NOTES TO THE FINANCIAL STATEMENTS

1. Significant accounting policies

a. General

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

1) Revaluation accounts - as detailed in Section m below.
2) Statement of cash flows - as detailed in Section t below.

b. Definitions

In these financial statements:

1) **"The Bank"**—the Bank of Israel.
2) **"CPI"**—the Consumer Price Index as published by the Central Bureau of Statistics.
3) **"Adjusted cost"** "—the adjusted cost of bonds is their par value plus the interest accrued thereon and the balance of the premium or discount not yet amortized. The premium or discount is amortized over the period from the date of purchase of the bond until the date of its redemption.
4) "**Adjusted amount**"—the historical nominal amount adjusted to the CPI in respect of December 2003, in accordance with the provisions of Opinions 23 and 36 of the Institute of Certified Public Accountants in Israel.
5) **"Reported amount"**—the adjusted amount at the transition date (December 31, 2003), with additional amounts in nominal values that were added after the transition date, less amounts subtracted after the transition date.
6) **"Nominal financial reporting"**—financial reporting based on reported amounts.
7) **"Fair value"**—the amount for which an asset can be acquired or sold (a liability assumed or settled) in a current transaction between independent willing parties.

c. Financial statements in reported amounts

1) The term "cost" in these financial statements denotes the reported amount of cost.
2) Amounts of nonfinancial assets do not necessarily reflect their realizable value or current economic value, but only the reported amounts of those assets.

d. Reporting principles

1) Balance Sheet:
   a. Nonfinancial items (fixed assets and investments shown at cost) are stated in reported amounts.
   b. Financial items are stated in the Balance Sheet at their nominal values at the Balance Sheet date.
   c. Investments in tradable securities are stated at fair value.
   d. Investments in derivative financial instruments are stated at amortized cost.
   e. The Balance Sheet is presented in the format generally accepted by central banks worldwide.
2) Statement of Operations:
   a. Income and expenses originating from nonfinancial items (such as depreciation, prepaid expenses and deferred income) or from provisions included in the Balance Sheet, are derived from the movement between the reported amount of the opening balance and the reported amount of the closing balance.
   b. All other items of the Statement of Operations (such as interest income and interest expenses) are stated at their nominal values.
3) Statement of Changes in Equity (Deficit Equity):
   The data of the Share Capital equity and general reserve are presented in the Bank's financial statements in reported amounts (see Note 15).

e. Use of estimates

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

f. Revenue recognition

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

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

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

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

Unrealized losses from foreign currency securities, from local currency securities, or a specific foreign currency are not offset against unrealized gains from other securities or foreign currencies.

Losses recognized in the Statement of Operations are not offset against unrealized gains that will accrue in the future

g. Securities

1) Foreign currency securities

a. Bonds

Bonds are stated in the Balance Sheet at their fair value as of the Balance Sheet date. The fair value of quoted bonds is based on market prices. Unquoted bonds are revalued on the basis of data obtained from outside sources.

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

Unrealized differentials from indexation to an index published abroad which accrued on the principal, and the difference between the fair value less indexation differentials of the bonds and their adjusted cost, in respect of each individual bond, are charged to the "Revaluation accounts" line item in the Balance Sheet.

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

Income from the realization of bonds is stated in "Other financial income (expenses) - securities and derivative financial instruments".

The balance of unrealized loss at year end, which is calculated separately in respect of each bond, is charged to the Statement of Operations and stated under "Other financial income (expenses) - securities and derivative financial instruments".

b. Shares

Shares are stated in the Balance Sheet at their fair value as of the Balance Sheet date. The difference between the fair value of the shares and their cost is charged to the "Revaluation accounts".

Gains or losses from the exercise of shares and dividend income are charged to the Statement of Operations and stated under "Other financial income (expenses) - securities and derivative financial instruments".

The balance of unrealized loss at year end, which is calculated on externally managed index-tracking share portfolios at the individual portfolio level, is charged to the Statement of Operations and stated under "Other financial income (expenses) - securities and derivative financial instruments".

