

# **Investment of the Foreign Exchange Reserves**

## **Annual Report 2025**

May 2026

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Economic and financial background conditions

During 2025, the positive trend in most equity and bond markets continued, in view of the continued growth worldwide and positive developments in the AI field. In the US, the inflation level remained high, making it difficult for the Federal Reserve to significantly lower the interest rate. In Europe, fiscal and geopolitical risks led to increased yields on government debt.

Level of the foreign exchange reserves and sources of their change

In 2025, Israel's foreign exchange reserves increased by about \$14.9 billion to \$229.5 billion. This increase was due to capital gains on equity holdings, interest income from bond holdings, and exchange rate differentials in respect of the weakening of the US dollar against the benchmark currencies. These profits were partly offset by government withdrawals from its foreign currency account managed at the Bank of Israel.

Asset allocation of the foreign exchange reserves

As of the end of 2025, the asset allocation of the foreign exchange reserves was 65 percent in government and other bonds<sup>1</sup>, 25 percent in equities, and 10 percent in corporate bonds.

Return on the reserves portfolio in terms of the currency benchmark

The rate of return on the reserves portfolio in terms of the currency benchmark<sup>2</sup> was 7.9% in 2025.

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<sup>1</sup> Including deposits and current accounts in central banks where the risk level is equal to the sovereign risk inherent in government bonds, investment in debt instruments of multinational issuers and of public sector issuers or issuers with government backing (supra-sovereign agencies), as well as government bonds denominated in a currency that is different from the local currency of the issuing country.

<sup>2</sup> Information on the currency benchmark appears below in Chapter 2.

<b>Table 1.1   Rate of Return on the Foreign Exchange Reserves Portfolio, Annual and Multiyear Average, in Terms of the Currency Benchmark</b>			
Percent in annual terms			
	<b>1-Year</b>	<b>3-Year</b>	<b>5-Year</b>
<b>2021</b>	2.9%	4.4%	3.2%
<b>2022</b>	-5.7%	0.3%	1.4%
<b>2023</b>	8.2%	1.6%	3.0%
<b>2024</b>	6.7%	2.9%	3.1%
<b>2025</b>	7.9%	7.6%	3.9%

**Risk level of the reserves portfolio** The volatility of the reserves moderated slightly, influenced by the decline in volatility in the equity and bond markets. However, due to the increase in the weight of equities in the portfolio during the year, the tail risk (CVaR5%<sup>3</sup>) increased.

**Return on the reserves portfolio in shekel terms** The rate of return on the foreign exchange reserves portfolio in shekel terms was -2.5% in 2025, due to the strengthening of the shekel against the currency benchmark by 9.6%. However, in the 3-year and 5-year ranges, there was a positive shekel rate of return. In accordance with one of the investment policy goals for the reserves, the shekel yield must should cover the shekel cost of holding the reserves in the long term.<sup>4</sup>

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<sup>3</sup> The definition of the risk indices is included in the glossary of terms in Appendix 3.

<sup>4</sup> The cost of holding the reserves averaged 3.1% over the past three years and 2% over the past five years. This cost is lower than the rate of return in shekel terms over both the three-year and five-year horizons, as shown in Table 1.2, over the long term. Under the new guidelines (see Box 1), the secondary objective of the investment policy is to achieve a shekel rate of return that will reduce the cost of holding the reserves over the long term.

<b>Table 1.2   Yield on Holding Foreign Currency Reserves, Annual Perspective and Multiyear Average, in Shekel Terms</b>				
Percent in annual terms				
	<b>Annual change in the currency benchmark/shekel exchange rate*</b>	<b>Yield</b>		
		<b>1-Year</b>	<b>3-Year</b>	<b>5-Year</b>
<b>2021</b>	-5.7%	-2.9%	-2.0%	-0.6%
<b>2022</b>	9.7%	3.4%	0.0%	0.7%
<b>2023</b>	3.8%	12.4%	4.1%	1.8%
<b>2024</b>	-1.8%	4.8%	6.8%	3.3%
<b>2025</b>	-9.6%	-2.5%	4.7%	2.9%

\* A negative sign means appreciation of the shekel.

#### Changes in the guidelines

At the end of 2025, changes in the guidelines came into effect. These changes were formulated by the Monetary Committee in consultation with the Minister of Finance. The aim of the changes is to tighten the safety and liquidity constraints, alongside a moderate expansion of the risk budget in CVaR5% terms, and expansion of the degree of freedom to invest in risk assets.

## Introduction: Economic and Financial Background Conditions

Global economic and financial activities in 2025 were affected by several main countervailing developments: On one side, geopolitical risk increased globally, while the US administration's global trade policy and the status of the financial institutions fueled economic and financial uncertainty. On the other side, the Artificial Intelligence (AI) field expanded in terms of capabilities, uses, and corporate investments. In 2025, **the global growth rate was similar to the long-term average**. Volatility in the financial markets was high, mainly in the first half of the year, and subsequently diminished following the softer trade tone and signing of new trade agreements.

Economic activity in the US declined compared to previous years, against a backdrop of high interest rates, the trade war, and an immigration policy that continued to cool the labor market. However, the negative effects of these developments were dampened by enormous investments in the AI field and the wealth effect resulting from rising stock indices. Economic activity in the Eurozone improved due to several factors including monetary relief, a comprehensive fiscal program, and a pre-tariff surge in exports.

The year was characterized by differences between the major blocs in their inflationary environment and monetary policy. In Europe, as a result of low growth, negligible demographic growth, and declining energy prices, inflation rates converged to the target rates, which allowed the ECB to lower its interest rate to 2 percent. In the US, inflation declined but the pace of convergence to the Fed's target was moderate. The effects of the trade war on core inflation and price stickiness were some of the reasons inflation exceeded the target. Consequently, the Fed made no change to the interest rate over most of the year. In Japan, interest rate hikes continued.

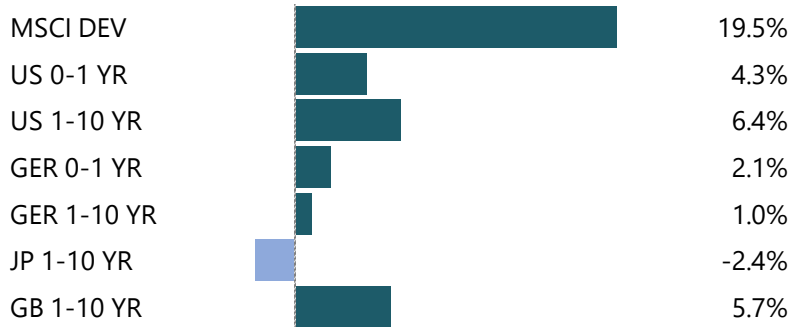
**The dollar weakened considerably on the global forex markets**, in view of the US administration's trade policy and high fiscal deficit.

**Most major equity indices worldwide had positive double-digit returns**, following sharp fluctuations in the first third of the year in view of the trade war. The rise in returns was due to improved investor sentiment, the strength of corporations in the US, and technology giants' continued dominance, leading the AI revolution. There was positive performance in most developed markets.

**Government bonds showed increasingly steep yield curves**, in view of the decline in short-term bond yields. Long-term bond yields declined in the US but increased in Europe, due to fiscal risks, geopolitical risks, and concerns of increased defense expenses. These trends reflected the rising long-term economic and fiscal uncertainty.

**There was a positive trend in the corporate bond market**. In the US, the yield spread between corporate and government bonds remained unchanged over the year, while in Europe the spread diminished. Corporate financial resilience remained high, and bankruptcy rates remained low. The demand for bonds remained strong, even in view of the year-end wave of IPOs, mainly by technology firms seeking financing for AI investments.

**Figure 1**  
**Annual Rates of Return of the Main Market Indices in 2025**  
**in Local Currency**

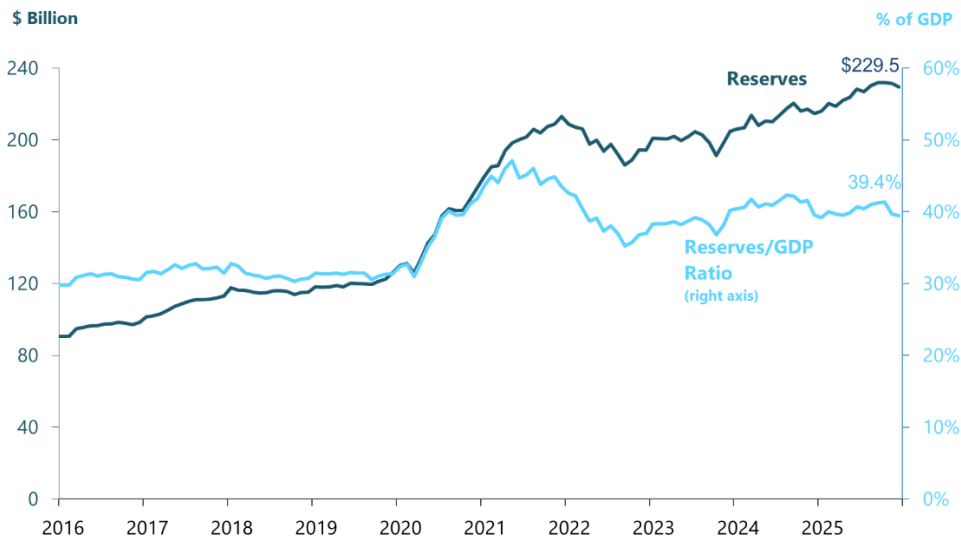


**Source:** Bank Of Israel and Bloomberg

## A. The Level of the Foreign Exchange Reserves

In 2025, Israel’s foreign exchange reserves increased by approximately \$14.9 billion from \$214.6 billion at the end of 2024 to \$229.5 billion at the end of 2025<sup>5</sup> (Figure 2). The reserves are commonly measured relative to various economic aggregates, mainly GDP. **The ratio of reserves to GDP remained steady at 39.4 percent<sup>6</sup>, compared to 39.6 percent at the end of 2024.** Israel’s ratio of reserves to GDP remained high relative to the median of other countries (Figure 3).

