

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 | GENERAL

A. General description

1. The Bank of Israel ("the Bank") is the central bank of the State of Israel. The Bank was established in 1954. It is situated in Jerusalem and has two other branches in Tel Aviv. The Bank is independent in choosing its operations and in exercising its authorities in order to achieve the objectives and functions specified in the Bank of Israel Law, 5770-2010 ("the Law"). The Bank's institutions include a Monetary Committee and a Supervisory Council, and it is headed by the Governor. Pursuant to the Law, the Bank's functions include: managing the monetary policy; holding and managing the foreign currency reserves of the State; supporting the orderly activity of the foreign currency market in Israel; acting as banker of the Government; regulating the economy's payment and settlement systems so as to ensure their efficiency and stability; issuing currency; regulating and guiding the cash system of the economy; and supervising and regulating the banking system.
2. The outbreak of the Covid-19 pandemic in early 2020 and its spread worldwide had caused global and local economic crises. The Bank of Israel adopted several programs for managing cash flow needs arisen due to the financial crisis to secure the normal functioning of the local financial markets, facilitate certain credit reliefs and support the economic activity and financial stability. The programs adopted are: The purchase of government bonds in local currency; the purchase of corporate bonds in local currency; the grant of long-term loans to the banking system for extending credit to small businesses; the use of reverse repo agreements with bonds as collateral; and dollar/shekel swaps. Also, in accordance with its monetary policy, the Bank purchased dollars to increase its foreign exchange reserves.

B. Definitions

In these financial statements:

1. **The Bank**—Bank of Israel.
2. **CPI**—the Consumer Price Index as published by the Israeli Central Bureau of Statistics or any other relevant linkage index.
3. **Adjusted amount**—the historical nominal amount adjusted to the CPI in respect of December 2003, in accordance with the provisions of Opinions 23 and 36 of the Institute of Certified Public Accountants in Israel.
4. **Reported amount or cost**—the adjusted amount at the transition date (December 31, 2003), with additional amounts in nominal values that were added after the transition date, less amounts subtracted after the transition date.
5. **Adjusted cost**—the adjusted cost of bonds is their par value plus the interest accrued thereon and the balance of the premium or discount not yet



amortized. The premium or discount is amortized over the period from the date of purchase of the bond until the date of its redemption using the effective interest method.

6. **Nominal financial reporting**—financial reporting based on reported amounts.
7. **Fair value**—the amount for which an asset can be exchanged or a liability settled in a transaction entered into freely between a willing seller and a willing buyer who are both acting in an informed manner.

NOTE 2 | SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of reporting and measurement of the financial statements

1. The financial reporting principles

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

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

2. Measurement basis

- a. Balance Sheet:
 1. Investments in tradable securities in foreign currency are stated at fair value.
 2. Investments in tradeable securities in local currency are stated at their adjusted cost, subject to impairment.
 3. Investments in currency swaps are stated at cost with the addition of the outstanding amortized premium or discount, as applicable, except for net settled transactions which are shown at fair value.
 4. Financial items are stated in the Balance Sheet at their nominal values as of the Balance Sheet date.
 5. Nonfinancial items (fixed assets and investments shown at cost) are stated in reported amounts, which do not necessarily represent their current realizable value or economic value.
- b. Statement of Profit and Loss:
 1. Income and expenses originating from nonfinancial items (such as depreciation, prepaid expenses and deferred income) or from provisions included in the Balance Sheet, are derived from the movement between the reported amount of the opening balance and the reported amount of the closing balance.
 2. All other items of the Statement of Profit and Loss (such as interest income and interest expenses) are stated at their nominal values.



c. Statement of Changes in Deficit Equity:

The data of the Bank's equity and general reserve are presented in the Bank's financial statements in reported amounts (see Note 18).

B. Short-term deposits

Deposits with original maturity of less than one year from the investment date. The deposits are shown according to their terms.

C. Tradable securities

1. Foreign currency tradable securities

a. Bonds, commercial securities and mortgage-backed securities ("securities") –

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 based on data obtained from outside sources.

