charged to the Statement of Operations.
5. Software that is not an integral part of the related hardware is shown under fixed assets at cost and depreciated by the straight-line method over four years.

j. Banknotes and coins in circulation

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

k. *Makam* (short-term bills issued by the Bank of Israel)

The balance of *makam* in the balance sheet reflects the redemption price of *makam* 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 are not included in this balance.





Makam are issued for a period of up to a year. The discount is the difference between the redemption price of the *makam* and the proceeds of their sale to the public. The discount is amortized by the straight-line method.

Expenses for amortization of the discount on the balance of *makam* held by the public are shown in the Statement of Operations in the "Interest expense to banks and the public" item.

I. Liabilities on account of employees' entitlements

All liabilities on account of employer-employee relations have corresponding reserves in accordance with law, agreement, practice and management's expectations. Liabilities on account of employee pensions and severance pay are calculated by an expert actuary using the method of estimation of cumulative benefits with probabilities taken into account on the basis of past experience. The discount rate applying to the reserves is set in accordance with the rate established in directives issued by the Supervisor of Banks, and the rate of future wage increases is estimated by the management. The provision for vacation pay is computed on the basis of accrued vacation days due at the balance sheet date and the effective wage for vacation redemption (see Note 15).

m. Revaluation accounts

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

Separate revaluation accounts are maintained for each item (currency, security) and are transferred to the Statement of Operations when the item is fully or partially realized. No offsetting among different types of items is performed.

Any net loss in the revaluation accounts that originates in indexation differentials and price differentials in local currency and foreign currency securities and exchange rate differentials on foreign currency balances is transferred to the Statement of Operations at the end of the year. (See also Section f above).

n. Foreign currency

Assets and liabilities denominated in or indexed to foreign currency are shown in New Israel Shekel (NIS) according to the representative rate of exchange published by the Bank of Israel at the balance-sheet date.

Income and expenses in foreign currency are included in the Statement of Operations at the representative rates of exchange in effect on the value day of the performance 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.

Unrealized exchange rate differentials are charged separately for each currency to the "Revaluation accounts" item. Realized exchange rate differentials are transferred to the Statement of Operations and are calculated on the basis of the average cost of the balances of the currency at issue. Realization is calculated separately for foreign currency assets and foreign currency liabilities in each calendar month and for each currency. The loss balance in the revaluation accounts at the end of the year is transferred to the Statement of Operations and is not offset against future unrealized profits. Unrealized losses in one currency are not offset against unrealized profits in another currency.

The following table details NIS exchange rates against other key currencies:

	December 31			Change	
	2009	2008	2007	2009	2008
	(NIS)			(percent)	
US\$	3.7750	3.8020	3.8460	-0.7	-1.1
Euro	5.4417	5.2973	5.6592	2.7	-6.4
Pound sterling	6.1112	5.5481	7.7105	10.1	-28.0
Special drawing rights (SDR) ^a	5.9180	5.8561	6.0705	1.1	-3.5
First currency basket ^b	4.6522	4.5214	4.9857	2.9	-9.3

^a The SDR rate is published by the IMF, and is based on a weighted 4-currency basket consisting of US\$, €, ¥ and £.

^b The first currency basket was in effect until July 31, 1986, and consisted of: US\$ 0.3500; £ 0.1295; and € 0.4667. The rates shown in the table are calculated on that basis.

o. Indexation

Assets and liabilities linked to the CPI are shown in accordance with the indexation conditions determined for each balance.

Following are details of the CPI (based on the 2002 average):

		December 31			Change	
		2009	2008	2007	2009	2008
		(points)			(Percent)	
CPI	November	114.8	110.6	105.8	3.8	4.5
	December	114.8	110.4	106.4	3.9	3.8



p. Interest rates

Some of the local currency interest on the government's and the banks' balances, which are collected or paid by the Bank of Israel, are based on the Bank of Israel interest rate or the prime interest rate.

The following are the interest rates as at December 31:

	December 31			Change	
	2009	2008	2007	2009	2008
	(percent)				
Bank of Israel interest rate	1.25	2.50	4.25	-50.0	-41.2
Prime	2.50	4.00	5.75	-37.5	-30.4

q. Financial instruments

The Bank of Israel uses derivatives in its monetary policy and foreign exchange activities, both in Israel and overseas.

