BANK OF ISRAEL

FINANCIAL STATEMENTS FOR 2024

Catalogue 103042
ISSN 1565-3250

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FINANCIAL HIGHLIGHTS FOR 2024

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

Global Economic Environment

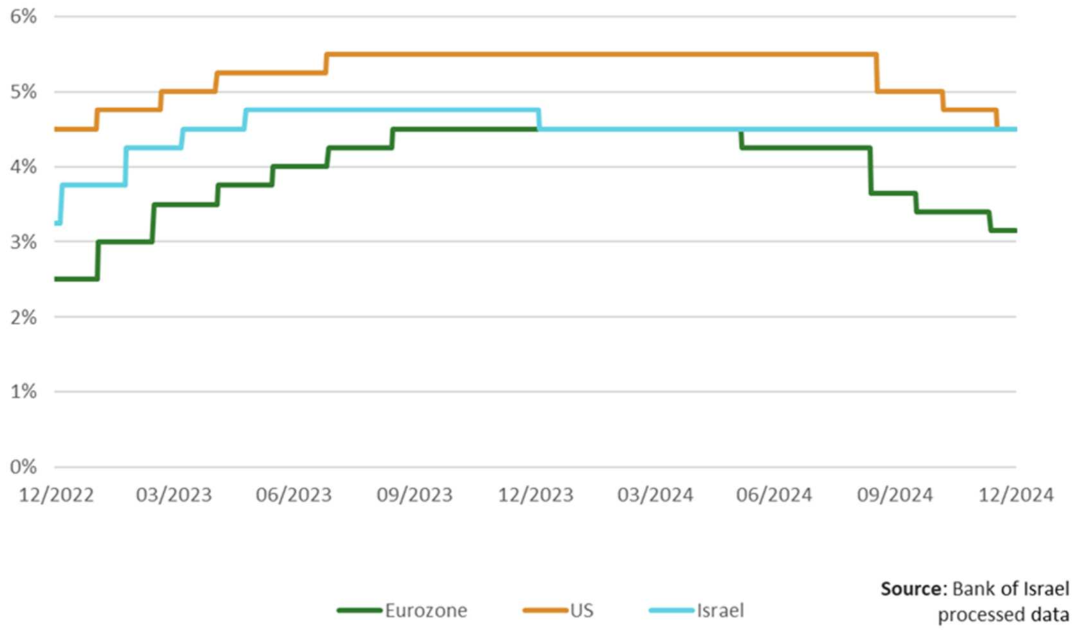
2024 saw continued restrained inflation in the global economy, yet with levels remaining higher than the targets set by central banks, and a gradual process of reducing interest rate levels by central banks around the world (Figure 1).

The positive trend in equity indices persisted in the year with most of the world's leading equity indices recording double digit positive yields owing to lower inflation rates, the ensuing mitigated monetary policy adopted in most of the major markets, and the continued growth in economic activity led by the United States. In the US, the mega AI stocks outperformed the market.

Government bond yields around the world fluctuated against the backdrop of uncertainty involving inflation and interest rate expectations and geopolitical developments. Long-term yields, however, rose as a result of the expected higher interest rate environment in the long run.

Toward year-end, the high inflation rate, which exceeded expectation, and the US administration's threatened tariffs, led to a sharp decline in expectations for a reduction in the Federal Reserve interest rate and dashed the hopes for increased yields.

Figure 1
Interest rates in Israel, the US and Eurozone
2023-2024



Source: Bank of Israel processed data

The trade in the global corporate bond market was positive throughout the year. The margin between corporate bond yields and government bond yields decreased, which resulted in capital gains and revaluation gains from these assets.

In the global foreign exchange market, the dollar grew stronger in relation to other currencies comprising the Bank of Israel's Foreign Exchange Reserves, mainly

against the euro and the Japanese yen. This strengthening stemmed from the interest rate gaps and the solid economic growth in the United States.
The global economic developments described above are expressed in the value of the Foreign Exchange Reserves on the Bank's Balance Sheet, and in the gains in their respect.
The rise in stock indices in which the Foreign Exchange Reserves are invested generated considerable revaluation gains in their respect, led by the investment in US equities.
In the bond market, the high interest rate environment around the world throughout most of the year increased the Bank's interest income on its Foreign Exchange Reserves. However, the increase in long-term government bond yields resulted in capital losses and revaluation losses in their respect at year-end.

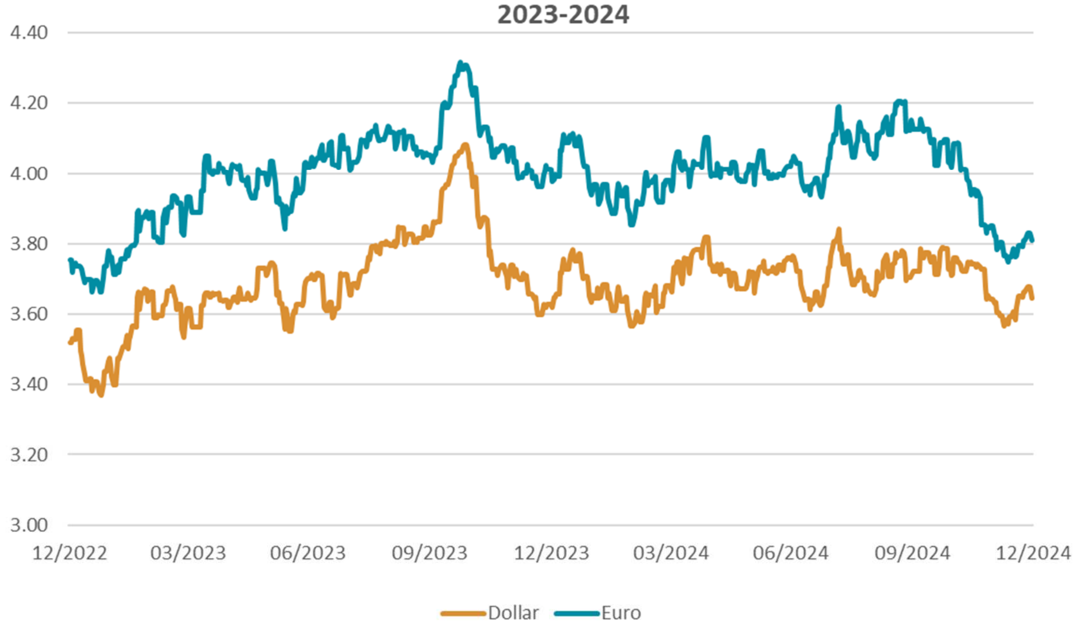
Domestic Economic Environment
In keeping with global trends, in Israel also, a high interest rate environment characterized 2024.
The war that began on October 7, 2023 in Israel lasted into 2024 and even escalated into other fronts. Its effects were noted in all domains and also expressed in an increased inflation rate, shekel exchange rate fluctuations, and a series of credit ratings lowered by international agencies.
In January 2024, the Bank of Israel lowered the interest by 0.25 percent to 4.5 percent owing to the stabilization of financial markets and mitigation in inflation at the end of 2023 in view of reduced activity in the market.
Toward year end, against the backdrop of the ceasefire in the northern border with Lebanon and the reduced security threat forecasts, the shekel appreciated, the inflation rate reached the target's upper bound and the market risk premium was reduced, albeit it remained high compared to its prewar level.
In annual terms, the shekel depreciated slightly against the dollar by 0.6 percent but increased considerably in relation to other currencies in the Bank's Foreign Exchange Reserves: by 5.4 percent against the euro and by 9.2 percent against the Japanese yen, both of which depreciated notably against the dollar (Figure 2).
In 2024, the plans exercised by the Bank of Israel as soon as the war broke out to ensure the orderly functioning of the financial markets and to support economic activity and financial stability were moderately used. Instead, the monetary policy focused on stabilizing the markets and minimizing the prevailing uncertainty alongside retaining price levels and supporting the overall economic activity.
The plan to support the credit market launched at the beginning of the war by offering monetary loans of up to NIS 10 billion to small and micro businesses affected by the war ended in February 2024. in the context of which loans totaling some NIS 6.4 billion were given, of which about NIS 4.3 billion was granted in the course of 2024.
Given the large scope of Foreign Exchange Reserves, and their status as the bulk of the Bank's assets, changes in the exchange rates of the shekel against foreign currencies are likely to significantly impact the Bank's Balance Sheet and profits.
This year's appreciation of the shekel against the currency basket comprising the Foreign Exchange Reserves reduced the shekel value of the Foreign Exchange Reserves and caused considerable exchange rate valuation losses in shekel terms.

The shekel interest rate dictates local interest income and expenses. The interest rate, which at the beginning of the year dropped by 0.25 percentage points to 4.5 percent was similar in annual median terms to the interest rate in 2023, which was on the rise. As a result, this line item in the Financial Statements remained at a similar level to last year.

The rate of increase in the domestic Consumer Price Index influences indexation gains of linked domestic assets included in the interest line item. In 2024, this rate was 3.2 percent, slightly higher than about 3 percent in 2023, and therefore did not cause major variations in this line item.

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

Figure 2
Developments in Dollar and Euro exchange rates against the Shekel 2023-2024



Source: Bank of Israel processed data

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

At the end of 2024, the Bank's Balance Sheet amounted to approximately NIS 881.9 billion, an increase of some NIS 26 billion compared with 2023 (about 3.1 percent).

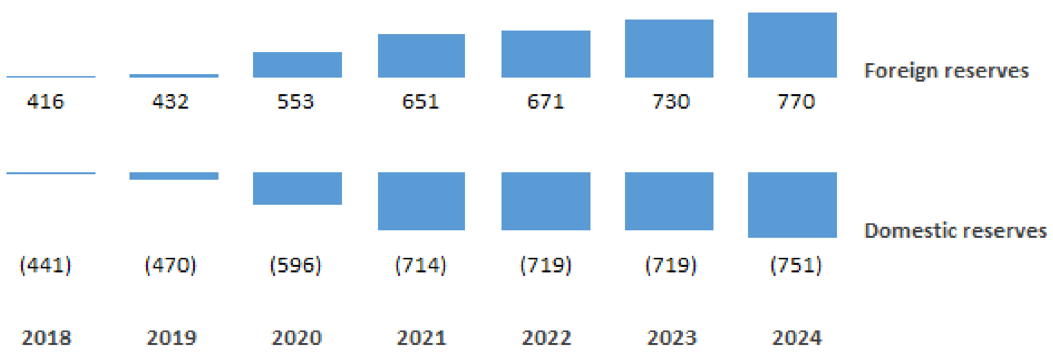
The change on the asset side resulted mainly from a NIS 39 billion increase in the balance of the Bank's foreign assets, as affected by the fair value revaluation of assets, mainly stocks, but partly offset by a decrease in the shekel value of the assets due to the shekel's appreciation in 2024.

This increase was partly offset against a decrease of about NIS 12.5 billion in domestic assets, mainly as a result of the repayment of monetary loans given to

banking corporations during the COVID-19 crisis and the repayment of bonds purchased in the context of the accommodative monetary policy in that period.
The continued increase in the Bank's Balance Sheet over the years, which was mostly affected by the accrual of Foreign Exchange Reserves, intensified the currency imbalance in the Bank's Balance Sheet. Consequently, the effect of the changes in the foreign currency exchange rates against the shekel on the Bank's Balance Sheet and operating results also increased (Figure 3).
The balance of the Bank's liabilities at the end of 2024 totaled about NIS 863 billion, an increase of about NIS 18.1 billion compared with 2023 (about 2.1 percent).
The increase is due mainly to the increase in the current reserves of the Bank's customers.
The Bank's total Equity and Revaluation Reserves totaled NIS 18.9 billion, of which there was Deficit Equity of NIS 114.1 billion, while Revaluation Reserves from unrealized gains amounted to NIS 133 billion.

Unrealized gains are carried to Revaluation Reserves. When the gains are realized, they are reclassified from Revaluation Reserves to Net Income, which is available for distribution. As per Section 76(b) to the Bank of Israel Law, 5770-2010 ("the BOI Law"), accumulated deficit is deducted from future earnings carried forward.

