NOTES TO THE FINANCIAL STATEMENTS FOR 2012

1. Accounting policies

a. General

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

1. Revaluation accounts - as detailed in section m below.
2. Statements of Cash Flows - as detailed in section t below.

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 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"**—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 an asset can be acquired or sold (a liability assumed or settled) in a current transaction between independent willing parties.

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 the purchasing power of the Israeli currency. In the financial statements for 2005, comparative figures for the year ended 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 served as a starting point for nominal financial reporting as of January 1, 2004. Any additions and disposals made during the period were included in their nominal values.
3. Amounts of nonfinancial 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. Nonfinancial items (fixed assets and investments shown at cost) are stated in reported amounts.
   b. Financial 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 from nonfinancial items (such as depreciation, prepaid expenses and accrued 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.
   b. All other items of the Statement of Operations (such as interest income and interest expenses) are stated at their nominal values.
3. Statement of Changes in Equity:
   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 the 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, 2012 there is no obligation to transfer funds to the Government.

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 whose final effect 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 expenditures are charged to the Statement of Operations on an accrual basis.

Realized gains or losses from foreign currency and securities in local and foreign currency are transferred to the Statement of Operations. 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 Operations but rather are charged to the "revaluation accounts" line item in the balance sheet.

Unrealized losses are transferred to the Statement of Operations 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 Operations are not offset against unrealized gains that will accrue in the future

g. Securities

1) Foreign currency securities

Tradable foreign currency securities are stated in the Balance Sheet at their fair value as of 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.

The adjusted cost of securities is their par 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 par value plus interest and the unamortized balance of the premium or discount is charged to the Statement of Operations.

Unrealized differentials from indexation to an index published abroad which accrued on the principal, and the difference between the fair value of the securities and their adjusted cost are charged to the "revaluation accounts" line item 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 "interest income from assets in foreign currency abroad" line item.

Income from the realization of securities is stated in "other financial income (expense)—securities and derivative financial instruments".

The balance of unrealized losses is charged to the Statement of Operations at the end of the year and stated under "other financial income (expense)—securities and derivative financial instruments".

2) Local currency securities

Tradable Government securities 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 securities and their par value, plus interest and the unamortized balance of the premium or discount is charged to the Statement of Operations.

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

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

The balance of unrealized losses is charged to the Statement of Operations at the end of the year and stated under "other financial income (expense)—securities and derivative financial instruments".

h. International financial institutions

The International Monetary Fund (IMF)

International Monetary Fund (IMF) balances are managed in Special Drawing Rights (SDR) and presented in NIS using the representative exchange rates published by the Bank of Israel as of the balance sheet date (see Notes 3 and 12 below).

Balances in respect of international financial institutions

The Bank of Israel's participation in other international financial institutions is presented under assets in the "international financial institutions" line item the 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 pursuant to Accounting Standard No. 12. Liabilities to international financial institutions are presented under liabilities in the "international financial institutions" line 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 and depreciated over their useful lives, whereas maintenance and repair 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 - 50–67 years;
   Motor vehicles - 6.5 years;
   Computers - 4 years;
   Equipment - 10 years.
4. 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 4 years.

j. 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.

k. Short term loan (called *makam*)

The balance of short term loans (called *makam*, their Hebrew acronym) in the Balance Sheet reflects the redemption price of the loan 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 a 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 Operations in "interest expense to banks and the public".

l. Liabilities in respect of employee rights

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

Liabilities in respect 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 applicable to the reserves is set in accordance with the rate established in directives issued by the Supervisor of Banks, and the rate of future salary increases is estimated by management and based on past experience.

The provision for vacation pay is computed on the basis of the accrued vacation days at October 31 and the effective salary for vacation redemption at the balance sheet date. The difference in the liability that derives from the accrual of vacation days between October 31 and December 31 is immaterial (see Note 14).

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 recognized in the Statement of Operations when the item is fully or partially realized. No offsetting among different types of items is performed. Revaluation accounts in respect of externally managed portfolios are managed at the individual portfolio level.

Accumulated loss in the revaluation accounts that originates in 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 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 NIS according to the representative exchange rates 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 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.