2) Local currency securities

Tradable government bonds in local currency are stated in the Balance Sheet at their fair value as of the Balance Sheet date. The difference between the original cost of the bonds and their adjusted cost is charged to the Statement of Operations.

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

Interest income and amortization of the premium or discount are stated in the "Interest income from the Government" line item.

The balance of unrealized loss, which is calculated separately in respect of each bond, is charged to the Statement of Operations at the end of the year and stated under "Other financial income (expenses) - securities and derivative financial instruments".

h. International financial institutions

1) The International Monetary Fund (IMF)

The International Monetary Fund (IMF) balances are managed in Special Drawing Rights (hereinafter, "SDR") and presented in New Shekels using the representative exchange rates published by the Bank of Israel as of the Balance Sheet date.

The liability to the IMF in respect of allocated SDRs is stated in "The International Monetary Fund and others" line item in the Balance Sheet.

2) Bank for International Settlements (BIS)

The Bank of Israel's participation in BIS is stated under local currency assets in the "Other assets" line item according to the cost in the currency in which the participation was paid, converted using the exchange rate on the transaction date with the necessary reporting adjustments to reported amounts.

i. Fixed assets

1) Items of fixed assets are stated at cost with the addition of direct acquisition costs, less accumulated depreciation and accumulated impairment losses.
2) Improvements and enhancements are charged to the cost of the assets and depreciated over their useful lives, whereas maintenance and repair expenses are charged to the Statement of Operations as incurred.

3) Depreciation is calculated by the straight-line method on the basis of the estimated useful life of the asset:
Buildings - 50–67 years;
Motor vehicles - 6.5 years;
Computers - 4 years;
Equipment and furniture - 10 years.

4) Software that is not an integral part of the related hardware is shown under fixed assets at cost and is depreciated by the straight-line method over four years.

j. Banknotes and coins in circulation

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

k. Short-term loan

The balance of short-term loans (called *makam*, their Hebrew acronym) in the Balance Sheet reflects the redemption price of the loan held by the public, less the balance of unamortized discount. *Makam* sold by the Government to the Bank of Israel but not yet sold to the public is not included in this balance.
Makam are issued for a period of up to one year. The discount is the difference between the redemption price of the *makam* and the proceeds from their sale to the public.
The discount is amortized over the period from the date of issuance of the *makam* to its date of redemption.
Expenses for amortization of the discount on the balance of the *makam* held by the public are shown in the Statement of Operations in "Interest expenses to banks and the public".

l. Liabilities in respect of employee rights

All liabilities in respect of employer-employee relations have corresponding reserves in accordance with the law, relevant agreements, common practice and management's expectations.
Liabilities in respect of benefits to employees and pensioners (excluding short-term obligations) are measured using the projected "credit unit method" and calculated by an expert actuary using the method of estimation of cumulative benefits with probabilities taken into account on the basis of past experience and mortality rates and other demographic tables published by the Capital Market, Insurance and Saving Authority at the Ministry of Finance for pension funds. The discount rate applicable to the reserves is based on the yield curve of government bonds in Israel, and on the rate of future salary increases as estimated by management and on past experience.

The service cost and interest cost are stated in respect of the liabilities attributable to expenses in respect of benefits to employees and pensioners.

Changes in the value of the liability arising from the difference between actual and estimated experience or from changes in actuarial assumptions represent unrealized actuarial gains or losses that are charged to the revaluation account of "Actuarial gains or losses from benefits to employees and pensioners", excluding benefits which are expected to be utilized during the employment term. The actuarial changes are charged to the Statement of Operations.

Employee benefits liabilities are stated under "Other liabilities" in local currency.

m. Revaluation accounts

The following are the types of revaluation accounts:

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

   These revaluation accounts are maintained separately for each item (currency, security) and are recognized in the Statement of Operations when the item is fully or partially realized. No offsetting among different types of items is performed. Revaluation accounts in respect of certain externally managed portfolios are managed at the individual portfolio level.

   Accumulated loss in the revaluation accounts relating to each item (currency, security) that originates from indexation differentials and price differentials in securities in local currency and foreign currency and exchange rate differentials on foreign exchange reserves is charged to the Statement of Operations at the end of the year (see also Section f above).