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

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

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

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

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

b. Shares

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

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

The balance of unrealized loss at year end, which is calculated on externally managed index-tracking share portfolios at the individual

portfolio level, is charged to the Statement of Profit and Loss and stated under "Gain from tradable securities and derivative financial instruments, net".

2. Local currency tradable securities

Government and corporate bonds in local currency are stated in the Balance Sheet at their adjusted cost, subject to impairment, separately in respect of each security. The difference between the original cost of the bonds and their adjusted cost is charged to the Statement of Profit and Loss in respect of each bond individually.

Unrealized indexation differentials accrued on the principal are charged to the "Revaluation accounts" line item in the Balance Sheet and are only charged to the Statement of Profit and Loss when the bonds are exercised, redeemed or sold.

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

Interest income, amortization of the premium or discount and realized linkage gains from corporate bonds are stated in the "Interest income from banking corporations and the public" line item.

Any loss due to impairment, which is calculated separately in respect of each bond, is charged to the Statement of Profit and Loss and stated under "Gain from tradable securities and derivative financial instruments, net".

D. Financial instruments

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

1. Activity in financial instruments abroad

a. Reverse Repurchase (R. Repo) and Repurchase (Repo) Agreements –
R. Repo transactions consist of the purchase of securities subject to an agreement on their future sale, are treated as a secured debt, and are included in the Balance Sheet under "Securities purchased under reverse repurchase agreements". Securities purchased in this context do not appear in the Balance Sheet .

Repo transactions are composed of the sale of securities under an agreement to purchase them in the future and are treated as a secured debt. Accordingly, the securities sold in this context are not subtracted from the Bank's assets. The liability to purchase the securities is included in the Balance Sheet under "Securities sold under repurchase agreements."

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

b. Foreign currency exchange transactions –



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

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

2. Net settled Non Deliverable Forwards (NDFs) are shown in the Balance Sheet at fair value in the "Derivative financial instruments" line item. The adjustment to fair value is carried to "Revaluation accounts" in the Balance Sheet. The balance of unrealized loss at year end, which is separately calculated for each NDF, is carried to the Statement of Profit and Loss and stated under "Gain from tradable securities and derivative financial instruments, net". The results of NDFs are shown in the Statement of Profit and Loss in the "Gain from tradable securities and derivative financial instruments, net" line item.

The fair value of NDFs on the Balance Sheet date is shown in Note 19 - "Financial instruments and contingent liabilities".

- c. Futures - The fair value of futures contracts on the Balance Sheet date is shown in Note 19 - "Financial instruments and contingent liabilities". The change in the value of the contracts is recorded in the Statement of Profit and Loss under "Gain from tradable securities and derivative financial instruments, net". Collaterals deposited against futures transactions are shown under "Other assets" in foreign currency abroad. The interest received or paid in respect of these collaterals is shown in the line item "Interest income from foreign currency assets abroad, net"—from demand deposits.

2. Activity in financial instruments in Israel

- a. NIS/USD Forwards, Spots and Currency Swaps – are included in the Balance Sheet from the engagement date at the amount of the difference between the future receipt of USD less the future delivery of NIS with the addition of any unamortized premium or discount, if applicable. These transactions are shown net in the Balance Sheet under "Other assets" or "Other liabilities" in local currency. The results of these transactions are

shown in the Statement of Profit and Loss under "Interest income from banking corporations and the public".

- b. R. Repo transactions – the purchase of government bonds, corporate bonds or short-term bank bills, subject to an agreement on their future sale. These transactions are treated as secured debt and shown in the Balance Sheet in local currency assets under "Securities purchased in r. repo transactions". The bonds or loans purchased in this context are not shown in the Balance Sheet. The interest received from these transactions is stated in the Statement of Profit and Loss under "Interest income from banking corporations and the public".

E. International financial institutions

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

F. Loans to banking corporations

Loans to banking corporations, with the addition of accrued interest, are stated in the Balance Sheet in local currency assets. The Bank receives collaterals from the banking corporations on behalf of the loans. The interest received from these transactions is stated in the Statement of Profit and Loss under "Interest income from banking corporations and the public".