Figure 3
Development of Reserves in the Bank's Balance Sheet 2018-2024
(NIS million)

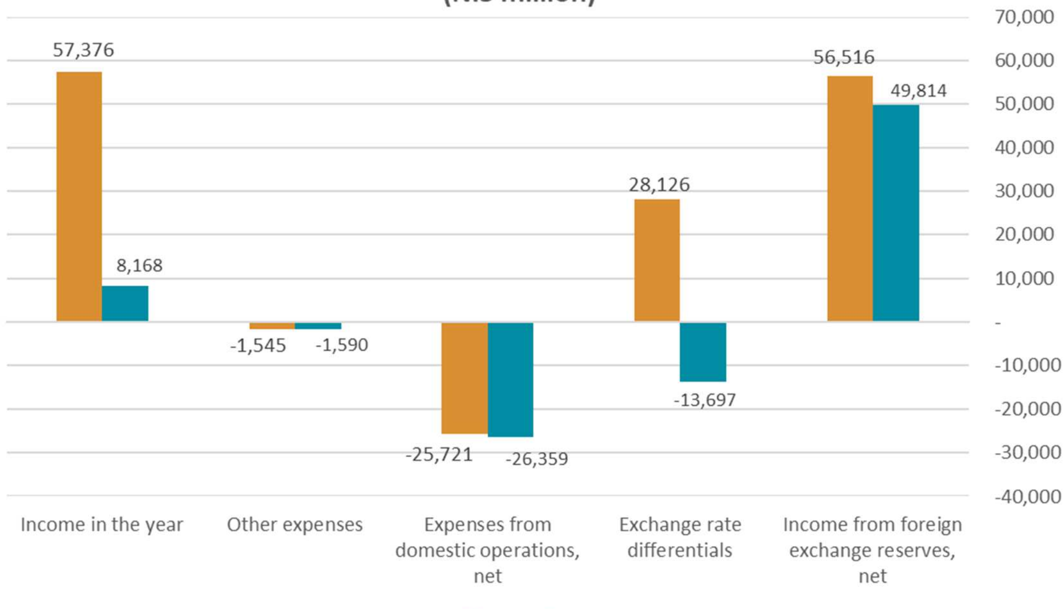


Source: Bank of Israel processed data

c. Statement of Profit or Loss

In 2024, the Bank recorded annual income of NIS 8.2 billion.
The Bank's income from investment of the Foreign Exchange Reserves, without exchange rate differentials, totaled about NIS 49.8 billion, mostly consisting of revaluation gains on equity holdings and interest income on bond holdings in the backdrop of stock increases in the Bank's foreign exchange reserves portfolio and the high interest rate environment around the world.
In contrast, the Bank's expenses from exchange rate differentials totaled NIS 13.7 billion as a result of the strengthening of the shekel against some of the foreign currencies in the Bank's foreign exchange reserves portfolio.

Figure 4
The Bank's Profit and Loss Items for 2023-2024
(NIS million)



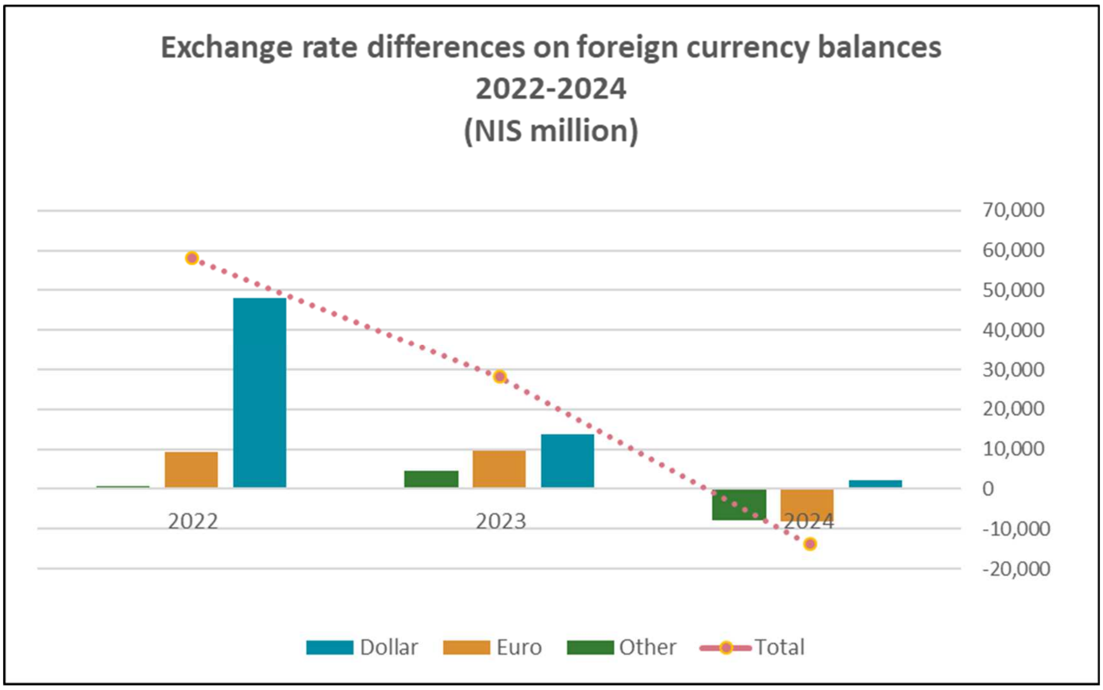
Source: Bank of Israel processed data

The extensive scope of the Bank's Balance Sheet and its inherent currency imbalance have a strong and fluctuating impact on exchange rate differentials in shekel terms on the Bank's profits. In the year, the shekel exchange rate rose in relation to several other currencies in the Bank's forex reserves portfolio and particularly increased by 5.4 percent against the euro underscored by the interest rate reduction in the Eurozone (Figure 1)—and by 9.2 percent against the Japanese yen, as a result of the Bank of Japan's accommodative monetary policy, as well as against other foreign currencies. In contrast, the shekel weakened by 0.6 percent against the dollar, which reduced expenses in respect of exchange rate differentials.

The Bank's expenses from adopting the monetary policy, which mainly consist of interest expenses on the monetary absorption tools, *makam* and time deposits, totaled NIS 26.4 billion in the year, the outcome of the shekel interest rate environment, which remained high in the year (with no major change from last year).

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

After allocating unrealized gains to a revaluation reserve of NIS 12.4 billion, the Bank's Net Loss as per the BOI Law amounts to NIS 4.2 billion, which is added to the Bank's accumulated deficit. As discussed above, as per the BOI Law, accumulated deficit is deducted from carryforward earnings.



d. Main Items

d.1 Foreign Exchange Reserves - Foreign Assets and Foreign Liabilities

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

At the end of 2024, Foreign Exchange Reserves[1] totaled NIS 782.5 billion, an increase of about NIS 40.1 billion compared with 2023 (Table 1).

In 2024, gains from investment of Foreign Exchange Reserves totaled NIS 49.8 billion, mainly comprising revaluation gains from holding equities and interest income from holding bonds.

Expenses in respect of exchange rate differentials totaled about NIS 14 billion in 2024 due to the shekel's appreciation in the year, which offset part of the increase in the Foreign Exchange Reserves.

The government's forex transactions contributed to an increase in the Foreign Exchange Reserves by about USD 5.6 billion.

In dollar terms, Israel's Foreign Exchange Reserves grew in 2024 by NIS 9.9 billion—from NIS 204.7 billion at the end of 2023 to NIS 214.6 billion at the end of 2024.

Gains from Foreign Exchange Reserves in dollar terms amounted to USD 13.2 billion and expenses in respect of exchange rate differentials in their respect amounted to USD 4.8 million, as a result of the dollar's strengthening against other foreign currencies, due to interest rate gaps and the relative strength of economic activity in the United States. The government's contribution to the Foreign Exchange Reserves amounted to USD 1.5 billion.

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

Table 1

Contribution of sectors to foreign exchange reserves

	2024	2023	2024	2023
	NIS million		USD million	
Foreign Exchange Reserves	**782,537**	**742,424**	**214,570**	**204,695**
Change in Foreign Exchange Reserves	**40,113**	**58,970**	**9,875**	**10,476**
Bank of Israel				
Purchases (sales)	-	(34,282)	-	(8,546)
Gains	49,814	56,516	13,161	15,526
Exchange rate differentials	(13,950)	28,254	(4,836)	1,378
Other[1]	(677)	(574)	183	(143)
Total Bank of Israel	**35,187**	**49,914**	**8,508**	**8,215**
The Government[2]	**5,565**	**9,070**	**1,548**	**2,243**
The private sector[3]	**(639)**	**(14)**	**(181)**	**18**

[1]Includes payments by and receipts of the Bank of Israel in foreign currency.

[2]Transfers by the government and national institutions from overseas.

[3]Includes income tax payments of the private sector in foreign currency.

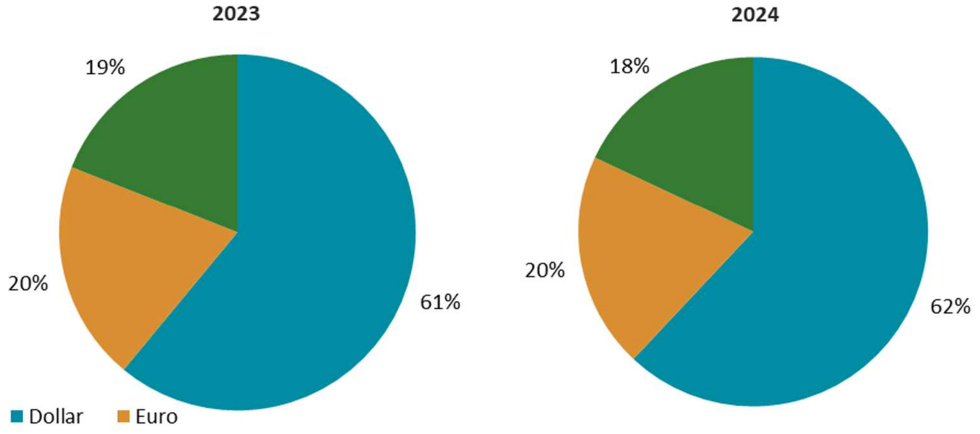
The asset and currency composition of the Foreign Exchange Reserves is approved by the Bank's Monetary Committee at least annually in keeping with the targets of the foreign exchange reserves investment policy and subject to the risk level determined by the Committee.

Currency Composition

Since 2022, following an update to the Foreign Exchange Reserves management guidelines, the composition of their currency benchmark was modified to include a shekel return target designed to cover at least the long-term financing costs[2] of the reserves. To achieve the shekel return target, the exchange rate risk of the shekel was dispersed among currencies that are known as reserve currencies in countries with highly liquid, deep, and diversified asset markets. In accordance with the new guidelines, the currency benchmark composition target at the end of 2024 is as follows: US dollar—62 percent, euro—20 percent, pound sterling—5 percent and the remaining 13 percent in other currencies. Figure 5 presents the actual year-end Foreign Exchange Reserves currency breakdown. The currency disbursement affects the exchange rate differentials of these currencies against the shekel.

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

Figure 5
Currency Breakdown for end of 2023-2024



Source: Bank of Israel processed data

Asset Composition

Figure 6 presents the asset composition of the Foreign Exchange Reserves.

Out of total reserves of about NIS 782.5 billion, the bulk of the reserves—NIS 700.3 billion—is invested in tradable securities, of which about NIS 514.2 billion are in bonds and about NIS 186.1 billion in stocks.

Most of the investments in bonds, totaling about NIS 440.4 billion, consists of government bonds, semi government bonds, and international bonds, and another NIS 73.8 billion is invested in corporate bonds at lower investment grades and ratings.

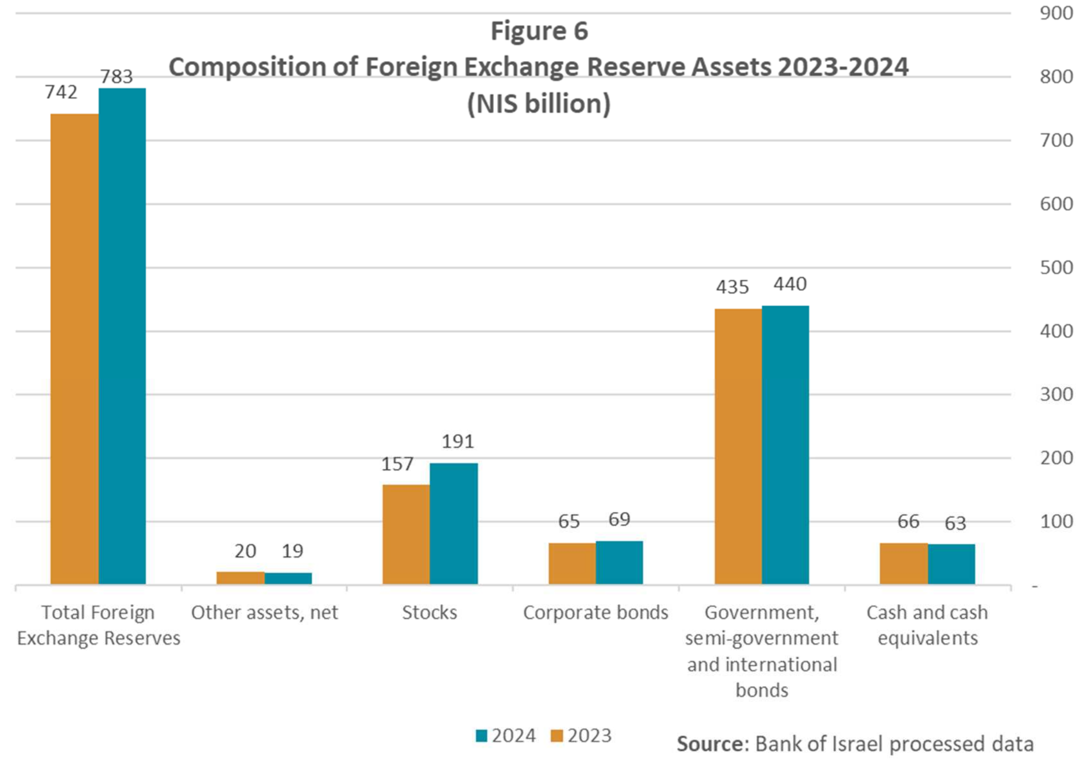


Figure 6
Composition of Foreign Exchange Reserve Assets 2023-2024
(NIS billion)

Source: Bank of Israel processed data

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

In 2024, income from the Foreign Exchange Reserves, excluding exchange rate differentials thereon, totaled about NIS 49.8 billion.

