Ministry of Finance
Accountant General Division
Government Debt
Management Unit

Annual Report 2009

Section A
Preface

Section A – Preface

We are pleased to present the eighth annual report of the Government Debt Management Unit in the Accountant General Division, which refers to 2009.

In 2009, the world continued to deal with one of the most severe financial crises in modern economic history. The Israeli economy faced considerable challenges at the beginning of this year: the impact of the global financial crisis on exports, a decline in tax revenues, an increase in unemployment and government debt funding at unprecedented volumes. Following is a review of the major economic developments during 2009:

State budget: at the end of 2009, the state budget deficit had reached a level of 5.15% of GDP, versus the budget plan of 6%. The difference is due to higher than planned revenues, which were in direct proportion to the rate of economic growth, which was in turn higher than forecasted. In addition, interest expenses declined as a result of the low level of the exchange rate and interest rate over the year.

Funding through Government bonds: the volumes of tradable bonds issued in the primary market in 2009 were higher than ever, amounting to NIS 102 billion. The funding breakdown was as follows: NIS 90 billion in the domestic market, and the remainder, NIS 12 billion, through foreign currency funding. This year, switch auctions played a major role as a cash flow management tool, and NIS 13 billion were raised within their framework. The net amount raised was NIS 41 billion. The debt-to-GDP ratio increased by only 3% in 2009, to a level of 78%; this is in contrast to the substantial increase recorded in most western countries in the past year. The broad government debt-to-GDP ratio stood a level of 79.6%.

Inflation: during 2009, the consumer price index rose by 3.9%, exceeding the Bank of Israel's target range (1%-3%). Three major factors contributed to the annual inflation: 1. The residential component – contributed a 1.3% increase. 2. The increase in taxation - contributed a 1.3% increase. 3. Energy prices - contributed a 0.9% increase.

Interest rate of the Bank of Israel: due to the financial crisis and pursuant to the trend that had started in the last quarter of 2008, the Bank of Israel continued to reduce the interest rate, which had fallen, in April, to a level of 0.5%, the lowest interest rate ever in the history of the Israeli economy. Due to higher than forecasted inflation data and an improvement in the economic position, in the last quarter of the year the Bank of Israel began to gradually increase the interest rate, to a level of 1.25%.

Exchange rate: in 2009, the shekel maintained its stability; it appreciated 0.7% against the dollar and depreciated 2.7% against the euro. It should be noted that the volatility in the exchange rate was high in 2009 and that the exchange rate of the shekel fell to a low point of NIS 3.69 per dollar before cresting at NIS 4.25 per dollar and then ending the year at NIS 3.775 per dollar.

The capital market: the steep declines that characterized the capital markets in 2008 were curbed, and 2009 was characterized by steep increases in all the leading indices, mirroring events worldwide. The TA-100 stock index rose by 88%, with stocks

in the financial and real estate sectors leading the rise.

Government bonds market: the government bonds market showed price increases in the past year. The government bonds index recorded a 5.9% rise, while the CPI-linked government bonds index recorded a 10.33% rise and the fixed-coupon unlinked government bonds recorded a 2.5% rise. In the first months of the year, when the crisis was still at its height and due to the "flight to quality" phenomenon, the yield of the ten-year unlinked bonds decreased to a level of 4.4%. Later in the year, with the improvement in the markets and government bond issuances rebounding to huge volumes (in particular in the USA), yields increased worldwide. The yield on the ten-year bonds in Israel reached a level of 5.7%. Between July and November the yields resumed their decline, but toward the end of the year, as the interest rate in Israel began rising and as yields worldwide rose, the yields in Israel resumed their rise. The yield on the ten-year bonds reached a level of 5.15% at the end of 2009. Overall, 2009 saw a low yield level explained mainly by the low levels of the Bank of Israel's interest rate. It should also be noted that over the year, the yields of long-term government bonds in Israel were traded in high correlation to the yields of government bonds in the USA.

The corporate bond market: the corporate bond market suffered quite a few shocks in 2009. Bonds of leading companies which constitute part of the TA-25 stock index, such as Africa Israel or Delek Group, were traded at yields of tens of percents. In addition, 2009 will be remembered in history as the year of debt arrangements. Bond arrangements amounted in 2009 to NIS 15 billion. The largest bond arrangement was that of Africa Israel, and amounted to NIS 7.5 billion. During the year, an extensive public debate took place about the level of involvement and the extent of influence of the institutional entities in cases where companies they had invested in encounter difficulties repaying their debts, and the level of restrictions that should be imposed on corporate bond issuances in order to protect investors.

Policy with regard to the capital market: the Ministry of Finance's involvement in the capital market in 2009 focused on support of the credit market, and in particular the non-bank credit market that, as aforesaid, was worst hit during the financial crisis in Israel. Several steps have been taken within this framework: guarantees were provided to the banking system for the purpose of funding secondary capital, private investment funds were established together with the government ("Manof funds") in order to increase the supply of non-bank credit and, especially, for the purpose of debt rollover within the framework of arrangements with bondholders, and funds were established/expanded to provide credit to small companies, medium companies and to exporters.

Government debt policy: the issuance market and the secondary market presented unprecedented challenges in 2009 with regard to the government debt policy. The focus in 2009 was on expanding and varying government financing sources, and on finding solutions that could reduce the burden on the domestic bond market. There is no doubt that the achievements of the reform in the government bond market, implemented in recent years, and the creation of a liquid and sufficiently deep market, contributed to the ability to efficiently get through 2009. It should be noted, that at the end of 2009 the volume of the debt portfolio reached its highest level ever, both in absolute terms and in relative terms. Therefore, the central issue in the sphere

of government debt management is the decrease in financing costs, while managing both existing risks and the additional risks which could arise and adapting the level of exposure and the cost structure of the debt portfolio.

Achievements in the government debt sector in 2009:

- **Debt funding in the largest volume in the government's history** – in the last quarter of 2008, the crisis in the financial markets broke out, and as a result, tax revenues fell by 30% versus the preceding quarter. After the past few years in which low deficits and even surpluses were recorded in the government budget, the growth estimate in the 2009 budget was updated to -1% and the deficit target increased to 6%. The actual government funding volume in 2009 was NIS 102 billion, of which NIS 90 billion was raised through domestic funding: regular tradable issuances, switch auctions, Green Shoe allocations for primary dealers, and the issuance of nontradable bonds. The balance (NIS 12 billion) was raised in foreign currency. Despite the large funding volumes in the domestic issue market in 2009, the total demand recorded in the auctions was even higher – face value NIS 256 billion - 4.2 times the total supply. Only in 4% of all issuances, was a cover ratio of less than 2 recorded.

- **Moderate increase in the government debt-to-GDP ratio** – this ratio is the most important measure of the country's debt burden and its financial stability. The State of Israel's budget deficit stood at 5.15% of the GDP, and despite the slowdown in the growth rate of the economy, the debt-to-GDP ratio at the end of 2009 stood at 78%, a 3% increase versus last year. In an international comparison, this is a relatively modest increase. The OECD countries average at the end of 2009 stood at 90%, and countries such as Ireland and Spain recorded a 15%-20% increase in the debt-to-GDP ratio in 2009.

- **Decrease in the government's financing costs** – the government's financing costs (ratio of total interest expenses to the debt portfolio volume) stood in 2009 at 5.0%, versus 5.2% in the previous year. The decrease in the government's financing costs was achieved despite the fact that the government debt portfolio volume increased in 2009, and despite the fact that the interest expenses in 2009 increased to NIS 33.9 billion, versus NIS 33.3 billion in 2008. The decrease in interest expenses with regard to government debt is due mainly to a consistent policy that has increased the volume of tradable domestic debt and decreased the weight of the nontradable domestic debt (mainly nontradable bonds) that is characterized by higher interest rates. Other factors that contributed to the decline in financing costs are the low interest rate and the fact that the market risk exposure policy has allotted part of the government debt portfolio to a floating interest component and part to the short-term bond component. The interest expenses on short-term debt and on debt at floating interest in 2009 were low due to the low interest rate environment. The ratio of financing expenses to GDP also decreased: from 4.6% in 2008 to 4.4% in 2009. This, despite the low growth rates resulting from the global financial crisis. The decrease in the debt-to-GDP ratio and the decrease in the ratio of financing expense burden to GDP are highly important, since this is instrumental in making financial resources available for expenditure that supports economic growth.

- **Variation in the government's financing sources** – the substantial funding volumes of 2009 were raised while ensuring variation in the government's financing sources and while refraining from using the US government loan guarantees program. Specifically, the following financing sources can be noted:

  - **Extensive use of liquidity management tools:** these tools, which were launched at the end of 2007, extensively supported the funding program of 2009, assisted in reducing the rollover risk and contributed to interest expense savings. In 2009, bonds were redeemed in the amount of NIS 53 billion, half of which was rolled over in the first quarter. Also, in 2009, NIS 13 billion was raised through switch auctions and NIS 8 billion through short-term bonds. Toward the end of 2009, when it became clear that the financing deficit would be lower than expected and that the government's liquidity surplus was high enough, an early repayment of debt in the amount of NIS 3.6 billion was effected in cash.

  - **Funding through foreign currency deposits from the banking system:** this financing source was launched in 2009 due to the special circumstances prevailing in the beginning of the year. The local banks, that reduced the exposure to counterparty risk and withdrew deposits made in foreign banks, deposited the money with the Accountant General at a significantly lower risk. In total, NIS 1 billion was raised through this financing source.

  - **Funding from the European Investment Bank:** in 2009, for the first time, the State of Israel directly utilized a credit facility granted by the European Investment Bank (EIB). The utilized amount was EUR 140 million.

  - **Funding through primary dealers:** each of the primary dealers is required to purchase 4% of the total competitive shekel issuances in the domestic market. Despite the high funding volumes in the issue market in 2009, the vast majority of the primary dealers met the purchase commitment and even more. The utilization of the option which grants eligibility for a Green Shoe allocation the day after the issuance, in a volume that increased in 2009 to up to 30%, has increased the funding through the primary dealers by an additional NIS 8.8 billion. The dealer's entitlement to use the lending facility against a deposit of liquid collateral, which was extended in 2009, has increased the volume of liquid sources at the government's disposal.

  - **Use of the State of Israel's ability to carry out sovereign issuance abroad:** the USD 1.5 billion sovereign benchmark issuance of March 2009 was the State of Israel's largest foreign currency issuance ever. The large issuance volume was due to the unprecedented demand, the need to reduce the funding burden on the domestic market, and the fact that in 2007 and 2008 the State of Israel had not carried out any issuances in the international markets.

- **An increase in the tradable debt and a decrease in the nontradable debt** – during 2009, the proportion of the tradable debt within domestic debt continued to increase while the proportion of the nontradable debt continued to contract. At the end of 2009, the tradable debt component stood at 69%, a 2% increase

from the end of 2008, while the nontradable debt component had fallen to 31% at the end of 2009.

- **Continued multi-year trend of reducing the number and enlarging the volume of tradable bonds** – at the end of 2009, 39 bond series with an average volume of NIS 7.4 billion were traded; this compares to 46 series with an average volume of NIS 5.7 billion at the end of 2008.

- **Hedging against counterparty risk through hedging transactions made under the plan for hedging against foreign currency exposure** – hedging against counterparty risk is now deemed of high importance due to the latest financial crisis. In 2009, the policy for exposure to counterparty risk was formulated and ISDA contracts, including CSA appendices, were signed with existing business partners and potential business partners. An ISDA contract arranges the rights of the parties to a hedging transaction, in the event of insolvency. A CSA appendix assures the ongoing transfer of collateral between the parties to a hedging transaction based on the market value of the said transaction, so as to prevent too substantial a loss being created in the event of insolvency.

- **Tightening of the cooperation and increase of the level of consultation with the Bank of Israel on issues related to the government bonds and short-term deposits market** – in most economies worldwide, the government operates in the issue market while the central bank does not manage the monetary policy in this market, other than through open market operations in the secondary market. In Israel, the Bank of Israel issues short-term loans ("Makam") and maintains a dominant presence in the short section of the yield curve in the primary market. Toward the end of 2009, a memorandum of understanding was formulated with the Bank of Israel on issuances for periods of up to a year. The document, which was completed in the first weeks of 2010, takes into consideration the Bank of Israel's independence in managing monetary policy, vis-à-vis the Ministry of Finance's need to issue short-term bonds in order to improve the government's cash flow management. According to the memorandum of understanding, the government may issue an inventory of short-term bonds in the amount of NIS 16-18 billion. This will allow it to maintain a constant presence in the short section of the yield curve and make optimal use of short-term bonds that provide a high level of financing flexibility at low cost. In 2009, the Bank of Israel initiated a plan for the purchase of government bonds in the secondary market, at relatively high volumes (NIS 18 billion). The plan was initiated in consultation with the Government Debt Management Unit, and some of the Bank of Israel's bond purchases were affected through the primary dealers.

- **Continued increase in the liquidity and in the depth of the secondary market of government bonds** – despite the sense of crisis which prevailed at the beginning of the year, the secondary market of government bonds maintained continuous, wide scale activity, so that in practice and regardless of the background conditions, there were always buyers and sellers in the market. The average daily turnover of government bonds in the different arenas continued to increase in 2009 to a level of NIS 3.46 billion, versus NIS 3.35 billion in 2008. This is currently one of the most tradable assets in the capital market. At the same time, in 2009 the primary dealers increased their commitment to the liquidity level in the

government bonds market. Today, more bonds are traded in the primary dealers' arena (MTS) than ever before, and in larger volumes than ever. The average daily turnover, which declined to low levels during 2007 and in the first part of 2008, increased in 2009 to an average of NIS 360 million per day.

Challenges in managing the government debt in 2010:

- **Efficient management of government debt following the huge funding volumes of 2009 and in view of the uncertainty toward 2010** – in 2009, the nominal debt increased to NIS 596 billion, from NIS 547 billion at the end of 2008. In addition, in 2009, the government increased its cash balances to a level of NIS 21 billion. This was due to the high uncertainty prevailing in 2009 as to the volume of tax revenues, as well as being in preparation for the highest ever redemption volume, which is expected in 2010 (NIS 62 billion), 70% of which is expected in the first half of the year. The deficit in the 2010 budget is at a level similar to that of 2009 – 5.5%. The challenge in 2010 is the implementation of a funding plan, which, if the scenarios for an increase in the growth rate and in tax revenues in 2010 are realized, will make proper use of the government's liquid balances and of the liquidity tools at its disposal. This, in order to correct to the greatest extent possible, the negative outcomes of the extensive funding of the previous year, and in particular the debt-to-GDP ratio. On the other hand, the funding plan will need to maintain its flexibility and to take into account less positive scenarios, which could lead once again to an increase in financing needs, since the global crisis is not over, and many countries face difficult challenges, having increased their government deficits to an unprecedented extent in 2010.