G. Fixed assets and intangible assets

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

H. 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. Expenses of printing banknotes and minting coins are shown in the Statement of Profit and Loss.

I. Central bank's bills (*Makam*)

The Central bank's bills Law, 5744-1984, authorizes the Government to issue bonds to be sold only to the Bank of Israel. The Bank sells them to, and repurchases them from the public in order to carry out its functions. The Government must deposit all proceeds from sales of these bills with the Bank of Israel and may not use the proceeds for any purpose other than repayment of the central bank's bills 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 central bank bills shown in the Balance Sheet reflects the redemption value of central bank's bills held by the public, less the balance of the unamortized discount.

The discount is the difference between the redemption price of the central bank's bills and the proceeds from their sale to the public and is amortized over the period

from the date of issuance of the central bank's bills to its date of redemption, a period which does not exceed one year.

Expenses for amortization of the discount on the balance of the central bank's bills held by the public are shown in the Statement of Profit and Loss in "Interest expenses to banking corporations and the public."

J. Liabilities for benefits to employees and pensioners

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

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

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

Liabilities for benefits to employees and pensioners are stated under "Other liabilities" in local currency.

K. Revaluation accounts

The following are the types of revaluation accounts:

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

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

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

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

L. Revenue recognition

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

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

Realized gains or losses from net settled derivative financial instruments are transferred to the Statement of Profit and Loss.

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

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

Unrealized losses from foreign currency tradable securities, or a specific foreign currency, and from net settled derivative financial instruments are not offset against unrealized gains from other securities or foreign currencies or from other net settled derivative financial instruments.

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

M. Presentation currency

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

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

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

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

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



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

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

	As of December 31			Rate of change	
	2020	2019	2018	2020	2019
	NIS			Percent	
US Dollar	3.215	3.456	3.748	(7.0)	(7.8)
Euro	3.944	3.878	4.292	1.7	(9.6)
Pound Sterling	4.392	4.560	4.793	(3.7)	(4.9)
Special Drawing Rights (SDRs) ¹	4.641	4.789	5.245	(3.1)	(8.7)

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

N. Indexation

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

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

	Year			Rate of change	
	2020	2019	2018	2020	2019
	Points			Percent	
For November	101.2	101.8	101.5	(0.6)	0.3
For December	101.1	101.8	101.2	(0.7)	0.6

O. Interest rates

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

Following are data on the interest rates:

	As of December 31		
	2020	2019	2018
	Percent		
Bank of Israel interest rate	0.10	0.25	0.25
Prime interest rate	1.60	1.75	1.75

P. Impairment of assets

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

estimated future cash flows expected to derive from the use and realization of the asset).

The Standard applies to nonfinancial assets and establishes presentation and disclosure rules for assets that have been impaired. Where the book 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.

Q. Use of estimates

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

R. Change in accounting policy of classification of financial assets

The Bank's management has decided to change the measurement basis of local currency tradable securities from fair value measurement to adjusted cost measurement since the latter is more reliable and more relevant to the Bank's activity.

The adjustment of the comparative figures as of December 31, 2019 is immaterial and is reflected in a decrease in the balance of local currency tradable securities against the balance of revaluation accounts in the amount of approximately NIS 308 million.

S. Offsetting financial assets and financial liabilities

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



T. Statement of Cash Flows

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

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. In addition, regarding the taxation of the Bank's global investments, the Bank is tax exempt on most of its investments in foreign securities. The tax expenses charged to the Bank on its global investments are shown in the Statement of Profit and Loss in the "Other expenses, net" line item.



NOTE 3 | FOREIGN CURRENCY TRADABLE SECURITIES

Composition of tradable securities according to investment type:

	As of December 31	
	2020	2019
	NIS million	
Bonds		
Government, multinational and public sector	276,001	216,280
Corporate	31,458	32,093
Total bonds	307,459	248,373
Commercial securities	30,515	3,104
Mortgage-backed securities	9,725	-
Shares	73,226	*) 67,112
Total	420,925	*) 318,589

*) Reclassified.