Unrealized exchange rate differentials are charged to revaluation accounts separately for each foreign currency. Realized exchange rate differentials are carried to the Statement of Operations and are calculated on the basis of the average cost of the balances of the relevant currency. 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 carried to the Statement of Operations and is not offset against future unrealized gains. Unrealized losses in one currency are not offset against unrealized gains in another currency.

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

	December 31			Rate of Change	
	2012	2011	2010	2012	2011
		(NIS)		(Percent)	
USD	3.7330	3.8210	3.5490	(2.3)	7.7
Euro	4.9206	4.9381	4.7379	(0.4)	4.2
Pound sterling	6.0365	5.8918	5.4928	2.5	7.3
Special drawing rights (SDR)[a]	5.7311	5.8662	5.4825	(2.3)	7.0

[a] The SDR rate is published by the IMF. It is determined according to a weighted basket of four currencies - the US dollar, euro, Japanese yen, and Pound Sterling.

o. Indexation

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

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

		December 31			Rate of Change	
		2012	2011	2010	2012	2011
		(Points)			(Percent)	
CPI	November	122.1	120.4	117.4	1.4	2.6
	December	122.3	120.4	117.8	1.6	2.2

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.

Following are the interest rates as of December 31:

	December 31			Rate of Change	
	2012	2011	2010	2012	2011
	(Percent)				
Bank of Israel interest	2.00	2.75	2.00	(27.3)	37.5
Prime interest	3.50	4.25	3.50	(17.6)	21.4

q. Financial instruments

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

Activity in financial instruments in Israel:

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 foreign currency assets abroad".

Activity in financial instruments abroad:

1. **Repurchase (Repo) and Reverse Repurchase (R. Repo) Agreements**

   The Bank carries out repurchase (Repo) agreements. Such transactions are composed of the sale of securities under an agreement to purchase them in the future. The transaction is treated as a secured 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 expenses from foreign currency liabilities abroad" item.

   The Bank also carries out reverse repo (R. Repo) agreements. These transactions are treated as a secured 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.

2. **Foreign currency swaps and forwards**

   These transactions are included on the Balance Sheet in the sum of the differences between the foreign currency received and the foreign currency to be remitted in the future, and are shown in their net amounts 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.

3. **Futures**

   The balance of futures contracts at face value on the date of the financial statements is shown in Note 18 - "contingent liabilities and commitments".

   In the Statement of Operations, the change in the value of the contracts is recorded under "other financial income (expense)—securities and derivative financial instruments".

r. Offsetting financial balances

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 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 (Revised), "Impairment of Assets" ("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 selling price or value in use (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 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.

t. Statements of cash flows

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

u. 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, and therefore is 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 of 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	
	2012	2011	2012	2011
	(NIS million)		(USD million)	
Foreign currency assets abroad	284,043	286,981	76,090	75,106
Less: Foreign currency liabilities abroad	(688)	(884)	(184)	(231)
Total foreign exchange reserves	**283,355**	**286,097**	**75,906**	**74,875**

3. International Monetary Fund (IMF)[a]

	December 31		December 31	
	2012	2011	2012	2011
	(NIS million)		(SDR million)	
IMF quota	6,081	6,225	1,061	1,061
Less: Liability for the quota	(4,216)	(4,315)	(735)	(735)
Reserve tranche	**1,865**	**1,910**	**326**	**326**
NAB loans	**339**	**202**	**59**	**34**
Special Drawing Rights (SDRs)	**4,761**	**4,852**	**831**	**827**
Total IMF balance	**6,965**	**6,964**	**1,216**	**1,187**

[a] The balances bear interest pursuant to the IMF's terms.

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 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.

In 2011, a reform was carried out in the quotas and in the IMF's voting rights. In the first stage, which came into effect in March 2011, Israel's quota was increased by about SDR 133 million to approximately SDR 1,061 million. During the second stage, Israel's quota is expected to increase to about SDR 1,921 million following the IMF's approval, which has not yet been received as of the date of signing the financial statements.

Since 1999, Israel has been part of the IMF's Financial Transaction Plan. This plan is a mechanism through which an IMF member country may exchange SDRs or foreign currency against its local currency and another country is asked to perform a counter exchange.

b. NAB loans

In 2010, Israel joined 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. However, the loans may be repaid to Israel at an earlier date at its request, should it need the money.