1. Activity in financial instruments in Israel

(a) Reverse repurchase agreements (R. Repo) for makam and government bonds

During the course of 2007 the Bank of Israel began to perform R. Repo transactions in *makam* and government bonds. These transactions are treated as secured debt and accordingly, securities purchased within the framework of these transactions do not appear in the balance sheet. The Bank's R. Repo transactions involving *makam* and government bonds were discontinued on September 21, 2009.

Interest income accrued on account of these transactions is stated under "Other interest income".

(b) Forward NIS/USD conversion transactions

These transactions are shown net in the balance sheet under "Other assets" or "Other liabilities": future receipt of US dollars less future remittance of NIS.

In the Statement of Operations, the results of the transactions are shown under "Interest income from assets in foreign currency abroad".

(c) Future remittances of *makam*

Outstanding liability for future remittance of *makam* at the date of the financial statement corresponds to or approximates its fair value and is presented in Note 19, "Contingent liabilities and commitments".

The Bank discontinued its activity in future remittances of *makam* on August 14, 2008.

2. Financial instruments in activities abroad

(a) Repurchase (Repo) and Reverse-Repurchase (R.Repo) Agreements

The Bank carries out repurchase (Repo) agreements. Such a transaction is composed of the sale of securities under an agreement to purchase them in the future. The transaction is treated as a secure debt and accordingly the securities sold under its terms are not subtracted from the Bank's assets. The liability to purchase the securities is included in the "Repurchase agreements" item. In the Statement of Operations, the results of these transactions are shown in the "Interest expense on liabilities in foreign currency abroad" item.

The Bank also carries out reverse repo (R. Repo) agreements. These transactions are treated as a secure debt, and are included in the "Reverse repurchase agreements" item. Securities purchased within the framework of these agreements do not appear in the balance sheet. In the Statement of Operations, the results of these transactions are shown in the "Interest income from assets in foreign currency abroad" item.

(b) Foreign currency swaps

These transactions are included in the balance sheet in the sum of the differences between the foreign currency received and the foreign currency to be remitted in future, and are shown in net form in the "Derivative financial instruments" item.

In the Statement of Operations the results of these transactions are included in the "Interest income from assets in foreign currency abroad" item.

(c) Futures

The balance of futures contracts at market prices on the date of the financial statement is shown in Note 19, "Contingent liabilities and commitments".

In the Statement of Operations, the change in the value of the contracts is recorded under "Other financial income from (expenses on) securities and derivative financial instruments".

r. Offsetting financial balances

Financial assets and liabilities are presented in the balance sheet in net amount only when the Bank has a legal and enforceable offsetting right, and when it is intended to settle the asset or liability on a net basis or to realize the asset and settle the liability simultaneously.



s. Impairment of assets

The Bank applies Accounting Standard No. 15 (Amended)—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 in an amount greater than the recoverable amount, i.e. the net sale price or usage value (the present value of the estimated future cash flows expected to derive from the use and realization of the asset), whichever is higher.

The Standard applies to all balance sheet assets, except for financial assets. The Standard also lays down presentation and disclosure rules for assets that have been impaired. Where the value of an 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 its recoverable amount. A loss recognized in this manner is annulled 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 loss from impairment was recognized.

t. Cash-flow statements

These financial statements do not include cash-flow statements because such statements provide no significant information beyond that appearing in the financial statements; this practice corresponds with the general practice among central banks worldwide.

u. Taxes

According to the Bank of Israel Law, 5714-1954, concerning the payment of taxes, the Bank is tantamount to the State of Israel, and therefore exempt from paying certain taxes such as income tax and capital-gains tax.

2. Foreign currency assets and liabilities abroad

Foreign exchange reserves

As presented in the explanatory remarks, the economic analysis refers to foreign exchange reserves which consist of the balance of the "Foreign currency assets abroad" item less the balance in the "Foreign currency liabilities abroad" item.

The Bank's investment policy relates to these balances.

Following is the composition of the foreign exchange reserves:

	December 31		December 31	
	2009	2008*	2009	2008*
	(NIS million)		(\$ million)	
Foreign currency assets abroad	229,246	162,255	60,727	42,676
Foreign currency liabilities abroad	(435)	(620)	(115)	(163)
Total foreign exchange reserves	228,811	161,635	60,612	42,513

* Reclassified.