2) Revaluation accounts that consist of unrealized gains or losses deriving from changes in actuarial assumptions underlying the computation of pension accruals. Accordingly, any accumulated unrealized losses at year end will result in a negative account balance.

n. Foreign currency

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

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

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

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

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

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

	December 31			Rate of Change	
	2017	2016	2015	2017	2016
	(NIS)			(Percent)	
US Dollar	3.4670	3.8450	3.9020	(9.8)	(1.5)
Euro	4.1526	4.0438	4.2468	2.7	(4.8)
Pound Sterling	4.6819	4.7252	5.7840	(0.9)	(18.3)
Special Drawing Rights (SDRs)[a]	4.9374	5.1689	5.4071	(4.5)	(4.4)

[a] The SDR rate published by the IMF is determined according to a weighted basket of five currencies - the US dollar, euro, Japanese yen, pound sterling and Chinese yuan.

o. Indexation

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

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

					Rate of change	
		2017	2016	2015	2017	2016
		(Points)			(Percent)	
CPI	For November	100.3	100.0	100.3	0.3	(0.3)
	For December	100.4	100.0	100.2	0.4	(0.2)

p. Interest rates

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

Following are data on the interest rates:

	December 31		
	2017	2016	2015
	(Percent)		
Bank of Israel interest	0.10	0.10	0.10
Prime interest	1.60	1.60	1.60

q. Financial instruments

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

1) Activity in financial instruments in Israel

NIS/USD forwards

These transactions are shown net in the Balance Sheet under "Other assets" or "Other liabilities": future receipt of US dollars less future remittance of shekels. In the Statement of Operations, the results of the transactions are shown under "Interest income from assets in foreign currency abroad".

2) Activity in financial instruments abroad

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

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

The Bank also carries out repurchase (Repo) agreements. Such transactions are composed of the sale of securities under an agreement to purchase them in the future. The transactions are treated as a secured debt and accordingly the securities sold under its terms are not subtracted from the Bank's assets. The liability to purchase the securities is included in the "Repurchase agreements" item. In the Statement of

Operations, the results of these transactions are shown in the "Interest income from assets in foreign currency abroad" item.

b. Foreign currency swaps and forwards

These transactions are included on the Balance Sheet as the sum of the differences between the foreign currency received and the foreign currency to be remitted in the future, with the addition of the balance of unamortized premium, and are shown in the "Derivative financial instruments" item. In the Statement of Operations, the results of these transactions are included in the "Interest income from assets in foreign currency abroad" item.

c. Futures

The fair value of futures contracts on the Balance Sheet date is shown in Note 16 - "Commitments, financial instruments and contingent liabilities". In the Statement of Operations, the change in the value of the contracts is recorded under "Other financial income (expenses)—securities and derivative financial instruments".

r. Offsetting financial balances

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

s. Impairment of assets

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

The Standard applies to all Balance Sheet assets, except for financial assets. The Standard also establishes presentation and disclosure rules for assets that have been impaired. Where the value of the asset in the Balance Sheet exceeds its recoverable amount, the Bank recognizes an impairment loss in the amount of the difference between the asset's book value and recoverable amount. A loss recognized in this manner is reversed only if changes occur in the estimates that were used to determine the recoverable amount of the asset from the date on which the last impairment loss was recognized.

t. Statement of cash flows

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

u. Taxes

According to the Bank of Israel Law, 5770–2010, regarding the payment of taxes, municipal taxes, levies and other mandatory payments, the Bank has the same status as the State of Israel. In addition, regarding the taxation of the Bank's offshore investments, the Bank is tax exempt on the majority of its investments in foreign securities.

2. Foreign exchange reserves

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

The Bank's investment policy relates to these balances.