As of December 31, 2012, the Bank has provided loans that bear interest at the IMF's terms in an aggregate of NIS 339 million (SDR 59 million).

The credit line which the Bank has provided as of the balance sheet date totals SDR 500 million. Once the increase of Israel's IMF quota becomes effective, the Bank's credit line to the IMF will be reduced to SDR 340 million.

c. Special Drawing Rights (SDRs)

The balance includes SDRs allocated by the IMF to Israel. Against these allocations the Bank has a liability towards the IMF with no repayment date, which is shown in liabilities under the "international financial institutions" item. The State is not required to hold all the SDRs allocated to it.

At the end of 2009, Israel joined another IMF plan, "Voluntary Arrangement for the Purchase and Sale of SDRs". Within the framework of this plan, the State of Israel may be asked to sell or buy some SDRs from other IMF members, as instructed by the IMF.

4. Credit to the government

Binational funds

Credit on account of binational funds was given to the Government of Israel for investment in conjunction with the United States Government in binational funds involved in research, industrial development and science. The funds deposited these sums in the Bank of Israel and they are shown on the Balance Sheet as liabilities under the "other liabilities" item. Both the credit and the fund deposits earn either fixed interest of 4–4.125 percent or interest on the basis of LIBOR.

5. Tradable securities in local currency

This item consists of tradable Government securities indexed to the last CPI level known on the balance sheet date, as well as unindexed securities. The securities are shown at fair value.

The yield to maturity on the securities portfolio at December 31, 2012 is 1.55 percent (December 31, 2011—2.58 percent).

6. Other assets

	December 31	
	2012	2011
	(NIS million)	
Loans to employees	121	139
Sundry receivables	3	2
Total other assets	**124**	**141**

7. International financial institutions

	December 31	
	2012	2011
	(NIS million)	
Investment in BIS shares	282	282
Balance related to other international financial institutions[a]	677	641
Total	**959**	**923**

(a) The balances are in respect of the following institutions:
i) The World Bank Group
1. IBRD—The International Bank for Reconstruction and Development
2. IDA—The International Development Association
3. MIGA—The Multilateral Investment Guarantee Agency
4. IFC—The International Finance Corporation
ii) EBRD—The European Bank for Reconstruction and Development
iii) IDB—The Inter-American Development Bank
IIC—The Inter-American Investment Corporation

In December 2011, the Bank decided to participate in the ninth general capital increase of the Inter-American Development Bank ("IDB"). In this framework, the Bank will purchase 223 paid-in shares for approximately $3 million, and 8,966 shares of callable capital for approximately $108 million (see Note 18 below). The purchase and receipt of the shares are spread over a period of five years, commencing in the first quarter of 2012.

In November 2012, the Bank decided to participate in the general capital increase of the International Bank for Reconstruction and Development ("IBRD"). In December 2012, the Bank purchased 1,269 paid-in shares valued at approximately $9 million and subscribed to IBRD callable capital valued at approximately $144 million (see Note 18 below). The capital increase became effective in December 2012.

In November 2012, the Bank decided to participate in the general capital increase of the European Bank for Reconstruction and Development ("EBRD") by subscribing to callable capital valued at approximately €58,520,000 in consideration for the purchase of 5,852 shares, see Note 18 below. The capital increase became effective in December 2012.

In all the above capital increases, callable capital was issued, which may be exercised by the institutions only in times of need, a scenario which is relatively unlikely.

8. Fixed assets

	Land and buildings[a]	Equipment, furniture, computers, software, and vehicles	Total
		(NIS million)	
Cost			
Balance as of December 31, 2011	236	234	470
Additions	7	61	68
Disposals	-	(1)	(1)
Balance as of December 31, 2012	**243**	**294**	**537**
Accumulated depreciation			
Balance as of December 31, 2011	50	124	174
Additions	5	30	35
Disposals	-	-	-
Balance as of December 31, 2012	**55**	**154**	**209**
Depreciated balance as of December 31, 2012	**188**	**140**	**328**
Depreciated balance as of December 31, 2011	**186**	**110**	**296**

[a] The Bank's property in Jerusalem—the cost of which, including the depreciated cost of the structures thereon amounts to NIS 169 million as of December 31, 2012 (NIS 173 million as of December 31, 2011)—is leased from the Israel Land Administration through June 30, 2016. The Bank holds an option to extend the lease for another 49 years.