3. International Monetary Fund (IMF)

	December 31		December 31	
	2009	2008*	2009	2008*
	(NIS million)		(SDR million)	
IMF quota	5,493	5,436	928	928
Minus liability for the quota	(4,402)	(4,766)	(744)	(814)
Reserve tranche^a	1,091	670	184	114
Special Drawing Rights (SDRs)	4,651	50	786	9
Total balance with IMF	5,742	720	970	123

* Reclassified.
^a The surplus of the reserve tranche over the basic sum of SDR 33 million bears interest at a rate set by the IMF from time to time. The interest rate on December 31, 2009 was 0.22 percent (on December 31, 2008 it was 0.80 percent).

a. Bank of Israel participation in the IMF

Each member country of the International Monetary Fund has a quota for its participation in the Fund's capital which is denominated in the SDR currency. The quota is determined according to the country's economic indicators (national income, exports, balance of payments, and level of reserves) and it also determines the country's voting rights. The part of the quota that is paid in cash (the Reserve Tranche) is transferred to the Fund 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.

Since 1999 Israel has been part of IMF's Financial Transaction Plan.

This plan is a mechanism through which an IMF member country may exchange SDR or foreign currency against its local currency, and another country is asked to perform a counter exchange. These exchanges can affect the composition of the quota (between the Reserve Tranche and the notes and deposits), and liabilities on account of the quota, but they do not affect the level of the quota.





b. Special Drawing Rights (SDRs)

The balance includes SDRs granted by the IMF to Israel, as well as SDRs acquired by the Bank of Israel which to date remain unutilized. Against these SDRs the Bank has a liability towards the IMF with no repayment date, which is shown in the liabilities side of the "International financial institutions" item.

Following the economic crisis, in 2009 the IMF decided to grant its members SDRs in the amount of USD 250 trillion to support their foreign currency balances. In this context, in August and September 2009, the IMF made two SDR allocations, in which SDR 777 million was granted to Israel. In all, the IMF has granted Israel SDR 884 million to date (see Note 13).

At the end of 2009, Israel joined another IMF plan, "Voluntary arrangement for the purchase and sales of SDRs". Within the framework of this plan, Israel may be asked to sell or buy SDRs from other IMF members, as instructed by the Fund. These transactions may range from 50% to 145% of the accumulated allocation balance of the SDRs granted to Israel to date. Such activity may affect the balance of the SDRs held by the Bank of Israel, but not the balance of the Reserve Tranche.

4. Credit to the government

Credit to the government is composed of foreign-currency and local-currency balances.

	December 31	
	2009	2008
	(NIS million)	
In foreign currency		
Long-term indexed advances ^a	377	985
Binational funds	125	126
Total foreign currency credit to the government	502	1,111
In local currency		
Long-term unindexed advance^b	249	332
Total credit to the government	751	1,443

^a This credit is indexed to the first currency basket and bears annual interest of 8 percent, indexed to that basket. See Section b below.

^b This credit bears interest at prime rate plus 2 percent. The average interest rate in 2009 was 4.26 percent (in 2008, 7.34 percent). See Section b below.

a. Binational funds

Credit on account of binational funds was given to the government of Israel for investment in conjunction with United States government in binational funds involved for research, industrial development, and science. The funds deposited these amounts with the Bank of Israel and they are shown in the balance sheet as liabilities under the "Other liabilities" item. The fund's credit and deposits earn interest on the basis of LIBOR.

b. Long-term advances

Credit to the government consists of unindexed long-term advances and long-term advances indexed to the first basket of currencies, which were given until 1988.

- (a) Interest and indexation differentials on the principal balance on account of each year are due on December 31 of said year. The principal is payable in annual installments, the last of which is due in 2012.
- (b) (i) Correspondence in September 2003 between the Minister of Finance and the Governor of the Bank of Israel included several agreements regarding "Proposals in the Economic Program for 2004 Relating to the Bank of Israel". One of the items in that correspondence was the "repayment of the government's debt to the Bank of Israel due to be repaid on December 31, 2003", and it was determined that "the Bank of Israel will grant a loan to the government to finance the balance of the debt, principal and interest, due for repayment on December 31, 2003". This section also specified the repayment dates of the loan, the need for the conclusion of an agreement between the Bank and the Ministry of Finance on the interest payable, and that "if the Attorney General is of the opinion that the debt can be cancelled, then it shall be cancelled". The amount of the debt—principal and interest—due for repayment on December 31, 2003, was NIS 1,070 million (the total balance of the government debt, principal plus interest, prior to said repayment was NIS 5,460 million).
- (ii) In February 2005, the Deputy Attorney General's opinion on this matter, with the agreement of the Attorney General, was accepted that "there are no legal grounds preventing the Bank of Israel from canceling the government's debt to the Bank as agreed between the outgoing Governor and the Minister of Finance". The summary specifying the basis for this opinion stated that "It appears that from a legal standpoint the Bank of Israel has the authority to cancel a government debt to the Bank that predates the prohibition on granting loans to the government under Section 45 of the Bank of Israel Law". As for the reasonableness of a decision by the Bank of Israel to cancel a government debt to the Bank, the summary noted, "If there are macroeconomic reasons



supporting such a decision that are consistent with the Bank's objectives and policies, such a decision would not be unreasonable".