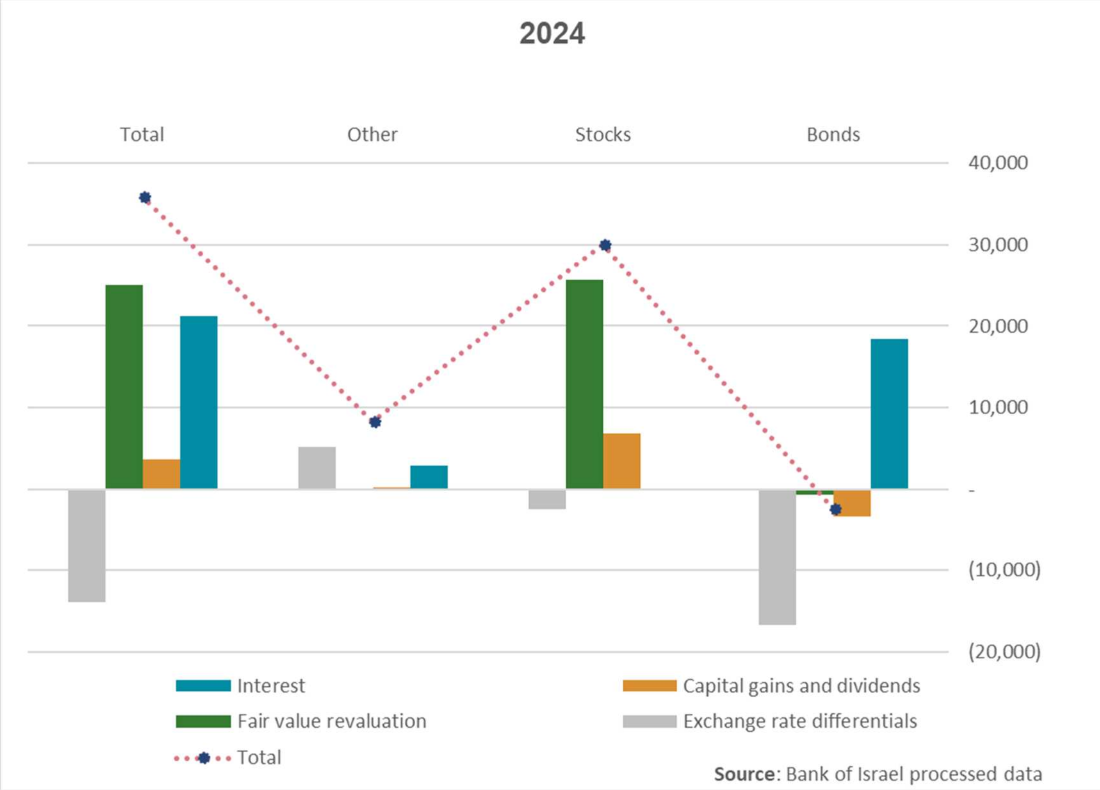
Of the above amount, income from stocks—consisting of revaluation, capital gains and dividends—in 2024 totaled some NIS 32.5 billion, owing to the major increase in most of the major stock indices in the reserves portfolio in the year.

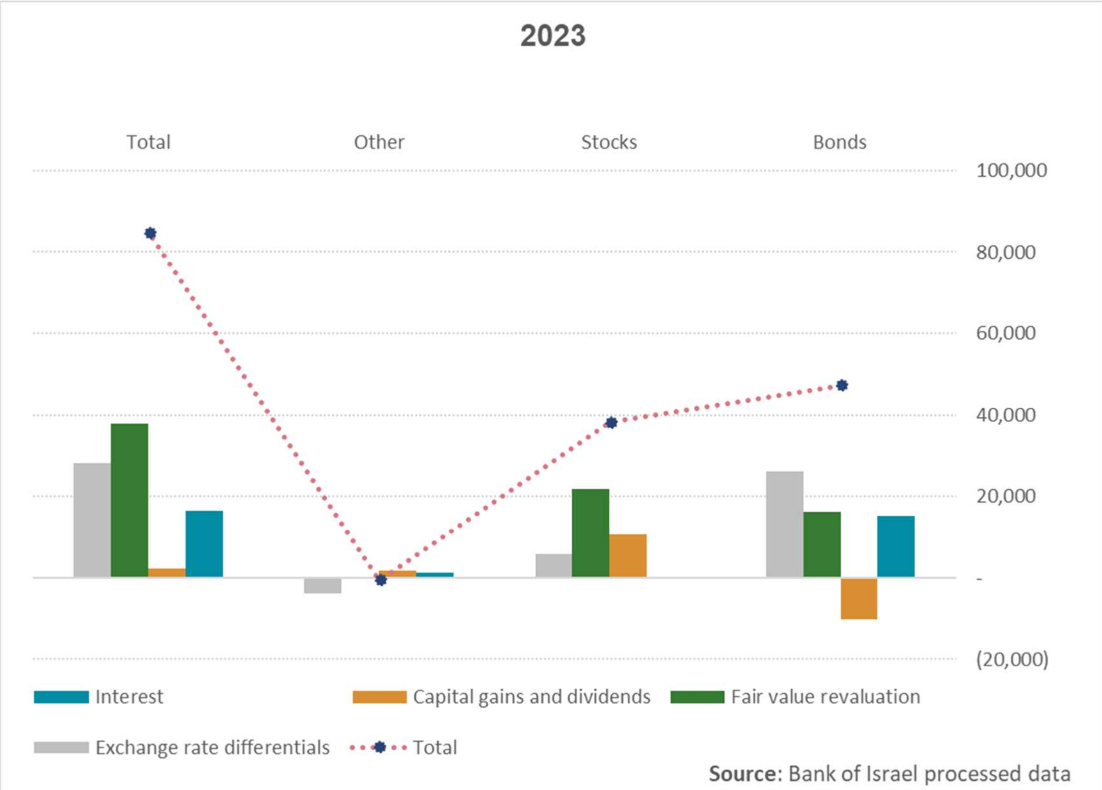
Income from bonds in the year totaled NIS 14.4 billion, and income from interest on bonds totaled NIS 18.4 billion as a result of the high interest rate environment around the world, against net revaluation losses and capital losses of about NIS 4 billion due to increased yields arising from the reduced expectations for the pace of lowering interest rate.

In contrast, expenses from exchange rate differentials on the Foreign Exchange Reserves totaled some NIS 14 billion owing to the shekel's appreciation against other currencies of the reserves portfolio, whereas most of the exchange rate valuation gains were accrued on holding bonds, representing the bulk of the reserves.

Overall, income from Foreign Exchange Reserves, including the effect of exchange rate differentials thereon, totaled NIS 35.9 billion.

Figure 7
Composition of Income (Expenses) from Foreign Exchange Reserves
Including Exchange Rate Differentials
(NIS million)





d.2 Local Assets and Liabilities

In 2024, local assets totaled approximately NIS 95.8 billion, a decrease of NIS 12.5 billion from 2023, mainly arising from repayments of monetary loans extended to the banking system during the COVID-19 pandemic in favor of placing credit to small businesses and repayments of local bonds purchased in the context of the Bank's intervention in the markets.

Interest income on local assets in 2024 totaled some NIS 1.8 billion, mainly from local bond interest and indexation.

Local liabilities account for the majority of the Bank's liabilities, totaling NIS 846.9 billion in 2024, an increase of NIS 19.6 billion from 2023. The increase in the year was mainly affected by the current reserves of the Government and the banking corporations as of December 31, 2024.

The balance of *makam* and time deposits, which serve as monetary tools for absorbing excess market liquidity, decreased in 2024 by about NIS 4.7 billion, to NIS 585 billion. The composition of the monetary absorption tools changed in the year with a decrease of NIS 82.7 billion in *makam* and an increase of NIS 78 billion in time deposits due to the relative decline in demand for *makam* compared with 2023.

Total net expenses from local activities in 2024 amounted to about NIS 26.4 billion, similar to the NIS 25.7 billion of 2023.

The main local expenses arose from interest on monetary absorption tools, totaling NIS 25.9 billion in 2024 (2023 – NIS 24.4 billion), the result of the local high interest rate environment.

d.3 The Bank's Equity and Revaluation Reserves

In 2024, the overall balance of the Bank's Equity and Revaluation Reserves remained positive at NIS 18.9 billion, of which the accumulated deficit amounted to NIS -118.1 billion, whereas Revaluation Reserves from unrealized gains totaled NIS 133 billion.

Revaluation Reserves include unrealized gains from fair value revaluation of assets included in the Bank's Profit or Loss but they are not included in Net Income, as defined in the BOI Law, which is used to determine the government distributable profits.[3] When the gains are realized, they are reclassified from Revaluation Reserves to Net Income available for distribution.

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

In 2023, the overall balance of the Bank's Equity and Revaluation Reserves was NIS 10.5 billion, of which the accumulated deficit amounted to NIS -113.9 billion while Revaluation Reserves from unrealized gains totaled NIS 120.4 billion.

The net increase of NIS 12.5 billion in Revaluation Reserves in 2024 originated mainly from the increase in the fair value revaluation of foreign currency stocks totaling NIS 25.6 billion. This came from an increase in their quoted market prices,

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

against a decrease of NIS 12.2 billion in the revaluation account of exchange rate differentials on Foreign Exchange Reserves arising from expenses on exchange rate differentials in respect of currencies devalued in the year against the shekel.
The change in the Deficit Equity reflects the earnings realized in the year only, excluding gains from revaluation of foreign currency stocks.

Kost Forer Gabbay & Kasierer
144A Menachem Begin Road,
Tel-Aviv 6492102, Israel

Tel: +972-3-6232525
Fax: +972-3-5622555
ey.com

AUDITORS' REPORT

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

We have audited the accompanying Statements of Financial Position of the Bank of Israel ("the Bank") as of December 31, 2024 and 2023, and the related Statements of Profit or Loss and Other Comprehensive Income, Changes in Equity (Deficit Equity) and Cash Flows of the Bank for each of the years ended December 31, 2024 and 2023 ("the financial statements"). These financial statements are the responsibility of the Bank's Supervisory Council, Governor and Director General. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Israel, including those prescribed by the Auditors' Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Bank's management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2024 and 2023, and the results of its operations, changes in its equity (deficit equity) and cash flows for each of the years ended December 31, 2024 and 2023, in conformity with IFRS Accounting Standards.

Tel-Aviv, Israel
March 31, 2025

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

STATEMENT OF FINANCIAL POSITION

	Note	December 31, 2024	December 31, 2023
		NIS million	
ASSETS			
Assets abroad			
Foreign exchange reserves	3		
Cash and cash equivalents		63,024	65,661
Foreign currency securities		700,290	657,223
Derivative financial instruments		3,088	534
Other assets		3,172	6,553
The International Monetary Fund		16,047	16,697
BIS investment	4	472	456
Total assets abroad		**786,093**	**747,124**
Local assets			
Local currency bonds	5	81,356	84,057
Loans to financial institutions	5	13,501	23,316
Other assets	6	225	220
Fixed assets and Intangible assets	7	689	683
Total local assets		**95,771**	**108,276**
Total assets		**881,864**	**855,400**

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

	Note	December 31, 2024	December 31, 2023
		NIS million	
LIABILITIES			
Liabilities abroad			
Foreign exchange reserves	3		
Derivative financial instruments		25	2,259
Other liabilities		3,059	1,985
The International Monetary Fund	3c	13,037	13,354
Total liabilities abroad		**16,121**	**17,598**
Local liabilities			
Banknotes and coins in circulation	8	131,484	129,194
Reserves of banking corporations against reserve requirement	5	69,480	64,412
Time deposits	5	363,282	285,289
Short-term bills (*Makam*)	5	221,686	304,336
Government reserves	5	46,802	29,872
Other liabilities	9	14,151	14,163
Total local liabilities		**846,885**	**827,266**
Total liabilities		**863,006**	**844,864**
Bank's equity (deficit equity) and reserves	10		
Bank's equity (deficit equity)			
Bank's equity and general reserve		3,985	3,985
Accumulated deficit		(118,096)	(113,881)
Revaluation reserves		132,969	120,432
Total Bank's equity (deficit equity) and reserves		**18,858**	**10,536**
Total liabilities and equity		**881,864**	**855,400**