9. Banknotes and coins in circulation

	December 31, 2012		December 31, 2011	
	Quantity	NIS	Quantity	NIS
	(million)		(million)	
Banknotes in circulation				
NIS 20	34.67	693	34.14	683
NIS 50	51.12	2,556	45.76	2,288
NIS 100	145.71	14,571	140.90	14,090
NIS 200	176.46	35,291	151.78	30,356
Coins in circulation		1,655		1,556
Other[a]		2		2
Banknotes and Commemorative coins		5		*5
Total		**54,773**		***48,980**

* Reclassified.
[a] The balance consists mainly of old banknotes that can be exchanged at the Bank of Israel.

10. Government deposits

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

	December 31		December 31	
	2012	2011	2012	2011
	(NIS million)		(USD million)	
In foreign currency[a]				
Current deposits	5,234	*989	1,402	*259
Other deposits	730	*1,019	196	*267
Total foreign currency deposits	**5,964**	**2,008**	**1,598**	**526**
In local currency[b]				
Current deposits	**11,469**	***11,288**		
Total government deposits	**17,433**	**13,296**		

* Reclassified.
[a] **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 2012 was 0.132 percent (2011- 0.105 percent).
[b] **Government deposits in local currency**
The current deposits and the balances used for bond lending are designated for financing budgetary activity. Local currency current deposits bear (when in debit) or are paid (when in credit) interest at the Prime rate. The average Prime rate in 2012 was 3.85% (in 2011 - 4.38%), other than the Government balances used for bond lending and other Government balances for which a different interest rate is collected.

11. Deposits of banking corporations

	December 31		December 31	
	2012	2011	2012	2011
	(NIS million)		(USD million)	
Deposits in foreign currency[a]				
Demand deposits	**1,485**	**2,410**	**398**	**631**
Deposits in local currency[b]				
Time deposits	107,018	106,024		
Demand deposits	18,369	23,414		
Total deposits in local currency	**125,387**	**129,438**		
Total deposits of banking corporations	**126,872**	**131,848**		

[a] **Deposits in foreign currency**
Foreign currency demand deposits (known by their Hebrew acronym, Pamach) serve as a liquid asset against nonresidents' foreign currency deposits. The reserve requirement ranges from 0–6 percent, depending on the term of the deposit.

[b] **Deposits in local currency**
1. The Bank of Israel receives NIS time deposits from the banks. 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 (overnight) deposit window available to the banking corporations at an interest rate of 0.5 percentage points below the Bank of Israel interest rate (until November 24, 2010 - 0.25 percentage points below the Bank of Israel interest rate). The interest rate for deposits at the window on December 31, 2012 was 1.25 percent (on December 31, 2011 - 2.25 percent). The average interest rate for deposits at the window in 2012 was 1.81 percent (in 2011 - 2.54 percent). The average interest rate for time deposits by auction on December 31, 2012 was 1.75 percent (on December 31, 2011 - 2.75 percent). The average interest rate for time deposits by auction in 2012 was 2.34 percent (in 2011 - 2.93 percent).
2. The banking corporations' local currency demand deposits serve as a liquid asset against residents' local currency deposits. The reserve requirement ranges from 0–6 percent, depending on the term of the deposit.

12. The IMF and international financial institutions

	December 31		December 31	
	2012	2011	2012	2011
	(NIS million)		(SDR million)	
Special Drawing Rights allocated[a]	5,063	5,184	884	884
Liabilities to international financial institutions[b]	6	6	1	1
Total	**5,069**	**5,190**	**885**	**885**

[a] Special Drawing Rights (SDRs) are sums 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. In 2009, the IMF allocated to Israel a total of SDR 777 million (see Note 3 above). As of December 31, 2012, Israel has been allocated a total of SDR 884 million.