**Figure 2**  
**The Level of Israel’s Foreign Exchange Reserves, and the Ratio of the Reserves to GDP,**  
**2016–2025 (month-end balance)**

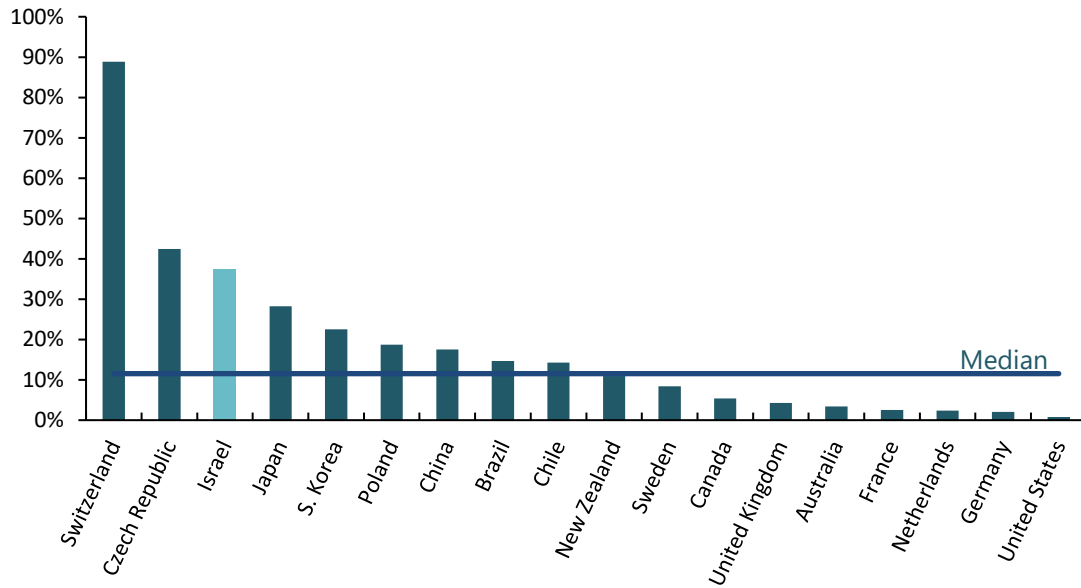


**Source:** Bank of Israel

<sup>5</sup> The level of the reserves throughout the Report includes the International Monetary Fund’s allocations of SDRs and the balance of Israel’s reserve tranche at the IMF. At the end of 2025, their combined level was \$4.6 billion. For additional information see “Bank of Israel Financial Statements for 2025.”

<sup>6</sup> This figure is calculated on the basis of GDP data for the year 2025, which were updated after the publication date of the report for 2024.

**Figure 3**  
**the Ratio of the Reserves to GDP, Israel and Selected Countries<sup>7</sup>**



Source: OECD and IMF

The increase of about \$14.9 billion in the reserves (Table 2) was mainly due to a revaluation<sup>10</sup> of about \$24.1 billion, based on the following breakdown:

1. A total of about \$17 billion due to capital gains on equities, capital gains on bonds, and interest income.
2. A total of about \$7 billion due to income from exchange rate differentials resulting from the strengthening of the benchmark currencies against the dollar.

The increase in the reserves due to revaluation was offset by about \$ 9 billion due to government withdrawals.

**Table 2**  
**Sources of Change in the Reserves, 2025**  
 (\$ million)

Revaluation	24,172
Purchases/Sales <sup>8</sup>	-273
Private Sector <sup>9</sup>	-3
Government	-8,958
<b>Total Change</b>	<b>14,938</b>

Source: Bank of Israel

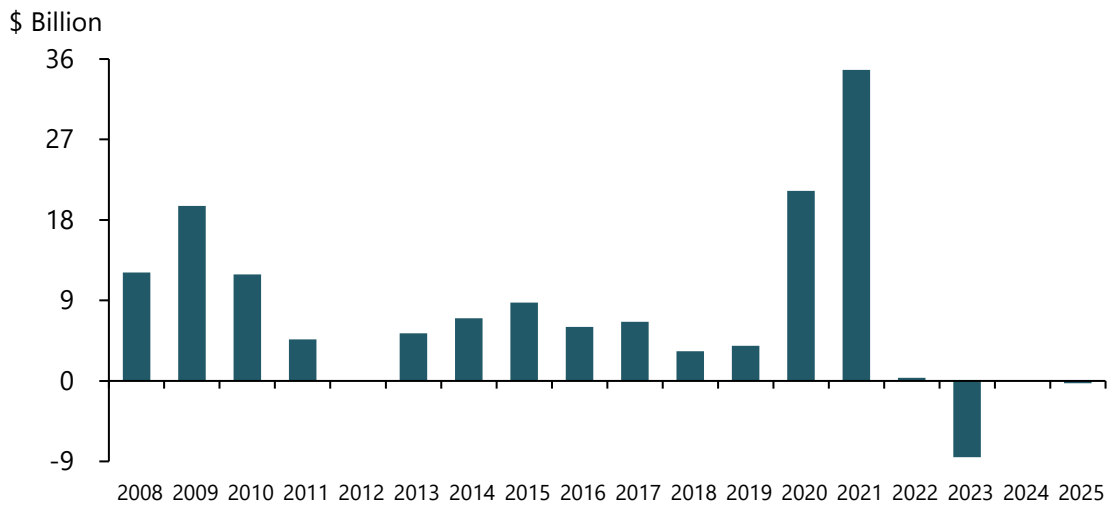
<sup>7</sup> Reserves data and GDP are as of December 31, 2025.

<sup>8</sup> In the forex sales program that was announced at the beginning of the Swords of Iron War, the Bank of Israel sold a limited amount of \$273 million in forex in 2025 to ensure on the proper functioning of the forex marketing during Operation Rising Lion (Israel's campaign against Iran in June 2025) (Figure 4).

<sup>9</sup> The private sector includes domestic commercial banks' FX deposits and withdrawals at the Bank of Israel.

<sup>10</sup> The revaluation is the change in the dollar value of the reserves attributed to profits realized from interest income, capital gains, and the change in value due to asset price differentials and exchange rate differentials of currencies in which the reserves are invested vis-à-vis the dollar.

**Figure 4**  
**Bank of Israel Foreign Exchange Purchases and Sales, 2008–2025**



Source: Bank of Israel.

## B. The Framework for Managing the Foreign Exchange Reserves

According to the **Bank of Israel Law, 5770–2010**, the Bank is responsible for holding and managing the state’s foreign exchange reserves. A country’s foreign exchange reserves are designed to serve as an inventory that suffices for the economy during a crisis or an emergency (for example, in the event of war or a natural disaster). At such times, foreign currency reserves may remain the country’s main source of financing in foreign currency. The Monetary Committee, which is headed by the Governor of the Bank of Israel and whose members include representatives of the public, has the authority to establish **guidelines for the investment policy of the foreign exchange reserves** (Appendix 1) in consultation with the Minister of Finance, and is also responsible for monitoring the implementation of this policy. Management of the foreign exchange reserves by the Bank of Israel is based on the use of a benchmark as a reference point for measuring the performance of the investment decisions made and the risks assumed by the reserves managers.

At end 2025, changes in the investment policy guidelines, which were duly formulated by the Monetary Committee in consultation with the Minister of Finance, came into effect. Box 1 expands on these changes, the background to the changes, and their objectives.<sup>11</sup>

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<sup>11</sup> Discussion of investment policy guidelines in the rest of this Report refers to the guidelines that were in effect up to December 23, 2025.