- (iii) On December 30, 2008, the Accountant General at the Ministry of Finance asked the Attorney General to intervene immediately to preclude the collection of the debt set for December 31, 2008. His request was not accepted. On January 4, 2009, the Attorney General stated in response that in his opinion, the dispute between the Ministry of Finance and the Bank of Israel was not a matter for legal decision, but a topic to be elucidated and resolved at the echelon of the Prime Minister, Minister of Finance, and the Governor of the Bank of Israel. On February 4, 2009, the Governor stated, in a letter to the Attorney General, that he agreed that the issue is not suited to a legal decision. The Governor stressed that even in the opinion of the Deputy Attorney General, as noted in Section (ii) above, the discretion to forgive or not forgive the debt resides exclusively with the Governor of the Bank of Israel.
- (iv) The Bank of Israel and the Ministry of Finance are currently in the advanced stages of negotiating a settlement of their disagreement regarding the summaries written in the correspondence of September 2003. The emerging solution is to recycle the long-term advances under conditions to be agreed. At the date of closing the financial reports, such agreement has not been signed.
- (v) In view of the aforementioned Section (iv), and based on the opinion of the Bank's management, appropriate provision was made in the Bank's books (see Notes 15, 22, and 26).

5. Loans

The balance at December 31, 2009 is for credit window monetary loans.

Where necessary, the Bank of Israel provides banking corporations with monetary loans via auction and a credit window in response to a request for monetary loans. The credit window monetary loans provided to banking corporations were given at interest of 0.25 percent above the Bank of Israel rate (until February 25, 2009—0.5 percent above the Bank of Israel rate; until December 23, 2008 1 percent above the Bank of Israel rate). The loans are not limited by quota and are given against appropriate guarantees.

The average interest rate for these loans in 2009 was 1.5 percent (in 2008—4.31 percent).

6. Tradable local currency securities

This item consists of tradable government securities indexed to the last CPI known on the balance sheet date, as well as unindexed securities (in 2008 the portfolio consisted of indexed securities only).

The securities are shown at fair value.

The yield to maturity on the securities portfolio at December 31, 2009 is 3.35 percent (yield to maturity at December 31, 2008 is 2.83 percent).

7. Other assets

	December 31	
	2009	2008
	(NIS millions)	
Loans to employees	188	208
Sundry receivables	11	2
Total other assets	199	210

8. International financial institutions

	December 31	
	2009	2008
	(NIS million)	
Investment in BIS shares	282	282
Balance related to other international financial institutions ^a	554	554
Total	836	836

^a As follows:

- 1) The World Bank Group
 - a. IBRD - International Bank for Reconstruction and Development
 - b. IDA - International Development Association
 - c. MIGA - Multilateral Investment Guarantee Agency
 - d. IFC - International Finance Corporation
- 2) EBRD - European Bank for Reconstruction and Development
- 3) IDB - Inter-American Development Bank
- IIC - Inter-American Investment Corporation



9. Fixed assets^a

	Land and buildings ^b	Equipment, furniture, software, and vehicles	Total
(NIS million)			
Cost			
Balance as of December 31, 2008	224	106	330
Additions	2	52	54
Balance as of December 31, 2009	226	158	384
Accumulated depreciation			
Balance as of December 31, 2008	35	78	113
Additions	5	10	15
Balance as of December 31, 2009	40	88	128
Net book balance as of December 31, 2009	186	70	256
Net book balance as of December 31, 2008	189	28	217

^a The Bank of Israel has a numismatic collection, which includes banknotes and coins issued in Israel from ancient times until today, along with various other items. According to an expert appraisal in November 2005, the value of the ancient coin collection is US\$ 1.7 million (the rest of the collection has yet to be appraised). The Bank of Israel also has a library containing professional (economic, financial, legal, etc.) and general literature. According to an assessor's appraisal in 2006, the replacement value of the library was US\$ 3 million. The "Fixed assets" item does not include these items.