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

13. *Makam*

	December 31	
	2012	2011
	(NIS million)	
Redemption value of short-term loans sold to the public	117,889	123,418
Less: Discount at time of sale to public	(2,549)	(3,579)
Proceeds from sale of *makam* to the public	**115,340**	**119,839**
Plus amortization of discount difference for the period through the balance sheet date	1,384	1,693
Total balance of *makam*	**116,724**	**121,532**

The Short-Term Loan Law, 5744–1984, authorizes the Government to issue short-term bills which may only be sold 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 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.

14. Other liabilities

	December 31	
	2012	2011
	(NIS million)	
Pension and severance pay liabilities	4,018	3,897
Liability for employees' and other rights	143	136
Binational funds	125	126
Accounts payable[a]	196	*231
Total other liabilities	**4,482**	***4,390**

* Reclassified.

[a] The balance mainly comprises accounts of statutory bodies that are managed in the Bank of Israel.

a. Pension and severance pay liabilities

The 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, 2012 - 318 employees and 702 retirees; on December 31, 2011 - 341 employees and 673 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 2012 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 as well as other demographic tables, in accordance with pension circular 2013-3-1 published by the Capital Market, Insurance, and Savings Division of the Ministry of Finance regarding the preparation of actuarial calculations.

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 salary increase of 1.5 percent and 3 percent, based on the employee's age.

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 recorded in the balance sheet.

b. Liability for employees' and other rights

This item consists mainly of a liability for employees' vacation pay of NIS 98 million (in 2011 - NIS 96 million.) The liability at December 31 is calculated on the basis of the accrued vacation days due at October 31 and the effective salary for vacation redemption at the balance sheet date. The difference in the liability that derives from the accrual of vacation days between October 31 and December 31 is immaterial.

15. 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	
	2012	2011
	(NIS million)	
Balances denominated in foreign currency	12,209	16,938
Tradable securities in foreign currency	1,185	998
Tradable securities in local currency	1,842	1,377
Total revaluation accounts	**15,236**	**19,313**

16. Share capital and general reserves in historical nominal values

Data on the Bank's share capital and general reserve appear in the financial statements in reported amounts (see Note 1c above).

The amount in historical nominal values is NIS 320 million at December 31, 2012 and 2011.

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.

17. Assets and liabilities by indexation bases

	December 31, 2012				December 31, 2011			
	Local currency	Foreign currency[a]	Nonfinancial items	Total	Local currency	Foreign currency[a]	Nonfinancial items	Total
	(NIS million)				(NIS million)			
Assets								
Foreign currency assets abroad	-	284,043	-	**284,043**	-	286,981	-	**286,981**
Credit to the government	-	123	-	**123**	-	126	-	**126**
Tradable securities in local currency	17,102	-	-	**17,102**	19,595	-	-	**19,595**
Other assets	124	-	-	**124**	141	-	-	**141**
International financial institutions	-	-	959	**959**	-	-	923	**923**
Fixed assets	-	-	328	**328**	-	-	296	**296**
Total assets	**17,226**	**284,166**	**1,287**	**302,679**	**19,736**	**287,107**	**1,219**	**308,062**
Liabilities								
Banknotes and coins in circulation	54,773	-	-	**54,773**	*48,980	-	-	**48,980**
Foreign currency liabilities to abroad	-	688	-	**688**	-	884	-	**884**
Government deposits	11,469	5,964	-	**17,433**	*11,288	2,008	-	**13,296**
Deposits of banking corporations	125,387	1,485	-	**126,872**	129,438	2,410	-	**131,848**
The IMF and international financial institutions	-	5,069	-	**5,069**	-	5,190	-	**5,190**
Makam	116,724	-	-	**116,724**	121,532	-	-	**121,532**
Other liabilities	4,357	125	-	**4,482**	*4,264	126	-	**4,390**
Revaluation accounts	1,842	13,394	-	**15,236**	1,377	17,936	-	**19,313**
Total liabilities	**314,552**	**26,725**	**-**	**341,277**	**316,879**	**28,554**	**-**	**345,433**
Difference	**(297,326)**	**257,441**	**1,287**	**(38,598)**	**(297,143)**	**258,553**	**1,219**	**(37,371)**

* Reclassified.
[a] Including balances linked to foreign currency.