NOTE 4 | OTHER FOREIGN CURRENCY ASSETS AND LIABILITIES

This item mainly consists of collaterals which are provided by the Bank or provided in favor of the Bank vis-à-vis different financial institutions, in accordance with the Bank's exposure to derivative financial instruments and restricted cash used to secure forwards and derivative transactions. The restricted cash is shown in accordance with its terms of deposit.

NOTE 5 | THE INTERNATIONAL MONETARY FUND (IMF)

	As of December 31		As of December 31	
	2020	2019	2020	2019
	NIS million		SDR million	
IMF quota	8,914	9,200	1,921	1,921
Less: Liability for the quota	(6,529)	(7,590)	(1,407)	(1,585)
Reserve Tranche	2,385	1,610	514	336
NAB loans	76	96	16	20
Special Drawing Rights (SDRs)	4,145	4,378	893	914
Total IMF balance¹	6,606	6,084	1,423	1,270

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

A. State of Israel's participation in the IMF

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

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

B. NAB loans

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

On January 1, 2021, a renewed NAB arrangement became effective according to which the credit line provided by member countries to the IMF was doubled with the countries' consent. As of December 31, 2020, the maximum credit line that the Bank of Israel provides the IMF is SDR 340 million (NIS 1,578 million) (as of December 31, 2019, the maximum credit line that the Bank of Israel provided the IMF was about SDR 340 million (NIS 1,628 million).

C. Special Drawing Rights (SDRs)

The balance includes SDRs allocated by the IMF to the State of Israel. Against these allocations the Bank of Israel has a liability towards the IMF with no repayment date, which is shown under the line item of "The International Monetary Fund and others". The IMF has allocated to the State of Israel SDRs totaling about SDR 884 million. See Note 14.

The State is not required to hold all the SDRs allocated to it.

The State of Israel is part of another IMF plan, "Voluntary Arrangement for the Purchase and Sale of SDRs". Within the framework of this plan, the State of Israel is required, as per the IMF's guidelines, to buy or sell SDRs from other IMF members. These transactions are recorded in the balance of "Special Drawing Rights (SDRs)."

According to the Voluntary Arrangement for the Purchase and Sale of SDRs, Israel's SDR holdings are to range between 50 percent to 145 percent of total SDRs allocated by the IMF to Israel at most. The IMF has committed to consult with the Bank before making any request to purchase or sell SDRs in the context of the plan.



NOTE 6 | CREDIT TO THE GOVERNMENT

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

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

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

NOTE 7 | LOANS TO BANKING CORPORATIONS

This line item includes loans extended to banking corporations that assist small and mini businesses struggling as a result of the Covid-19 crisis by increasing their bank credit supply. The loans are extended for a long term and bear interest at rates of 0.1 percent and -0.1 percent per annum, which is paid at the end of the period, in keeping with the published decisions of the Monetary Committee.

NOTE 8 | LOCAL CURRENCY TRADABLE SECURITIES

	As of December 31	
	2020	2019
	NIS million	
Government bonds	46,995	*) 1,677
Corporate bonds	3,354	-
Total	50,349	*) 1,677

This line item consists of tradable government and corporate bonds in local currency, indexed to the last CPI known on the Balance Sheet date, as well as unindexed government and corporate bonds.

*) See Note 2R.



NOTE 9 | FIXED ASSETS AND INTANGIBLE ASSETS

	Land and buildings ¹	Credit data system ²	Equipment and furniture, vehicles, computers and software	Total
NIS million				
Cost:				
Balance as of January 1, 2020	553	227	549	1,329
Additions	47	7	41	95
Disposals	-	(1)	(16)	(17)
Balance as of December 31, 2020	600	233	574	1,407
Accumulated depreciation:				
Balance as of January 1, 2020	93	35	368	496
Additions	7	57	39	103
Disposals	-	-	(15)	(15)
Balance as of December 31, 2020	100	92	392	584
Depreciated balance as of December 31, 2020	500	141	182	823
Depreciated balance as of December 31, 2019	460	192	181	833

¹ The cost of the Bank's property in the Jerusalem Campus and the depreciated cost of the structures thereon, amount to approximately NIS 479 million as of December 31, 2020 (approximately NIS 436 million as of December 31, 2019). The Bank is not registered as the lessee of the Bank's properties. The lease expired on June 30, 2016. Since then, the Bank has been negotiating the renewal of the lease agreement with the Israel Land Authority (the ILA). Accordingly, the Bank may be required to pay lease fees when the lease is renewed.