^b The land of the Bank's premises in Jerusalem, with a depreciated cost of structures thereon amounting to NIS 175 million as of December 31, 2009 (NIS 177 million as of December 31, 2008), is leased from the Israel Lands Administration through June 30, 2016. The Bank holds an option to extend the lease for another 49 years.

10. Banknotes and coins in circulation

	December 31, 2009		December 31, 2008	
	Quantity	NIS	Quantity	NIS
	(million)		(million)	
Banknotes in circulation				
NIS 20	32	637	31	612
NIS 50	51	2,535	46	2,298
NIS 100	154	15,425	140	13,998
NIS 200	107	21,485	81	16,132
Coins in circulation		1,376		1,287
Other ^a		32		33
Total		41,490		34,360

^a Consisting mainly of old banknotes that can be exchanged in the Bank of Israel.

11. Government deposits

Government balances comprise balances in local currency and balances in foreign currency.

All the Government local currency balances in the Bank of Israel (excluding several extraordinary balances) can be offset against each other. The parties have no intention of offsetting the government's local currency balances with its foreign currency balances, and these balances are therefore stated separately.

	December 31		December 31	
	2009	2008*	2009	2008*
	(NIS million)		(\$ million)	
Foreign currency^a				
Deposit for money borrowed under US government guarantee	7,180	6,635	1,901	1,745
Current deposits	1,173	204	311	54
Other foreign currency deposit	127	21	34	6
Total foreign currency deposits	8,480	6,860	2,246	1,805
Local currency^b				
Current deposits	11,852	1,500		
Bond-price stabilization deposit	-	6		
Total local currency deposits	11,852	1,506		
Total government deposits	20,332	8,366		

* Reclassified.

^a Bond-price stabilization deposit

Government foreign currency deposits derived from borrowing under a US government guarantee and some other foreign currency deposits bear interest at the rate paid on US Treasury bills with an average of six months to maturity. The rate of interest on December 31, 2009 was 0.20 percent (on December 31, 2008, 0.27 percent).

^b Government local currency deposits

Current deposits consist of balances used for bond lending and balances for the financing of budgetary activity. The government balances used for bond lending activity bears the Bank of Israel rate of interest. The average rate of interest on these balances in 2009 was 0.77 percent (in 2008, 3.69 percent).

The other part of the government balances bears (when in debit) or is paid (when in credit) interest at prime. The average prime rate was 2.26 percent in 2009 (in 2008, 5.11 percent).

Bond-price stabilization deposit

The bond-price stabilization deposit represents the proceeds from the purchase, at source, of government securities by the Bank of Israel in order to stabilize prices on the Tel Aviv Stock Exchange (TASE). In accordance with an agreement with the Ministry of Finance, the proceeds were placed in a special deposit on behalf of the government, but may not be used to finance government expenses. At the request of the Ministry of Finance, the bond-price stabilization arrangement was discontinued in January 1993 and the deposit was gradually reduced against the redemption of such bonds purchased in the past. The redemption of these bonds ended in July 2009, and the balance of this deposit at December 31, 2009 is therefore zero.



12. Deposits of banking corporation

	December 31		December 31	
	2009	2008	2009	2008
	(NIS million)		(\$ million)	
Foreign currency deposits^a				
Demand deposits	1,700	14,806	450	3,894
Unrestricted deposits	-	4,905	-	1,290
Total foreign currency deposits	1,700	19,711	450	5,184
Local currency deposits^b				
Time deposits	91,503	28,313		
Demand deposits	13,312	15,301		
Total local currency deposits	104,815	43,614		
Total deposits of banking corporations	106,515	63,325		

^a Foreign currency deposits

1. Foreign currency demand deposits (called Pamach) serve as a liquid asset against nonresidents' foreign currency deposits. The reserve requirement ranges from 0 percent to 6 percent, depending on the term of the deposit.
2. The Bank of Israel receives unrestricted foreign currency deposits from the banks as collateral for their banks' activities in the Zahav (RTGS) system. The deposits are for a term of 30 days. The interest rate on these deposits on December 31, 2009 was 0.01 percent (on December 31, 2008, 0.01 percent).