### *Box 1: The Main Changes to the Foreign Exchange Reserves Investment Policy Guidelines*

The Bank of Israel Law determines that the Monetary Committee, in consultation with the Minister of Finance, will outline the guidelines for the foreign currency reserves investment policy (Section 40(b)). The foreign currency reserves management guidelines have been modified several times since the enactment of this law. The most recent change, which is described below, came into effect at end 2025. The new version of the guidelines includes several fundamental changes from the previous version.

#### **Background**

Previous changes in the guidelines increased the risk profile of the reserves portfolio in order to maximize the return on long-term holdings of the reserves without adversely affecting their objective. The new guidelines were developed in view of the Bank of Israel's cumulative investment experience, including experience in new markets and assets, and the continued rise in the foreign exchange reserves. Since 2021, the date of the previous change in the guidelines, the foreign exchange reserves increased by 30 percent, reaching \$225 billion. The relatively high return on the reserves in recent years led to their continued increase, and today the reserves are significantly greater than the amount considered appropriate—\$130–170 billion. In addition, further experience has been accumulated in the management of the reserves, including in new assets and markets, and for the first time the Bank of Israel sold from the reserves during an emergency. The following are the main changes in the guidelines:

**Objectives** – The objectives of managing the reserves were revised, clarified, and more closely aligned with the classic priorities of reserves management: (1) safety, (2) liquidity, and (3) return. The revised guidelines define a hierarchy in which safety is the most important objective, while the return is defined as a secondary objective, subject to the objective of safety. The revised guidelines also address the appropriate horizon for each objective.

**Moderate expansion of the total risk budget** – The revised guidelines permit a moderate expansion of the risk profile. The total market risk limit of the reserves portfolio, which is estimated on the basis of the worst 5 percent of possible investment outcomes, was increased to 10% over a one-year horizon, compared to the previous risk limit of 9%,

**Change in the total risk limit for investments in equities and high yield (HY) bonds** – The maximum rate of investment was increased from 27 percent to 35 percent. However, the total allocation to equities and HY bonds is also limited to 35 percent, and the maximum investment in HY bonds remained unchanged at 5 percent.

**Separate limit for investment grade corporate bonds** – The new version reflects some change in the position on investment grade bonds. Extensive experience in managing such assets, including during crisis situations and global market drops, indicates that the credit risk of these assets is negligible and their market risk (price volatility) is very low. Therefore, a decision was made not to include such assets in the 35 percent limit on investments in equities and HY bonds, and a separate limit of 15 percent was defined for them.

**Tightening safety and liquidity limits** – The minimum investment in government bonds and deposits in central banks is 45% of the reserves portfolio, similar to the minimum defined in the previous version of the investment guidelines. In the revised version, however, such investments are limited to the bonds and central banks of the benchmark countries only, and to short-term deposits only.

**Anchoring general investment principles** – The revised guidelines include a commitment to the principle of investment diversification, and anchor the principle of stability and the principle of the strategic dominance of long-term considerations in investment decision-making. The revised version also addresses the desired level of the reserves, and thus reflects the connection between the level of the reserves and the risk-return profile.

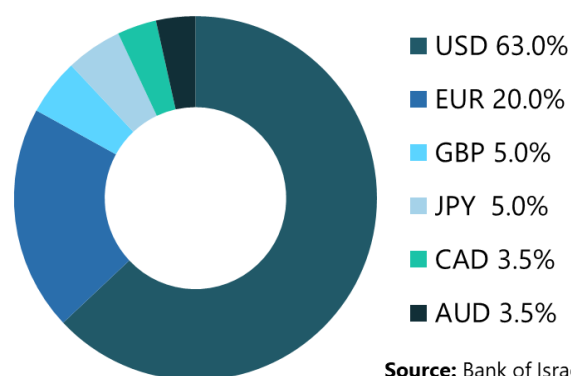
The complete new version of the guidelines, which appears in Appendix 2 of this Report, was approved at the end of 2025, and formed the foundation for the strategic allocation of the foreign currency reserves in 2026.

A benchmark is a hypothetical portfolio composed of various investable assets, based on known and fixed rules.

The **basic benchmark** represents a low-risk composition of investable assets that meets the objective of managing the reserves at a high level of liquidity. The currency composition of the basic benchmark is identical to the currency composition of the currency benchmark, and it includes short-duration (6 months) government bonds in the currency benchmark currencies.

The **currency benchmark** is a basket of currencies that is used, alongside the shekel, to measure the returns on the foreign exchange reserves. As the rate of return on the reserves is also measured in terms of the currency benchmark, the reserves portfolio managers consider its composition to be risk free. The currency benchmark's composition is determined by the Monetary Committee on the basis of the principles detailed in the guidelines (Appendix 1). The composition is reviewed at least once a year, and revised when necessary, subject to the approval of the Monetary Committee (Figure 5).

**Figure 5**  
**Currency Benchmark Composition**  
**Beginning of 2025**



### C. The Asset Allocation of the Reserves and the Strategic Allocation Process

The annual strategic allocation process determines the asset allocation of the reserves portfolio for the coming year. The selected allocation, which is subject to the desired risk level and the guideline restrictions, has an expected return. The strategic asset allocation, based on forecasts of macroeconomic developments and global financial market trends, determines the main features of the reserves portfolio, given the currency benchmark, including the asset allocation, and the target duration for each currency. In the strategic asset allocation process conducted at the beginning of 2025, the Monetary Committee decided to make no change to the strategic allocation (Table 3). The Markets Department manages the reserves in compliance with the strategic allocation and in accordance with the degrees of freedom granted to it by the Monetary Committee. Within these limits, in 2025, the Markets Department gradually increased the proportion of equities in the portfolio to 25 percent.

**Table 3**  
**Strategic Asset Allocation, 2024 and 2025**

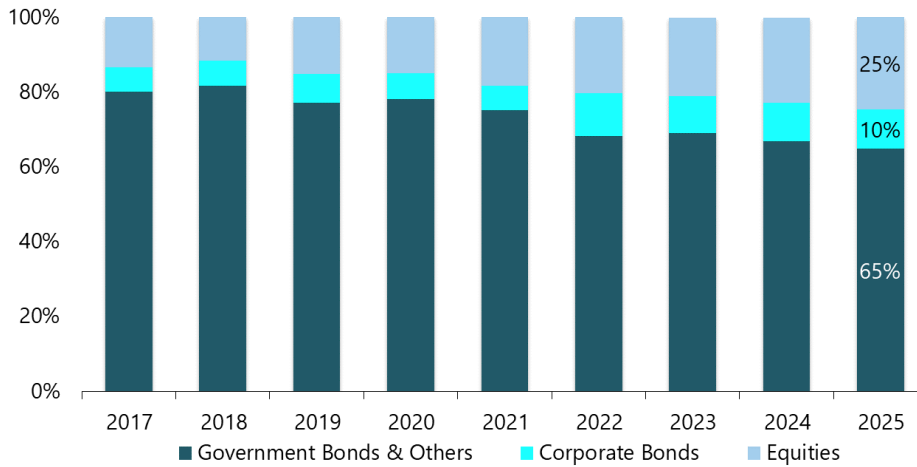
<b>Asset allocation</b>	<b>2024</b>	<b>2025</b>
Government and other bonds	67%	67%
US	38.3%	38.5%
Europe	14.2%	14.6%
Others	14.5%	13.9%
Corporate bonds IG <sup>12</sup>	9%	9%
US	6%	6%
Europe	3%	3%
Corporate bonds HY <sup>13</sup>	1%	1%
US	0.75%	0.75%
Europe	0.25%	0.25%
Equities	23%	23%
<b>Duration (Years)</b>		
Government and corporate bonds	3.5	3.5
US	4	4
Europe	3	3
Others	2.5	2.5

**Source:** Bank of Israel.

<sup>12</sup> IG - Investment Grade - Corporate bonds with an investment rating (BBB- and above).

<sup>13</sup> HY- High Yield - Corporate bonds rated below investment rating (below BBB-).

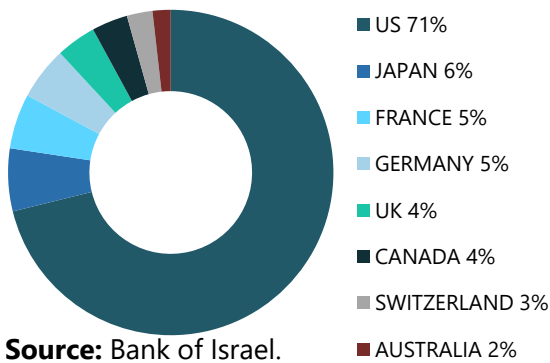
**Figure 6**  
**The Distribution of the Reserves Portfolio by Asset Class, 2016–2025 (year-end)**



Source: Bank of Israel.