² In 2019, the Bank began operating a credit data system which was designed in accordance with the Credit Data Law, 5776-2016 to help increase competition in the Israeli retail credit market.

NOTE 10 | OTHER LOCAL CURRENCY ASSETS

	As of December 31	
	2020	2019
NIS million		
Investment in BIS shares	282	282
Loans to employees	79	76
Other receivables	3	9
Total other assets	364	367

NOTE 11 | BANKNOTES AND COINS IN CIRCULATION

	As of December 31	
	2020	2019
	NIS million	
Twenty NIS	1,050	1,035
Fifty NIS	3,527	3,077
One hundred NIS	18,106	15,944
Two hundred NIS	80,444	64,561
Coins in circulation	2,670	2,553
Commemorative banknotes and coins	6	6
Other ¹	2	2
Total banknotes and coins in circulation	105,805	87,178

¹ Special coin items in circulation.

NOTE 12 | GOVERNMENT DEPOSITS

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

	As of December 31	
	2020	2019
	NIS million	
Deposits in foreign currency¹		
Current deposits	6,139	6,078
Other deposit	30	16
Total deposits in foreign currency	6,169	6,094
Deposits in local currency²—Current	41,456	12,090
Total Government deposits	47,625	18,184

¹ Government deposits in foreign currency

The current deposits are used for financing budgetary activity. Some foreign currency government deposits bear interest at the rate paid on US Treasury bills with an average of six months to maturity. The average interest rate in 2020 was 0.41 percent (2019—2.09 percent).

² 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 to the Government at a rate ranging between the Bank of Israel's interest plus 1.5 percent and the Bank of Israel's interest on these balances based on certain brackets. The average benchmark interest rate at the end of 2020 was 1.60 percent (2019—1.75 percent).

A different interest rate is paid on the government balances used for bond lending and other government balances.

**NOTE 13 | DEPOSITS OF BANKING CORPORATIONS**

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

	As of December 31	
	2020	2019
	NIS million	
Deposits in foreign currency¹- <i>Pamach</i>	1,518	485
Deposits in local currency²		
Time deposits	365,002	194,011
Demand deposits	53,499	45,202
Total deposits in local currency	418,501	239,213
Total deposits in banking corporations	420,019	239,698

¹ Deposits in foreign currency

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

² Deposits in local currency

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

The average interest rate for time deposits by auction on December 31, 2020 was 0.10 percent (on December 31, 2019 - 0.25 percent). The average interest rate for time deposits by auction in 2020 was 0.13 percent (in 2019 - 0.25 percent).

The interest rate for deposits at the window on December 31, 2020 was 0 percent (on December 31, 2019 - 0.15 percent).

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

NOTE 14 | THE INTERNATIONAL MONETARY FUND AND OTHERS

	As of December 31	
	2020	2019
	NIS million	
Allocated Special Drawing Rights ¹	4,100	4,236
Other ²	108	116
Total international monetary fund and others	4,208	4,352

¹ Special Drawing Rights (SDRs) are sums of money that member countries in the IMF undertook to purchase from the Fund. No repayment date has been set for this liability and it bears interest according to the IMF's terms. The IMF allocates SDRs to its constituent countries commensurate with the size of their quotas (see Note 5).

As of December 31, 2020, Israel has been allocated approximately SDR 884 million.

² The item mainly includes liabilities to binational foundations (see Note 6).