The following is the composition of the foreign exchange reserves:

	December 31		December 31	
	2017	2016	2017	2016
	(NIS million)		(USD million)	
Foreign currency assets abroad	394,150	384,483	113,685	99,996
Less: Foreign currency liabilities abroad	(2,338)	(5,955)	(674)	(1,549)
Total foreign exchange reserves[a]	**391,812**	**378,528**	**113,011**	**98,447**

[a] Foreign exchange reserves include balances in respect of collaterals on futures presented on the assets side under "Other assets" in Foreign currency assets abroad and on the liabilities side under "Other liabilities" in Foreign currency liabilities abroad.

3. The International Monetary Fund (IMF)[a]

	December 31		December 31	
	2017	2016	2017	2016
	(NIS million)		(SDR million)	
IMF quota	9,484	9,929	1,921	1,921
Less: Liability for the quota	(8,708)	(9,763)	(1,764)	(1,889)
Reserve tranche	**776**	**166**	**157**	**32**
NAB loans	**186**	**305**	**38**	**59**
Special Drawing Rights (SDRs)	**4,322**	**4,034**	**875**	**780**
Total IMF balance	**5,284**	**4,505**	**1,070**	**871**

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

a. Bank of Israel participation in the IMF

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

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

In 2011, a reform was carried out in the quotas and in the IMF's voting rights, in the context of which Israel's IMF quota was increased in two stages: in the first stage, in 2011, the quota was increased by about SDR 133 million and in the second stage, in 2016, the quota was increased by an additional about SDR 860 million, reaching a total of about SDR 1,921 million.

b. NAB loans

The State of Israel is part of the IMF's arrangement known as NAB (New Arrangements to Borrow).

In accordance with this arrangement, countries, including Israel, provide a credit line to the IMF, in the context of which loans are extended with maturities of ten years. According to the arrangement, the loans may be repaid to each country at an earlier date at the country's request, should it need the money.

The maximum credit line that the Bank provides the IMF is about SDR 340 million (NIS 1,679 million).

c. Special Drawing Rights (SDRs)

The balance includes SDRs allocated by the IMF to Israel. Against these allocations the Bank has a liability toward the IMF with no repayment date, which is shown under the item of "The International Monetary Fund and others".

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

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

The IMF has allocated Israel SDRs totaling about SDR 884 million. According to the Voluntary Arrangement for the Purchase and Sale of SDRs, Israel's SDR holdings range from 50 percent to a maximum of 145 percent of total SDRs allocated by the IMF to Israel. The IMF has undertaken to consult with the Bank before making any purchase or sale of SDRs in the context of the plan.

4. Credit to the government

The item includes credit on account of binational foundations that was extended to the Government of Israel for investment, in conjunction with the United States government, in binational foundations involved in research, industrial development and science. The foundations deposited these sums with the Bank of Israel and they are shown in foreign currency on the Balance Sheet on the liabilities side under the item of "Other liabilities—the International Monetary Fund and others". Both the credit and the fund deposits earn either fixed interest of 4–4.125 percent or interest on the basis of LIBOR.

5. Tradable securities

This item consists of tradable government securities in local currency, indexed to the last CPI level known on the Balance Sheet date, as well as unindexed securities. The securities are shown at fair value.

6. Fixed assets

	Land and buildings[a]	Equipment and furniture, computers, software and vehicles	Total
		(NIS million)	
Cost			
Balance as of January 1, 2017	305	400	705
Additions	74	45	119
Disposals	-	(1)	(1)
Balance as of December 31, 2017	**379**	**444**	**823**
Accumulated depreciation			
Balance as of January 1, 2017	68	244	312
Additions	11	39	50
Disposals	-	(1)	(1)
Balance as of December 31, 2017	**79**	**282**	**361**
Depreciated balance as of December 31, 2017	**300**	**162**	**462**
Depreciated balance as of December 31, 2016	**237**	**156**	**393**

[a] The Bank's property in Jerusalem, the cost of which, including the depreciated cost of the structures thereon, amounts to approximately NIS 265 million as of December 31, 2017 (approximately NIS 211 million as of December 31, 2016). The Bank is not registered as the lessee of the Bank's properties. The lease expired on June 30, 2016. Since then, the Bank has been negotiating the renewal of the lease agreement with the Israel Land Authority (the ILA). Accordingly, the Bank may be required to pay lease fees when the lease is renewed.