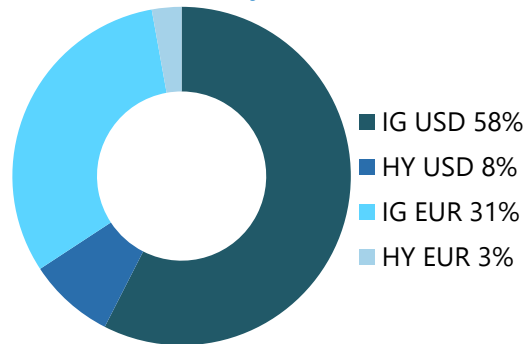
**Main Features of the Reserves (Figures 7–10):**

**Figure 7**  
**Distribution of Equities (23% of the Reserves), by Country, December 2025**



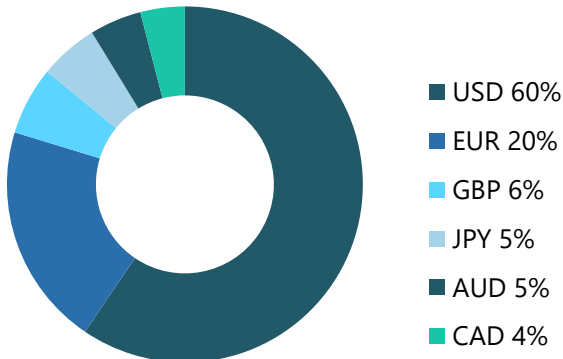
Source: Bank of Israel.

**Figure 8**  
**Distribution of Corporate Bonds (10% of the reserves), by Market, December 2025**



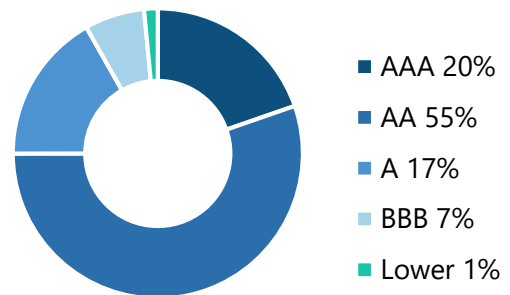
Source: Bank of Israel.

**Figure 9**  
**Distribution of Government and Other Bonds (65% of the Reserves), by Currency, December 2025**



Source: Bank of Israel.

**Figure 10**  
**Distribution of the Reserves (Excluding Equities), by Rating<sup>14</sup>, December 2025**



Source: Bank of Israel, Bloomberg and S&P.  
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<sup>14</sup> Corporate bond ratings are Bloomberg Barclays Index ratings, which are based on the ratings of the 3 rating agencies — Moody's, S&P, and Fitch. For the other assets, the ratings are the S&P ratings.

## D. The Rate of Return on the Reserves

### 1. Return on the reserves in currency benchmark terms

The rate of return is the outcome of the decisions to invest in asset classes that have different risks and returns.

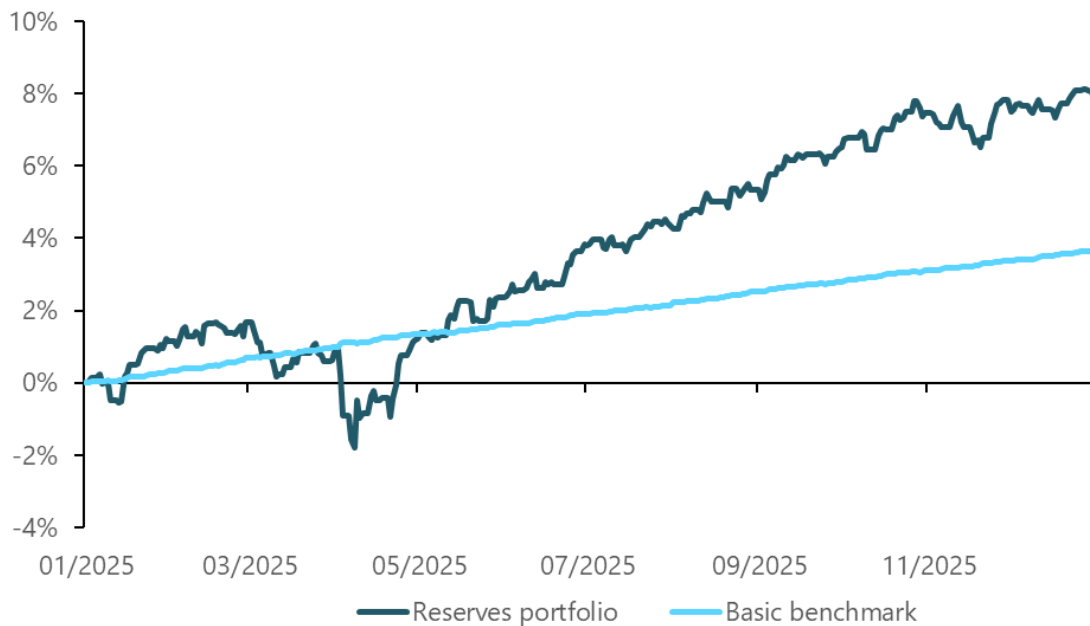
The investment of the foreign exchange reserves in risk assets was initiated in 2012 through investment in equities, continued in 2014 with investment in investment grade corporate bonds, and in 2022 with investment in below investment grade (HY) corporate bonds.

Increasing risk assets in the reserves increases the long-term rate of return due to their risk premium (the excess return of risk assets above the risk free interest rate). However, the volatility of the reserves is also expected to increase due to the higher volatility of the risk assets. The increase in volatility is offset, to some extent, by the diversification of the reserves over various asset classes.

In 2025, the rate of return in terms of the currency benchmark was 7.9 percent (Table 1A), which is high relative to other central banks

The basic benchmark return<sup>15</sup> was 3.7 percent (Figure 11).

**Figure 11**  
**Cumulative Return on the Reserves and on the Basic Benchmark in 2025**  
**(In terms of the currency benchmark)**



Over a longer term, the average return on the reserves in terms of the currency benchmark was 7.6 percent over three years and 3.9 percent over five years.

<sup>15</sup> Information on the currency benchmark appears above in Chapter B.

The following are details of the contribution of the reserves main components to the return on the reserves (Table 4):

**Table 4**  
**Rate of Return on Portfolio Components and Their Contribution to the Reserves Rate of Return, 2023–2025**  
**(Percent, in terms of the currency benchmark, annual)**

	2023		2024		2025	
	Return	Contribution	Return	Contribution	Return	Contribution
<b>Equities</b>	23.2%	4.5%	20.5%	4.4%	19.8%	4.2%
<b>Government bonds and other</b>	4.5%	3.0%	2.5%	1.8%	4.3%	3.0%
<b>Corporate bonds</b>	7.6%	0.7%	5.6%	0.5%	6.6%	0.7%
<b>Total</b>		8.2%		6.7%		7.9%

**Source:** Bank of Israel.

### Investment in Equities

The reserves' investment in equities, which commenced in 2012, tracks domestic equity indices in the investment markets. The investment is diversified according to a broad equity index of advanced economies, based on the MSCI Developed Markets index. For the year overall, the markets' positive trend led to significant increases in the equity indices in which the reserves are invested (Figure 12).

**This year, the contribution of the investment in equities to the rate of return on the reserves was about 424 basis points.**

**Figure 12**  
**Rates of Return<sup>16</sup> on the Main Equity Indices (MSCI<sup>17</sup>) and Their Contribution<sup>18</sup> to the Reserves Rate of Return in Currency Benchmark Terms, 2025**  
**(Percentage of Total Reserves, December 2025)**

	Rate of Return in Local Currency Terms, 2025	Average Annual Rate of Return in Local Currency Terms, 2021–2025	Contribution to the Reserves Rate of Return in 2025 (in basis points)
United States (17.4%)	17.3%	13.3%	299
Japan (1.5%)	25.6%	16.1%	32
Germany (1.3%)	21.2%	9.6%	21
France (1.3%)	14.1%	10.1%	16
Canada (0.9%)	33.1%	16.8%	22
United Kingdom (1.0%)	24.6%	12.1%	19
Switzerland (0.6%)	17.6%	6.5%	11
Australia (0.4%)	9.9%	9.9%	4

**Source:** Bank of Israel and Bloomberg

<sup>16</sup> Includes dividend payments and capital gains.

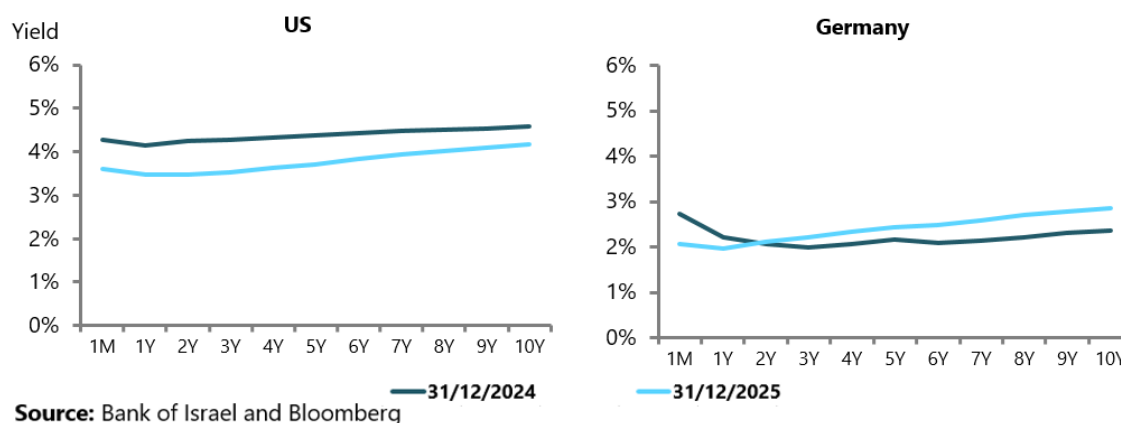
<sup>17</sup> The Bank of Israel's equities index is based on eight of the largest equities indices included in MSCI Developed, which covers 93% of this index.