NOTE 15 | CENTRAL BANK'S BILLS (MAKAM)

	As of December 31	
	2020	2019
	NIS million	
Redemption value of central bank's bills sold to the public	86,999	120,000
Less: Discount at time of sale to the public	(73)	(349)
Proceeds from sale of central bank's bills to the public	86,926	119,651
Plus: Amortization of discount difference for the period through the Balance Sheet date	49	219
Total balance of central bank's bills	86,975	119,870

NOTE 16 | OTHER LIABILITIES

	As of December 31	
	2020	2019
	NIS million	
Liabilities for benefits to employees and pensioners	6,929	6,916
Liabilities for employees' and other rights	73	67
Other payables ¹	1,298	692
Total other liabilities	8,300	7,675

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

A. Liabilities for benefits to employees and pensioners

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

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

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



The above calculation is based on mortality rates and other demographic tables published by the Capital Market, Insurance and Saving Authority at the Ministry of Finance for pension funds in Pension Circular 2017-3-6 regarding the preparation of actuarial calculations. The calculation is based on the assumption of an annual real salary increase for employees as of December 31, 2020 according to employee seniority ranging between 1.89 percent and 4.81 percent (as of December 31, 2019—same). The discount rates underlying the liability are based on the yield curve of government bonds in Israel, ranging between 0.94 percent and 1.56 percent (as of December 31, 2019—between 0.59 percent and 1.69 percent).

The change in the liability consists of a decrease of about NIS 121 million which mostly derived from the decline in the interest rate and variations between the projected assumptions and actual figures and was charged to the revaluation accounts in the Balance Sheet under "Actuarial gains or losses from post-employment benefits to employees and pensioners" (Note 17).

The change in the liability for benefits to employees and pensioners in the amount of about NIS 207 million was charged to the Statement of Profit and Loss under "General and administrative expenses—salaries and employees' rights, pension and benefits to employees and pensioners" (Note 28).

B. Liabilities for employees' and other rights

This item includes liabilities for salary and other expenses, the majority of which are expected to be settled in the course of 2021.

NOTE 17 | REVALUATION ACCOUNTS

Revaluation accounts include unrealized gains from exchange rate differentials on foreign currency balances, revaluation of foreign currency tradable securities and revaluation of net settled derivative financial instruments to fair value, unrealized gains from indexation of foreign currency and local currency tradable securities and actuarial gains or losses in respect of post-employment benefits to employees and pensioners (see Notes 2C, 2D, 2K and 2M above).

	As of December 31	
	2020	2019
	NIS million	
Balances denominated in foreign currency	2,431	94
Tradable securities in foreign currency and derivative financial instruments	27,759	20,412
Tradable securities in local currency ¹	114	*) 128
Actuarial gains or losses from post-employment benefits to employees and pensioners	(3,107)	(2,986)
Total revaluation accounts	27,197	*) 17,648

¹ The balance is in respect of unrealized gains due to indexation.

*) See Note 2R.



NOTE 18 | BANK'S EQUITY AND GENERAL RESERVE

The data of the Bank's equity and general reserve in historical nominal values at December 31, 2020 and 2019 are: the Bank's equity—NIS 60 million; the general reserve—NIS 260 million. The general reserve served in the past to increase the Bank's capital in accordance with Section 6 of the Bank of Israel Law, 5714-1954. In accordance with Section 76 of the Bank of Israel Law, 5770-2010, within three months from the end of each year, the Bank will transfer its actual profits to the Government according to the following provisions:

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

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

In accordance with these provisions, as of December 31, 2020, there is no obligation to transfer funds to the Government.