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

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

March 31, 2025

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended December 31,	
		2024	2023
	Note	NIS million	
Income (expenses) from activities abroad			
Gains (losses) from foreign exchange reserves			
Interest income, net	14	21,197	16,400
Gain or loss from fair value revaluation of financial assets	15	28,783	40,305
Miscellaneous expenses, net	16	(166)	(189)
Other expenses from activities abroad, net		(513)	(516)
Total income from activities abroad, net		**49,301**	**56,000**
Income (expenses) from local activities			
Interest income, net	17	1,760	1,574
Interest expenses	17	(28,131)	(27,306)
Miscellaneous income, net	18	12	11
Total expenses from local activities		**(26,359)**	**(25,721)**
Exchange rate differentials	19	(13,697)	28,126
Income from financial activities		**9,245**	**58,405**
Expenses of printing banknotes and minting coins		(107)	(75)
General and administrative expenses	20	(1,012)	(994)
Other income, net	21	42	40
Income in the year		**8,168**	**57,376**

OTHER COMPREHENSIVE INCOME

Amounts that will not be subsequently reclassified to profit or loss:		
Gain from remeasurement of defined benefit plan	138	612
Gain from investments in equity instruments measured at fair value through other comprehensive income	16	25
Other comprehensive income	**154**	**637**
Comprehensive income	**8,322**	**58,013**

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

STATEMENT OF ALLOCATION OF PROFITS (LOSSES)*

		Year ended December 31,	
		2024	2023
	Note	NIS million	
Income in the year		8,168	57,376
Less: Allocation of unrealized gains to revaluation reserve	22	(12,383)	(46,111)
Total income (loss) recognized in the year		**(4,215)**	**11,265**
Accumulated deficit as of December 31		**(118,096)**	**(113,881)**

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

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

STATEMENT OF CHANGES IN EQUITY (DEFICIT EQUITY)

	Bank's Equity		Revaluation Reserves			
	Bank's Equity and General Reserve	Accumulated Deficit	Other Comprehensive Income (Loss)	Revaluation Reserves from Unrealized Gains	Total Revaluation Reserves	Total
	NIS million		NIS million			
Balance as of January 1, 2023	**3,985**	**(125,146)**	**(2,308)**	**75,992**	**73,684**	**(47,477)**
Comprehensive income	-	11,265	637	[1]46,111	46,748	58,013
Balance as of December 31, 2023	**3,985**	**(113,881)**	**(1,671)**	**122,103**	**120,432**	**10,536**
Comprehensive income (loss)	-	(4,215)	154	[1]12,383	12,537	8,322
Balance as of December 31, 2024	**3,985**	**(118,096)**	**(1,517)**	**134,486**	**132,969**	**18,858**

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

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

STATEMENT OF CASH FLOWS

	Year ended December 31,	
	2024	2023
	NIS million	
<u>**Cash flows from operating activities:**</u>		
Income in the year	8,168	57,376
Adjustments to reconcile income in the year to net cash used in operating activities:		
<u>Adjustments to profit or loss items:</u>		
Interest income from foreign exchange reserves, net	(21,197)	(16,400)
Gain from fair value revaluation of financial assets, net	(28,783)	(40,305)
Other expenses from activities abroad, net	513	516
Tax expenses on foreign investments	64	76
Interest expenses on financial instruments from local activities, net	26,371	25,732
Exchange rate differentials on cash and cash equivalents	(169)	4,743
Exchange rate differentials on foreign exchange reserves	14,119	(32,997)
Exchange rate differentials on balances from local activities	(253)	128
Depreciation and amortization	80	98
	(9,255)	(58,409)
<u>Changes in asset and liability items:</u>		
Decrease (increase) in investment in foreign currency securities abroad	(30,122)	30,846
Decrease in derivative financial instruments abroad	996	1,292
Decrease (increase) in collaterals on derivative financial instruments abroad	2,975	(121)
Decrease (increase) in short-term deposits abroad	680	(1,911)
Increase in reverse repos abroad	(5)	(12,262)
Decrease in other assets abroad	775	932
Decrease (increase) in IMF deposits	393	(58)
Increase in investment in local currency bonds in Israel	2,237	1,393
Increase in loans to local financial institutions	9,955	16,702
Increase in other local assets	(7)	(3)
Increase (decrease) in local reserves of banking corporations	5,085	(9,712)
Increase (decrease) in local time deposits	77,950	(117,951)
Increase (decrease) in short-term bills (*makam*)	(93,260)	83,303
Increase in local government reserves	16,875	1,385
Increase in other local liabilities	163	5,135
Decrease in employee benefit liabilities	(35)	(26)
	(5,345)	(1,056)

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

	Year ended December 31,	
	2024	2023
	NIS million	
Cash paid and received during the year:		
Interest paid on reserves abroad	(145)	(786)
Interest received from reserves abroad	14,068	8,978
Interest paid on local reserves	(17,478)	(16,376)
Interest received from local reserves	2,080	2,057
Dividends received	2,954	3,626
Taxes on income paid	(64)	(76)
	1,415	(2,577)
Net cash used in operating activities	**(5,017)**	**(4,666)**
Cash flows from investing activities:		
Purchase of fixed assets and intangible assets	(86)	(72)
Repayment of loans to employees	7	3
Net cash used in investing activities	**(79)**	**(69)**
Cash flows from financing activities:		
Increase in banknotes and in coins in circulation	2,290	9,768
Net cash provided by financing activities	**2,290**	**9,768**
Exchange rate differentials on cash and cash equivalents	**169**	**(4,743)**
Increase (decrease) in cash and cash equivalents	**(2,806)**	**5,033**
Cash and cash equivalents at beginning of year	**65,661**	**65,371**
Cash and cash equivalents at end of year	**63,024**	**65,661**

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 | GENERAL

a. The Bank of Israel ("the Bank") is the central bank of the State of Israel. The Bank was established in 1954. It is situated in Jerusalem and has two branches in Tel Aviv. The Bank is independent in choosing its operations and exercising its authorities in order to achieve the objectives and functions specified in the Bank of Israel Law, 5770-2010 ("the BOI Law"). The Bank's institutions include a Monetary Committee headed by the Bank's Governor, and a Supervisory Council headed by a member from among the public.

Pursuant to the BOI Law, the Bank's functions include: managing the monetary policy; holding and managing the foreign currency reserves of the State; supporting the orderly activity of the foreign exchange market in Israel; acting as banker of the Government; regulating the economy's payment and settlement systems so as to ensure their efficiency and stability; issuing currency; regulating and guiding the cash system of the economy; and supervising and regulating the banking system. The Bank also represents the State vis-a-vis international financial institutions, manages the State economy's digital information and statistics system and advises the Government on economic matters.

In addition, under the Credit Data Law, 5776-2016, the Bank also manages the Credit Data System, gathers the credit data from the available data sources, holds the credit data in a database and delivers them to the credit bureaus and to customers. Moreover, as per the Citizens of Israel Fund Law of 2014, the Fund's assets are managed by the Bank of Israel's Management Department.

b. <u>The effects of the Swords of Iron War</u>

In October 2023, the Swords of Iron War broke out in Israel ("the war"). The prolongation of the war has led to a slowdown in business activity throughout the economy, as a result, among others, of the shutdown of enterprises in the south and north of Israel, the damage to local infrastructures, the nationwide military reserve draft for an indefinite period, and the disruption of economic activity in the entire country. The security conditions have led to fluctuations in financial conditions in the local markets and affected commodity prices and foreign currency exchange rates. In response, the Bank of Israel initiated several plans to ensure the orderly operation of the financial markets and to support economic activity and financial stability during wartime.

1. Shortly after the Swords of Iron War began, the Bank of Israel adopted a plan to sell up to USD 30 billion of the foreign exchange reserves and to supply dollar liquidity of up to USD 15 billion through swaps in an aim to mitigate the shekel exchange rate fluctuations and supply the necessary liquidity for the markets' orderly operation. In the context of this plan, in 2023, the Bank sold USD 8.5 billion of foreign exchange reserves and executed swaps totaling USD 0.4 billion.

2. The Bank executed reverse repurchase agreements ("R. Repos") with institutional investors and mutual funds against government and/or corporate bonds as collateral to maintain the normal operation of the markets. In the context of this plan, in 2023, R. Repos of about NIS 95 million were executed.

3. <u>Credit relief plan for small and micro businesses affected by the war</u>
   (a) The granting of monetary loans of up to NIS 10 billion to banks, back-to-back with credit extended to small and micro businesses based on predetermined terms. In the context of this plan, loans totaling NIS 6.4 billion were given, of which total loans of NIS 4.3 billion were in 2024 and total loans of NIS 2.1 billion were in 2023.
   (b) The granting of R. Repo loans to nonbank lenders of up to NIS 1 billion, back-to-back with credit extended to small and micro businesses based on predetermined terms.

These plans ended in February 2024 and the monetary policy began to focus on stabilizing the markets, minimizing the prevailing uncertainty, achieving price stability and supporting economic activity.

In 2024, the war intensified and escalated into other areas, leading to an increase in Israel's risk premium and repeated lowering of its credit rating. In addition, the shekel devalued against the world's principal currencies. Toward the end of 2024, however, after the ceasefire in the northern border of Israel came into effect, there was some decrease in Israel's risk premium and a strengthening of the shekel.

c. <u>Effects of inflation and interest rate hikes</u>

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

In 2024, due to mitigated inflation rates around the world, central banks began a gradual process of reducing their benchmark interest rates. In January 2024, the Bank of Israel lowered its interest rate by 0.25 percentage points, to 4.5 percent, for the first time since the COVID-19 pandemic.

NOTE 2 | ACCOUNTING POLICIES

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

A. Basis of reporting and measurement of the financial statements

1. **The financial reporting principles**

   The financial statements are prepared in accordance with IFRS Accounting Standards.

2. **Measurement basis**

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

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

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

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

3. **Revenue recognition basis**

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

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

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

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

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

B. Functional currency, presentation currency and foreign currency

The Bank's functional currency is the new Israeli shekel ("NIS"), the currency that represents the principal economic environment in which the Bank operates.
The financial statements are presented in NIS and rounded to the nearest million, unless otherwise stated.

1. Transactions, assets and liabilities in foreign currency

Transactions denominated in foreign currency are recorded upon initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at each reporting date into the functional currency at the exchange rate at that date. Exchange rate differences are recognized in profit or loss. Nonmonetary assets and liabilities denominated in foreign currency and measured at cost are translated at the exchange rate at the date of the transaction.
Following are data on the NIS representative exchange rates against other key currencies:

	December 31,			Rate of change	
	2024	2023	2022	2024	2023
	NIS			Percent	
US Dollar	3.647	3.627	3.519	0.6	3.1
Euro	3.796	4.012	3.753	(5.4)	6.9
Pound Sterling	4.574	4.621	4.238	(1.0)	9.0
Special Drawing Rights (SDRs)[1]	4.759	4.868	4.649	(2.3)	4.7

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

2. Index-linked monetary items

Monetary assets and liabilities in local currency linked as per their terms to the changes in the Israeli Consumer Price Index ("Israeli CPI") are adjusted at the relevant index at each reporting date according to the terms of the agreement.
Following are data on the Israeli CPI (based on the 2016 average):

	December 31,			Rate of change	
	2024	2023	2022	2024	2023
	Points			Percent	
November	116.6	112.8	109.1	3.4	3.3
December	116.3	112.6	109.4	3.2	3.0

C. Interest rates

Some of the interest collected or paid by the Bank of Israel is based on the Bank of Israel interest rate or the Prime interest rate.
Following are data on the local interest rates:

	December 31,		
	2024	2023	2022
	Percent		
Bank of Israel interest rate	4.50	4.75	3.25
Prime interest rate	6.00	6.25	4.75

D. Financial instruments

1. **Financial assets[1]:**

   Financial assets are measured upon initial recognition at fair value plus costs that are directly attributable to the acquisition of the financial assets, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

   The Bank classifies and measures debt instruments in the financial statements based on the following criteria:

   a) The bank's business model for managing financial assets; and

   b) The contractual cash flow terms of the financial asset.

   a) <u>Debt instruments measured at amortized cost:</u>

   The Bank's business model is to hold the financial assets in order to collect their contractual cash flows, and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

   After initial recognition, these assets are measured according to their terms at amortized cost using the effective interest rate method, less any provision for impairment.

   b) <u>Debt instruments measured at fair value through profit or loss:</u>

   Financial assets that do not meet the criteria for measurement at amortized cost or at fair value through other comprehensive income.

   After initial recognition, these assets are measured at fair value and gains or losses from fair value adjustments are recognized in profit or loss.

   Interest income on these instruments is initially recognized using the effective interest rate method and the balance is recognized as an adjustment to the fair value of the financial assets.

[1] The measurement categories are detailed in Note 12.

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

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

2. **Impairment of financial assets**

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

The Bank distinguishes between two types of loss allowances:

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

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

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

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

3. **Financial liabilities**
    a) Financial liabilities measured at fair value through profit or loss:
    The Bank measures financial liabilities for derivatives at fair value through profit or loss.
    At the time of initial recognition, these liabilities are measured at fair value whereby transaction costs are charged to profit or loss.
    b) Financial liabilities measured at amortized cost:
    Financial liabilities other than derivatives are initially recognized at fair value less transaction costs that are directly attributable to the issue of the financial liability.
    After initial recognition, these financial liabilities are measured at amortized cost using the effective interest rate method.
4. **Derecognition of financial liabilities**
    A financial liability is extinguished when the debtor discharges the liability by paying in cash or other financial assets; or is legally released from the liability.
5. **Offsetting financial instruments**
    Financial assets and financial liabilities are presented in the net amount in the statement of financial position if:
    - There is a current legally enforceable right to set off the recognized amounts;
    - There is an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously.