- **Development of repo market and additional markets for derivatives on government bonds** – 2008 saw the completion of the joint work of the various regulators, the Tel Aviv Stock Exchange and the banking system toward the development of a market for repo transactions in government bonds. A trading market for repo transactions was opened at the end of the first quarter of 2009 on the Tel Aviv Stock Exchange. The expanding monetary policy implemented during 2009 and the high liquid balances of most of the players in the capital market, reduced the motivation to trade in this market. The challenge for the coming year is to develop the activity in the repo market, alongside additional markets for derivatives on government bonds. This is desirable since global experience has shown that derivative markets, and in particular a liquid repo market, improve the tradability of the securities used as an underlying asset for the transaction.

- **The State of Israel's credit rating** – in February 2008, the credit rating agency Fitch upgraded the Israeli government's credit rating to "A". In April 2008, the credit rating agency Moody's upgraded Israel's credit rating to "A1". In October 2008, S&P confirmed the "A" credit rating that it had given to Israel in November 2007. In 2009, despite the financial crisis and despite an unprecedented number of credit ratings lowered worldwide, the three agencies confirmed the State of Israel's credit rating. The challenge for the coming year is to stress the manner in which the Israeli economy has come through the crisis, and its absolute advantages and relative advantages compared to the rest of the world, in order to continue raising Israel's credit rating.

- **Management of the trade-off between cost and market risk in the government debt portfolio** – expanding the scope of government financing in the past two years has increased the government debt portfolio to an unprecedented volume of NIS 596 billion. As a result, the government's financing costs burden increased, as did the exposure of the government debt to market risks. Consequently, it is important to focus in the coming years on the correct management of the trade-off between cost and market risk in the government debt portfolio.

- **Broadening the investor base in the domestic market** – 2009 saw a slight increase in the volume of the holdings of foreign investors in tradable government bonds, with this reaching a level of 3.0%. This notwithstanding, the involvement of foreign investors in the domestic bonds market is too low by any measure, and it is important that it be raised. Although the current financial crisis has proven for several countries that too much involvement by foreign investors can reduce the stability of the local capital market when the investors withdraw all at once, given the low volume of the holdings in the Israeli market there is still high potential for expanding the investor base and improving the liquidity level of the local tradable debt.

This report covers all activity performed by the Debt Management Unit in 2009 and provides a detailed description of the debt position. Section B provides a general outline of the goals of the government debt management policy. Section C reviews activity in the primary market, including normal issuances activity and activity intended to support management of the government's cash flows. This section also contains a review of the State of Israel's credit rating. Section D details developments in the secondary market. Section E presents details of the existing debt position in various breakdowns.

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Section B

Goals of the Government Debt Management Policy

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The government risk management policy has two main objectives:

1. Reducing costs.

2. Reducing the risk level.

The implementation of these objectives is expressed through the volume of financing expenses in the state budget (the interest budget) and through the volume of liabilities on the national balance sheet (reducing the debt-to-GDP ratio).

Since the effectiveness of public policy is also often assessed according to the consistency of its results, the reduction of volatility is also of primary importance:

1. The interest budget is the second largest component in the state budget after the security budget, and the most important from the aspect of the prioritization of payments, since it is inconceivable that a sovereign state would fail to meet its financial obligations. The interest budget is exposed to changes in the consumer price index, to changes in exchange rates and to changes in the level of interest rates. Any slight change in the size of the interest budget will push aside other components of the state budget and therefore the volatility tolerance level of this variable is low.

2. The debt-to-GDP ratio requires that its downward movement be continued, and that the change trend not alter direction from one year to the next. Maintaining a downward trend in the debt-to-GDP ratio supports the holding of expectations with regard to the State of Israel's ability to meet its future financial obligations.

All the secondary goals of the government debt management policy are intended to serve the primary objectives described above. For example: secondary goals that deal with the tradability of the debt and increasing the liquidity of the tradable debt are intended to support the reduction of the government's financing costs; this is due to the fact that interest on tradable, liquid debt is lower than the interest on nontradable debt. A further example: secondary goals that deal with the reduction of the exposure of the state's liabilities portfolio to market risks are intended to reduce volatility in the interest budget and the debt-to-GDP ratio; this is due, for instance, to the fact that in years in which there are sharp changes in the rate of the shekel against foreign currencies, sharp changes will also occur in the rates of interest paid on bonds denominated in foreign currency and, consequently, in the interest budget. Furthermore, sharp changes will also occur in the balance of the principal of the bonds denominated in foreign currency and, consequently, in the debt-to-GDP ratio.

Nevertheless, it should be noted that the debt management policy sometimes also expresses other policy goals, which reflect the fact that the State of Israel, in addition to being the largest issuer on the Israeli capital market, also has a responsibility as a sovereign state. An example of this is the issuance of nontradable bonds to pension funds, which serve pension security goals for the benefit of the state's citizens. A

further example: making an issuance at every point along the length of the yield curve in Israel and overseas, in order to create a benchmark for the business sector.

Among the secondary goals of the domestic government debt management policy, the following should be noted:

1. Enlarging the tradable component.
2. Increasing the liquidity of the tradable component, particularly by reducing the number of series that are issued and increasing the volume of each series.
3. Enlarging the fixed-coupon NIS component and reducing CPI-linked components, foreign-currency-linked components and floating interest components.
4. Funding by means of series at internationally accepted benchmark terms to maturity.
5. Expanding the yield curve and making issuances at terms to maturity that can also serve as a benchmark for the business sector.
6. Smoothing out the future redemptions curve.
7. Enhancing the sophistication of the government bonds market and developing derivative markets.
8. Enhancing transparency and increasing the level of certainty.

Among the secondary goals of the foreign currency denominated government debt management policy, the following should be noted:

1. Broadening the investor base and lightening the burden on the domestic market.
2. Exposing the Israeli economy to foreign investors.
3. Creating a benchmark for overseas issuances of Israeli companies.
4. Managing the foreign-currency exposure which was created by the portfolio of liabilities from overseas funding.
5. Improving the credit rating of the State of Israel to the greatest extent possible and reducing the risk premium of the State of Israel overseas.

The secondary goals detailed above are reflected in the bonds issuance plan. In particular, the publication of the bonds issuance plan for the domestic tradable market is intended to define the level of transparency and to increase the level of certainty in relation to the government's future activity in the government bonds sector. The quarterly bonds issuance plan sets forth the total volume of funding in the coming quarter, while the monthly bonds issuance plan sets out the funding mix for the coming month. The bonds issuance plan also reflects tactical considerations, which mainly result from the matching of the government's applications to the

volume of its sources. The government's applications are the state budget deficit and redemptions of principal. The government's sources are domestic tradable funding, domestic nontradable funding (pension funds, insurance companies, and emissions), foreign-currency funding (sovereign issuances, State of Israel Bonds, guarantees) and income from the privatization of assets. Other tactical considerations that are taken into account are the mix of issuances which deal with the prices of the funding ratios between the various linked sectors and over the length of the yield curve, and which deal with the capital market's forecasted demand curve for government bonds.

Section C

The Primary Market

Funding in the Tradable Domestic Market

In 2009, tradable domestic debt funding totaled NIS 82 billion, versus funding totaling NIS 65.8 billion in this segment in 2008. Tradable domestic funding through unlinked bonds totaled NIS 49.1 billion. Funding through fixed-coupon CPI-linked bonds totaled NIS 24.8 billion.

Table C-1

Principal funding and redemptions in the tradable bond market, 2009

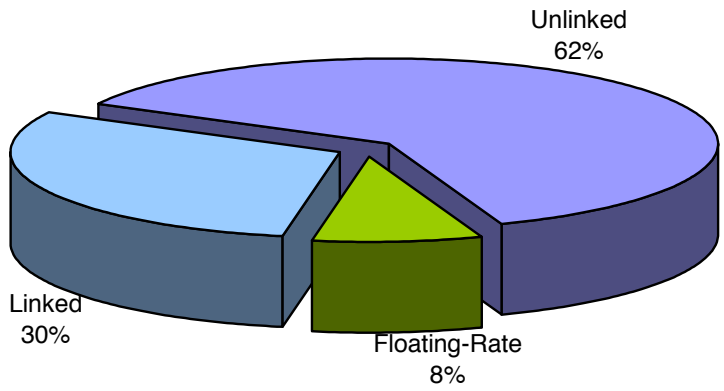
Linkage segment	Principal funding*		Principal redemptions		Interest payments		Net funding
	In NIS millions	In % of total	In NIS millions	In % of total	In NIS millions	In % of total	In NIS millions
Fixed Coupon Unlinked Bond	42,688	52.05	17,953	46	7,806	57	16,929
Floating-Rate Unlinked Bond	6,432	7.84	7,703	20	681	5	(1,952)
CPI-Linked Bond**	24,785	30.22	5,144	13.28	5,141	37.71	14,500
Foreign-currency-linked bond	-		-		7	0.05	(7)
Short-Term Government Bond	8,115	9.89	7,946	20.51	-	-	169
Total	82,020	100.00	38,746	100.00	13,635	100.00	29,639

* The amount of funding includes issuances with the framework of switch auctions and Green Shoe allocations.

** The amount of principal redemptions and interest payments in CPI-linked bonds includes the linkage component.

Diagram C-1

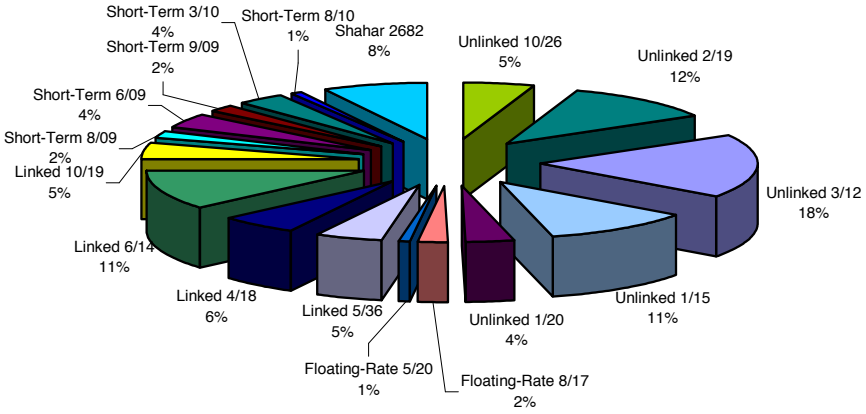
Distribution of tradable funding in the domestic market by segment, 2009*



* Including Green Shoe allocations and switch auctions.

Diagram C-2

Distribution of funding by bond, 2009*



* Excluding Green Shoe allocations.

In 2009, continuing the policy followed in recent years, funding focused on a limited and selected number of bonds. In particular, the number of issuances of benchmark bonds (linked and unlinked) at various terms to maturity was expanded. Within the framework of this policy:

1. 75% of the total funding was carried out in the unlinked and linked benchmark bonds for the different terms to maturity (3, 5, 10 years).

2. 10% of the total funding was carried out in the long-term bonds (over 10 years) – Government Bond 10/26 and Linked Government Bond 5/36.

3. 3% of the total funding was carried out in two floating rate government bonds.

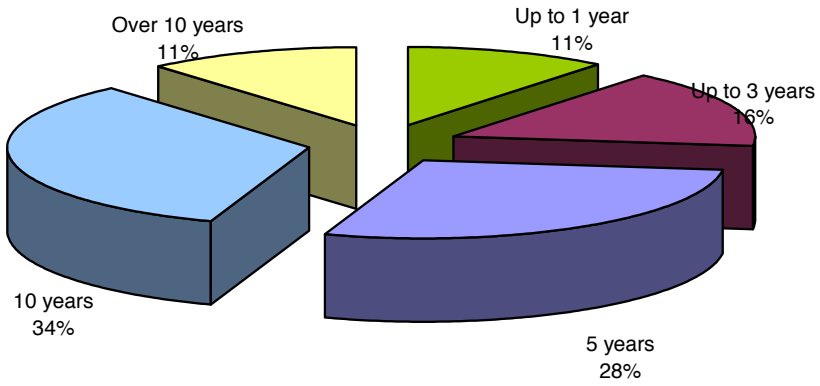
4. 13% of the total funding was carried out in five short-term government bonds (with terms to maturity of up to a year) as a bridging tool to finance the high redemption volume and the relatively high deficit, mainly at the beginning of the year.

During 2009, three new benchmark bonds were issued: Government 1/15, Government 1/20, and Linked Government 10/19.

This policy is expected to continue in 2010, subject to macro-economic conditions and subject to the other variables that affect decision making with regard to the issuance mix.

Diagram C-3

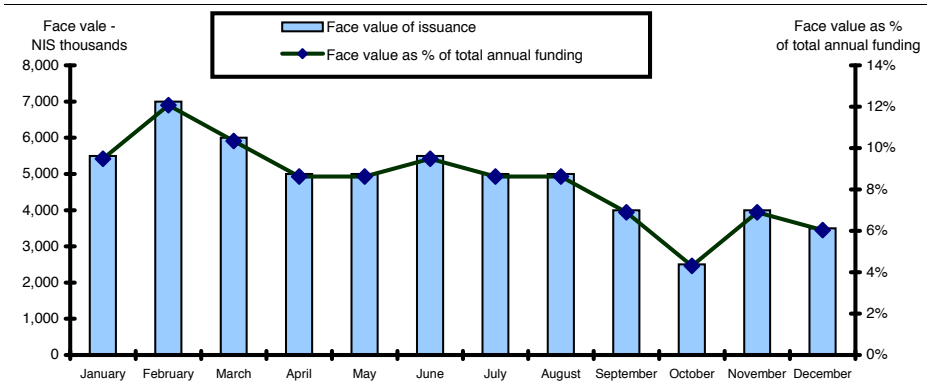
Distribution of funding by terms to maturity, 2009*



* Including Green Shoe allocations and switch auctions.