^b Local currency deposits

1. The Bank of Israel receives local currency time deposits from the banking corporations. The deposits are allocated by auction for terms of one day or one week. The deposits are not considered liquid assets with regard to the banking corporations' reserve requirements. In addition, deposits are received at the deposits window available to the banking corporations at an interest rate of 0.25 percentage points under the Bank of Israel interest rate (until February 25, 2009 it was 0.5 percentage points under the Bank of Israel interest rate; until December 23, 2008, 1 percentage points under the Bank of Israel interest rate). The interest rate for deposits at the deposit window on December 31, 2009 was 1 percent (on December 31, 2008, 2 percent). The average interest rate for deposits at the deposit window in 2009 was 0.51 percent (in 2008, 2.05 percent). The average interest rate for time deposits by auction on December 31, 2009 was 1.24 percent (on December 31, 2008, 2.45 percent). The average interest rate for time deposits by auction in 2009 was 0.72 percent (the average in 2008 was 3.13 percent).
2. The banking corporations' local currency demand deposits serve as a liquid asset against residents' local currency deposits. The reserve requirements ranges from 0 percent to 6 percent, depending on the term of the deposit.

13. International financial institutions

	December 31		December 31	
	2009	2008	2009	2008
	(NIS million)		(SDR million)	
Special Drawing Rights allocated ^a	5,230	624	884	107
Liabilities to international financial institutions ^b	46	47	8	8
Total	5,276	671	892	115

^a Special Drawing rights (SDRs) are sums that member states in the International Monetary Fund (IMF) undertook to purchase from the Fund. No repayment date has been set for this liability. The IMF allocates SDR to its constituent states commensurate with the size of their quotas. In 2009 the IMF made two allocations to Israel, totaling SDR 777 million (see Note 3). Israel's allocation so far is SDR 884 million.

^b Liabilities in notes, deposits or letters of guarantee to the following institutions: IDA, EBRD, MIGA and IDB (see Note 1h).

14. *Makam* deposits

	December 31	
	2009	2008
	(NIS million)	
Redemption value of <i>makam</i> sold to the public	86,082	71,722
Less discount at time of sale to public	(1,320)	(2,620)
Proceeds of sale of <i>makam</i> to the public	84,762	69,102
Plus reduction in discount for period to balance sheet date	644	1,296
Total balance of <i>makam</i>	85,406	70,398

The Short-Term Loan Law, 5744-1984, authorizes the government to issue short-term bills (called *makam*, their Hebrew acronym) to be sold only to the Bank of Israel, with the Bank selling them to, and buying them from, the public in order to regulate the money supply and carry out its functions. The government must deposit all proceeds from sales of these bills with the Bank of Israel and may not use them for any purpose other than repayment of the loan taken under said Law, or payment of the yield on it. The purchase of bills from the government by the Bank of Israel and the deposit of the proceeds of this sale 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.





15. Other liabilities

	December 31	
	2009	2008
	(NIS million)	
Pension and severance pay liabilities ^a	3,780	3,447
Other liabilities on employees' rights	128	143
Binational funds	125	131
Accounts payable ^b	378	78
Total other liabilities	4,411	3,799

^a The balance in 2009 includes for the first time the effect of the wage agreement signed on April 17, 2008, and an addition for wage erosion pursuant to the ruling of the District Labor Court in August 2008.

^b The balance includes a provision for a loss on the expected recycling of long-term advances given to the government (see Notes 4, 22 and 26).

a. Pension and severance pay liabilities

Pension liability is calculated according to the pension agreements with the Bank's employees and pensioners who commenced their employment before September 2002 and their survivors (on December 31, 2009—378 employees, 666 retirees; on December 31, 2008 this consisted of 430 employees, and 628 retirees). The pension liability includes future payment of benefits for Bank employees, former Bank employees whose pensions have been frozen, retirees, and survivors. It also includes obligations on account of the cash value of unused sick leave upon retirement and retirement grants.

The Bank's liability is calculated on the basis of salary and pension data for December 2009 and actuarial calculations. The calculation was performed using a method of estimating benefits which are accrued under various parameters: early retirement rates, pension rates for surviving spouses and orphans, employees' seniority and grade, relevant tax rates, etc.

The actuarial calculation is based on foreseen changes in white-collar mortality rates, in accordance with the Pension Fund Directives published by the Capital Market, Insurance, and Savings Division of the Ministry of Finance on May 17, 2007.

The Bank's actuarial liability was calculated on the basis of a 4 percent discount rate, in accordance with the public reporting directives of the Supervisor of Banks and based on past experience. The calculation assumes a real annual wage increase of up to 1.5 percent. (Until 2008, a real annual increase of up to 2 percent was assumed.)

For Bank employees who commenced their employment after September 2002, the Bank's liability for pension and severance pay is covered by regular deposits with 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 reflected in the balance sheet.

b. Other liabilities on employees' rights

This item consists mainly of an NIS 81 million liability for employees' vacation (in 2008–NIS 85 million).