NOTE 19 | FINANCIAL INSTRUMENTS AND CONTINGENT LIABILITIES

	As of December 31	
	2020	2019
	NIS million	
a. Financial instruments		
Currency swaps and forwards:		
Net fair value (Currency Swaps, Forwards, NDFs)	(3,574)	(301)
Future receipts of foreign currency (Currency Swaps, Forwards, Spots)	151,466	123,519
Future payments of foreign currency (Currency Swaps, Forwards, Spots)	155,170	123,651
Shekel/dollar swaps and forwards:		
Future receipts of dollars (Forwards, Spot)	1,471	2,163
Future payment of shekels (Forwards, Spot)	1,470	2,168
Stock index futures - fair value:		
Long	228	(2)
Short	-	(28)
Interest rate futures - fair value:		
Long	-	1
Bond futures - fair value:		
Long	17	(95)
Short	(4)	32

b. Contingent liabilities

- When investing in the Bank of International Settlements (BIS), the Bank of Israel was required to assume additional undertakings toward the institution beyond the actual callable capital, which may be exercised by the institution only in times of need, a scenario which is relatively unlikely. The balance of the above undertakings as of December 31, 2020 was NIS 56 million (December 31, 2019 - NIS 58 million).
- There are several claims pending against the Bank of Israel. However, no provision has been recorded in the Bank's books in respect of these claims as it is the Bank's opinion, based on the opinion of its Legal Department, that the probability of these claims being upheld is low, or that the sums involved are not significant.



NOTE 20 | INTEREST INCOME FROM ASSETS IN FOREIGN CURRENCY ABROAD, NET

	Year ended December 31	
	2020	2019
	NIS million	
Demand deposits	(119)	79
Short-term deposits	33	(2)
Tradable securities	3,504	4,227
Securities purchased under r. repo agreements or sold under repo agreements	10	-
Derivative financial instruments	737	1,771
The International Monetary Fund	14	58
Total	4,179	6,133

NOTE 21 | INTEREST INCOME FROM BANKING CORPORATIONS AND THE PUBLIC

	Year ended December 31	
	2020	2019
	NIS million	
Shekel/dollar forwards and swaps	179	-
Loans to banking corporations ¹	6	-
Securities purchased in r. repo agreements	2	-
Corporate bonds ²	14	-
Total	201	-

¹ See Note 7.

² See Note 8.

NOTE 22 | INTEREST INCOME FROM THE GOVERNMENT

	Year ended December 31	
	2020	2019
	NIS million	
Binational foundations ¹	76	78
Tradable securities in local currency ²	202	87
Total	278	165

¹ See Note 6.

² See Note 8.



NOTE 23 | INTEREST EXPENSES TO BANKING CORPORATIONS AND THE PUBLIC

	Year ended December 31	
	2020	2019
	NIS million	
central bank's bills	183	372
Time deposits ¹	350	441
Total	533	813

¹ See Note 13.

NOTE 24 | INTEREST EXPENSES TO THE GOVERNMENT

	Year ended December 31	
	2020	2019
	NIS million	
Balances in local currency	334	322
Balances in foreign currency	4	23
Total	338	345

See Note 12.

NOTE 25 | OTHER INTEREST EXPENSES

This line item consists mainly of interest expenses in respect of deposits of the US-Israel Binational Industrial Research and Development Foundation, a deposit of the US-Israel Binational Science Foundation and international financial institutions. See Note 6.

NOTE 26 | GAIN FROM TRADABLE SECURITIES AND DERIVATIVE FINANCIAL INSTRUMENTS, NET

	Year ended December 31	
	2020	2019
	NIS million	
Tradable securities ¹	7,407	4,087
Derivative financial instruments ²	1,865	144
Total	9,272	4,231

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

² Financial income and expenses from the realization of derivative financial instruments and loss from impairment of net settled NDFs.



NOTE 27 | MISCELLANEOUS EXPENSES, NET

	Year ended December 31	
	2020	2019
	NIS million	
In local currency	(19)	(5)
In foreign currency	53	44
Total	34	39

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

NOTE 28 | GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31	
	2020	2019
	NIS million	
Salaries and employees' rights	395	386
Pension and benefits to employees and pensioners ¹	183	223
Depreciation and amortization	103	107
General expenses	158	160
Total	839	876

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

NOTE 29 | OTHER EXPENSES, NET

	Year ended December 31	
	2020	2019
	NIS million	
Tax expenses on foreign investments	46	40
Income from fees ¹	29	17
Miscellaneous expenses	2	-
Total	19	23

¹ This item includes mainly income from fees from the Credit Data System and the Real Time Gross Settlement System.