Diagram C-4

Distribution of funding of annual tradable domestic debt, 2009*
(face value in NIS thousands, in percentages)

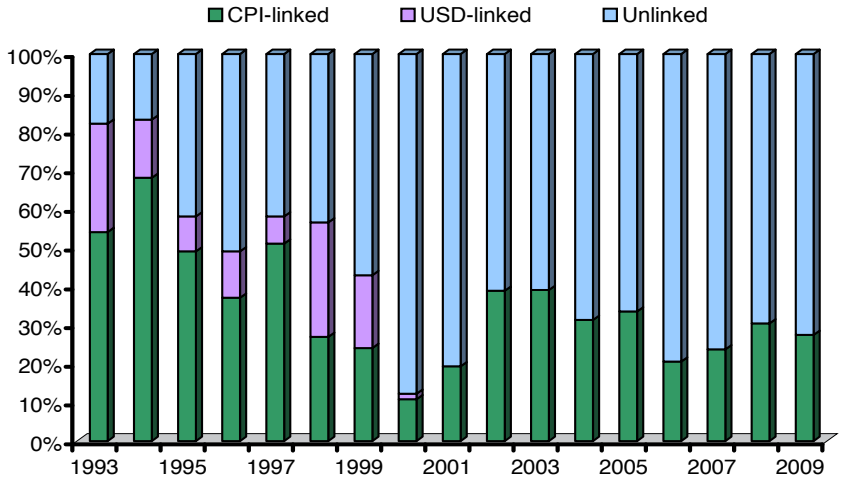


* Excluding Green Shoe allocations and switch auctions.

At the beginning of 2009, the number of monthly issuances was very large, and was in line with the expectation of an annual budget deficit of 6% and with the high redemption rate. Within the framework of the funding, relatively substantial use was made of short-term bonds as an aid in cash flow management.

Diagram C-5

**Distribution of tradable domestic funding by segment, 1993-2009*
(in percentages)**



* Including Green Shoe allocations.

Unlinked bonds comprised 73% of total tradable gross funding in 2009, versus 70% in 2008, and the linked bonds comprised 27% of total tradable gross funding in 2009, versus 30% in 2008. The unlinked bonds comprised 54% of total net funding in 2009, and the linked bonds comprised 46% of total net funding. The relatively high proportion of the linked bonds in the total net funding matched the high demand in the market for such bonds (mainly due to the high inflation). In 2009, the inventory of linked debt out of the total tradable debt increased slightly (refer to diagram E-7).

Summary of data on tradable bonds issued, by auction, in 2009 (including Green Shoe allocations)

The following graphs provide information regarding quantities issued, yields and cover ratios of benchmark and other bonds for each one of the auctions that were carried out during the year.

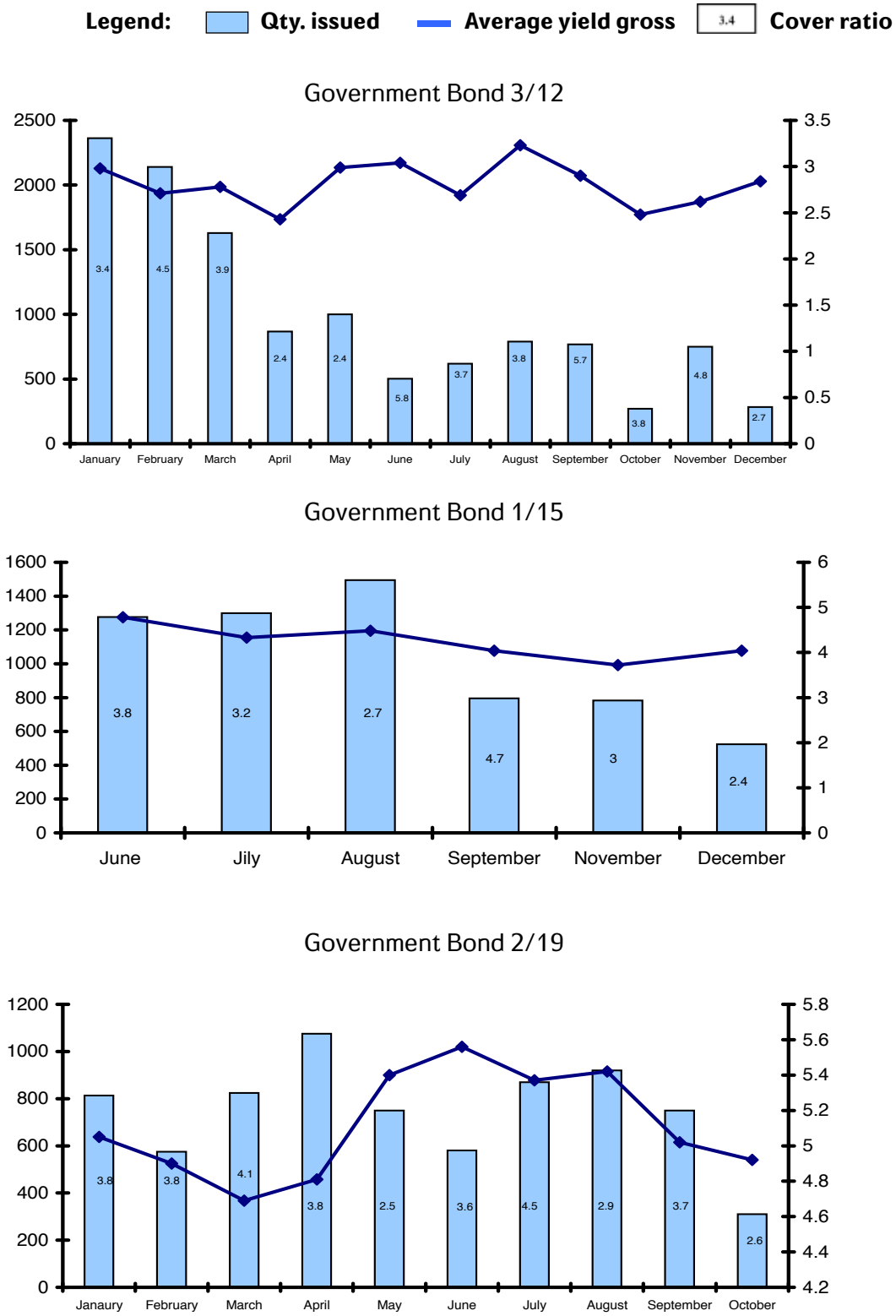
The cover ratio is calculated by dividing the quantity in demand by the quantity issued. Generally, the greater the quantity issued, the lower the cover ratio. This is mainly due to demand curve limits for government bonds. Other factors which affect cover ratios are:

1. Prices and conditions in the domestic markets.
2. Conditions in world markets.
3. The number of primary dealers involved in each issuance.

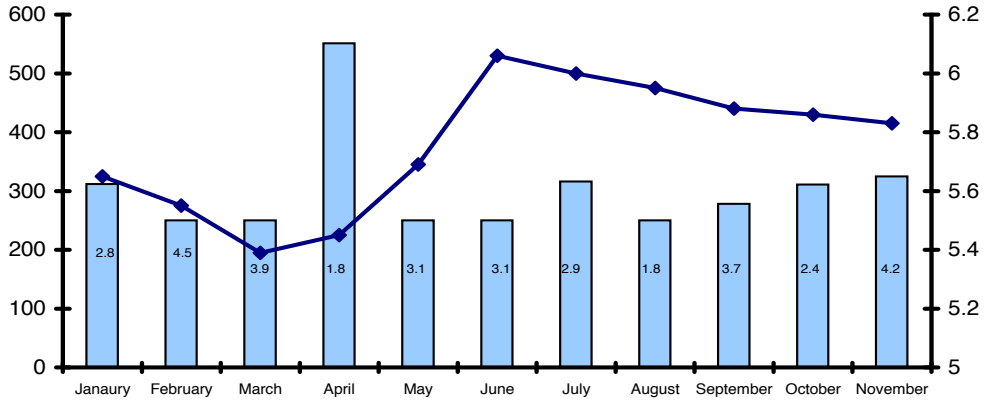
The financial crisis and the large funding volumes in 2009 have placed a great challenge before the Government Debt Management Unit. The graphs below show that, despite market conditions, the primary market has shown stability and resilience, which are reflected, inter alia, in the high cover ratios throughout the year – the average cover ratio for all issuances stood at 4.2, and less than 4% of the issuances closed with a

cover ratio of less than 2. The total cover ratio is high, especially for a period in which economies, even the most developed ones, found it difficult to close issuances (thus, for example: in March 2009, Britain was not able to close the issuance of a 40-year bond). Another indication of market robustness is the spread between the average yield in issuances and market yield. In 2009, the annual average spread stood at less than one yield point above the market.

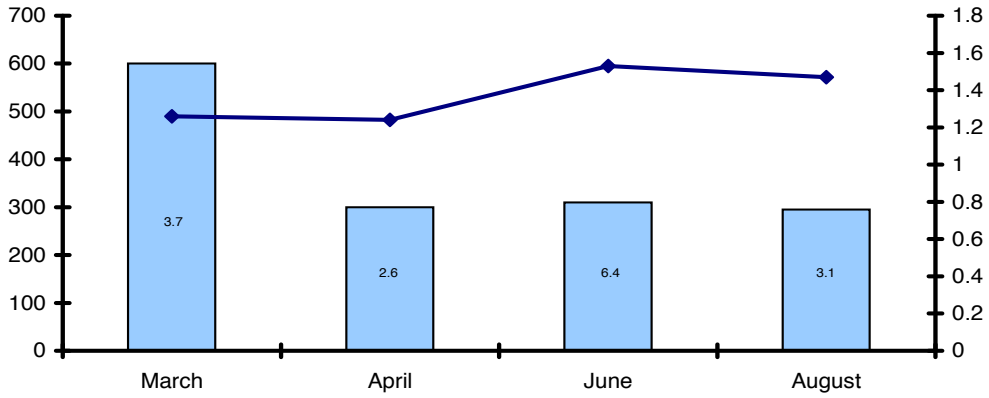
Diagram C-6



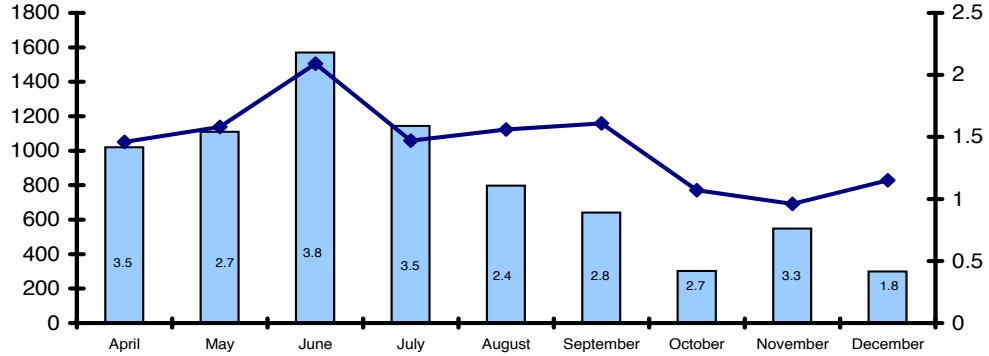
Government Bond 10/26



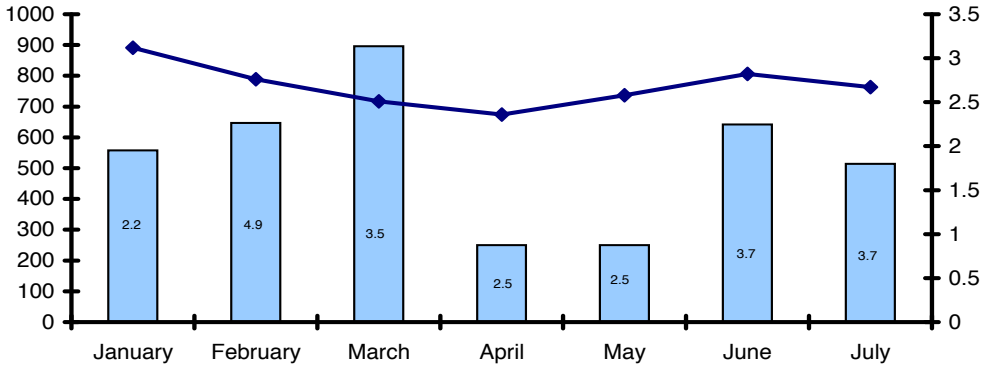
Floating-Rate Government Bond 8/17



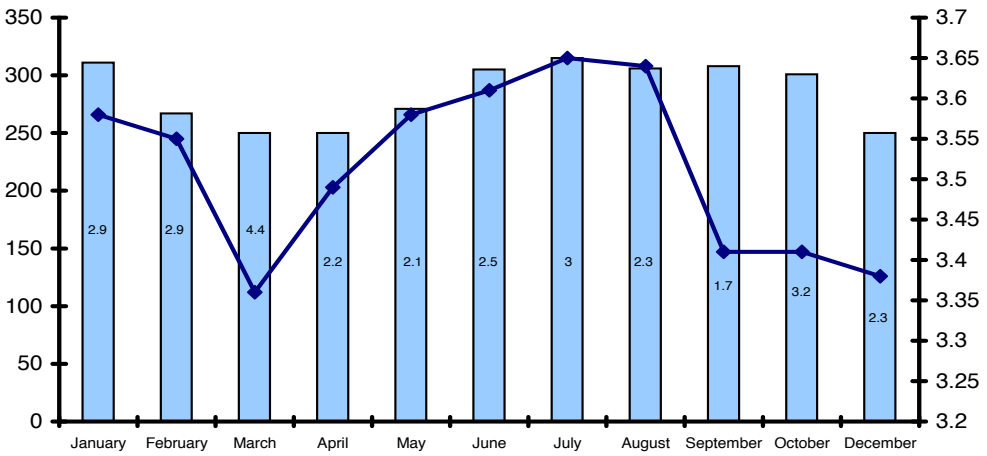
Linked Government Bond 6/14



Linked Government Bond 4/18



Linked Government Bond 5/36

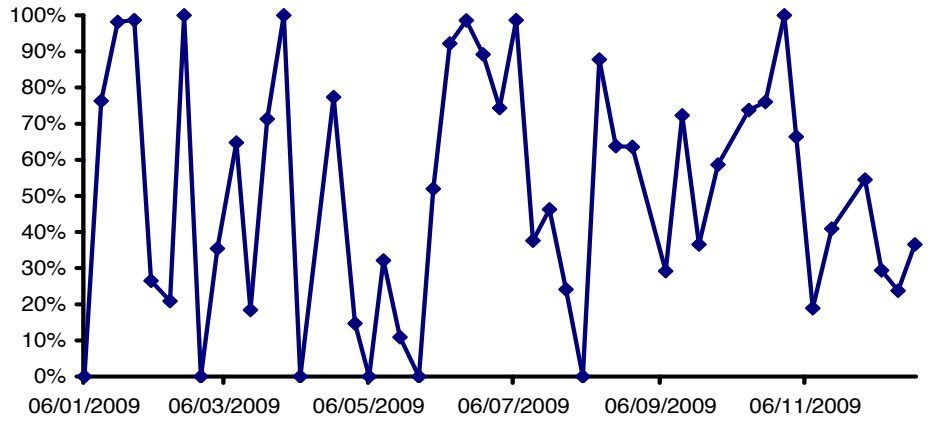


Green Shoe allocations

Within the framework of the Green Shoe allocations, the primary dealers who won the competitive tender may purchase, in the 24 hours after its closing, an additional amount to that already purchased by them, at the average auction price. In 2008, in order to support the secondary market, it was decided to link the additional quantity which dealers are allowed to buy with their performance in the secondary market, in a way that the dealers rated in the first places in the monthly ranking will receive a higher additional quantity. In 2009, as part of the Unit's policy to improve and enhance the secondary market in the MTS system, it made several changes in the way the Green Shoe allocations are calculated. The three dealers ranked first are currently entitled to an additional quantity of 30% of their total purchases, the three dealers ranked last are entitled to 10% and the rest are entitled to 20% of their total purchases.