<sup>18</sup> Includes exchange rate differences against the currency benchmark.

### Investment in Government and Other Bonds

This year, government bond yields were affected by uncertainty concerning tariffs, the fiscal situation, and the expected paths of inflation and interest rates. Yield curves of major governments' bonds steepened. However, although the entire yield curve in the US declined and generated capital gains, in Europe yields on short-term bonds dropped while yields on longer term bonds increased (Figure 13).

**Figure 13**  
**Main Government Bond Yield Curves and Changes Therein, 2025**



**In 2025, the contribution of government and other bonds was 297 basis points.**

The average duration of the investments in bonds is a measure of the level of the interest-rate risk to which the reserves are exposed. The decision on duration and diversification of assets over the curve is made each year within the framework of the strategic allocation. In the strategic allocation for 2025, the Monetary Committee decided on an average duration of 3.5 years, partly to protect the return on the reserves from sharp declines in the equities markets. The decision on the average duration contributed 44 basis points out of the total contribution of the investment in government and other bonds to the reserves rate of return in 2025.

### Investment in Corporate Bonds

In Europe, the spread between corporate and government bond yields declined, while there was no significant change in the spread in the US. These developments, together with the capital gains from the declining yields and high interest rate levels, led to high returns on the reserves compared to the average return over the preceding five years (Figure 14).

**Figure 14**  
**Rates of Return<sup>19</sup> on the Main Corporate Bond Indices in the Reserves Portfolio, 2025 and 5-Year Average in Annual Terms**

	Return in local currency terms 2025	Return in local currency terms 2021-2025
US IG	7.4%	2.0%
US HY	8.5%	4.5%
EUR IG	3.5%	1.2%
EUR HY	5.1%	3.2%

**Source:** Bank Of Israel and Bloomberg

**The contribution of the investment in corporate bonds to the rate of return on the reserves was 65 basis points.**

At the beginning of the year, the Monetary Committee fixed the allocation for investment grade and high-yield corporate bonds at 9 percent and 1 percent of the reserves, respectively, unchanged from the previous year. The decline in the yield spread and the interest income received over the year contributed 57 basis points to the return on the reserves as a result of the investment in investment grade bonds and 8 basis points as a result of the investment in high-yield corporate bonds.

## 2. Risk

**The risk level of the reserves portfolio is affected by the composition of the assets, their weights, and their price volatility over the year.**

The maximum risk level of the foreign exchange reserves portfolio (the risk profile) is determined by the Monetary Committee based on its assessment of the appropriate risk profile for holding the reserves, which is defined as the maximum level of loss on the reserves that the Committee is willing to absorb and that does not impair the achievement of the objectives in respect of which the reserves are held. The maximum risk level aims to limit, from the outset, the foreign exchange reserves' exposure to various financial risks: price risk, credit risk, currency risk, and liquidity risk. To determine the risk level, the Committee uses a range of tools for measuring risk, including the CVaRp (Conditional Value at Risk).<sup>20</sup>

In its investment policy guidelines, the Monetary Committee set the maximum risk level of the reserves in terms of CvaR5% over a one-year horizon: Given the worst 5 percent of possible investment outcomes, the average loss in benchmark currency terms will not exceed 900 basis points over a one-year horizon.<sup>21</sup>

<sup>19</sup> Includes interest payments.

<sup>20</sup> The definition of the risk index is included in the glossary—Appendix 3.

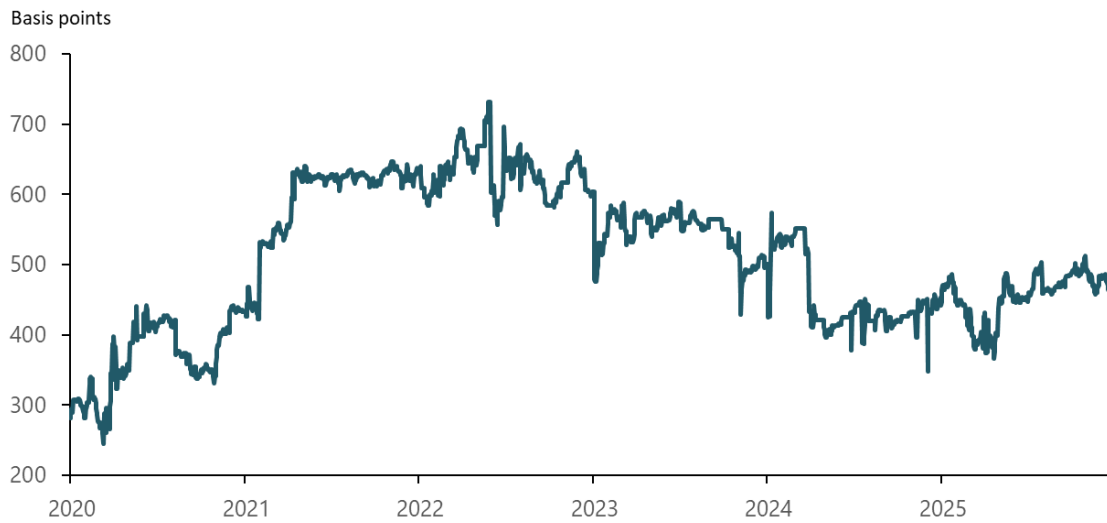
<sup>21</sup> As noted in Box 1, the changes in the guidelines also included an increase in the total risk budget to 1,000 basis points.

## Investment of the Foreign Exchange Reserves

In addition to determining the maximum risk level, at the beginning of each year, the Monetary Committee sets the risk level (in terms of the CVaR5%) used to determine the strategic asset allocation for that year, based on its forecast of macroeconomic and financial background conditions. The Committee set a risk level of approximately 547 basis points for the allocation in 2025. The portfolio risk, in terms of CVaR5%, hovered around this level during the year, but did not exceed the maximum risk level defined in the guidelines (Figure 15).

The gradual increase in the weight of equities in the reserves portfolio in 2025, alongside the decline in current interest income, led to an increase in the CVaR in 2025.

**Figure 15**  
**CVaR5%<sup>22</sup> of the Reserves, 2020–2025**



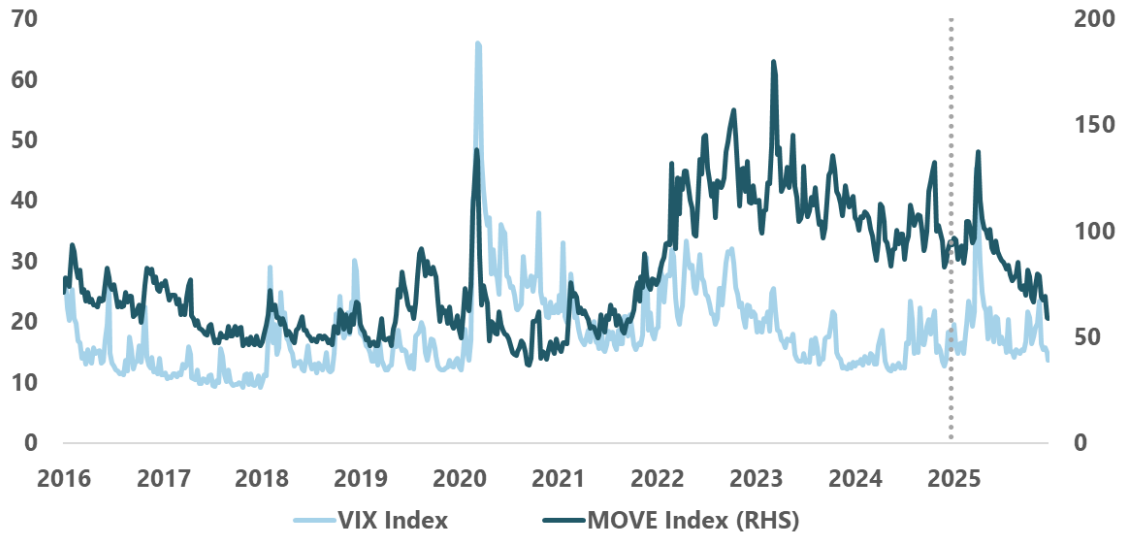
Source: Bank of Israel and Aladdin.  
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**Nonetheless, the volatility of the reserves decreased slightly**, and was affected by the decline in the volatility of the equities and bond markets. In early April volatility of the equities and bond markets rose in response to the US administration’s announced tariff plan, yet by the end of the year volatility was lower than the beginning of the year.