The liability at December 31, 2009 and 2008 was calculated on the basis of the determining wage for the redemption of vacation and the number of vacation days as accrued up to the balance sheet date.

16. Revaluation accounts

Revaluation accounts include unrealized profits from the revaluation of the following items (see Notes 1.g, 1.m, and 1.n):

	December 31	
	2009	2008
	(NIS million)	
Foreign currency balances	2,530	2,169
Tradable foreign currency securities	899	2,432
Tradable local currency securities	724	698
Total revaluation accounts	4,153	5,299

17. Share capital and general reserves in historical nominal values

Data on the Bank's share capital and general reserves appear in the financial statements in reported values. (See Note 1.c.) The following shows the data in historical nominal values:

	December 31	
	2009	2008
	(NIS million)	
Share capital	60	60
General reserve ^a	260	260
Total Bank capital in historical nominal values	320	320

^a The general reserve is in accordance with Section 6 of the Bank of Israel Law, 5714–1954, and has been applied in the past to increase the Bank's capital.



18. Assets and liabilities according to indexation bases

	December 31, 2009				December 31, 2008*			
	In local currency	In foreign currency ^a	Nonfinancial items	Total	In local currency	In foreign currency ^a	Nonfinancial items	Total
	(NIS million)				(NIS million)			
Assets								
Foreign-currency assets abroad		229,246		229,246		162,255		162,255
Credit to the government ^b	249	502		751	332	1,111		1,443
Loans	420			420				-
Tradable securities in local currency	20,221			20,221	2,427			2,427
Reverse repurchase agreements				-	2,001			2,001
Other assets	199			199	210			210
International financial institutions			836	836			836	836
Fixed assets			256	256			217	217
Total assets	21,089	229,748	1,092	251,929	4,970	163,366	1,053	169,389
Liabilities								
Banknotes and coins in circulation	41,490			41,490	34,360			34,360
Foreign-currency liabilities abroad		435		435		620		620
Government deposits	11,852	8,480		20,332	1,506	6,860		8,366
Deposits of banking corporations	104,815	1,700		106,515	43,614	19,711		63,325
International financial institutions		5,276		5,276		671		671
<i>Makam</i>	85,406			85,406	70,398			70,398
Other liabilities	4,286	125		4,411	3,668	131		3,799
Revaluation accounts	724	3,429		4,153	698	4,601		5,299
Total liabilities	248,573	19,445	-	268,018	154,244	32,594	-	186,838
Difference	(227,484)	210,303	1,092	(16,089)	(149,274)	130,772	1,053	(17,449)

* Reclassified.

^a Including foreign currency indexed.

^b Foreign currency credit to the government includes long-term advances totaling NIS 377 million in shekel indexed to the first currency basket exchange rate (on December 31, 2008, about NIS 985 million).

19. Contingent liabilities^a and commitments

	31 December	
	2009	2008
	(NIS million)	
Off-balance-sheet financial instruments		
Guarantees for government exports	191	193
Liabilities to pay international financial institutions on demand	3,181	3,208
Commitments		
Financial instruments in activity in Israel		
Reverse Repurchase Agreements (R.Repo)	-	1,740
Future remittances of <i>makam</i> -at par	-	160
Financial instruments in activity abroad		
Currency swaps and forward transactions		
Future receipts of foreign currency	4,588	5,009
Future payments of foreign currency	4,564	5,623
Repurchase Agreements (Repo) and Reverse Repurchase Agreements (R.Repo)		
Repo	434	-
R.Repo	8,285	3,518
Futures transactions on interest—in face value terms		
Purchase commitments	9,350	-
Futures transactions on bonds—in face value terms		
Purchase commitments	-	742
Sales commitments	-	416

^a Several claims are pending against the Bank of Israel. However, it is the Bank's opinion, based on the opinion of the Bank's Legal Department, that the probability of these claims being upheld is low, or that the sums involved are not significant and therefore no provisions have been recorded in respect thereof.

20. Interest income from financial assets in foreign currency abroad

	For the year ended December 31	
	2009	2008*
	(NIS million)	
Demand deposits	2	16
Short-term deposits	6	416
Tradable securities	2,530	2,904
Securities purchased under R.Repo agreements	25	37
Derivative financial instruments, net	(3)	58
IMF	7	7
Total interest income from assets in foreign currency abroad	2,567	3,438

* Reclassified.





a. Interest income from (expense on) foreign currency abroad

The following shows the composition of interest income from (expense on) foreign exchange reserves (see Notes 2, 24).