Diagram C-7

Percent actual purchases in Green Shoe allocation auctions, by auction, 2009 (in percentages)



The main reason for purchase/non-purchase in Green Shoe allocation auctions is the price of the relevant bonds on the TASE at the time nearest the closing of the Green Shoe allocation: if the market price is higher than the average price established in the auction, there is a high probability that primary dealers will purchase the additional quantity in the Green Shoe allocation, and vice versa.

It can be seen that out of the purchases made within the framework of the Green Shoe allocations, 57% were made in the first half of the year.

The total annual purchases in Green Shoe allocations in 2009 was NIS 7 billion face value, which represent 50% of the total quantity offered in the Green Shoe allocations.

Switch auctions

In 2009, the Unit continued funding through switch auctions. A total of NIS 13 billion face value was issued within the framework of these auctions.

The main objectives of the switch auctions are:

1. To more efficiently manage government cash flows, particularly with regard to mitigating debt-rollover risk.
2. To increase the certainty and stability of the monthly funding plans.
3. To manage the mix of the current debt inventory in accordance with long-term policy.
4. To enhance tradability and liquidity.

Switch auctions will continue to be used by the Unit as a liquidity tool in 2010, too.

The following diagram presents the balances of bonds issued in the switch auctions at the beginning and at the end of the year, while noting the rate decrease of the series through the auctions.

Diagram C-8

Details of the switch auctions in 2009, by bond (NIS thousands, percentages)

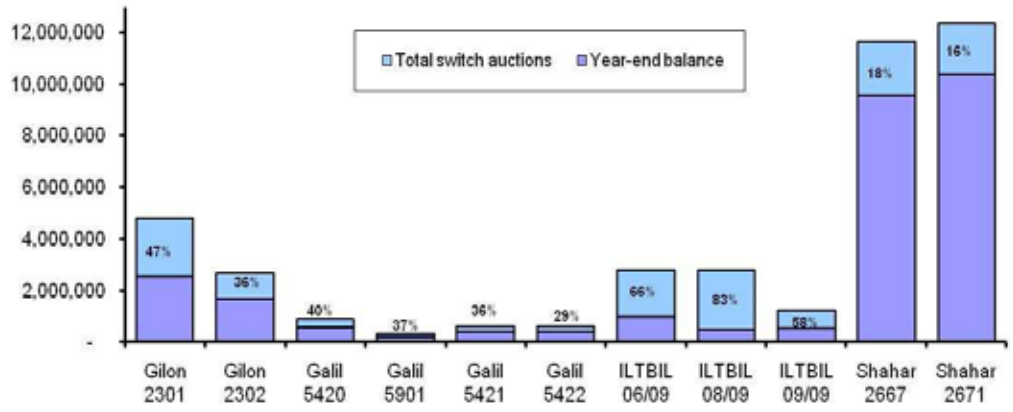


Table C-2

Distribution of early redemptions by redemption month (NIS thousands)

Redemption date	Purchased bond	Balance at beginning of the year	Balance for redemption	Total switch
2/2009	Shahar 2671	12,324,745	10,367,004	1,957,742
3/2009	Gilon 2301	4,783,742	2,519,321	2,264,421
Q1-2009		17,108,487	12,886,324	4,222,163
6/2009	Galil 5420	900,000	541,890	358,109
6/2009	ILTBIL 06/09	2,789,945	953,923	1,836,022
Q2-2009		3,689,945	1,495,813	2,194,132
7/2009	Galil 5901	305,953	193,195	112,758
8/2009	ILTBIL08/09	2,787,102	471,040	2,316,062
9/2009	Galil 5421	608,263	390,519	217,744
9/2009	ILTBIL 09/09	1,198,200	502,562	695,638
Q3-2009		4,899,519	1,557,316	3,342,203
11/2009	Gilon 2302	2,649,997	1,683,661	966,336
11/2009	Galil 5422	581,961	410,848	171,113
Q4-2009		3,231,958	2,094,509	1,137,449
1/2010	Shahar 2667	11,634,160	9,536,309	2,097,851
				12,993,797

Reverse Auctions

With effect from October 2008, the Debt Management Unit began making use of reverse auctions in order to perform early redemption of tradable government bonds. Within the framework of these auctions, the Unit transfers a monetary payment against the bonds being redeemed. This is different to the mechanism in switch auctions, wherein the bonds that are being redeemed are exchanged for other bonds.

The main objective of the reverse auctions is the more efficient management of government cash flows by means of:

1. Mitigating debt rollover risk.
2. Saving interest expenses.

During 2009, two auctions took place in which a total of NIS 3.7 billion was redeemed.

Table C-3

Details of reverse auctions, 2009*

Bond Purchased	Years to Original Maturity	Quantity Purchased (Face Value)	Quantity Purchased (NIS millions)
Shahar 2667	5	3,271	3,462
Galil 5423	15	138	246
Total			3,708

* Including Green Shoe allocation.

Funding in the Nontradable Domestic Market

Nontradable domestic funding totaled NIS 8.4 billion in 2009. This funding includes the following instruments: nontradable bonds for pension funds ("Arad"), nontradable bonds for insurance companies ("Chetz"), and emissions managed by the Ministry of Finance and compulsory loans managed by the Bank of Israel.

This year, nontradable "Arad" bonds in the amount of NIS 4.3 billion were issued to pension funds. Due to the continuing implementation of the reform in pension funds, no nontradable "Miron" bonds were issued at all in 2009.

In the coming years, only new, relatively small funds with high growth rates will be able to purchase nontradable bonds. This is due to the continuation of the reform that sets a limit on such purchases, whereby the proportion of nontradable bonds in the fund's asset portfolio is not to exceed 30%. Total net funding in 2009 in nontradable bonds for pension funds was negative, in the amount of NIS 3.9 billion.

The volume of issuances of CPI-linked "Chetz" bonds to insurance companies increased slightly from the previous year and amounted to NIS 3.6 billion (versus NIS 3.1 billion in 2008). The amount of net funding in nontradable bonds for insurance companies was NIS 1.3 billion in 2009.

Funding through emissions managed by the Accountant General Division amounted to NIS 494 million. Total net funding in this segment was negative in the amount of NIS 241million.

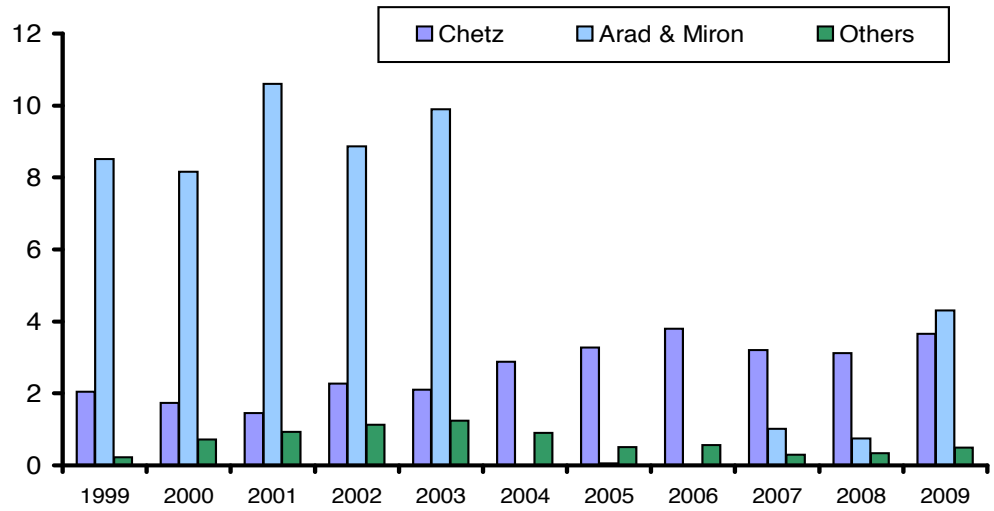
Table C-4

Funding and redemptions in nontradable debt, 2009

Funding segment	Principal funding		Principal redemptions		Net funding
	NIS millions	% of total	NIS millions	% of total	NIS millions
"Arad" & "Miron"	4,312	51	8,310	73	(3,998)
"Chetz"	3,659	43	2,271	20	1,388
Others	494	6	735	7	(241)
Total	8,465	100	11,316	100	(2,851)

Diagram C-9

Composition of nontradable funding, 1999-2009 (NIS billions)



Funding in Foreign Currency

Tradable sovereign benchmark Issuances

In March 2009, the Israeli government issued ten-year bonds in the Global Market (the issue market that is subject to US regulation), in the amount of USD 1.5 billion, with a yield spread of 262.5 basis points above an equivalent US government bond, which is equivalent to a spread of 237 basis points over the swap curve. This is the largest issuance ever carried out by the Israeli Government independently in world markets in general and in the Global Market in particular. This issuance marked Israel's return to the dollar market after an absence of almost 3 years (the previous issuance was carried out in November 2006). The issuance was led by the Deutsche Bank, Goldman Sachs and Citibank investment houses.

The timing of the issuance was chosen due to the decline in the interest rate of the US government (which is the benchmark interest), and in view of the stability in the spreads of Israeli government bonds in the secondary markets, despite the global economic crisis. Additional factors that supported the decision to carry out the issuance at the chosen time were indications of investor demand for the bonds of

countries in Israel's peer group on the one hand, and the absence of competing supply from these countries on the other hand. The issuance has proven the robustness of the Israeli economy despite the economic crisis, and the trust of foreign investors.

The decision to carry out the issuance despite the available funding alternatives in the domestic market or under the guarantees program enhanced the message that the Israeli economy is stable, and that Israel issues in the global market because it wants to establish its presence in the global financial markets and to open up funding options for Israeli companies.

The starting point for pricing the bond was the level of the spreads in the secondary market of the recent issuances carried out by Israel, as well as the risk price of the State of Israel (CDS). The issuance was carried out with the expectation for 287.5 basis points over the US government's ten-year treasury bonds. This expectation was based on the underwriters' assessment of investor demand and while taking into account the accepted new issue premium. As aforesaid, in practice the issuance was closed at a spread that was 25 basis points lower than originally planned.

The bond attracted extraordinary demand amounting to NIS 12 billion by 300 investors from 14 countries. This demand is the highest ever recorded in an Israeli government issuance abroad.

Public Issuances Backed by U.S. Government Guarantees

In April 2003, the U.S. Congress approved a grant of guarantees to the Israeli government for the purpose of funding abroad, in the amount of USD 9 billion face value, for three years. Bonds issued by the Israeli government and backed by U.S. government guarantees enjoy a credit rating similar to that of the U.S. government (AAA); in fact, the bonds are sold at a yield that is only slightly higher than the yield of U.S. government bonds.

In 2005, the program was extended until 2008, and in 2006 it was extended until 2011, with a carryover option in 2012. The U.S. government provides a full guarantee for principal and interest payments of bonds issued by Israel under the auspices of the program.

Israel issued bonds with a face value of USD 4.1 billion through the guarantees program in 2003-2004 (years of substantial deficits in the country's budget). The Israeli government has not used the guarantees program since November 2004. At the end of 2009, the unutilized balance within the framework of the program amounted to USD 3.8 billion.

Despite the financial crisis and the substantial funding needs, the guarantees program was not utilized in 2009. Contrary to the financial crisis at the start of the millennium, the substantial funding volumes of 2009 relied mainly on the existing financing segments, such as issuances in the domestic markets, sovereign issuances abroad, the Bonds Organization etc. The US guarantees program is used by the Israeli government as a financing "safety cushion" and there is no intention of using it other than in the case of real financing need. The preservation of the guarantees and not the use thereof, is

a strategic goal of the debt management, since it has a positive effect on the State of Israel's access to the international markets.

On June 29, 2009, the JEDG (US – Israel Joint Economic Development Group), the committee responsible for providing the guarantees to the Israeli economy, met in Washington. Within the framework of its role, the committee sets economic goals for the Israeli economy which are a condition for granting the guarantees, and supervises the achievement of these goals. In the aforesaid meeting, the committee confirmed that the Israeli market has complied with the conditions set for the years 2008-2009, and the program framework was accordingly confirmed for the coming years. On December 15, 2009, another meeting of the committee took place in Jerusalem, in which it set the conditions for renewal of the guarantees for the years 2010-2011.

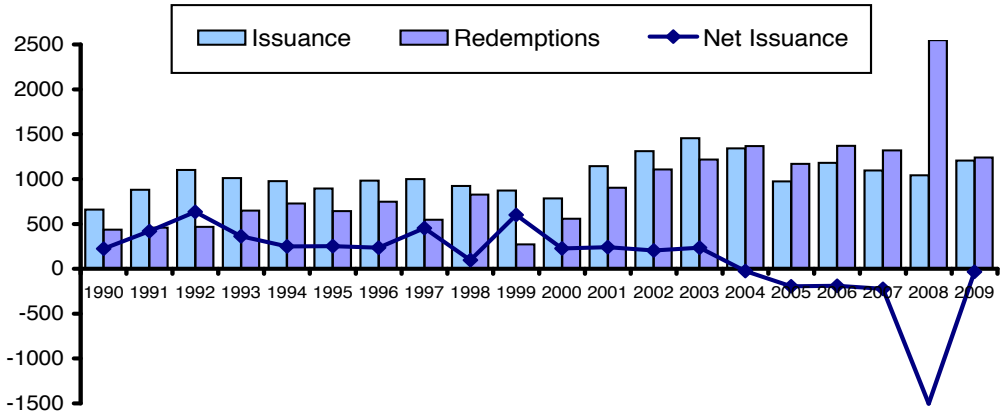
Summary of Funding through the Israel Bonds Organization

The Israel Bonds Organization raised USD 1,205 million in 2009. This amount is 20.5% higher than the annual funding target of USD 1 billion, and represents an increase of 15% in the Organization's sales volume versus 2008. Total net funding through the Israel Bonds Organization in 2009 stood at a negative USD 34 million. This is the sixth consecutive year that the Organization has raised less than the amount of its redemptions, with this being in accordance with the policy to reduce foreign-currency debt.