    The right of offset must be legally enforceable not only during the ordinary course of business of the parties to the contract but also in the event of bankruptcy or insolvency of one of the parties. In order for the right of set-off to be currently available, it must not be contingent on a future event, there may not be periods during which the right is not available, or there may not be any events that will cause the right to expire.

E. Provisions

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

F. Change in Accounting Policy—initial adoption of new standards and amendments to existing standards

1. **Amendments to IFRS 9, "Financial Instruments", and IFRS 7, "Financial Instruments: Disclosures":**

   On May 30, 2024, the International Accounting Standards Board (“the IASB”) issued "Amendments to the Classification and Measurement of Financial Instruments - Amendments to IFRS 9 and IFRS 7" ("the Amendments"). The Amendments clarify certain aspects of the classification and measurement of financial instruments.

   The Amendments address the following:

   - Derecognition of a financial liability settled through an electronic transfer system—an entity is permitted to make an accounting policy election to derecognize a financial liability (or part of it) that is settled in cash using an electronic payment system before the settlement date if certain conditions are met. An entity that makes this accounting policy election is required to apply it to all financial liabilities settled using the same electronic payment system.
   - Assessing contractual cash flow characteristics for the classification of financial assets—the Amendments clarify how to assess the characteristics of contractual cash flows of financial assets with features linked to environmental, social and corporate governance (ESG) targets and other similar contingent features. The Amendments also enhance the description of the term ‘non-recourse’ and clarify the characteristics of contractually linked instruments (CLIs).
   - Disclosures—the Amendments to IFRS 7 introduce new disclosure requirements for financial assets and liabilities with contractual terms that include contingent features (including ESG-related) and new disclosures for investments in equity instruments measured at fair value through other comprehensive income (FVTOCI).

   The Amendments are to be applied retrospectively commencing from annual reporting periods beginning on or after January 1, 2026. Earlier application is permitted subject to disclosure.

   The Bank is evaluating the implications of the adoption of the Amendments on its financial statements.

2. **IFRS 18, "Presentation and Disclosure in Financial Statements":**

In April 2024, the International Accounting Standards Board ("the IASB") issued IFRS 18, "Presentation and Disclosure in Financial Statements" ("IFRS 18") which replaces IAS 1, "Presentation of Financial Statements".

IFRS 18 is aimed at improving comparability and transparency of communication in financial statements.

IFRS 18 retains certain existing requirements of IAS 1 and introduces new requirements on presentation within the statement of profit or loss, including specified totals and subtotals. It also requires disclosure of management-defined performance measures and includes new requirements for aggregation and disaggregation of financial information.

IFRS 18 does not modify the recognition and measurement provisions of items in the financial statements. However, since items within the statement of profit or loss must be classified into one of five categories (operating, investing, financing, taxes on income, and discontinued operations), it may change the entity's operating profit. Moreover, the publication of IFRS 18 resulted in consequential narrow scope amendments to other accounting standards, including IAS 7, "Statement of Cash Flows" and IAS 34, "Interim Financial Reporting".

IFRS 18 is effective for annual reporting periods beginning on or after January 1, 2027, and is to be applied retrospectively. Early adoption is permitted commencing from January 1, 2025, subject to disclosure.

The Bank is evaluating the effects of IFRS 18, including the effects of the consequential amendments to other accounting standards, on its financial statements.

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

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

1. **Evaluating the business model**
   The Bank evaluates the objective of the business model according to which financial assets are held in a portfolio, since it optimally reflects the method of managing the assets and the communication of information to management. The information taken into account consists of:
   - The objective of holding the portfolio for trade, for generating contractual cash flows etc.;
   - The frequency, value, and timing of sales (both in the past and in the future);
   - The method of evaluating and reporting the performances of the business model and financial assets to key management personnel in the Bank;
   - The risks affecting the business model performances and their management;
   - The method of remuneration of investment managers. For example, is the remuneration based on the fair value of the managed assets or on the contractual cash flows received;
   - Whether the contractual cash flows received (such as interest income) represent a significant portion of the portfolio returns.
2. **Calculation of the allowance for expected credit losses**
   The Bank evaluates the allowance for expected credit losses (ECLs) in respect of all the instruments measured at amortized cost or of debt instruments measured at fair value through other comprehensive income (FVTOCI). ECLs are calculated based on the following formula: ECL = PD*LGD*EAD.
   a) PD = probability of default (%) is the likelihood over a specified period that a borrower will not be able to make scheduled repayments. PD is estimated for a specific date based on statistical rating models using rating tools that are adapted to the various counterparty and exposure categories. The PD for foreign counterparties within a period of one year relies on Bloomberg's default risk (DRSK) models for corporations and Bloomberg's sovereign risk function (SRSK) using financial, macroeconomic and credit score data.

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

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

3. Employee benefits

The Bank measures the employee benefit liabilities based on an evaluation and actuarial calculation, see Note 9a.

4. Fair value

See Note 12 for the fair value measurement techniques.

5. Provisions

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

NOTE 3 | FOREIGN EXCHANGE RESERVES

As per the BOI Law, the Bank is charged with holding and managing the State's foreign exchange reserves and supporting the regular operation of Israel's foreign exchange market.

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

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

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

		December 31,	
		2024	2023
	Note	NIS million	
Cash and cash equivalents	3a	**63,024**	**65,661**
Securities (a)			
Government, semi-government and international bonds		440,400	(*434,767
Corporate bonds		73,816	(*71,131
Stocks		186,074	(*151,325
Total securities		**700,290**	**657,223**
Other assets (b)			
Short-term deposits	3b1	1,482	2,209
Securities purchased in R. Repos	3b2	-	1,904
Various assets	3b3	1,690	2,440
Total other assets		**3,172**	**6,553**
The IMF (b)	3c	**16,047**	**16,697**
Other liabilities (b)			
Securities sold in Repos	3b2	-	(1,904)
Various liabilities	3b3	(3,059)	(81)
Total other liabilities		**(3,059)**	**(1,985)**
Derivative financial instruments (a)	3d		
Assets		3,088	534
Liabilities		(25)	(2,259)
Total derivative financial instruments		**3,063**	**(1,725)**
Total foreign exchange reserves		**782,537**	**742,424**

*) Reclassified.

<u>Financial instrument measurement categories:</u>

a. Fair value through profit or loss.

b. Amortized cost.

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

	December 31,	
	2024	2023
	Percent	
USD	62	61
Euro	20	20
Other	18	19
Total	**100**	**100**

NOTE 3a | CASH AND CASH EQUIVALENTS

<u>Accounting policy</u>

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

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

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

	December 31,	
	2024	2023
	NIS million	
Cash in central banks	53,080	57,925
Deposits in central banks	9,269	7,059
Other cash and cash equivalents	675	677
Total cash and cash equivalents	**63,024**	**65,661**

The interest rates in 2024 on the principal cash balances in central banks were as follows: 4.3 to 5.3 percent for dollar balances (similar to 2023) and 3 to 4 percent for euro balances (in 2023 - ranged between 2 to 4 percent).

As of December 31, 2024, the average interest rates on deposits in central banks that mature within three months were as follows: 4.5 percent on dollar deposits (as of December 31, 2023 – 5.5 percent) and 3 percent on euro deposits (as of December 31, 2023 – 3.8 percent).

NOTE 3b | OTHER ASSETS AND LIABILITIES ABROAD

1. Time deposits in central banks whose original maturity exceeds three months from the investment date and that do not meet the criteria of "cash equivalents" are classified under other assets. These deposits are stated at amortized cost based on their deposit terms. The average interest rate on these deposits as of December 31, 2024 was 4.8 percent (as of December 31, 2023, the average interest rate was 3.8 percent).

2. Securities purchased in R. Repos consist of securities purchased subject to a reverse repurchase agreement and are accounted for as secured debt. Securities purchased in R. Repos are not stated on the Balance Sheet.

   Securities sold in Repos consist of securities sold as per repurchase agreements and are accounted for as secured debt. Consequently, they are not derecognized from the Bank's assets.

3. Various assets / liabilities – mainly include:

   a) Collaterals provided to different financial institutions, in accordance with the Bank's exposure to derivative financial instruments: when the collaterals are provided by the Bank, they are classified as assets. When the collaterals are held in favor of the Bank, they are stated in liabilities.

   b) Restricted cash used to secure forwards and derivative transactions. The restricted cash is shown in accordance with its terms of deposit.

NOTE 3c | THE INTERNATIONAL MONETARY FUND (IMF)

In accordance with Section 82 of the BOI Law, "Representing the State vis-à-vis International Financial Institutions", the Bank of Israel represents the State in the IMF.

The IMF created an international reserve asset known as Special Drawing Rights ("SDRs").

The entire operations, assets and liabilities of the Bank of Israel in respect of the IMF are denominated in SDR.

The SDR rate is published by the IMF and calculated based on a weighted currency basket that includes the following currencies: US dollar; euro; Japanese yen; pound sterling; and Chinese yuan. The IMF is considered a senior creditor.

The IMF has never realized a loss on loans in the context of its loan agreements. Since all the claims are against the IMF itself, Israel has no credit exposure to third parties in respect of these loans.

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

	December 31,		December 31,	
	2024	2023	2024	2023
	NIS million		SDR million	
IMF quota	9,141	9,350	1,921	1,921
NAB loans	-	3	-	1
SDRs	13,655	14,062	2,869	2,888
Total IMF assets	22,796	23,415	4,790	4,810
Deposits	(1,109)	(974)	(233)	(201)
Banknotes deposited at Bank of Israel	(5,727)	(5,858)	(1,203)	(1,203)
Total IMF liabilities in local currency	(6,836)	(6,832)	(1,436)	(1,404)
Interest receivable for IMF balance	87	114	18	24
IMF balance	**16,047**	**16,697**	**3,372**	**3,430**
Allocated SDRs	(12,965)	(13,262)	(2,725)	(2,725)
Interest payable for allocated SDRs	(72)	(92)	(15)	(18)
Total IMF balance[1]	**3,010**	**3,343**	**632**	**687**

[1] The balances bear interest pursuant to the IMF's terms. As of December 31, 2024, the interest rate is 3.2 percent (as of December 31, 2023 – 4.1 percent).

Assets and liabilities in the IMF

a. IMF quota

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

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

In December 2023, the Bank of Israel's Monetary Committee resolved to approve increasing Israel's quota from the current SDR 1,921 million to SDR 2,881 million, subject to the IMF's approval. Through the date of signing the financial statements, the process is still delayed by the IMF in the absence of the required understandings by member countries. Accordingly, the process of enhancing the IMF quota has not yet been completed.

As of December 31, 2024, Israel has 20,661 votes on the IMF accounting for 0.41 percent of total votes (with no material change from December 31, 2023).

b. NAB loans

The State of Israel has been part of the IMF's credit arrangement known as NAB (New Arrangements to Borrow) since September 2010, in the context of which the member countries, including Israel, provide NAB loans to the IMF that mature ten years later. The arrangements are expected to be minimized simultaneously with the increase in the quotas of the member countries. As of December 31, 2024, the entire NAB loans extended by the Bank of Israel have been repaid.

As of December 31, 2024, the Bank of Israel's maximum credit line to the IMF is SDR 680 million (NIS 3,236 million) (as of December 31, 2023, the maximum credit line was SDR 680 million (NIS 3,310 million)). Once the IMF quotas are increased by 50 percent and the NAB credit line is reduced accordingly, the credit line that the Bank of Israel provides the IMF will be reduced from SDR 680 million to SDR 569.25 million.

c. Special Drawing Rights (SDRs)

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

The balance bears interest at the IMF's terms.

d. Deposits

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

e. <u>Banknotes deposited at the Bank of Israel</u>

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

f. <u>Allocated SDRs</u>

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

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

NOTE 3d | DERIVATIVE FINANCIAL INSTRUMENTS

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

	December 31,	
	2024	2023
	NIS million	
Special commitments – derivative financial instruments		
Foreign exchange transactions		
Future receipt of foreign currency (currency swaps, forwards, spot)	79,338	92,493
Future delivery of foreign currency (currency swaps, forwards, spot)	75,892	93,174
Equity indices futures at fair value[1]		
Obligation to buy	(19)	-
Obligation to sell	398	(9)
Interest futures at fair value[1]		
Obligation to sell	(56)	(9)
Bond futures at fair value[1]		
Obligation to buy	(44)	1,271
Obligation to sell	87	(27)

[1] Off balance sheet.

NOTE 4 | BIS INVESTMENT

Accounting policy

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

On the date of initial recognition, the Bank made an irrevocable choice and classified the BIS investment as a strategic investment. As per IFRS Accounting Standards, changes in the fair value of the BIS investment are recognized in other comprehensive income and accrued to the equity investment revaluation reserve. The changes are not carried to profit or loss in the future, not even when the investment is derecognized.

Income from dividends is recognized in the Statement of Profit or Loss on the dividend record date since they represent a return on capital and not a return of the invested capital to the shareholders.