7. Other assets

	December 31	
	2017	2016
	(NIS million)	
Investment in BIS shares	282	*) 282
Loans to employees	73	72
Other receivables	26	4
Total other assets	**381**	**358**

*) Reclassified—in the Financial Statements for 2016, the investment in BIS shares was stated in the item of "International financial institutions".

8. Banknotes and coins in circulation

	December 31, 2017		December 31, 2016	
	Quantity	NIS	Quantity	NIS
	(million)		(million)	
Banknotes and coins in circulation				
NIS 20	48.53	971	39.54	791
NIS 50	67.26	3,363	60.62	3,031
NIS 100	173.37	17,337	168.59	16,859
NIS 200	290.92	58,185	265.60	53,120
Coins in circulation		2,339		2,188
Other[a]		2		2
Commemorative banknotes and coins		5		5
Total		**82,202**		**75,996**

[a] special coin items in circulation.

9. Government deposits

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

	December 31		December 31	
	2017	2016	2017	2016
	(NIS million)		(USD million)	
Deposits in foreign currency[a]				
Current deposits	7,174	8,506	2,069	2,212
Other deposits	366	776	106	202
Total deposits in foreign currency	**7,540**	**9,282**	**2,175**	**2,414**
Deposits in local currency[b] - Current deposits	**19,394**	**15,134**		
Total government deposits	**26,934**	**24,416**		

[a] **Government deposits in foreign currency**
The current deposits are used for financing budgetary activity. Some foreign currency government deposits bear interest at the rate paid on US Treasury bills with an average of six months to maturity. The average interest rate in 2017 was 1.02 percent (2016—0.42 percent).

[b] **Government deposits in local currency**
The current deposits and the balances used for bond lending are designated for financing budgetary activity. Until March 31, 2017, local currency current deposits bore (when in debit) or were paid (when in credit) interest at the Prime rate. Effective from April 1, 2017, local currency current deposits bear (when in debit) or are paid (when in credit) interest to the Government at the rate ranging from the Bank of Israel's interest rate plus 1.5% to the Bank of Israel's interest rate on these balances based on certain brackets. The average benchmark interest rate in 2017 remained unchanged from 2016 at 1.6 percent. on the government balances used for bond lending and other government balances for which a different interest rate is paid.

10. Deposits of banking corporations

	December 31		December 31	
	2017	2016	2017	2016
	(NIS million)		(USD million)	
Deposits in foreign currency[a] (*Pamach*)	**724**	**772**	**209**	**201**
Deposits in local currency[b]				
Time deposits	194,003	172,001		
Demand deposits	40,475	34,502		
Total deposits in local currency	**234,478**	**206,503**		
Total deposits of banking corporations	**235,202**	**207,275**		

[a] **Deposits in foreign currency**

Foreign currency demand deposits of the banking corporations (known by their Hebrew acronym, Pamach) serve as a liquid asset against nonresidents' foreign currency deposits. The reserve requirement applicable to the banking corporations ranges from 0 to 6 percent, depending on the term of the deposit.

[b] **Deposits in local currency**

1. The Bank of Israel receives time deposits in New Shekels from the banking corporations. The deposits are allocated by auction for terms of one day, one week and one month. The deposits are not considered liquid assets with regard to the banking corporations' reserve requirements. In addition, deposits are received at the (overnight) deposit window available to the banking corporations at an interest rate of 0.1 percentage points below the Bank of Israel interest rate.
   The average interest rate for time deposits by auction on December 31, 2017 was 0.1 percent (on December 31, 2016 - 0.10 percent).
   The average interest rate for time deposits by auction in 2017 was 0.1 percent (in 2016 - 0.1 percent).
   The interest rate for deposits at the window on December 31, 2017 was 0 percent (on December 31, 2016 - 0 percent).
   The average interest rate for deposits at the window in 2017 was 0 percent (in 2016 - 0 percent).
2. The banking corporations' local currency demand deposits serve as a liquid asset against deposits in Israeli currency and Israeli residents' deposits in foreign currency. The reserve requirement applicable to the banking corporations ranges from 0–6 percent, depending on the term of the deposit.