Diagram C-10

Issuance and redemption volumes of the Israel Bonds Organization, 1990-2009

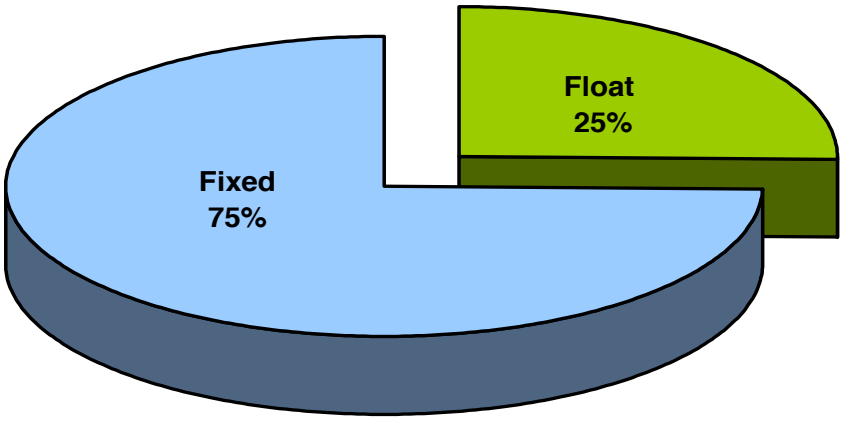
(in USD millions)



In 2009, 75% of the Organization's funding came from using fixed-coupon instruments, while the remainder was from floating rate instruments. It can be seen that the fixed-coupon proportion of the issuance has increased compared to 2008, when 58% of the Organization's funding was performed using fixed-coupon instruments, while the remainder was at floating rates.

Diagram C-11

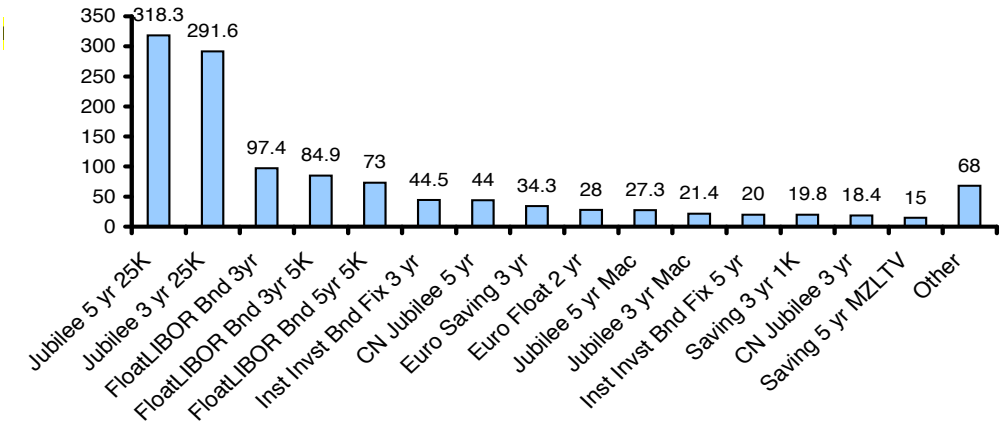
Distribution of Israel Bonds Organization funding, by interest type



Funding instruments - the significant sales in 2009 were in the two-year, three-year and five-year "Jubilee" bonds, which comprised 50.6% of total sales, versus 43% in 2008. Sales of the zero coupon saving bond comprised 7.9% of total sales, versus 13% in 2008.

Diagram C-12

Distribution of Israel Bonds Organization sales, by funding instrument, 2009 (in USD thousands)



Currency distribution – The U.S. dollar still constitutes the principal funding currency of the Organization - 87.3% of the total funding, versus 92% in 2008. Funding in Canadian dollars comprised 6.3% of sales for the year, versus 4.3% in 2008. An increase was posted in sales in euros – 6.4%, versus 4.1% in 2008.

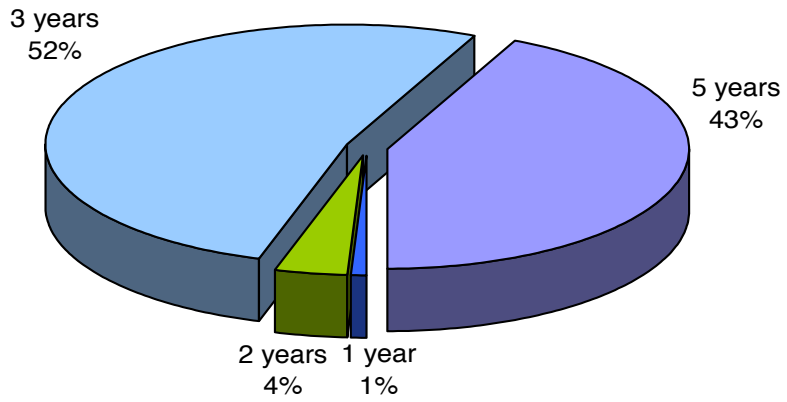
Distribution of funding by term to maturity – During 2009, the average term to maturity of bonds sold by the Israel Bonds Organization stayed at a low level of 2.6

years; this compares to 2.7 years in 2008, 2.3 years in 2007, 4.1 years in 2006 and 7.3 years in 2005.

In 2009, 52.3% of the funding was in bonds with terms to maturity of three years, 43% of the funding was for terms to maturity of five years, and 4.6% for terms of one and two years.

Diagram C-13

Distribution of sales of the Israel Bonds Organization by range, 2009



Development of spread – The average interest spread in the Israeli government's funding through the Israel Bonds Organization in 2009 was 105 basis points over US government bonds (factoring in all instruments). This is the current spread excluding any overhead loading. Funding through the Israel Bonds Organization is priced based on the current spread that does not exceed the alternative funding cost of the State of Israel in foreign currency, and in particular does not exceed the cost of sovereign issuances traded in the secondary market.

Geographical distribution – Sales in the United States continued to be dominant in 2009, standing at 55% (versus 57% in 2008). Sales in Europe decreased relative to 2008 (13.9%) and comprised 12%. 22.5% of the bonds were sold in Latin America, versus 20.8% in 2008; 9% of sales were in Canada, versus 8% in the previous year.

Diagram C-14

Geographical distribution of sales of the Israel Bonds Organization, 2009

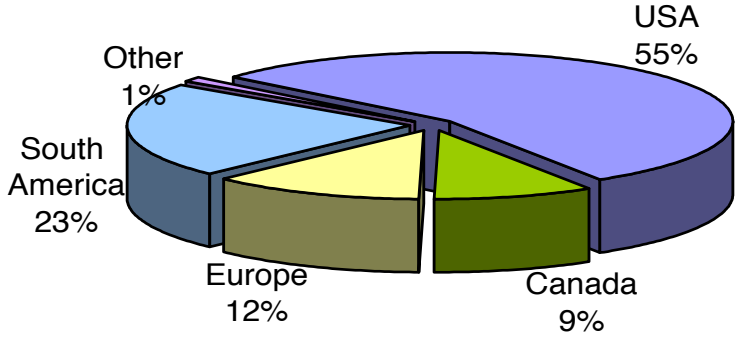
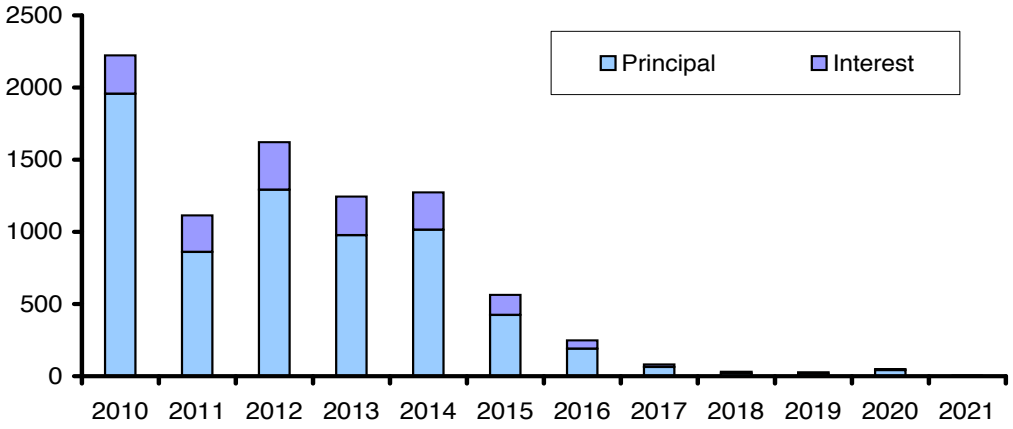


Diagram C-15

Israeli Bonds Organization Bonds: Redemptions of principal and interest payments (in USD millions)(as of December 31, 2009)



The State of Israel's Credit Rating

General

The credit rating is an estimate of the level of risk inherent in an investment and of the issuer's ability to meet his liabilities.

In the process of determining a country's credit rating, rating agencies examine numerous parameters, according to several categories, including: political risk, fiscal stability, fiscal flexibility, monetary stability, and external stability. Each parameter is measured by comparison to countries with similar ratings – its "peer group." Israel's peer group mainly consists of medium-sized economies, most of which are peripheral European countries: Poland, Hungary, Greece, Cyprus, the Czech Republic, Estonia, Latvia, Lithuania, and Slovakia. Other countries in Israel's peer group are Chile, Hong Kong, South Africa, South Korea, and Malaysia. At the end of 2009, Israel's peer group also includes Western European countries, such as Portugal and Ireland.

In the past, governments' credit ratings also served as a "ceiling" for the credit rating of local companies; in other words, local entities in a particular country could not obtain a higher credit rating than their government. In recent years, some rating agencies have started to separately rate the "country ceiling," which denotes the highest potential credit rating attainable by local entities within the country. In many cases, particularly against the background of globalization processes, the country ceiling is higher than the government's credit rating, so that the government's rating does not represent a barrier to local entities. Nonetheless, the government's credit rating clearly has an influence on and is highly correlated with local credit ratings, and is of great importance for the economy as a whole.

The Credit Rating of the State of Israel in 2009

In 2009, the State of Israel's rating was confirmed by the three large international rating agencies – Moody's: A1 Stable, S&P and Fitch: A Stable.

These three agencies published objective, but positive reports on the Israeli economy in 2009, in which they praised the economic policy, the way the global crisis was handled, the budgetary restraint led by the Ministry of Finance, and the fact that the Israeli government entered the global crisis in a good starting condition and began exiting the crisis quickly.

The rating agencies noted the impressive growth of the economy in recent years, the surplus in the balance of payments for the seventh successive year, and the fact that domestic debt increased modestly compared to many countries worldwide.

Despite the relatively moderate increase in government debt in 2009, the volume is still a weakness, as it remains high compared to other countries in the peer group.

The rating ceiling established for Israel by all the agencies is higher than the government's rating, reflecting the Israeli economy's high degree of openness to the world, the government's economic policy of non-intervention, and the private sector's resilience in the face of external shocks.

Highlights of the three agencies' announcements in 2009

Moody's:

On August 27, 2009, Moody's published the annual report on the State of Israel, in which it left Israel's credit rating at "A1 – Stable Outlook". The long-term foreign-currency rating ceiling has been confirmed at a level of "Aa1".

The main points highlighted by the analysts are:

- Israel's credit rating is supported by the strength of the economy, the government and the financial sector in Israel, but is limited by the geopolitical situation.
- The fact that the global crisis had a modest effect on the Israeli economy shows that the Israeli economy was not exposed to the factors that had started the economic crisis in the first place - the exposure to "toxic" assets and real estate bubbles.
- The modest decline in the GDP and the signs of recovery of the Israeli economy testify to its extraordinary flexibility and robustness vis-à-vis a variety of shocks. Against the background of the many challenges that the Israeli economy has faced in the last decade, the present financial crisis can be considered another challenge Israel has successfully come through.

- Although it now looks as if the Israeli economy has already come through the crisis, given the fact that Israel is a small open economy, it seems that the major recovery will be more the result of the global recovery than domestic developments. In any case, it looks as if the long-term growth of the Israeli economy has not been impeded.

- While the economic and financial risks inherent in the Israeli economy are low, the geopolitical risk, and particularly the security situation, is more serious. The State of Israel has the highest defense expenditure in the world, which affects the government debt over time.

Fitch:

On November 6, 2009, Fitch confirmed the credit rating at a level of "A – Stable Outlook". The State of Israel's credit-rating ceiling remained "AA-".

The main points of the agency's announcement are:

- The State of Israel has come through the global financial crisis better than many similar economies, incurring a moderate recession relative to similar countries in Europe and Asia.

- Better economic policy and structural reforms since the last crisis in 2001-2002 have laid the foundations for the high growth in the years 2004-2008, which has made the economy more immune to shocks. Other than Bahrain, China and Poland, the agency has forecast that Israel will be the only "A"-rated country to exit the recession already in 2009.

- The good performance of the Israeli economy is mostly due to aggressive monetary policy and to the exchange rate policy, in addition to a stable banking system lacking problems, and is attributed to the fact that no bubbles were created in the Israeli economy. The hi-tech industry and the services industry have shown stability in the face of the global decline in demand due to the financial crisis, and the exports of these industries caused the unprecedented surplus in the current account in 2009.

- The high debt-to-GDP ratio has remained the limiting factor of the Israeli rating, but the fiscal anchors, as expressed by the expenditure ceiling and the deficit target adopted by Israel, have served it well in recent years, leading to the sharp decline in the debt-to-GDP ratio to 78% in 2008, from 100% in 2003. Although the debt-to-GDP ratio is relatively high for the median of the peer countries, it is still not the highest among these countries, and there are countries with a higher debt-to-GDP ratio. The global crisis has mainly affected Israel's tax revenues.

- The balance of payments of the State of Israel is in a good position. The Israeli economy is a net lender to the world. An increase was recorded in the foreign currency reserves and in the current account surplus.

Standard and Poor's:

On July 16, 2009, the agency confirmed that Israel's credit rating has remained "A – Stable Outlook".