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

As of December 31, 2024, the Bank of Israel holds 3,211 shares in the BIS at a value of about NIS 472 million (as of December 31, 2023—about NIS 456 million). The shares are held as part of the Bank of Israel's duties as a central bank and naturally have long positions. Each shareholder is entitled to receive its share of BIS's NAV with a 30 percent discount. BIS shares can only be transferred with BIS's advance consent. The Bank of Israel has no intention to sell its BIS shares.

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

When investing in the BIS, the Bank of Israel is required to assume additional undertakings toward the institution beyond the actual callable capital, which may be exercised by the institution only in times of need, a scenario that is relatively unlikely. The balance of the above undertakings as of December 31, 2024 is NIS 57 million (December 31, 2023—NIS 59 million).

NOTE 5 | LOCAL FINANCIAL INSTRUMENTS[1]

	December 31, 2024		December 31, 2023	
	Carrying amount	Average interest rate	Carrying amount	Average interest rate
	NIS million	Percent	NIS million	Percent
Financial assets:				
Local currency bonds (a)				
Government bonds	79,371	0.14%	81,732	0.13%
Corporate bonds	1,985	0.23%	2,325	0.26%
	81,356		**84,057**	
Loans to financial institutions				
Loans to banking corporations (b)	**13,501**	BOI ;-0.1 ;0.1 interest – 1.5	**23,316**	BOI ;-0.1 ;0.1 interest – 1.5
Financial liabilities:				
Reserves of banking corporations against reserve requirement (c)				
Local currency reserves	68,960		63,231	
Foreign currency reserves – foreign currency deposits	520		1,181	
	69,480		**64,412**	
Monetary absorption tools				
Time deposits (d)	363,282	4.50%	285,289	4.51%
Short-term bills (*makam*) (e)	221,686	4.25%	304,336	4.53%
	584,968		**589,625**	
Government reserves (f)				
Local currency reserves	35,844	5.50%	20,314	5.28%
Foreign currency reserves	10,958		9,558	
	46,802		**29,872**	

[1] For financial risks, see Note 11.

Details of local financial instruments:

a. **Local currency bonds**

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

The bonds are stated at amortized cost subject to impairment.

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

As of December 31, 2024, the carrying amount of the investment in corporate bonds includes an allowance for ECLs totaling about NIS 3 million (December 31, 2023—about NIS 7 million), which reduced the carrying amount of the investment and was carried to the Statement of Profit or Loss.

The credit ratings of local currency corporate bonds:

	Corporate bonds					
	December 31, 2024					
	AAA	AA+,AA,AA-	A+,A,A-	BBB+	ECL	Total
NIS million	344	1,201	440	3	(3)	1,985
Percent	17%	60%	23%	0%	-	100%

	Corporate bonds					
	December 31, 2023					
	AAA	AA+,AA,AA-	A+,A,A-	BBB+	ECL	Total
NIS million	434	1,284	613	1	(7)	2,325
Percent	19	55	26	0	-	100

b. **Loans to banking corporations**

1. Against the backdrop of the COVID-19 crisis, the Monetary Committee decided to adopt a special plan consisting of long-term loans. According to the plan, loans were granted to banking corporations for periods of 3 and 4 years, in several installments, bearing interest of 0.1 percent and (-0.1) percent as long as the banks provided credit to small and micro businesses. Total loans granted in the context of the plan were in an aggregate of NIS 40 billion. The plan ended in July 2021.

2. As a result of the effects of the Swords of Iron War, the Monetary Committee decided on a credit relief plan for small and micro businesses, according to which loans were offered to banks back-to-back with loans provided by the banks to small and micro businesses affected by the war that met certain criteria. Total loans provided under the plan amounted to some NIS 6.4 billion for periods of two and three years bearing variable BOI interest minus 1.5 percent. The plan ended in February 2024.

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

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

As of December 31, 2024, the interest rate on time deposits is 4.5 percent (December 31, 2023—4.75 percent). In 2024, the average interest rate on auction time deposits was 4.50 percent (2023—4.51 percent).

As of December 31, 2024, the interest rate on deposits at the deposit window was 4.0 percent (December 31, 2023—4.25 percent).

In 2024, the average interest rate on deposits at the deposit window was 4.0 percent (2023—4.01 percent).

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

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

1. Government reserves in local currency consist of current balances and balances used for lending bonds for financing budget operations. For current credit and debit balances, the Bank of Israel respectively charges or pays the Government interest ranging between the BOI interest rate + 1.5 percent and the BOI interest rate at various brackets. Government reserves that are used for lending bonds and other balances are subject to different interest rates.

2. Government reserves in foreign currency mainly consist of current balances used for financing the budget operations. Some of these balances are subject to interest at the rate of interest on US Treasury notes with average maturity of about 6 months. In 2024, the average interest rate on these reserves was 5.01 percent (in 2023 – 5.25 percent).

NOTE 6 | OTHER LOCAL ASSETS

	December 31,	
	2024	2023
	NIS million	
Credit to the Government[1]	120	120
Loans to employees	80	87
Various receivables	25	13
Total other assets	**225**	**220**

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

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

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

NOTE 7 | Fixed assets and Intangible assets

Accounting policy – fixed assets

Fixed assets are stated at cost. The assets are depreciated when they reach the necessary position and condition to be able to operate as intended by management. Improvements and enhancements are charged to the cost of the assets and depreciated over their useful lives, whereas maintenance and repair expenses are charged to profit or loss as incurred.

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

- Buildings (excluding the land component)–1.5 percent-2 percent;
- Equipment and furniture–10 percent;
- Vehicles–15 percent;
- Computers–25 percent;

Accounting policy – intangible assets

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

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

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

Below is the composition of the balances and changes therein for 2023-2024:

	Land and buildings[1]	Equipment, furniture and vehicles	Computers and electronic equipment	Total	Intangible assets	Total
	NIS million					
<u>Cost:</u>						
Balance as of January 1, 2023	621	113	443	1,177	343	1,520
Additions	12	2	21	35	40	75
Disposals	-	(1)	(2)	(3)	-	(3)
Balance as of December 31, 2023	**633**	**114**	**462**	**1,209**	**383**	**1,592**
Additions	2	13	20	35	52	87
Disposals	-	-	(12)	(12)	(1)	(13)
Balance as of December 31, 2024	**635**	**127**	**470**	**1,232**	**434**	**1,666**
<u>Accumulated depreciation:</u>						
Balance as of January 1, 2023	122	73	373	568	246	814
Additions	11	8	39	58	40	98
Disposals	-	(1)	(2)	(3)	-	(3)
Balance as of December 31, 2023	**133**	**80**	**410**	**623**	**286**	**909**
Additions	11	8	21	40	40	80
Disposals	-	-	(11)	(11)	(1)	(12)
Balance as of December 31, 2024	**144**	**88**	**420**	**652**	**325**	**977**
Depreciated balance as of December 31, 2024	**491**	**39**	**50**	**580**	**109**	**689**
Depreciated balance as of December 31, 2023	**500**	**34**	**52**	**586**	**97**	**683**

[1] As of December 31, 2024, the cost of the property in the Jerusalem Campus and the depreciated cost of the buildings thereon, amount to approximately NIS 464 million (approximately NIS 472 million as of December 31, 2023). The Bank of Israel is negotiating with the lessor, the Israel Land Authority ("the ILA"), to renew the lease. As of the financial statement publication date, the amount of renewed lease fees is NIS 13 million, yet the Bank of Israel has filed an objection to this amount and a reduction may be achieved.

NOTE 8 | BANKNOTES AND COINS IN CIRCULATION

Accounting policy

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

Following are details of banknotes and coins in circulation:

	December 31,	
	2024	2023
	NIS million	
NIS 20	1,280	1,255
NIS 50	4,496	4,248
NIS 100	22,694	20,001
NIS 200	99,717	100,507
Coins in circulation	3,289	3,175
Commemorative banknotes and coins	6	6
Other[1]	2	2
Total banknotes and coins in circulation	**131,484**	**129,194**

[1] Special coin items in circulation.

NOTE 9 | OTHER LOCAL LIABILITIES

	December 31,	
	2024	2023
	NIS million	
Liabilities for benefits to employees and pensioners (a)	5,265	5,432
Liabilities for employees' and other rights (b)	80	86
Other payables[1]	8,806	8,645
Total other liabilities	**14,151**	**14,163**

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

A. Liabilities for benefits to employees and pensioners

Accounting policy

1. **Short-term employee benefits**
   Short-term employee benefits are benefits that are expected to be settled wholly within twelve months from the end of the annual reporting period in which the employees render the related services. These benefits include salaries, recreation, and employer's National insurance contributions and are recognized as expenses as the services are rendered. A liability in respect of salary bonuses is recognized when the Bank has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amounts can be made.
2. **Post-employment benefits**
   Post-employment benefit plans are normally financed by contributions to insurance companies and classified as defined contribution plans or as defined benefit plans.
   Pursuant to Section 14 of the Israeli Severance Pay Law, the Bank operates defined contribution plans under which the Bank pays fixed contributions and will have no legal or constructive obligation to pay further contributions even if the fund does not hold sufficient amounts to pay all employee benefits relating to service in the current and prior periods.
   Contributions to the defined contribution plan, whether in respect of severance or remuneration, are recognized as an expense when contributed concurrently with performance of the employee's services.
   The Bank also operates a defined benefit plan in respect of pension, severance pay and other benefits to employees insured under budgetary pension and redemption of sick leave. The liability for termination of employment is measured using actuarial value under the projected unit credit method. The actuarial assumptions include expected salary increases and rates of employee turnover based on the estimated timing of payment. The amounts are presented based on discounted expected future cash flows. This uses a discount rate determined by reference to market yields at the reporting date on government bonds with a term that is consistent with the estimated term of the severance pay obligation.
   The Bank's net obligation for post-employment benefits, which is computed based on actuarial assumptions, reflects the future benefits for services rendered by employees in the current period and in prior periods and taking into account expected salary increases and turnovers. These amounts are discounted to their present value. The discount rate is determined by reference to market yields on government bonds at the reporting date whose term is consistent with the term of the Bank's obligation to pay the benefits.
   Remeasurements of the net liability are recognized in Other Comprehensive Income in the period in which they occur.

3. **Other long-term employee benefits**

The Bank's employees are entitled to other long-term benefits consisting of utilizing vacation days and sick days, and some of them are eligible for grants and adaptation grants. These benefits are classified as other long-term benefits since the Bank expects these benefits to be used during the employment period and more than twelve months after the end of the annual reporting period in which the related service is rendered.

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

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

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

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

a. Post-employment benefits

1. Defined contribution plans

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

	Year ended December 31,	
	2024	2023
	NIS million	
Expenses in respect of defined contribution plans	**37**	**33**

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

2. Defined benefit plans

Changes in the defined benefit obligation:

2024

		Expenses recognized in profit or loss					Gain (loss) from remeasurement in other comprehensive income			
	Balance as of January 1, 2024	Current service cost	Net interest expense	Past service cost and effect of settlements	Total expense recognized in profit or loss for the period	Payments	Actuarial gain arising from changes in financial and demographic assumptions	Actuarial loss arising from demographic experience adjustments	Total effect on other comprehensive income for the period	Balance as of December 31, 2024
	NIS millions									
Defined benefit obligation	5,432	44	235	1	280	(309)	(175)	37	(138)	5,265

2023

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

b. The principal assumptions underlying the defined benefit plan

	December 31,	
	2024	2023
	Percent	
Average discount rate[1]	4.5-4.8	4.1-4.5
Expected annual rate of salary increase (1st generation budgetary pension employees)	2.9	3.0
	Years	
Expected life of the obligation (budgetary pension)	**11.8**	**12.1**

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

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

Regarding budgetary pension, below are sensitivity tests per actuarial assumption, assuming that all other actuarial assumptions are constant:

Assumption	Type of change	Percent of change	Type of effect	Percent of effect	Effect in NIS millions
Discount interest	Increase (add)	1	Decrease	(9.5)	(457)
Discount interest	Decrease (less)	1	Increase	12.2	587
Expected rate of salary increase (after 2027)	Increase	0.5	Decrease	(0.1)	(5)
Expected rate of salary increase (after 2027)	Decrease	0.5	Increase	0.1	6
Early retirement	Increase	20	Increase	0.5	23
Early retirement	Decrease	20	Decrease	(0.5)	(24)
Mortality	Increase	20	Decrease	(3.8)	(184)
Mortality	Decrease	20	Increase	4.9	236

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 2025.

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

		December 31,	
		2024	2023
		NIS million	
Bank's equity			
Bank's equity and general reserve	10a	3,985	3,985
Accumulated deficit	10b	(118,096)	(113,881)
		(114,111)	**(109,896)**
Revaluation reserves	10c		
Outstanding other comprehensive income (loss)			
Equity instruments designated to fair value through other comprehensive income	10c(a)(1)	190	174
Remeasurement of defined benefit plan	10c(a)(2)	(1,707)	(1,845)
		(1,517)	(1,671)
Revaluation reserves from unrealized gains			
Unrealized exchange rate differentials on foreign currency balances	10c(b)(1)	66,720	78,965
Unrealized gains from fair value adjustments of:	10c(b)(2)		
Bonds		1,904	(*3,558
Stocks		62,610	(*36,937
Derivative financial instruments		11	64
Other accounting adjustments[1]		3,241	2,579
		134,486	122,103
Total revaluation reserves		**132,969**	**120,432**
Total Bank's equity (deficit) and reserves		**18,858**	**10,536**

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

A. The Bank's equity and general reserve

The Bank's equity in historical nominal values as of December 31, 2024 and 2023 was NIS 60 million and the general reserve was NIS 260 million. The general reserve served in the past to increase the Bank's capital in accordance with Section 6 of the BOI Law.