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<sup>22</sup> Weekly standard deviations of the return, in annual terms, 1-year moving average.

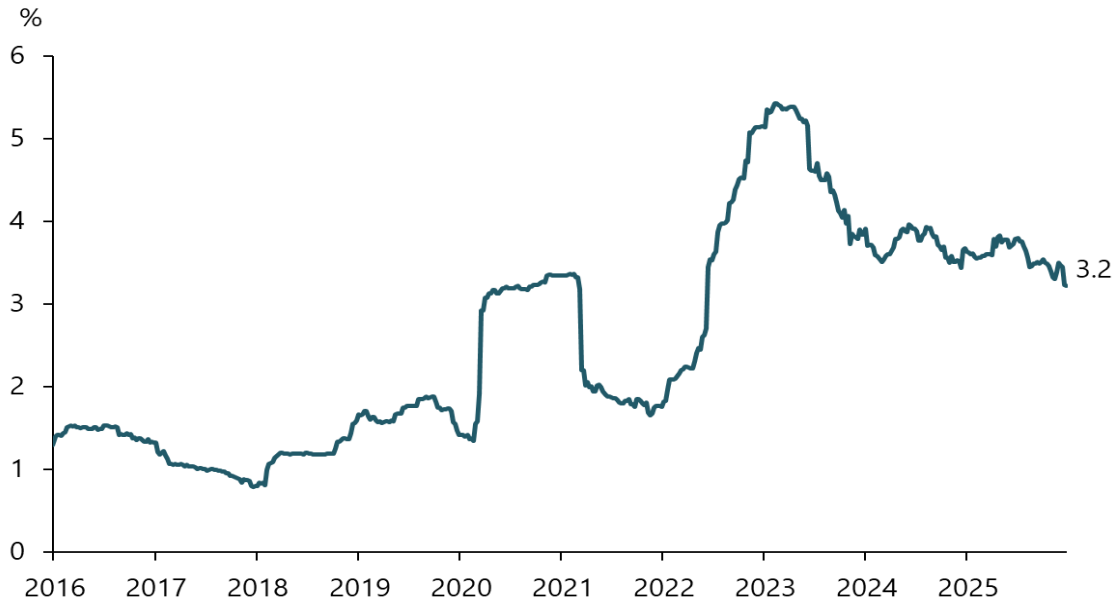
**Figure 16**  
**Volatility Measures – VIX, MOVE**  
**2016–2025**



Source: Bloomberg

Accordingly, the standard deviation of the reserves rate of return for one year, which measures the volatility of the financial markets, decreased slightly to 3.2 percent (Figure 17).

**Figure 17**  
**Standard Deviation<sup>23</sup> of the Return on the Reserves Portfolio,**  
**2016–2025**



Source: Bank of Israel, Bloomberg

<sup>23</sup> Weekly standard deviations in annual terms, moving annual average.

## Appendices

### Appendix 1: Foreign Exchange Reserves: Investment Policy Guidelines<sup>24</sup>

In effect from April 7, 2021-23.12.2025

In accordance with Section 40(b) of the Bank of Israel Law, 5770-2010 (hereinafter, "the Law"), the Monetary Committee is to establish the guidelines for the investment policy of the foreign exchange reserves.

#### 1. Basic guidelines derived from the goals of holding the reserves

The investment policy of the reserves portfolio is based on the main goal of achieving the Bank of Israel's objectives and proper fulfillment of its functions as they are detailed in the Bank of Israel Law. Subject to that, the investment policy is also based on the following goals:

- a) Achieving a return in shekel terms that, in the long term, will cover at least the financing cost of holding the reserves<sup>25</sup>;
- b) Maximizing the holding rate of return in the medium term, in terms of the currency benchmark (see 3. below) and within the framework of the risk profile (see 4. below), subject to attaining goal (c) below;
- c) Managing the reserves with a high level of liquidity: A large part of the reserves are to be invested in assets that can be liquidated rapidly at short notice and without negatively impacting their value. The precise level of liquidity is to be decreased to the extent that the ratio of the actual level of reserves relative to the adequate level is high (5(f) below).

#### 2. The division of work between the Monetary Committee and the Markets Department

In implementing Section 40(b) of the Law, the Committee shall make a distinction between establishing the guidelines and periodic monitoring, and setting the detailed instructions for the day to day management of the portfolio.

The Monetary Committee will set the guidelines, in consultation with the Minister of Finance as established by law, will update the guidelines to the extent necessary, and will monitor the implementation of the investment policy by the Markets Department.

The Markets Department will implement the investment policy, within the framework of degrees of freedom which will be set periodically by the Monetary Committee, and will report to the Monetary Committee on a quarterly basis on the implementation of the policy: developments in international markets and their impact on the management of

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<sup>24</sup> The characteristics of the reserves portfolio are reported to the public in an annual report published on the Bank of Israel website.

<sup>25</sup> The financing cost of holding the reserves is the gap between the cost of raising the capital in shekels required for holding 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 vis-à-vis the shekel.

## Investment of the Foreign Exchange Reserves

the reserves, the investment decisions reached by the Department, the portfolio's rate of return, and the financial and other risks to which the portfolio is exposed.

The Markets Department will advise the Monetary Committee on fulfilling its functions, through position papers and suggestions for discussion in the Committee.

The Monetary Committee will approve and update as needed the division of authorities regarding the investment policy of the foreign exchange reserves.

### **3. The measurement of the holding rate of return on the foreign exchange reserves, the currency benchmark and the principles for its determination**

The holding rate of return on the reserves shall be measured and reported in Monetary Committee reports in terms of the currency benchmark and in shekel terms. The currency benchmark is a basket of currencies that will be used, in addition to the shekel, for measuring the rate of return on the foreign exchange reserves. As the rate of return on the foreign exchange reserves will also be measured in terms of the currency benchmark, its composition will be defined as the risk-free currency composition for the reserves portfolio managers.

The currency benchmark will be set by the Committee based on the following principles:

(a) Diversification: The currency diversification of the currency benchmark contributes to reducing exchange rate risk vis-à-vis the shekel in the Bank's balance sheet and encourages investment diversification;

(b) Stability: The principle of stability is important both for asset allocation as well as for currency allocation. Given that the reserves are held for the long term, frequent or sharp changes in the currency weights in the benchmark currency, which will lead as well to changes in the weight of the assets in those currencies, are liable to lead to a loss in the long term. Therefore, the stability of the composition of the currency benchmark should be maintained and frequent or sharp changes in it should be avoided;

(c) The currency benchmark shall only include reserve currencies: Due to the importance of the goals of liquidity and appropriate return, the currency benchmark will be made up of currencies that are recognized around the world as reserve currencies;

(d) The currencies that will be included in the currency benchmark will be those of countries in which there is a range of asset markets, with high liquidity;

(e) In order to achieve a return that covers, in the long term, the financing cost of holding the reserves, in choosing the currency benchmark composition the Committee will take into account the volatility of the reserves' long-term return in shekel terms.

The composition of the currency benchmark shall be examined by the Monetary Committee based on the recommendation of the Markets Department, in accordance with changes in global markets, at the end of each year or if there are material changes in said circumstances.

### **4. The risk profile**

## Investment of the Foreign Exchange Reserves

The risk profile determines the maximum level of risk that the Monetary Committee is willing to accept in order to achieve the goals of holding the reserves. In establishing the risk profile, scenario analysis and a range of analytical tools to measure risk, such as VaR, CVaR, and others should be used.

The risk profile will be set so that given the worst 5 percent of outcomes, the average loss will not be greater than 900 basis points over a 1-year horizon (see 3. above). This risk level was set with the goal of limiting risk in the short term and increasing the probability of complying with the target of covering the financing cost in the long term.

The risk level will be set at least once a year by the Monetary Committee in accordance with background conditions.

### **5. The rules for managing the financial risks of the reserves**

The rules for managing the financial risks to which the reserves are exposed, and their asset allocation, which will be set in terms of the currency benchmark, are to be determined in accordance with the goals of the investment policy of the reserves (Section 1 above) and subject to the risk profile set by the Monetary Committee (Section 4). The asset allocation of the foreign exchange reserves in terms of the currency benchmark will be approved at least once a year by the Monetary Committee.

*a) The types of assets approved for use in managing the reserves are:*

1. Bonds (including bonds with fixed interest, with variable interest, and CPI-indexed bonds)
2. Mortgage-backed securities (MBS) and asset-backed securities (ABS), a maximum of 6 percent of total reserves
3. Tradable Certificates of Deposit (CDs)
4. Fixed term deposits
5. Commercial Paper (CP) issued by governments or with the full and direct guarantee of governments, or by a PSE (Public Sector Entity) or by multinational institutions
6. Equities, a maximum of 27 percent of total reserves
7. Derivatives whose underlying asset is permitted for investment. It should be clarified that the constraints in the guidelines regarding any permitted investment apply as well to investment in derivatives on the same asset as noted in this section.
8. Cash.