The main points of the agency's announcement are:

- The changes for the worse in the fiscal data are a temporary change which constitutes part of the business cycle.
- The rating remained stable because the agency's representatives do not anticipate a decline in fiscal data, but they do anticipate the structured implementation of the economic reforms.
- The confirmation of the rating is due to the assessments that the high deficit targets, 6% in 2009 and 5.5% in 2010, as set in the budget, are cyclic in nature and are balanced by an improvement in Israel's liquidity in global markets.
- The fact that the rating remained "stable" is explained by the balance between the Israeli economy's ability to contend, the strength of the country's political institutions and the positive position of the external accounts on the one hand, and the high debt and the geopolitical risks Israel faces on the other hand.
- The surplus on the current account over the past seven years, and the high foreign currency balances with the Bank of Israel were noted as a positive factor.
- The confirmation of the rating relies also on the stability of Israel's economy and on its ability, proven more than once in the past, to deal with crises. Examples in which the Israeli economy's strength has been proven in the past include: the hi-tech bubble, the Second Intifada, the Second Lebanon War, and "Operation Cast lead" in Gaza.
- The close relations with the US government, which approved the balance of the guarantees program, was noted as positive factor.

Table C-5

Israel's credit rating by the three rating agencies

Rating Agency	Term	Domestic Bonds	Outlook	Overseas Bonds	Latest Rating Change
		Rating		Rating	
Moody's	Long term	A1	Stable	A1	The rating was upgraded in April 2008
	Short term	-		P1	
Standard & Poor's	Long term	AA-	Stable	A	The rating outlook was downgraded in October 2008 from "Positive" to "Stable"
	Short term	A-1+		A-1	
Fitch	Long term	A+	Stable	A	The rating was upgraded in February 2008
		F1		-	

Section D

The Secondary Market

Section D – The Secondary Market

The economic crisis that mainly characterized the beginning of 2009 did not ignore the government bonds market and was reflected in significant volatility in bond yields. Trading turnovers remained stable and similar in volume to those recorded in 2008, during which, in the first months of the year, when the crisis was still at its height and concurrent with the "flight to quality" phenomenon (the move to investing in safe assets), trading volumes were especially high. Trade in government bonds is conducted in parallel in a number of trading arenas: the Tel Aviv Stock Exchange ("TASE"), MTS (an arena in which only the primary dealers in government bonds operate) and over-the-counter ("OTC") trade.

Trade Turnovers of Government Bonds

The daily average trade turnovers in 2009 were similar to those in 2008: NIS 3.4 billion. As aforesaid, large trade turnovers were recorded mainly in the first quarter of the year. The high liquidity level allowed the entities that were required to sell government bonds during the crisis, to do so relatively easily. In this sense, the reform in the government bonds market has contributed to the preparedness of the market for the financial crisis. As the year elapsed and the markets improved, a transition was recorded from government bonds to more "risky" segments. At the same time, the trade turnovers of government bonds on the Tel Aviv Stock Exchange declined. On the other hand, the daily trade turnovers on the MTS maintained stability and even increased slightly in the second half of the year, from an average of NIS 340 million in the first half of the year to NIS 400 million in the second half of the year.

Breakdown of the trade turnovers by trading arena:

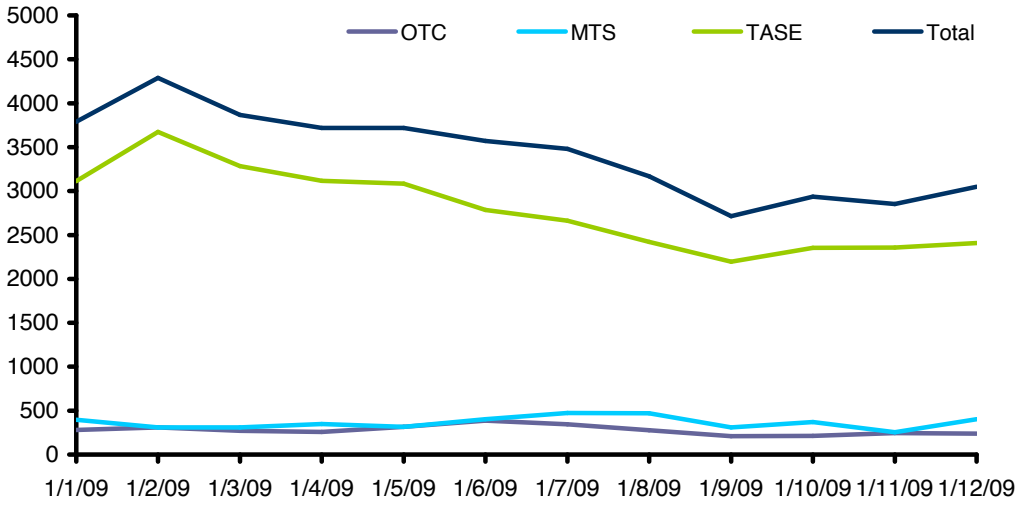
TASE – 81% of trading (2008 – 78%).

MTS – 10% of trading (2008 – 10%).

OTC – 9% of trading (2008 – 12%).

Diagram D-1

Average daily turnover of government bonds (NIS millions)



Fixed-Coupon Unlinked Bonds

Government bond dealers are required to quote in the fixed-coupon unlinked segment only.

Breakdown of the trade volume in the fixed-coupon unlinked segment by trading arena:

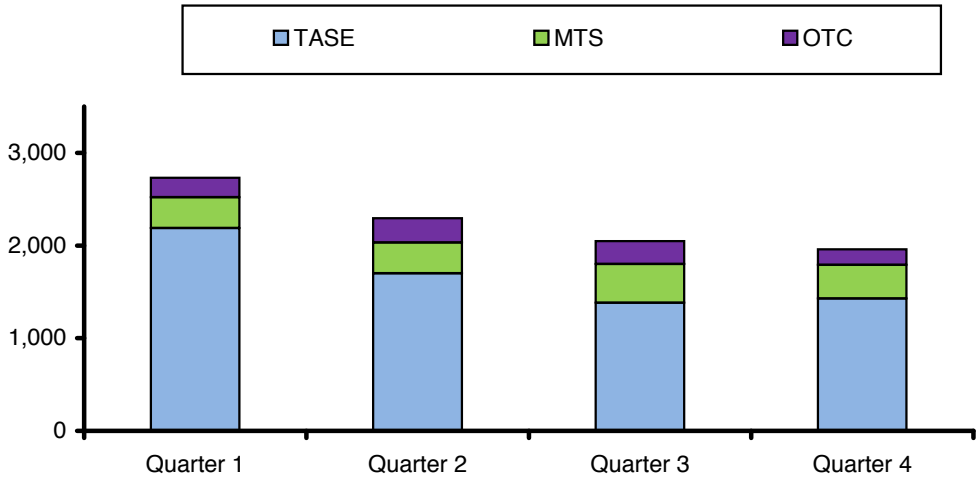
TASE – 74% of trading (2008 – 74%).

MTS – 16% of trading (2008 – 13%).

OTC – 10% of trading (2008 – 13%).

Diagram D-2

Average daily trade turnover of fixed-coupon unlinked bonds (NIS millions)



Trade breakdown by segment

The majority of trading was transacted in the unlinked segment. Over the course of 2009, the relationship between the various segments was as follows:

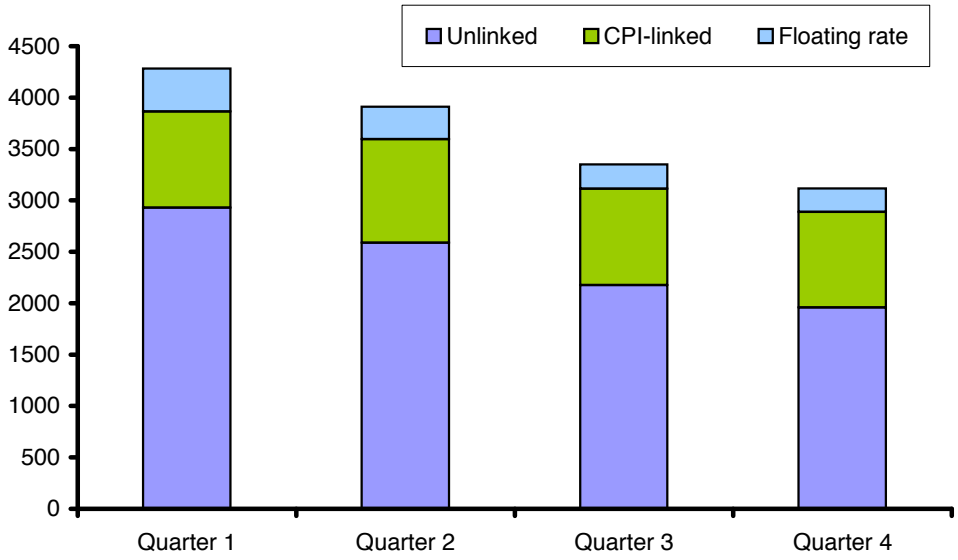
Unlinked segment – 66% of trading (2008 – 64%).

Linked segment – 26% of trading (2008 – 27%).

Floating-rate segment – 8% of trading (2008 – 9%).

Diagram D-3

Average daily trade turnover in the different segments (NIS millions)



Average Daily Turnover on MTS Platform by Bond Type

The primary dealers are required to quote in the MTS system 8 fixed-coupon unlinked bonds (Shahar/Unlinked Government), for 5 hours net per day, with the size of the order and the spread, which they are required to quote, differing from bond to bond, according to the term to maturity.

In 2009, the quoting commitment of the dealers in the secondary market increased as follows:

1. The quantity of quoted bonds increased to 8 in 2009 from 5 in 2008.

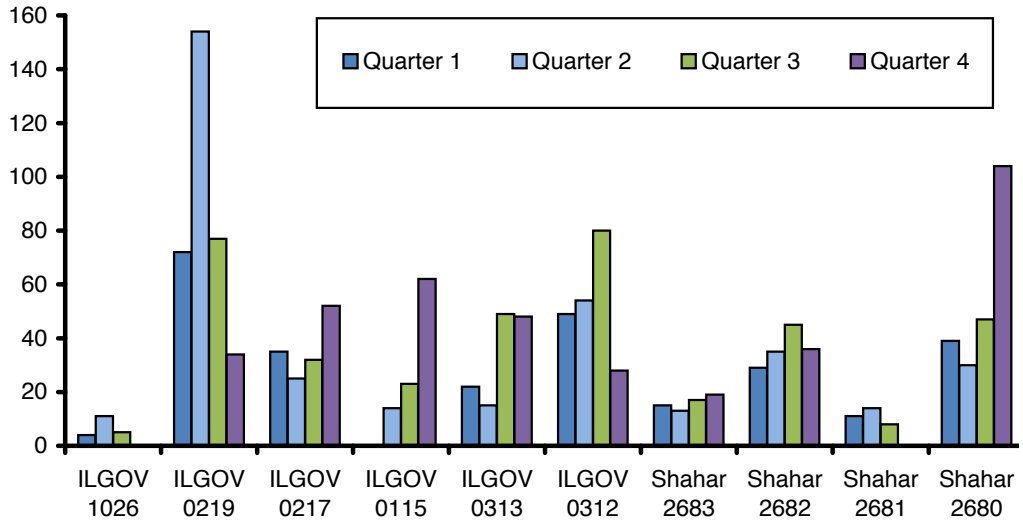
2. The commitment increased to a minimum order size of NIS 10 million in all quoted bonds. Previously, the commitment was for NIS 10 million only in the two-year and ten- year benchmark bonds, while for the remaining bonds the minimum commitment was NIS 5 million.

The bonds for which there was a quoting commitment during the whole of 2009 are:

Government Bond 02/19, Government Bond 02/17, Government Bond 03/13, Government Bond 03/12, Government Bond 01/15, Shahar 2683, Shahar 2682 and Shahar 2680. The bond with the highest trading volume during the course of the year was Government Bond 02/19, which served as the ten-year benchmark security.

Diagram D-4

Average daily turnover on MTS platform by bond type (NIS millions)

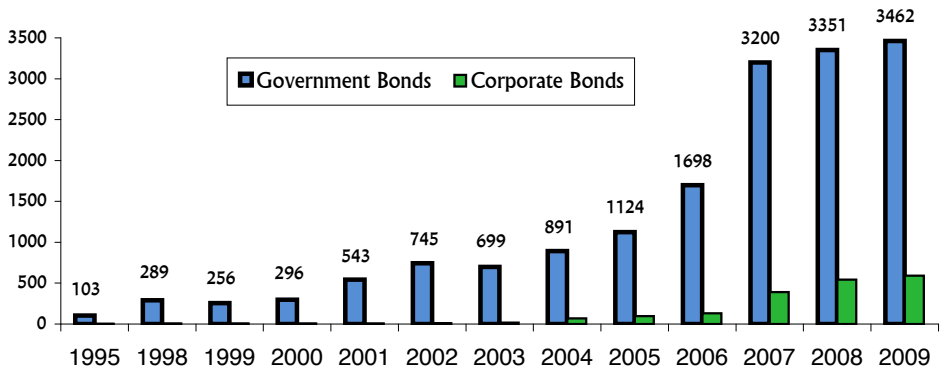


Average Daily Turnover in Historical Perspective

Turnovers have been rising steeply in recent years. It can be seen that the biggest jump in turnovers was recorded in 2007, with the implementation of the government bonds primary dealers' reform. It can also be seen that, at the same time as the increase in turnovers was taking place in the government bonds market in recent years, trading turnovers were also increasing significantly in the corporate bonds market.

Diagram D-5

Average daily turnover, historical perspective (NIS millions face value)



Yield of ten-year bonds

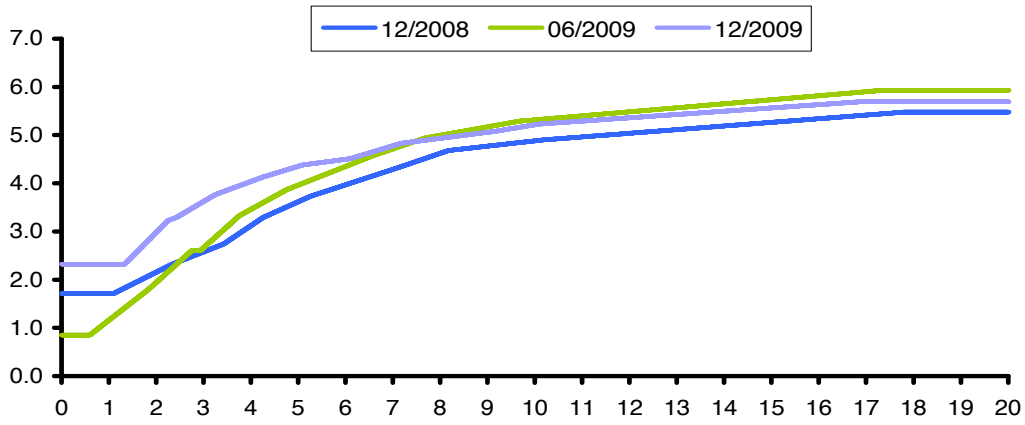
2009 was characterized by high volatility in bond yields, a phenomenon which started in the last quarter of 2008 (following the collapse of Lehman Brothers). The following graph shows the yield of the ten-year bond (Unlinked Government Bond 02/19), which was also the most traded security in 2009. In the first months of the year, when the crisis was still at its height and due to the "flight to quality" phenomenon, the yield of the ten-year unlinked bond declined to a level of 4.4%. Later in the year, as markets improved and government bond issuances increased to huge volumes (especially in the US), yields rose worldwide. The yield on the ten-year bond in Israel reached a level of 5.7%. Between July and November yields resumed their decline, but toward the end of the year, as the interest rate in Israel began increasing and as yields worldwide increased, yields in Israel resumed their increase. At the end of 2009, the yield on the ten-year bond stood at 5.15%. Throughout the year, the yield on the ten-year government bond in Israel was traded at a high correlation to the yields on ten-year bonds in the US.