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

B. Accumulated deficit

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

C. Revaluation reserves

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

(a) Outstanding other comprehensive income (loss)

Amounts carried as per IFRS Accounting Standards to other comprehensive income to capital reserves from revaluation of assets or liabilities consist of the following items:

(1) **Revaluation reserve from equity instruments designated to fair value through other comprehensive income**

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

(2) **Revaluation reserve from remeasurement of defined benefit plan**

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

(b) Revaluation reserves from unrealized gains

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

(1) **Revaluation reserve from unrealized gains from exchange rate differentials on foreign currency balances**

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

In accordance with the BOI Law, unrealized gains are not included in distributable net income. The revaluation of Foreign Exchange Reserves in respect of exchange rate differentials is not viewed as realization until the currency balance is partially or fully written down. The amount recognized as realized is calculated at the selling rate as opposed to the weighted average cost of buying the foreign currency. Realized gains or losses from exchange rate differentials are carried to accumulated deficit and can be distributed.

The calculation of realized gains is made separately for each currency and foreign currency balance. No offsetting among different types of items is carried out. The balance of an accumulated loss on a certain currency, if any, is not carried to the revaluation reserve.

(2) **Revaluation reserve from unrealized gains from fair value adjustments**

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

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

NOTE 11 | RISK MANAGEMENT

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

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

To fulfill these functions as legally required, the Monetary Committee, which is headed by the Governor of the Bank of Israel and consists of representatives from among the public, in consultation with the Minister of Finance, outlines the guidelines for the foreign exchange reserve investment policy and monitors their implementation. The guidelines delineate the investment policy objectives and risk management framework. They include the types of assets that can be invested in, the risk profile, and the quantitative and qualitative limitations on the types of assets that can be invested.[1]

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

The Markets Department is in charge of supervising and applying means for monitoring financial risks to ascertain compliance with the risk profile and degrees of management freedom outlined by the Monetary Committee.

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

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

Monetary policy measures are applied in the local market mainly using deposits and loans to banking corporations and financial institutions and by issuing *makam* and buying government and corporate bonds.

The Markets Department is in charge of monitoring the risks and applying tools for managing them, including requiring proper collaterals for loans in the local market.

1. **Credit risk**

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

   Foreign exchange reserve management

   The Bank's credit risk exposure is managed by setting specific investment rules and a system of quotas for countries, issuers and banks which is updated annually or as needed. The rules are governed by a regulated methodology that relies on credit ratings, liquidity, product level, market depth, equity, and other parameters that apply to the specific country, issuer or bank.

[1] See more information in the report of foreign exchange reserve investments for 2024.

The rules determine credit risk exposure quotas for countries, financial institutions (brokers, banks and international institutions) and issuers. They also prescribe concentration limitations and minimum credit ratings based on international rating agencies.
In FX futures transactions, the underlying risk is managed through a daily process of transferring funds on the daily change in the transaction margin.
R. Repo transactions are backed by haircuts with daily updated margins and carried out based on collateral price fluctuations.
To disperse risk, the investment portfolio is diversified using different financial instruments in the financial markets including fixed interest and variable interest rate bonds; government, semi-government, international and corporate bonds; and other liquid securities.
Moreover, procedures have been defined for managing exceptions to rules or violations of investment rules.

Local market activity

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

a. **Credit quality analysis**

The following tables present a breakdown of the credit ratings of debt assets in the foreign exchange reserves, by type of instrument and currency. The classification into external credit ratings relies on S&P's ratings (in 2023 – based on Moody's credit ratings).

	December 31, 2024						
	NIS million						
	AAA	AA	A	BBB	Lower rating	Unrated	Total
Cash and cash equivalents	6,991	29,351	26,285	-	-	397	**63,024**
Government, semi-government and international bonds	87,423	330,108	22,869	-	-	-	**440,400**
Corporate bonds	213	346	26,204	33,950	8,015	5,088	**73,816**
Total	**94,627**	**359,805**	**75,358**	**33,950**	**8,015**	**5,485**	**577,240**

	December 31, 2023						
	NIS million						
	AAA	AA	A	BBB	Lower rating	Unrated	Total
Cash and cash equivalents	45,584	8,802	10,841	-	2	432	**65,661**
Government, semi-government and international bonds	259,200	139,987	35,580	-	-	-	**434,767**
Corporate bonds	-	815	26,182	31,501	6,969	5,664	**71,131**
Total	**304,784**	**149,604**	**72,603**	**31,501**	**6,971**	**6,096**	**571,559**

b. **Concentration risk**

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

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

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

	December 31, 2024				
	NIS million				
	Israel	Europe	USA	ROW	Total
Assets					
Assets abroad					
Cash and cash equivalents	-	13,588	23,069	26,367	63,024
Foreign currency bonds	-	164,984	240,659	108,573	514,216
Stocks	-	28,849	136,590	20,635	186,074
Derivative financial instruments	-	1,984	866	238	3,088
Other foreign currency assets	-	1,730	1,416	26	3,172
The IMF	-	-	-	16,047	16,047
BIS investment	-	-	-	472	472
Local assets					
Local currency bonds	81,356	-	-	-	81,356
Loans to financial institutions	13,501	-	-	-	13,501
Other assets	225	-	-	-	225
Total assets	**95,082**	**211,135**	**402,600**	**172,358**	**881,175**
Liabilities					
Liabilities abroad					
Derivative financial instruments	-	24	1	-	25
Other foreign currency liabilities	-	2,382	677	-	3,059
The IMF	-	-	-	13,037	13,037
Local liabilities					
Banknotes and coins in circulation	131,484	-	-	-	131,484
Reserves of banking corporations against reserve requirement	69,480	-	-	-	69,480
Time deposits	363,282	-	-	-	363,282
Short-term bills (*makam*)	221,686	-	-	-	221,686
Government reserves	46,802	-	-	-	46,802
Other local currency liabilities	14,151	-	-	-	14,151
Total liabilities	**846,885**	**2,406**	**678**	**13,037**	**863,006**

	December 31, 2023				
	NIS million				
	Israel	Europe	USA	ROW	Total
Assets					
Assets abroad					
Cash and cash equivalents	-	19,745	34,631	11,285	65,661
Foreign currency bonds	-	187,978	185,020	132,900	505,898
Stocks	-	16,737	105,720	28,868	151,325
Derivative financial instruments	-	357	177	-	534
Other foreign currency assets	-	5,052	1,182	319	6,553
The IMF	-	-	-	16,697	16,697
BIS investment	-	-	-	456	456
Local assets					
Local currency bonds	84,057	-	-	-	84,057
Loans to financial institutions	23,316	-	-	-	23,316
Other assets	220	-	-	-	220
Total assets	**107,593**	**229,869**	**326,730**	**190,525**	**854,717**
Liabilities					
Liabilities abroad					
Derivative financial instruments	-	1,660	100	499	2,259
Other foreign currency liabilities	-	1,934	51	-	1,985
The IMF	-	-	-	13,354	13,354
Local liabilities					
Banknotes and coins in circulation	129,194	-	-	-	129,194
Reserves of banking corporations against reserve requirement	64,412	-	-	-	64,412
Time deposits	285,289	-	-	-	285,289
Short-term bills (*makam*)	304,336	-	-	-	304,336
Government reserves	29,872	-	-	-	29,872
Other local currency liabilities	14,163	-	-	-	14,163
Total liabilities	**827,266**	**3,594**	**151**	**13,853**	**844,864**

2. **Market risk**

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

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

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

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

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

The risk profile[2] was defined by the Monetary Committee so that given the worst 5 percent of outcomes (p), the average loss in currency benchmark terms will not exceed 900 basis points ($CVaR_{5\%}$=900 basis points) over a 1-year horizon.

In the investment policy guidelines, the risk profile determines the maximum risk level permitted. Each year, the Committee determines the recommended risk level. For 2024, the Committee determined that the CVaR would be 540 basis points (in 2023-530 basis points).

[2] This risk profile came into effect in April 2021 with the guidelines going into effect.

a. **Foreign currency risk**

Foreign currency risk is the risk that the value of a financial instrument will change as a result of changes in foreign currency exchange rates against the shekel. The value of the bank's assets is exposed, subject to the currency composition of the assets, to the risk of changes in the exchange rates of its foreign currencies against the shekel.

The overall exposure can be mitigated, reducing the foreign exchange rate risk against the shekel by investing in a range of foreign currencies that does not include the shekel, since according to the guidelines underlying the foreign exchange reserves investment policy outlined by the Monetary Committee, the investment is only allowed in foreign countries.

The Bank's main exposure to foreign exchange rate risk arises from the investments of the foreign exchange reserves.

As per the new guidelines, the target currency composition of foreign exchange reserves as of December 31, 2024 is as follows: 62 percent in USD, 20 percent in euro, 5 percent in pound sterling and 13 percent in other currencies (as of December 31, 2023 – the composition was: 61 percent in USD, 20 percent in euro, 5 percent in pound sterling and 14 percent in other currencies). Based on the investment policy set forth in the guidelines, a maximum 10 percent deviation from the target currency composition is allowed based on the strategic allocation for that year, and another deviation of up to 2 percent of the allocation in the short and medium range.

The Bank's overall currency exposure:

	December 31, 2024				
	NIS million				
	USD	Euro	NIS	Other	Total
Assets					
Assets abroad					
Cash and cash equivalents	28,313	7,933	-	26,778	63,024
Foreign currency bonds	260,708	125,428	-	128,080	514,216
Stocks	136,590	17,294	-	32,190	186,074
Derivative financial instruments	56,189	(1,071)	-	(52,030)	3,088
Other foreign currency assets	1,105	368	-	1,699	3,172
The IMF	-	-	-	16,047	16,047
BIS investment	-	-	-	472	472
Local assets					
Local currency bonds	-	-	81,356	-	81,356
Loans to financial institutions	-	-	13,501	-	13,501
Other assets	120	-	105	-	225
Total assets	**483,025**	**149,952**	**94,962**	**153,236**	**881,175**
Liabilities					
Liabilities abroad					
Derivative financial instruments	(980)	(5,331)	-	6,336	25
Other foreign currency liabilities	1,145	1,913	-	1	3,059
The IMF	-	-	-	13,037	13,037
Local liabilities					
Banknotes and coins in circulation	-	-	131,484	-	131,484
Reserves of banking corporations against reserve requirement	520	-	68,960	-	69,480
Time deposits	-	-	363,282	-	363,282
Short-term bills (*makam*)	-	-	221,686	-	221,686
Government reserves	8,961	1,655	35,844	342	46,802
Other local currency liabilities	-	-	14,151	-	14,151
Total liabilities	**9,646**	**(1,763)**	**835,407**	**19,716**	**863,006**
Total net balance sheet currency	**473,379**	**151,715**	**(740,445)**	**133,520**	**18,169**
Off-balance sheet balances:					
Futures	341	23	-	2	366
Total currency exposure	**473,720**	**151,738**	**(740,445)**	**133,522**	**18,535**
Effect on profit or loss:					
1% exchange rate increase	17,277	5,761			
1% exchange rate decrease	(17,277)	(5,761)			

	December 31, 2023				
	NIS million				
	USD	Euro	NIS	Other	Total
Assets					
Assets abroad					
Cash and cash equivalents	36,279	15,219	-	14,163	65,661
Foreign currency bonds	226,706	107,411	-	171,781	505,898
Stocks	105,720	16,737	-	28,868	151,325
Derivative financial instruments	13,970	4,050	-	(17,486)	534
Other foreign currency assets	3,046	3,400	-	107	6,553
The IMF	-	-	-	16,697	16,697
BIS investment	-	-	-	456	456
Local assets					
Local currency bonds	-	-	84,057	-	84,057
Loans to financial institutions	-	-	23,316	-	23,316
Other assets	120	-	100	-	220
Total assets	**385,841**	**146,817**	**107,473**	**214,586**	**854,717**
Liabilities					
Liabilities abroad					
Derivative financial instruments	(65,608)	398	-	67,469	2,259
Other foreign currency liabilities	1,967	17	-	1	1,985
The IMF	-	-	-	13,354	13,354
Local liabilities					
Banknotes and coins in circulation	-	-	129,194	-	129,194
Reserves of banking corporations against reserve requirement	1,181	-	63,231	-	64,412
Time deposits	-	-	285,289	-	285,289
Short-term bills (*makam*)	-	-	304,336	-	304,336
Government reserves	8,488	338	20,314	732	29,872
Other local currency liabilities	-	-	14,163	-	14,163
Total liabilities	**(53,972)**	**753**	**816,527**	**81,556**	**844,864**
Total net balance sheet currency	**439,813**	**146,064**	**(709,054)**	**133,030**	**9,853**
Off-balance sheet balances:					
Futures	1,207	40	-	(21)	**1,226**
Total currency exposure	**441,020**	**146,104**	**(709,054)**	**133,009**	**11,079**
Effect on profit or loss:					
1% exchange rate increase	15,996	5,861			
1% exchange rate decrease	(15,996)	(5,861)			

b. **Interest rate risk**

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Bank's exposure to fair value interest rate risk mainly arises from its investments of foreign exchange reserves. A significant portion of the reserves is invested in government bonds. The value of fixed interest instruments is affected by changes in interest rates in these countries which affect prices. Based on the investment policy, every currency portfolio is allocated a portfolio duration.