*b) Management against a benchmark*

Control over the financial risk of the reserves is anchored in their management against a system of benchmarks. The rules for managing the financial risks of the reserves generate the currency allocation of the benchmarks, the features of their price risk (such as duration) in each currency, and the asset types included in it. The investment returns of the portfolio managers are measured against these benchmarks.

*c) Currency risk:*

## Investment of the Foreign Exchange Reserves

The currency exposure of the reserves is set by:

- 1) The composition of the currency benchmark (Section 3 above).
- 2) Strategic currency exposures relative to the composition of the currency benchmark: The extent of the strategic currency exposures is limited to 10 percent of total reserves. The composition and amounts of the exposures will be set by the Monetary Committee.
- 3) Short and medium term currency exposures relative to the composition of the currency benchmark: Their amount is limited to 2 percent of the total reserves. The composition and amounts of the exposures will be set by the Markets Department.

d) *Market risk:*

In order to limit the market risk to which the foreign exchange reserves are exposed the Monetary Committee set:

1. The risk profile of the foreign exchange reserves in accordance with Section 4.
2. Total combined investment in equities (Section 6.a.5) and in corporate bonds (Section 4.e.5) shall not exceed 35 percent of the total reserves.
3. A share of at least 45 percent of the total reserves is to be invested in cash, government bonds, or in deposits at central banks.

e) *Credit risk:*

In order to limit the credit risk inherent in day-to-day management of the reserves portfolio, the Monetary Committee set the following rules:

1. Investment in the currency, or denominated in the currency, of countries<sup>26</sup> is permitted in countries whose generic credit rating<sup>27</sup> category is at least BBB. Investment in currencies, or denominated in currencies, of countries whose generic credit rating category is BBB is limited to 1 percent of the total reserves and requires the specific authorization of the Monetary Committee.
2. Investment is permitted in bonds and commercial paper (CP) issued by governments, or with full and direct government guarantees, if their generic credit rating category is at least BBB. Investment in the BBB generic rating category is limited to 1 percent of total reserves, and requires the specific authorization of the Monetary Committee.
3. Investment in bonds and commercial paper (CP) of public sector entities (PSE) is limited to a maximum of 15 percent of total reserves, and only in bonds or CP whose generic credit rating category is at least A.

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<sup>26</sup> Country—in this document, foreign countries.

<sup>27</sup> Credit rating: The credit rating of at least one of the international credit rating agencies—IBCA International Rating Agency, Moody's Investor Services, or Standard & Poor's Corporation, or another rating company based on the Bank of Israel internal rating—in accordance with the approval of the Monetary Committee.

## Investment of the Foreign Exchange Reserves

4. Investment in corporate bonds is limited to 15 percent of total reserves. Investment in corporate bonds for which their credit rating is below BBB- is permitted only up to a share of 5 percent of the total reserves.
5. Investment in bonds and CP of multinational financial institutions and deposits with them is limited to 15 percent of the reserves.
6. The total exposure of the reserves to the banking system and brokers should not exceed 10 percent of total reserves.

## Investment of the Foreign Exchange Reserves

7. Activity is permitted with banks and brokers whose generic credit rating category is at least BBB. Activity with banks and brokers whose generic credit rating category is BBB is limited to DVP<sup>28</sup> (delivery versus payment) alone.
8. If a bank or a broker does not have a credit rating, DVP activity is permitted with them only upon receipt of a full and direct guarantee letter from its parent company and if its generic credit rating category is at least BBB.

### f) *Liquidity risk:*

In order to provide an immediate response to the financial problems that arise during emergencies, an appropriate portion of the reserves should be invested in assets that can be liquidated in large amounts at short notice and without negatively impacting their realization value.

1. The assets in which the reserves are invested are classified into 3 levels of liquidity:
  - a. Highly liquid assets that can be realized within a month without negatively impacting their realization value.
  - b. Assets that can be realized within three months without negatively impacting their realization value.
  - c. Low-liquidity assets that can be realized in a period exceeding three months without negatively impacting their realization value.
2. The Monetary Committee is to set a minimum level of investment for highly liquid assets, and set a maximum level for low-liquidity assets. Classification of assets into the various liquidity levels can change due to changes in market conditions.

### g) *Active management and compliance rules:*

The reserves portfolio is actively managed according to the investment policy and within the framework of limited and well defined degrees of freedom that are to be set by the Monetary Committee.

## **6. The nonfinancial risks inherent in managing the reserves**

In determining the investment policy for the reserves, the exposure of the Bank and of the portfolio to the various nonfinancial risks inherent in investing the reserves—reputation risk, legal risk, political risk, operational risk, and so forth—should be taken into account as well.

## **7. Measuring returns and reporting them**

The reserves are managed with transparency. The Markets Department shall report periodically to the Monetary Committee (see 2 above) on the amount of the reserves and changes in them, the currency benchmark composition, changes in currency exposures, the asset allocation, portfolio duration, country exposure, credit risk, liquidity risk, and

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<sup>28</sup> DVP activity is when the payment and the asset are transferred between the sides at the same time and thus the credit risk in such activity is essentially zero.

## Investment of the Foreign Exchange Reserves

the return on the portfolio and its various components in terms of the currency benchmark and in shekel terms. The report should include an analysis of the current developments in the financial markets and their effect on the management of the reserves.

### **8. Handling passive breaches**

The Monetary Committee will set the rules for handling passive breaches from the investment policy guidelines.



## Appendix 2: Guidelines for the Foreign Exchange Reserves Investment Policy<sup>29</sup>

Effective as of December 24, 2025

### 1. Definition and Scope of the Guidelines

In accordance with Section 40(b) of the Bank of Israel Law, 5770–2010 (hereinafter – “*the Law*”), the Monetary Committee, in consultation with the Minister of Finance, shall establish guidelines for the foreign exchange reserves investment policy (hereinafter – “*the reserves*”).

These guidelines establish the framework for the management of the reserves and guarantee transparency in public reporting regarding their management. They define the objectives and principles of the investment policy, the division of responsibilities among the entities involved in reserves management within the Bank of Israel, the types of eligible investment assets, the measurement of reserves’ returns, and the risk management framework.

### 2. Objectives of Reserves Management

The investment policy of the reserves portfolio is designed to achieve two main objectives:

- **Primary objective:** To manage the reserves at risk and liquidity levels that enable the Bank of Israel to utilize them at any time for the fulfillment of its statutory objectives.
- **Secondary objective:** To maximize the medium-term holding return in terms of the currency benchmark, and to achieve a long-term shekel-denominated return that reduces the cost of holding the reserves—subject to the achievement of the primary objective.

In determining the relative importance of these objectives, the Monetary Committee shall take into account the level of reserves relative to the desired level.

### 3. Guiding Principles of the Investment Policy

The investment policy for the reserves shall be based primarily on **strategic considerations**. The policy shall emphasize **diversification and asset allocation stability**, with changes implemented gradually, in order to enhance investment efficiency and reduce risks.

The strategic asset allocation shall be approved by the Monetary Committee at least once a year. The allocation process shall be conducted by the Markets Department, which will present to the Committee an analysis of global economic conditions, identification of key factors expected to influence financial markets, short- and medium-term forecasts, and recommendations for possible allocations.

Actual investment operations shall be carried out by the Markets Department in accordance with the risk profile and **strategic benchmark**, which will include the distribution of the main asset classes in the reserves portfolio and their respective benchmarks, as determined by the Monetary Committee. Tactical

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<sup>29</sup> The actual characteristics of the reserves portfolio are reported to the public in an **annual report** published on the Bank of Israel’s website.

investment decisions by the Markets Department shall be made in response to market conditions, within the degrees of discretion established by the Committee.

#### **4. Governance and Division of Responsibilities**

The Monetary Committee shall determine the policies regarding investments and management of the risks to which the reserves are exposed, including the investment strategy, asset allocation, risk level, eligible investment assets, investment currencies, and investment countries. The Committee shall also establish the principles for selecting issuers and counterparties with whom transactions may be conducted.

The Committee shall define the investment rules and degrees of discretion granted to the Markets Department for the operational management of the reserves relative to the strategic allocation, and shall oversee the risks to which the reserves are exposed and compliance with the rules it has set.

The Markets Department shall report to the Monetary Committee at least quarterly on the implementation of the policy, including developments in international markets and their implications for management of the reserves, the Department's investment decisions, portfolio performance, and the financial and other risks to which the reserves are exposed.

#### **5. Currency Benchmark and Measurement of Reserves' Returns**

The **currency benchmark** is a basket of currencies that serves as an anchor for the currency composition of the reserves and as the numeraire for measuring and reporting the reserves' returns.