Diagram D-6

Yield on ten-year bonds

Diagram D-7

Unlinked yield-to-maturity curve



In the first half of the year, there was a sharp rise in the steepness of the curve (both the unlinked curve and the linked curve), due to the crisis in the markets. At the end of the year the slope of the yield curve had returned to levels similar to those at the end of 2008. Compared to other markets worldwide, the Israeli yield curve is one of the steepest.

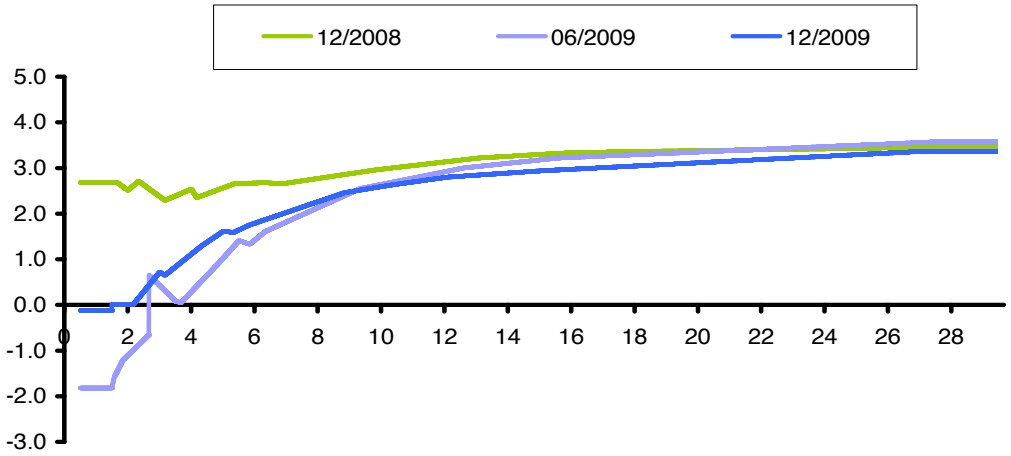
Table D-1

Yield curves worldwide at the end of 2009

Country	Ten-year yield	Two-year yield	Yield difference
Israel	5.08	2.33	2.75
US	3.84	1.14	2.7
Germany	3.39	1.33	2.06
UK	4.01	1.3	2.71
Czech Republic	3.93	1.73	2.2
Slovakia	4.3	1.98	2.32

Diagram D-8

Linked yield-to-maturity curve



Average Volume of Bond Lending Facility

As part of the capital-market reform, the Ministry of Finance, in cooperation with the TASE Clearing House, established a bond lending facility allowing primary dealers to borrow government bonds of all types. A body wishing to borrow bonds, within the limit of NIS 1 billion per primary dealer and subject to the payment of a lending commission, contacts the TASE Clearing House to borrow the bonds; in return, it transfers funds as collateral on which it receives interest.

Operation of the bond lending facility began in September 2006.

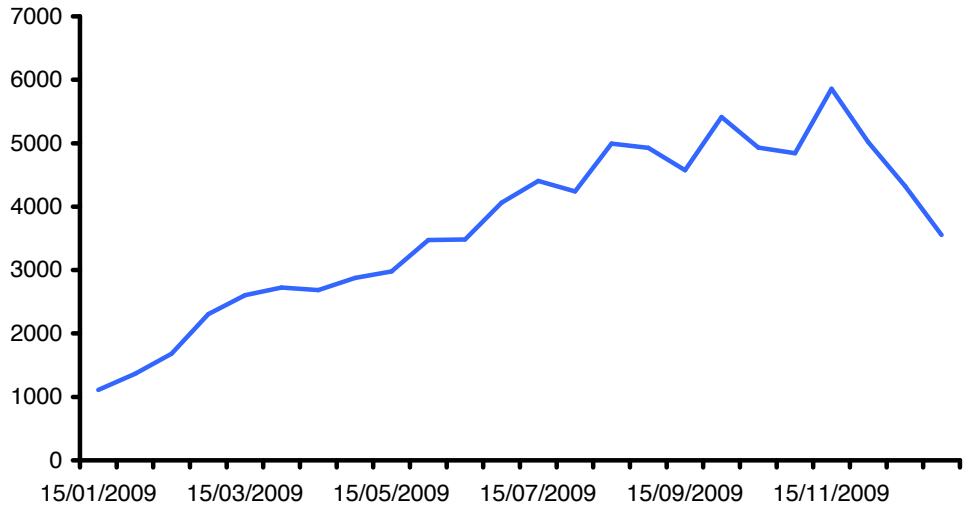
In the past year and as one of the signs of the financial crisis in the markets, the lending volumes in the facility were also shaken. The lending facility declined steeply during the crisis. At its lowest, the facility volume declined to NIS 1 billion. Once the recovery began and as a change in policy increased the volume that the primary dealer may borrow from NIS 750 million to NIS 1 billion and reduced the lending commission from 0.25% to 0.10%, a constant increase was recorded in the facility volume. At its height,

the facility reached almost NIS 6 billion. The purpose of the change in policy with regard to the lending facility was to increase the liquidity of the government bond market during the crisis and to support the activity of primary dealers.

The distribution of bond lending at the end of 2009 was: 79% in the unlinked segment, 19% in the linked segment, and 2% in the floating-rate segment.

Diagram D-9

Average volume of bond lending facility (NIS millions)



Development of the CDS Spreads of the State of Israel

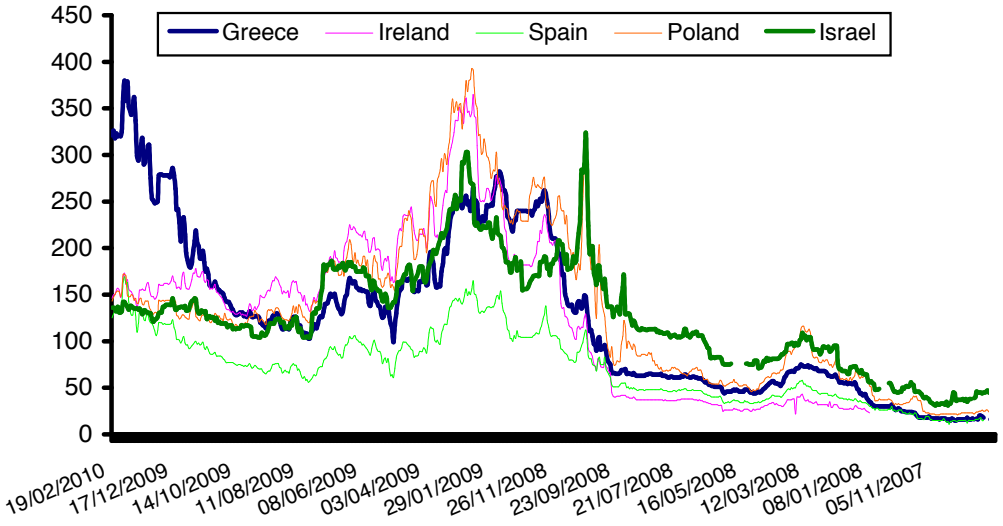
CDS (Credit Default Swap) transactions are agreements that enable two parties to transfer a third party's credit risk from one to the other. In practice, such transactions represent the sale of bankruptcy insurance. The CDS spreads are customarily referred to as an indication (partial) of the faith that purchasers invest in a third party's redemption ability, which serves as the underlying asset for the transaction.

The graph presented below illustrates the development of the CDS spreads of the State of Israel during 2009. The graph also presents the development of the CDS spreads of countries with a credit rating similar to that of the State of Israel.

It can be seen that during 2009 CDS spreads of all the countries moderated, relative to the steep increases of the end of 2008 following the collapse of the Lehman Brothers investment house.

Diagram D-10

Development of the ten-year CDS spreads of Israel and selected peer countries, 2009



Section E

Government Debt Portfolio

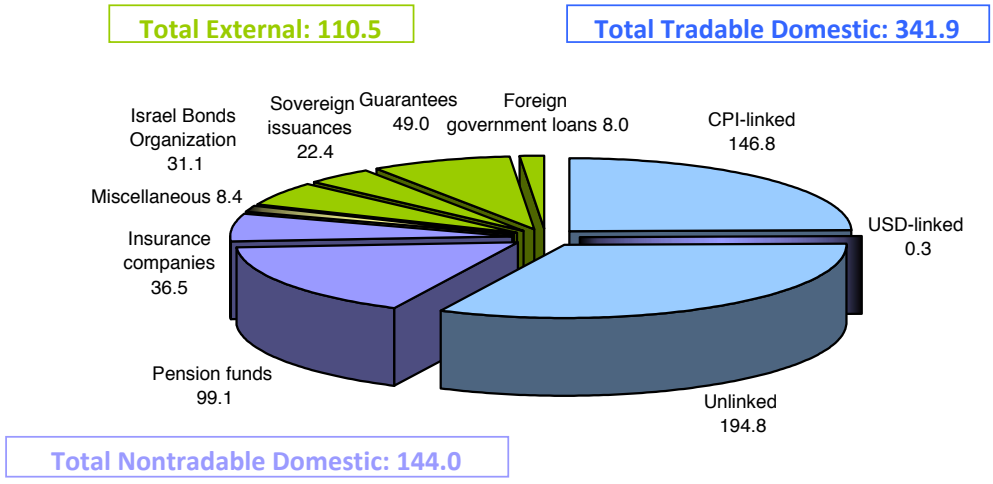
Section E – Government Debt Portfolio

Total Debt and Debt-to-GDP Ratio

Total government debt increased nominally by 8.9% in 2009, from NIS 547 billion (at the end of 2008) to NIS 596 billion at the end of 2009. The majority of the increase in government debt was due to positive net funding at a high volume (to finance a 5.2% budget deficit) and from an increase in the consumer price index (3.9% during 2009). A small decrease in the rate of the dollar in the course of the year (3.78 at the end of 2009 versus 3.80 last year) slightly moderated the debt increase.

Diagram E-1

Structure of government debt at the end of 2009 (NIS billions)



in 2009, for the first time in several consecutive years in which the debt-to-GDP ratio decreased, the government debt-to-GDP ratio recorded a 3% increase versus the previous year, reaching 78%. Most of the increase is due to a high government deficit rate and low growth due to the global financial crisis, which has also affected Israel. The debt-to-GDP ratio is one of the most important parameters in determining the financial stability of a country and its credit rating. An international comparison shows that that the increase in Israel's debt-to-GDP ratio in 2009, is moderate relative to that of many other countries worldwide.

Diagram E-2

Debt-to-GDP ratio and government debt balance, 2004-2009 (NIS billions)

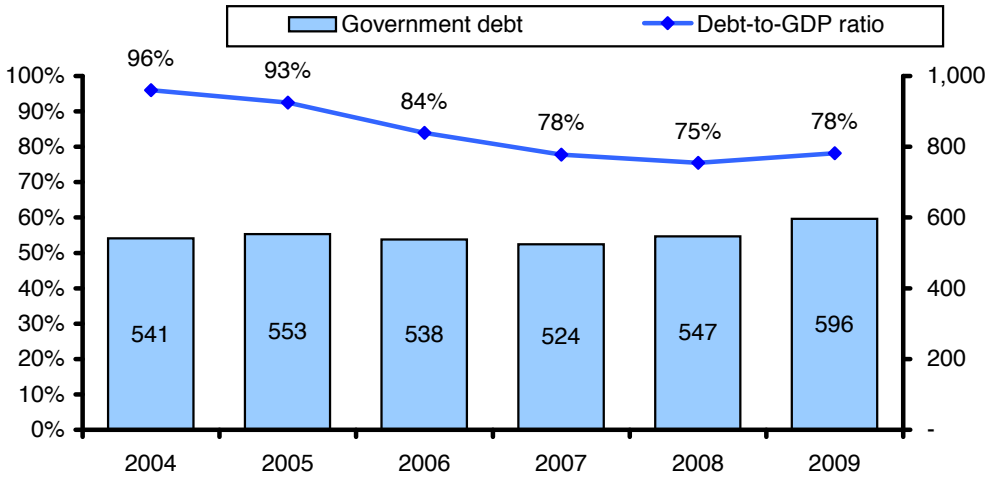


Table E-1

Broad government debt* as a percentage of GDP in various countries

	Total debt as a percentage of GDP	
	2008	2009
Korea	27	33
Slovakia	31	37
Czech Republic	41	47
Poland	54	58
Spain	47	59
Ireland	48	66
OECD countries, average	62	70
United Kingdom	57	71
Germany	69	77
Israel **	77	80
Portugal	75	84
United States	70	84
France	76	85
OECD countries, weighted average	78	90
Belgium	93	101
Greece	103	115

* Broad government debt includes the debt of additional government agencies, such as local authorities.
Source: OECD Economic Outlook No. 86 (NOV-2009).