11. The International Monetary Fund and others

	December 31	
	2017	2016
	(NIS million)	
Allocated Special Drawing Rights[a]	4,367	4,568
Other[b]	116	129
Total	**4,483**	**4,697**

[a] Special Drawing Rights (SDRs) are sums of money that member countries in the IMF undertook to purchase from the Fund. No repayment date has been set for this liability and it bears interest according to the IMF's terms. The IMF allocates SDRs to its constituent countries commensurate with the size of their quotas.
As of December 31, 2017, Israel has been allocated approximately SDR 884 million.

[b] The item mainly includes liabilities to binational foundations.

12. *Makam*

	December 31	
	2017	2016
	(NIS million)	
Redemption value of short-term loan sold to the public	92,000	104,999
Less: Discount at time of sale to the public	(126)	(138)
Proceeds from sale of *makam* to the public	**91,874**	**104,861**
Plus amortization of discount difference for the period through the Balance Sheet date	71	73
Total balance of *makam*	**91,945**	**104,934**

The Short-Term Loan Law, 5744–1984, authorizes the government to issue short-term bills to be sold only to the Bank of Israel, with the Bank selling them to, and buying them from, the public in order to carry out its functions. The government must deposit all proceeds from sales of these bills with the Bank of Israel and may not use them for any purpose other than repayment of the loan taken under said Law, or payment of the yield thereon. The purchase of bills from the government by the Bank of Israel and the deposit of the proceeds from this purchase with the Bank of Israel are not reflected in the Bank's Balance Sheet.

The balance of *makam* shown in the Balance Sheet reflects the redemption value of bills held by the public, less the balance of the unamortized discount.

13. Other liabilities

	December 31	
	2017	2016
	(NIS million)	
Liabilities in respect of benefits to employees and pensioners	6,334	*) 6,156
Short-term liabilities for employees' and other rights	77	*) 65
Other payables[a]	738	430
Total other liabilities	**7,149**	**6,651**

[a] The balance mainly comprises a liability to entities that manage an account at the Bank of Israel.
*) Reclassified.

a. Liabilities in respect of benefits to employees and pensioners

The liability mainly consists of actuarial obligations in respect of post-employment benefits to employees and pensioners.

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

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

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

The above calculation is based on mortality rates and other demographic tables published by the Capital Market, Insurance and Saving Authority at the Ministry of Finance for pension funds in Pension Circular 2017-3-6 regarding the preparation of actuarial calculations. The calculation is based on the assumption of an annual real salary increase for employees as of December 31, 2017 according to employee seniority ranging between 1.89 percent and 4.81 percent; as of December 31, 2016 based on employee age ranging between 1.5 percent and 3 percent. The discount rates underlying the liability are based on the yield curve of government bonds in Israel, ranging between 1.715 percent and 2.538 percent. The change in the liability consists of an increase of about NIS 246 million which was charged to the revaluation account of "Actuarial gains or losses from benefits to employees and pensioners" (Note 14), and an increase of about NIS 211 million which was charged to "General and administrative expenses—pension and benefits to employees and pensioners" (Note 24).

b. Short-term liabilities for employees' and other rights

This item includes short-term liabilities in respect of salary and other expenses which are expected to be settled in the course of 2018.

14. Revaluation accounts

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

	December 31	
	2017	2016
	(NIS million)	
Balances denominated in foreign currency	3,150	19,559
Tradable securities in foreign currency	11,853	7,127
Tradable securities in local currency	807	949
Actuarial gains or losses from benefits to employees and pensioners	(2,316)	(2,071)
Total revaluation accounts	**13,494**	**25,564**

15. Share capital and general reserve

The data on the Bank's equity and general reserve in historical nominal values at December 31, 2017 and 2016 are: the Bank's equity—NIS 60 million; the general reserve—NIS 260 million. The general reserve served in the past to increase the Bank's capital in accordance with Section 6 of the Bank of Israel Law, 5714-1954 (see Note 1c).