The portfolio duration measures the sensitivity of the investment prices to changes in interest rates. At the end of 2024, the modified duration of the foreign exchange reserves was 3.2 years (at the end of 2023 – 2.4 years). This means that a 1 percent decrease in the interest rate translates into a 3.2 percent increase in bond prices. The interest rate risk is monitored by a daily measurement of the investment portfolio's duration.

Following is an analysis of the sensitivity of the Bank's profits to changes in the interest rate on the foreign exchange reserve portfolio:

	In currency benchmark terms and in basis points			
	2024		2023	
	100bp	**50bp**	100bp	50bp
Increase	**(209)**	**(107)**	(194)	(97)
Decrease	**231**	**113**	196	98

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

3. **Liquidity risk**

Liquidity risk is the risk arising from the inability to sell a financial instrument when needed or from a loss incurred in a sale due to the absence of market depth, as well as the risk that the Bank will encounter difficulties in meeting cash settled or other financial asset settled financial liabilities.

To allow immediate response to financial challenges arising in an emergency or financial crisis, a suitable portion of the foreign exchange reserves must be invested in assets that are readily available in large amounts with short notice and without impairment to the realization value.

The assets in which the reserves are invested are classified according to different liquidity levels, from highly liquid assets that are readily realizable within less than a month to low liquidity assets whose realization period exceeds three months. The Monetary Committee sets a minimum investment grade for high liquidity assets and a maximum investment grade for low liquidity assets.

The Markets Department defines the various liquidity levels and classifies the reserves into the liquidity levels on an ongoing basis. The liquidity data are reported on a quarterly basis to the Monetary Committee.

The table below summarizes the maturity profile of the financial assets and liabilities included in the Bank's foreign exchange reserves based on contractual undiscounted payments. The asset liquidity level does not necessarily depend on the asset maturity date.

	December 31, 2024					
	NIS million					
	On call to 3 months	4 months to a year	1 to 5 years	Over 5 years	No maturity date	Carrying amount
Assets abroad						
Cash and cash equivalents	63,024	-	-	-	-	63,024
Foreign currency securities	63,164	86,152	220,442	139,399	191,133	700,290
Derivative financial instruments	1,099	1,989	-	-	-	3,088
Other foreign currency assets	-	1,482	-	-	1,690	3,172
The IMF	-	-	-	-	16,047	16,047
Liabilities abroad						
Derivative financial instruments	4	21	-	-	-	25
Other foreign currency liabilities	21	-	-	-	3,038	3,059
Total foreign exchange reserves	**127,262**	**89,602**	**220,442**	**139,399**	**205,832**	**782,537**

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

4. **Operational risk**

The Bank is exposed to operational risks. Operational risk is the risk of loss resulting from internal processes, human resources, technological systems, or unexpected external events. Operational risks include legal, IT, HR, physical security, cybersecurity, projects, third parties, business continuity and regulation. Operational risks can lead to financial losses, damage to the Bank's reputation, or failure to achieve the Bank's business targets. To identify, manage, and mitigate the effect of operational risks, the Bank has developed an operational risk management system to assist in enhancing its internal control system for identifying and mitigating the impact of operational risks and for solidifying the Bank's operational resilience.

NOTE 12 | FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Accounting policy

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

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

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

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

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

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

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

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

Level 3 - inputs that are not based on observable market data, relying on valuation techniques without using observable market data.

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

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

	Fair value at December 31,		Fair value hierarchy	Parameters used to measure fair value
	2024	2023		
	NIS million			
Financial assets / liabilities at fair value through profit or loss:				
Government, semi-government and international bonds	440,400	434,767	Level 1,2	Quoted price in active market/ Interest curve
Corporate bonds	73,816	71,131	Level 1	Quoted price in active market
Stocks	186,074	151,325	Level 1	Quoted price in active market
Derivative financial instruments - assets	3,088	534	Level 2	Interest curve
Derivative financial instruments – liabilities	(25)	(2,259)	Level 2	Interest curve
Total financial assets / liabilities at fair value through profit or loss	**703,353**	**655,498**		
Financial assets at fair value through other comprehensive income:				
BIS investment	472	456	Level 3	Fair value adjustments to net book value

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

	December 31, 2024			December 31, 2023			Fair value hierarchy	Inputs used to measure fair value
	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference		
	NIS million							
Financial assets at amortized cost:								
Short-term deposits*	1,482	1,482	-	2,209	2,209	-	Level 2	Carrying amount
Other foreign currency assets*	1,690	1,690	-	2,440	2,440	-	Level 2	Carrying amount
The IMF*	16,047	16,047	-	16,697	16,697	-	Level 2	Carrying amount
Local currency bonds	67,299	81,356	(14,057)	70,072	84,057	(13,985)	Level 1	Quoted price in active market
Loans to financial institutions*	13,501	13,501	-	23,316	23,316	-	Level 2	Carrying amount
Other local assets*	225	225	-	220	220	-	Level 2	Carrying amount
Financial liabilities at amortized cost:								
Securities sold in Repos*	-	-	-	(1,904)	(1,904)	-	Level 2	Carrying amount
Other liabilities abroad*	(3,059)	(3,059)	-	(81)	(81)	-	Level 2	Carrying amount
The IMF*	(13,037)	(13,037)	-	(13,354)	(13,354)	-	Level 2	Carrying amount
Banknotes and coins in circulation*	(131,484)	(131,484)	-	(129,194)	(129,194)	-	Level 2	Carrying amount
Reserves of banking corporations against reserve requirement*	(69,480)	(69,480)	-	(64,412)	(64,412)	-	Level 2	Carrying amount
Time deposits*	(363,282)	(363,282)	-	(285,289)	(285,289)	-	Level 2	Carrying amount
Short-term bills (*makam*)	(221,731)	(221,686)	(45)	(304,694)	(304,336)	(358)	Level 1	Quoted price in active market
Government reserves*	(46,802)	(46,802)	-	(29,872)	(29,872)	-	Level 2	Carrying amount
Other local liabilities*	(14,151)	(14,151)	-	(14,163)	(14,163)	-	Level 2	Carrying amount

* The carrying amount approximates the fair value.

NOTE 13 | CONTINGENT LIABILITIES

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

1. There are several legal claims pending against the Bank of Israel. However, no provision has been recorded in the Bank's books in respect of these claims as it is the Bank's opinion, based on the opinion of its Legal Department, that the probability of these claims being upheld is low, or that the sums involved are not significant.
2. Renewal of the Bank's lease agreement – See Note 7.

NOTE 14 | INTEREST INCOME FROM FOREIGN EXCHANGE RESERVES, NET

	Year ended December 31,	
	2024	2023
	NIS million	
From demand deposits	2,124	1,222
From securities	18,359	15,116
From deposits, various assets and various liabilities	63	115
From securities purchased under R. Repo agreements or sold under Repo agreements	15	(696)
From the IMF	636	643
Total	**21,197**	**16,400**

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

This line item consists of both realized and unrealized gains (losses).

Realized gains (losses) represent actually recorded gains or losses arising from sale or divestiture of financial instruments.

Unrealized gains (losses) represent changes in the fair value of financial instruments which the Bank keeps holding as part of its investments, without actually disposing of them.

Following are the realized and unrealized gains (losses) according to type of financial instrument:

	Year ended December 31,	
	2024	2023
	NIS million	
From bonds[1]		
Realized	(3,411)	*) (10,148)
Unrealized	(632)	*) 16,124
	(4,043)	*) **5,976**
From stocks[2]		
Realized	6,809	*) 10,556
Unrealized	25,670	*) 21,781
	32,479	*) **32,337**
From derivative financial instruments[3]		
Realized	375	1,914
Unrealized	(28)	78
	347	**1,992**
Total	**28,783**	**40,305**

*) Reclassified.

[1] Bonds

Realized gain or loss – cumulative gain or loss from sale of bonds accumulated from the date of purchase.

Unrealized gain or loss – revalued to fair value of financial assets measured at fair value through profit or loss.

[2] Stocks

Realized gain or loss – cumulative gain or loss from sale of stocks accumulated from the date of purchase, including dividend income.

Unrealized gain or loss – revalued to fair value of financial assets measured at fair value through profit or loss.

[3] Derivative financial instruments

Realized gain or loss – income or expenses from the realization of derivative financial instruments accrued from the date of purchase and revaluation to fair value up to the amount of interest accruals inherent in the transaction.

Unrealized gain or loss – revalued to fair value of financial assets measured at fair value through profit or loss beyond the accrued interest as per the transaction.

NOTE 16 | MISCELLANEOUS EXPENSES FROM ACTIVITIES ABROAD, NET

	Year ended December 31,	
	2024	2023
	NIS million	
Tax expenses on investments abroad[1]	64	76
Foreign currency commissions[2]	102	113
Total	**166**	**189**

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

NOTE 17 | INTEREST FROM LOCAL FINANCIAL INSTRUMENTS

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

	Year ended December 31,	
	2024	2023
	NIS million	
Interest income:		
From local currency government bonds[1]	1,375	1,336
From corporate bonds[1]	85	97
From loans to financial institutions[1]	178	22
Other interest income[2]	122	119
	1,760	1,574
Interest expenses:		
On short-term bills (*makam*)[1]	(10,610)	(10,906)
On time deposits[1]	(15,269)	(13,537)
On government reserves[1]	(1,837)	(2,494)
Other interest expenses[2]	(415)	(369)
	(28,131)	(27,306)
Total net interest expense from local financial instruments	**(26,371)**	**(25,732)**

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

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

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

NOTE 19 | EXCHANGE RATE DIFFERENTIALS

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

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

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

	Year ended December 31,	
	2024	2023
	NIS million	
Foreign exchange reserves	(13,950)	28,254
Government reserves	(55)	564
Reserves of banking corporations	15	(114)
Other	293	(578)
Total	**(13,697)**	**28,126**
Realized exchange rate differentials	2,555	7,404
Unrealized exchange rate differentials	(16,252)	20,722

This line item consists of exchange rate differentials on reserves denominated in euro, Japanese yen and other foreign currencies due to the appreciation of the shekel in 2024 against these currencies. In 2023, this line item consisted of exchange rate differentials mainly on reserves denominated in euro and dollar due to the depreciation of the shekel against these currencies.

NOTE 20 | GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31,	
	2024	2023
	NIS million	
Employee salaries and rights	502	465
Pension and post-retirement benefits[1]	264	269
Depreciation and amortization	80	98
General expenses	166	162
Total	**1,012**	**994**

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

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

NOTE 21 | OTHER INCOME, NET

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

NOTE 22 | DISTRIBUTABLE PROFITS

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

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

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

1. If the Bank's capital is 2.5 percent or more of total assets, an amount equivalent to the net profits less the surplus balance if it is negative, shall be transferred to the Government.
2. If the Bank's capital exceeds 1 percent of total assets but is less than 2.5 percent of total assets, an amount equal to 50 percent of net profits less the surplus balance if it is negative shall be transferred to the Government.
3. If the Bank's capital is 1 percent or less of total assets, profits shall not be transferred to the Government.

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

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

	Year ended December 31,	
	2024	2023
	NIS million	
Income in the year	8,168	57,376
Allocation to revaluation reserve:		
Unrealized exchange rate differentials	(12,245)	21,945
Unrealized gains from fair value adjustments	23,966	23,408
Other accounting adjustments[1]	662	758
	12,383	46,111
Total income (loss) recognized in the year	**(4,215)**	**11,265**

[1] CPI linkage differentials.

NOTE 23 | SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

1. Lowering of the interest rate by the Bank of Israel

   In January 2024, the Bank of Israel lowered the interest rate by 0.25 percent to 4.5 percent for the first time since the pandemic.

2. Increase of Israel's IMF quota

   In December 2023, the Monetary Committee resolved to approve the increase in Israel's IMF quota from SDR 1,921 million to SDR 2,881 million. Through the financial statement signing date, the process of increasing the IMF quota has not yet been completed. See also Note 3c.

3. Lowering of Israel's credit rating

   On February 9, 2024, Moody's announced the lowering of Israel's credit rating by one notch with a negative outlook (which raises the likelihood for another future credit reduction). This is the first rating decrease since Israel's credit began being internationally rated in 1998. The main reason for the credit lowering was the uncertainty of when and how the Swords of Iron War will end. In 2024, other international credit agencies also lowered Israel's credit rating. As of the financial statement approval date, the credit reduction has a direct effect on the financial statements for 2024.