18. Contingent liabilities[a] and commitments

	31 December	
	2012	2011
	(NIS million)	
Off-balance-sheet financial instruments		
Guarantees for Government exports	40	51
Documentary credit	99	125
Callable capital from international financial institutions	4,046	3,214
Liabilities for payment to the IMF on demand[b]	2,527	2,734
Liabilities to purchase shares from international financial institutions[c]	340	420
Commitments in respect of financial instruments		
Currency swaps and forward transactions		
Future receipts of foreign currency	28,651	28,851
Future payments of foreign currency	27,829	27,894
Repurchase Agreements (Repo) and Reverse Repurchase Agreements (R.Repo)		
R.Repo	7,719	15,792
Bond futures—in face value terms		
Sales commitments	94	-

[a] Several claims are pending against the Bank of Israel. However, no provision has been recorded in the Bank's books in respect of these claims since 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.
[b] See Note 3a above.
[c] See Note 7 above.

19. Interest income from financial assets in foreign currency abroad

	For the year ended December 31	
	2012	2011
	(NIS million)	
Demand deposits	6	3
Short-term deposits	1	46
Tradable securities	2,018	2,662
Securities purchased under R.Repo agreements	25	20
Derivative financial instruments, net	84	31
IMF	7	25
Total interest income from assets in foreign currency abroad	**2,141**	**2,787**

Interest income from (expense on) foreign exchange reserves

The following shows the composition of interest income from (expense on) foreign exchange reserves. (see Notes 2 and 22.)

	For the year ended December 31	
	2012	2011
	(NIS million)	
Interest income from foreign currency assets abroad	2,141	2,787
Less: Interest expense on foreign currency liabilities abroad	-	(9)
Total income from foreign exchange reserves	**2,141**	**2,778**

20. Interest income from the government

	For the year ended December 31	
	2012	2011
	(NIS million)	
Binational funds	75	74
Securities in local currency	725	702
Total	**800**	**776**

[a] See Note 4.

21. Other interest income

This item consists of interest income from banks in respect of balances bearing the Bank of Israel interest rate.

22. Interest expenses on foreign currency liabilities abroad

This item consists of interest expense in respect of securities sold within the framework of repurchase agreements. (see Note 19.)

23. Interest expenses to banks and the public

	For the year ended December 31	
	2012	2011
	(NIS million)	
Makam	3,340	3,275
Time deposits	2,307	2,922
Total	**5,647**	**6,197**

24. Interest expenses to the government

	For the year ended December 31	
	2012	2011
	(NIS million)	
Balances in local currency[a]	657	*690
Balances in foreign currency	1	1
Total	**658**	***691**

* Reclassified.

[a] Interest expenses to the Government are in local currency (see Note 10 above).

25. Other interest expenses

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

26. Other financial income (expense)—securities and derivatives

	For the year ended December 31	
	2012	2011
	(NIS million)	
Securities In foreign currency[a]	1,237	319
Derivative financial instruments in foreign currency[b]	(8)	(64)
Total	**1,229**	**255**

[a] Gain from the sale of securities and loss from net impairment of securities at the end of the year.
[b] Including financial income (expense) from the realization of derivative financial instruments.

27. Other financial income (expense)—exchange rate differentials

This item consists of realized exchange rate differentials in respect of balances denominated in foreign currency (see Notes 1m and 1n above).

28. Other financial income (expense)—miscellaneous

	For the year ended December 31	
	2012	2011
	(NIS million)	
In local currency	3	4
In foreign currency	18	*(14)
Total[a]	**21**	***(10)**

* Reclassified.
[a] The other income (expense) derives from commissions from the Bank's financial activities and dividend income from international financial institutions.

29. General and administrative expenses

	For the year ended December 31	
	2012	2011
	(NIS million)	
Salaries and employees' rights[a]	264	275
Pension and severance[b]	352	341
General expenses	110	90
Total	**726**	**706**

[a] Salaries and provision for employees' vacation (697 employee posts on December 31, 2012 and 683 employee posts on December 31, 2011).
[b] Budgetary pension payments to pensioners and an update of the Bank's liability for pension payments (see Note 14).

30. Other income

In 2012, this item includes dividend income from Trade Bank.