In accordance with Section 76 of the Bank of Israel Law, 5770–2010, within three months from the end of each year, the Bank is to transfer its profits to the Government according to the following provisions:

a) If the equity amounts to 2.5 percent or more of total assets, the Government will receive an amount equal to the net income, less any accumulated losses.

b) If the equity amounts to more than 1 percent of total assets but less than 2.5 percent of total assets, the Government will receive 50 percent of the net income, less any accumulated losses.

c) If the equity amounts to 1 percent or less of total assets, the Government will not receive any profits.

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

In accordance with these provisions, as of December 31, 2017 there is no obligation to transfer funds to the Government

16. Commitments, financial instruments and contingent liabilities

	December 31	
	2017	2016
	(NIS million)	
a. Commitments (off-Balance Sheet)		
Documentary credit	5	41
b. Financial instruments		
Currency swaps and forwards:		
Fair value	(1,703)	3,283
Future receipts of foreign currency	105,058	90,230
Future payments of foreign currency	106,414	86,501
Stock index futures - fair value:		
Long	30	-
Short	(70)	(4)
Interest rate futures - fair value:		
Long	(30)	-
Short	30	-
Bond futures - fair value:		
Long	23	(8)
Short	10	16
c. Contingent liabilities		

1) When investing in international financial institutions, the Bank of Israel is generally required to assume additional undertakings toward these institutions beyond the actual callable capital, which may be exercised by the institutions only in times of need, a scenario which is relatively unlikely.

The balance of the above undertakings as of December 31, 2017 was NIS 59 million (December 31, 2016 - NIS 4,342 million).

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

17. Interest income (expenses) from assets in foreign currency abroad

	For the year ended December 31	
	2017	2016
	(NIS million)	
Demand deposits	(241)	(24)
Short-term deposits	(37)	(33)
Tradable securities	2,727	1,816
Securities purchased under R. Repo agreements or Repo	(8)	(21)
Derivative financial instruments, net	1,204	682
The IMF	23	4
Total	**3,668**	**2,424**

18. Interest income from the government

	For the year ended December 31	
	2017	2016
	(NIS million)	
Binational foundations[a]	76	76
Tradable securities in local currency	254	343
Total	**330**	**419**

[a] See Note 4 above.

19. Interest expenses to banks and the public

	For the year ended December 31	
	2017	2016
	(NIS million)	
Makam	140	144
Time deposits[a]	175	144
Total	**315**	**288**

[a] See Note 10 above.

20. Interest expenses to the government

	For the year ended December 31	
	2017	2016
	(NIS million)	
Balances in local currency	308	283
Balances in foreign currency	7	4
Total	**315**	**287**

21. Other interest expenses

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

22. Other financial income (expenses)—securities and derivative financial instruments

	For the year ended December 31	
	2017	2016
	(NIS million)	
Securities in foreign currency[a]	2,504	*) 1,226
Derivative financial instruments in foreign currency[b]	(30)	(531)
Total	**2,474**	**695**

[a] Dividend income, gain (loss) from sale of securities and loss from net impairment of securities at the end of the year.
[b] Including financial income (expenses) from the realization of derivative financial instruments.
*) Reclassified—an amount of approximately NIS 73 million was reclassified to the item of "Other expenses".

23. Other financial income (expenses)—Miscellaneous

	For the year ended December 31	
	2017	2016
	(NIS million)	
In local currency	5	4
In foreign currency	(31)	(27)
Total[a]	**(26)**	**(23)**

[a] This item includes income from commissions from the Bank's financial activities, from international financial institutions and from loans to employees.

24. General and administrative expenses

	For the year ended December 31	
	2017	2016
	(NIS million)	
Salaries and employees' rights	331	*) 311
Pension and benefits to employees and pensioners[a]	208	*) 212
General expenses	150	152
Total	**689**	**675**

[a] Expenses in respect of actuarial obligation for post-employment benefits to employees and pensioners and a long-term liability.
*) Reclassified

25. Other expenses

In 2017, this item mainly includes tax expenses on foreign investments and income from various fees. In 2016, this item mainly included a capital loss from the assignment of the State's representation in international financial institutions from the Bank of Israel to the Government.