The currency benchmark shall be determined by the Monetary Committee and shall be based on safe reserve currencies of countries with diverse and liquid markets. It shall reflect currency diversification, which also promotes investment diversification and reduces the reserves' volatility. The composition of the currency benchmark shall represent a currency risk-free portfolio for the purpose of measuring reserves' returns and shall be reviewed periodically by the Monetary Committee.

In addition, the reserves' returns shall also be measured and reported in shekel terms.

#### **6. Risk Management**

The rules for managing the financial risks to which the reserves are exposed, and their asset allocation, shall be determined in accordance with the objectives of the reserves' investment policy.

Risk management shall be based on several pillars: monitoring compliance with the investment rules set by the Monetary Committee; and systematic identification, assessment, and monitoring of financial and nonfinancial risks in the management of the reserves portfolio, including market risk, credit risk, liquidity risk, operational risk, and reputational risk.

The risk profile shall be set such that the expected loss of the worst 5 percent of outcomes does not exceed 10 percent over a one-year horizon, measured in terms of the currency benchmark. This risk level is intended to limit short-term risk.

## **7. Eligible Investment Assets and Related Limits**

1. Cash, deposits, and bank certificates of deposit.
2. Tradable securities, under the following conditions:
  - a. At least 45 percent of the reserves shall be invested in cash, government bonds of the benchmark-currency countries, and deposits of up to one week at central banks in the benchmark-currency countries.
  - b. Corporate bonds rated Investment Grade—up to 15 percent of the reserves.
  - c. Corporate bonds rated High Yield—up to 5 percent of the reserves.
3. Tradable equities—up to 35 percent of total reserves.
4. The combined investment in equities and High Yield corporate bonds shall not exceed 35 percent of total reserves.
5. Gold.
6. Investment funds, exchange-traded funds (ETFs), and derivatives whose underlying assets are eligible for investment, subject to the quantitative limits above and with the approval of the Monetary Committee.
7. Other assets not included in the list above—up to 1 percent of total reserves, subject to specific approval by the Monetary Committee.

## **8. Handling Passive Deviations**

The rules for handling passive deviations from the guidelines shall be determined by the Monetary Committee.

### Appendix 3: Glossary

	<b>Term</b>	<b>Explanation</b>
1	<b>Active management</b>	An investment management style in which the portfolio manager tries to achieve a return greater than that of a benchmark or market index by deciding to buy or sell securities or by various investment strategies. In this report, the term describes the contributions of decisions to invest in additional assets and countries that are not included in the basic benchmark.
2	<b>Basic benchmark (currency benchmark composition benchmark)</b>	Represents an asset composition that is low-risk and investable, which meets the reserves' investment policy objective of managing them with a high degree of liquidity. Its currency composition is identical to the currency benchmark composition. It includes short-term government bonds in the currency benchmark currencies.
3	<b>Basis point</b>	0.01 percent; one ten-thousandth, or one hundredth of a percentage point.
4	<b>Below investment-grade rating</b>	A credit rating below BBB- (at Fitch and Standard and Poor's) or below Baa3 (Moody's). Known as High Yield (HY).
5	<b>Benchmark portfolio</b>	A hypothetical investable portfolio constructed according to agreed-upon rules, which is used as a yardstick for evaluating the performance of an investment portfolio manager and as an anchor for the portfolio risk management.
6	<b>CVaRp (Conditional Value at Risk)</b>	The risk index that is used to quantify the level of risk, in terms of the expected loss on the investment portfolio in a specific time and given a certain probability (p). In the guidelines, the Monetary Committee set the maximum level of risk for the reserves, so that given the worst five percent of possible outcomes, the average loss—the CVaR <sub>5%</sub> —would not be greater than 900 basis points over a one-year horizon.
7	<b>Credit rating</b>	The rating represents a rating agency's assessment of the ability and readiness of the issuer (corporation or government) to meet its required payments fully and on time. The rating represents the relative probability of the issuer to reach default relative to other rated issuers.  The major international rating agencies are Fitch, Moody's Investor Services, and Standard and Poor's Corporation.

8	<b>Credit risk</b>	The exposure to the possibility of loss due to failure of timely payment on debt, whether of an issuer, a financial institution or a country, or as a result of changes in the market's assessment of the probability of such an event.
9	<b>Currency benchmark</b>	A currency basket used for measuring the returns on the foreign exchange reserves. See Chapter B, Section 3 above.
10	<b>Currency risk</b>	The exposure to the possibility of a loss as a result of a change in exchange rates.
11	<b>Duration</b>	The sensitivity of a small change in the value of a debt instrument, expressed as a percentage of its original value, to the change in the yield to maturity (with the opposite sign) of the instrument. Measured in units of time.
12	<b>Excess return</b>	The difference between the return on the reserves portfolio and the return on the basic benchmark, which measures the decisions to invest in additional assets and countries that are not included in the basic benchmark. Also termed "contribution of active management".
13	<b>Foreign exchange reserves</b>	Financial assets that are issued by foreign entities and which are denominated in a foreign currency (including gold). They are exclusively owned and managed by a central bank and are available to it for carrying out its statutory functions without delay.
14	<b>Information Ratio</b>	The Information Ratio measures the excess return of the portfolio manager relative to the risk taken, and indicates the degree of consistency in the manager's ability to generate excess returns on additional risk. It is calculated as the ratio of the excess return to its standard deviation.
15	<b>Interest rate risk</b>	The exposure to the possibility of a loss as a result of an increase in yields to maturity.
16	<b>Investment-grade rating</b>	A credit rating in the range of AAA to BBB- (at Fitch and Standard and Poor's) or between Aaa and Baa3 (Moody's). Known as IG.
17	<b>Investment policy guidelines</b>	The investment policy guidelines include details on the assets, risk profile, and quantitative and qualitative limitations on the types of assets permitted for investment. It should be emphasized that the limitations on the various asset types are not a recommendation for the actual share of investment in those asset types.
18	<b>Liquidity risk</b>	The exposure to a potential loss resulting from the compulsory liquidation of assets in a short period of time and at a larger volume than what the market is able to handle without a negative impact on the market price and/or the buy/sell spread.

19	<b>Mark-to-market</b>	The change in reserves in one currency terms attributed to realized profits from interest and capital gains income, and to the change in value from asset price differentials and from exchange rate differentials vis-à-vis this currency of the currencies in which the reserves are invested. In this report, the currency is dollar. Also termed price differential.
20	<b>Market risk</b>	The exposure to a potential loss resulting from changes in asset prices. The market risk of bonds combines the interest rate risk and credit risk, if there is any.
21	<b>Monetary Committee</b>	The Monetary Committee was established in accordance with the Bank of Israel Law, 5770-2010. The Committee consists of six members-three from the Bank and three representatives from among the public. The Governor of the Bank of Israel serves as chairperson of the Committee. The Monetary Committee sets the policy for achieving the Bank's objectives, including monetary policy, and decides on the activities that the Bank must take to achieve them. The Committee is charged with outlining the guidelines for the reserves' investment policy, in consultation with the Minister of Finance, and with monitoring the implementation of such policy. The Committee also approves and updates the division of authorities with regard to the reserves' investment policy, between it and the Markets Department.
22	<b>Portfolio duration</b>	The average duration of a portfolio of fixed-income instruments (where the duration of each asset is weighted according to its share of the portfolio); a widely accepted measure used to estimate the portfolio's interest rate risk.
23	<b>Risk assets</b>	Assets featuring higher risk than government bonds. In this report, the term refers to equities and corporate bonds.
24	<b>Risk-free portfolio</b>	A portfolio in which the investor is not subject to gains or losses.
25	<b>Risk premium</b>	The excess return of a risk asset over the risk-free interest rate.
26	<b>Spread asset</b>	An asset with a yield to maturity that is greater than that of a government bond with a similar term to maturity, due to differences in exposure to credit risk, liquidity risk, operational factors, etc.  The yield spread of this asset is measured as the difference between its yield to maturity and that of a government bond with a similar term to maturity. Spread assets include also government bonds denominated in a currency which is not the local currency of the country of issuance.

27	<b>Standard deviation</b>	A statistical measure used to quantify the dispersion of a distribution around its expected value. Often used as a measure to quantify the exposure to uncertainty. See also volatility.
28	<b>Volatility</b>	The standard deviation (see definition in this glossary) of the distribution of rates of return of a financial asset, such as a security or portfolio, over a defined time (a day, a week, etc.).
29	<b>Yield curve</b>	A line that plots the yields to maturity of bonds with similar characteristics (such as the bonds of a particular country in local currency) but different maturities.
30	<b>Yield spread</b>	The difference between yields to maturity of two debt instruments.
31	<b>Yield to maturity</b>	The rate of return, in annual terms, which would be obtained from holding a debt instrument until its final redemption, if it was possible to invest all of its cash flows at the same rate of return until that date. Synonymous term: internal rate of return.