	For the year ended December 31	
	2009	2008*
	(NIS million)	
Interest income from foreign currency assets abroad	2,567	3,438
Interest paid on foreign currency liabilities abroad	(5)	(221)
Total income from foreign exchange reserves	2,562	3,217

* Reclassified.

21. Interest income from loans

	For the year ended December 31	
	2009	2008
	(NIS million)	
From monetary loans	-	173
From other loans ^a	-	16
Total	-	189

^a Mostly deriving from interest on credit advanced to the Industrial Development Bank.

In August 2002 the Industrial Development Bank encountered liquidity problems and could not meet its liabilities. The Bank of Israel made available to it a special credit line to enable it to continue operating normally. The credit line was originally NIS 2,200 million, which was reduced from time to time till it was closed in December 2008. At the end of the period the government paid of the balance of the credit, in the sum of NIS 305 million. The Industrial Development Bank paid interest at the Bank of Israel interest rate on the credit it used (see also Note 25).

22. Interest income from the government

	For the year ended December 31	
	2009	2008
	(NIS million)	
Long-term advances^a		
Indexed	38	128
Unindexed	7	30
From binational funds	71	69
From local-currency securities	789	251
Total	905	478

^a Including the effect of the reduction of interest due to the expected recycling of the advances in accordance with the principles agreed with the Ministry of Finance (see Notes 4, 15 and 22).

23. Other interest income

This item consists of interest income from reverse repurchase agreements of *makam* and government bonds.

24. Interest expense on financial liabilities in foreign currency abroad

This item consists of interest expense in respect of securities sold within the framework of repurchase agreements (see Note 20).

25. Interest expense to banks and the public

	For the year ended December 31	
	2009	2008
	(NIS million)	
In local currency		
On <i>makam</i> deposits	1,969	3,262
On local currency time deposits	425	29
Other ^a	-	49
Total in local currency	2,394	3,340
In foreign currency		
On banks' deposits	-	98
Total	2,394	3,438

^a Expense due to the Bank of Israel's forgiving the Industrial Development Bank an amount of interest it had paid in the past on the special credit line made available to it. The amount was the interest above the Bank of Israel interest rate (see also Note 21).

26. Interest expense to the government

	For the year ended December 31	
	2009	2008*
	(NIS million)	
On account of local-currency balances ^a	410	332
On account of foreign currency balances	20	106
Total	430	438

* Reclassified

^a The expense of local currency interest paid to the government includes, in addition to interest expense on balances for financing the budget, the interest on the provision for the loss on the expected recycling of long-term advances made to the government (see Notes 4, 15 and 22), and on the bond price stabilization deposit (see Note 11).



27. Other interest expense

This item consists mainly of interest expense to international financial institutions, on deposits of the US-Israel Binational Industrial Research and Development (BIRD) Foundation, a deposit of the US-Israel Binational Science Foundation, and the National Insurance Institute.

28. Other financial income from (expense on) securities and derivatives

	For the year ended December 31	
	2009	2008*
	(NIS million)	
Securities^a		
In foreign currency	2,704	2,506
In local currency	(54)	-
Total securities	2,650	2,506
Derivative financial instruments^b		
In foreign currency	(6)	(14)
Total	2,644	2,492

* Reclassified
^a Gain from the sale of securities and loss from reduction in their value at the end of the year, net.
^b Including financial income from (expense on) the realization of derivative financial instruments.

29. Other financial income from (expense on) exchange rate differentials

This item consists of realized exchange rate differentials on account of balances denominated in foreign currency—see Notes 1.m and 1.n.

30. Other financial income (expense) - miscellaneous^a

	For the year ended December 31	
	2009	2008
	(NIS million)	
In local currency	4	8
In foreign currency	(30)	(9)
Total	(26)	(1)

^a Consisting mainly of fees income from (expense on) the Bank of Israel's financial activities.

31. Administrative and General expenses

	For the year ended December 31	
	2009	2008
	(NIS million)	
Staff wages and employees' rights ^a	804	551
General expenses	75	63
Total	879	614

^a Consisting mainly of employees' salaries (on December 31, 2009 there were 691 employee posts, and on December 31, 2008, 712), unfunded (non-contributory) pension payments, and an update of the Bank's pension and vacation liabilities to employees (see Note 15).

32. Other income

This item consists mainly of income from refunds for expenses paid by the Bank in the past, within the framework of guarantees given to banks in liquidation.