** Bank of Israel and Ministry of Finance

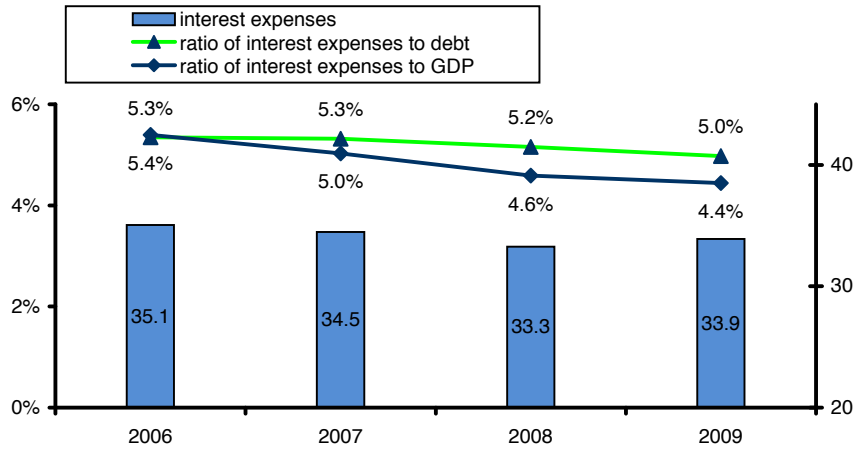
Interest expenses

In 2009, the ratio of the government's interest expenses to government debt and to GDP continued to decrease, standing at 5.0% and 4.4%, respectively, in 2009, versus 5.2% and 4.6% in the previous year. The decrease in the ratio of financing costs to government debt is due mainly to a consistent decrease in the proportion of the nontradable domestic debt (nontradable bonds) which is characterized by high interest rates, and to a very low interest rate environment, which indicates, inter alia, the robustness of the Israeli economy. This decrease is particularly significant in view of the increase in the nominal debt (due to a high government debt), and despite the low growth rates due to the global financial crisis.

Diagram E-3

Ratio of interest expenses to government debt* and to GDP, 2006-2009

(NIS billions, %)



* The debt at the beginning of the year includes debt to the National Insurance Institute

Measures of the Length of Debt

Average term to maturity (ATM) is the central measure for determining the length of debt. The length of the debt has an effect on the cost of the debt and on the rollover risk. The average term of total government debt was 6.4 years at the end of 2009, versus 6.3 years in the previous year. The increase in the length of tradable domestic debt (from 6.1 to 6.3 years), mainly resulted from high positive net funding (a surplus of funding over redemptions) and a focus on funding for long benchmark periods. The length of nontradable domestic debt remained unchanged from last year, standing at 6.2 years, due to the small volume of issuances of nontradable bonds to pension funds. On the other hand, the length of external debt continued to decrease (from 7.2 to 7.0 years), mainly due to negative net funding (surplus of redemptions over funding), as well as due to issuances with short terms to maturity.

Another measure of debt length is the modified duration. The duration of bonds is calculated based on the terms of all payments which the bond pays over its lifetime, weighted by the capitalized payment. As shown in the table below, there was no change in the total duration of government debt in 2009; however, opposite trends can be seen in domestic debt versus external debt, similar to those of the average term to maturity.

Additional parameters for examining the rollover risk are the ratio of the volume of principal redemptions expected in the coming year to the total debt (rollover ratio), as well as to the GDP, as seen in Table E-2.

Diagram E-4

Modified duration of government debt, 2006-2009 (years)

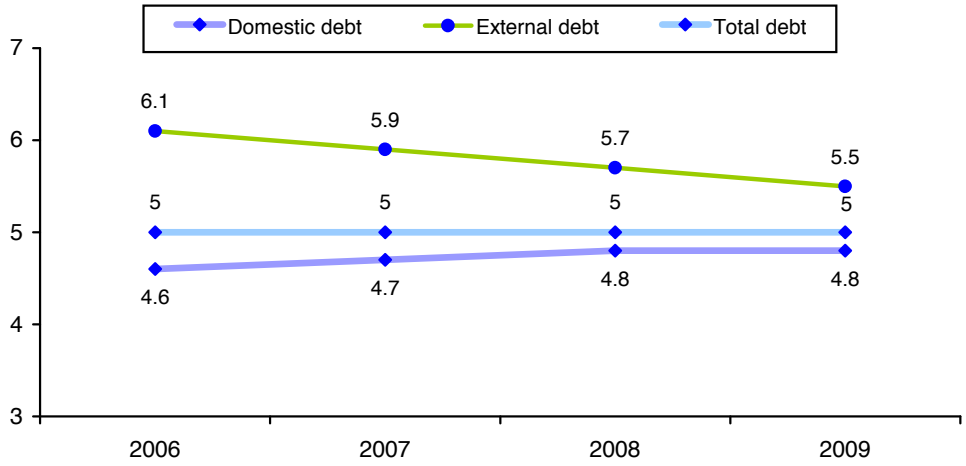


Diagram E-5

Average term to maturity of government debt, 2006-2009 (years)

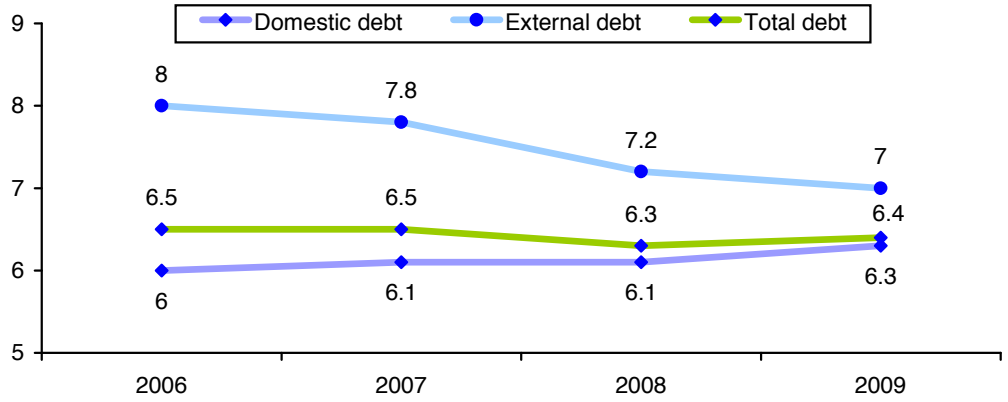


Table E-2

Ratio of the principal redemption anticipated in the coming year to the total debt (rollover ratio) and to the GDP, 2006-2009 (in percentages)

	Ratio of short-term debt to total debt (rollover ratio)				Ratio of short-term debt to GDP			
	2006	2007	2008	2009	2006	2007	2008	2009
Total government debt	11	11	11	10	9	8	8	7

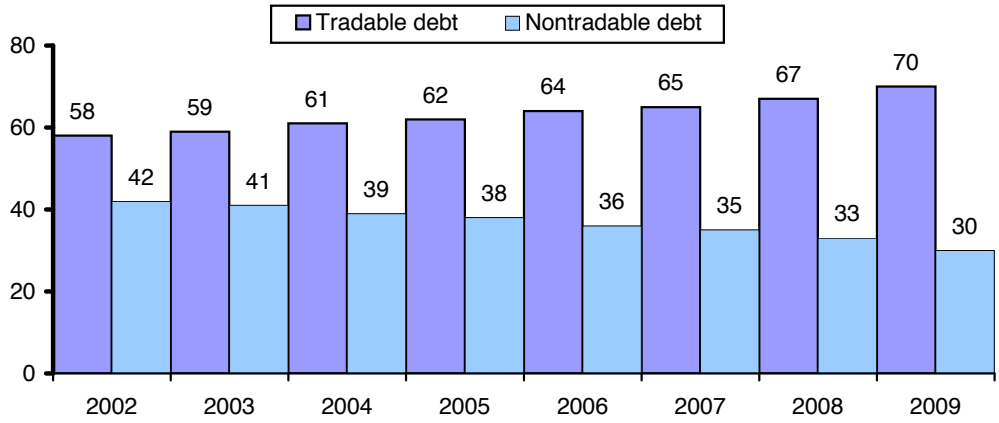
* Short-term debt - a debt scheduled to be redeemed in the coming year according to maturity schedules at the end of the previous year.

Domestic Debt

The balance of domestic debt (tradable and nontradable) stood at NIS 486 billion at the end of 2009. Tradable debt grew by 3%, to NIS 342 billion, or 70% of total domestic debt, as part of the consistent increase in its share of total domestic debt in recent years. Nontradable debt decreased by 3% in 2009 and totaled NIS 144 billion at yearend, comprising 30% of total domestic debt. The consistent decrease in the proportion of nontradable debt resulted mainly from negative net funding from pension funds. Pursuant to the terms of the reform of the pension market, it has been provided that pension funds are entitled to the issuance of nontradable bonds solely in the event that the rate of nontradable designated bonds out of the total assets of the pension funds has fallen below 30%. Notwithstanding the aforesaid, 2009 saw the start of an upward trend in the issuance of nontradable bonds to the pension funds.

Diagram E-6

Distribution of domestic debt into tradable and nontradable debt, 2002-2009

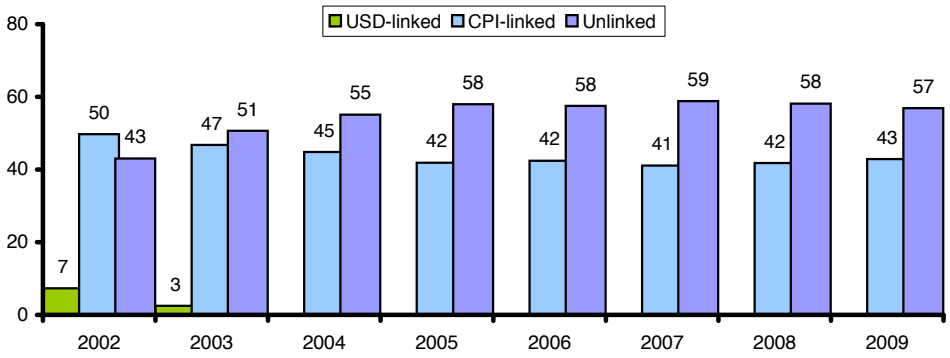


Tradable Domestic Debt

The proportion of CPI-linked debt out of total tradable domestic debt rose to 43% in 2009 (from 42% in 2008). The increase in the linked segment resulted, inter alia, from an increase in the proportion of linked funding, as well as from the increase in the consumer price index over the year. The proportion of dollar-denominated debt remained negligible; bonds in the amount of just NIS 300 million remained in circulation at the end of 2009, which mature in January 2010.

Diagram E-7

Distribution of tradable debt by linkage type, 2002-2009



Distribution of Tradable Government Bond Holdings

The proportion of the holdings of the pension funds and the provident and study funds in tradable government bonds amounted to 12.3% and 18%, respectively, in 2009, versus 12.8% and 20.5% in the previous year. The decrease is due to a steep increase in the value of the portfolio of the funds, as a result of the surge in the capital markets in the past year. It should be noted that in recent years we have witnessed a consistent increase in the proportion of the holdings of the pension funds in tradable government bonds. Within the framework of the pension funds reform, the volume of issuances of nontradable bonds to these funds fell significantly. This reduction has redirected investment sources into tradable government bonds.

Another segment in which a decrease can be seen in the proportion of the holdings is the proportion of the public's holdings, which at the end of 2009 stood at 26.2% of the total inventory of the government's tradable bonds, versus 28% at the end of 2008. It should be noted that this decrease is in contrast to the development of the positive trend of recent years, within the framework of which the proportion of the public's holdings in tradable government bonds increased gradually.

Against the background of the global crisis, that was expressed, inter alia, in the transition to investment in low risk assets, the increase in the holdings of foreign investors stands out. The proportion of foreign investors' holdings has nearly doubled, amounting to 3.0% in 2009, versus 1.6% in 2008. Nevertheless, this is still a low proportion in an international comparison and in comparison to the holdings of foreign investors in the shares of Israeli companies.

Another segment in which there was a reduction is that of the banks' holdings, whose share amounted to 12.4% at the end of 2009, versus 14.6% in the previous year. In contrast, the share of the Bank of Israel in the holding of tradable government bonds increased significantly and stood at 5.6%, versus 0.8% last year. The origin of this increase is a plan for the purchase of government bonds in the secondary market, initiated by the Bank of Israel during the crisis.

Table E-3

Distribution of holders of tradable government bonds, 2005-2009

(NIS billions, %)

Year	Total registered capital (NIS billions)	Public	Mutual funds	Provident and study funds	Pension funds	Banks	Insurance companies (1)	Foreign investors	Bank of Israel
2005	261.4	16.7	15.9	28.0	9.8	17.0	10.1	1.3	1.3
2006	2653.	194.	12.4	24.1	107.	18.1	95.	4.7	1.2
2007	269.4	24.1	14.2	18.4	11.0	186.	8.9	3.8	1.1
2008	312.9	28.0	11.5	20.5	12.8	14.6	10.2	1.6	0.8
2009	370.7	26.2	13.3	18.0	12.3	12.4	9.3	3.0	5.6

(1) Includes holdings of life-insurance and general-insurance companies, and proprietary investments.
Source: Bank of Israel, November estimate

Average Size of Series and the Number of Series

As part of the debt management policy to increase tradability and liquidity in the domestic bond market, the Ministry of Finance in recent years has reduced the number of government-bond series while increasing their volume. This policy continued in 2009, whereby the average series size rose to NIS 8.5 billion. The steep increase in the average series size is mainly due to the considerable redemptions of small series (mainly Galil bonds) during the year.

In 2009, the Debt Management Unit issued nine new series on the tradable domestic market, due to the high funding volumes: four short-term government bonds, of which two mature in 2009 and the rest in 2010, two government bonds (Government Bond 01/15 which matures in 2015 and Government Bond 01/20 which matures in 2020), two linked government bonds (Linked Government Bond 06/2014 which matures in 2014 and Linked Government Bond 10/2019 which matures in 2019), and a floating-rate government bond which matures in 2020.

Eleven bond series matured in 2009, including bonds of the "Shahar" type with a volume of NIS 10 billion. As a result of the above, the decrease in the number of traded series continued, falling to 37 at the end of 2009.

Diagram E-8

Average series size, 1995-2009

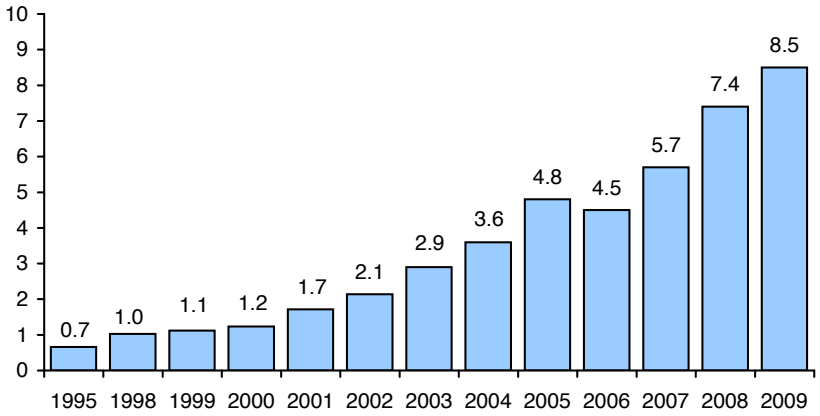
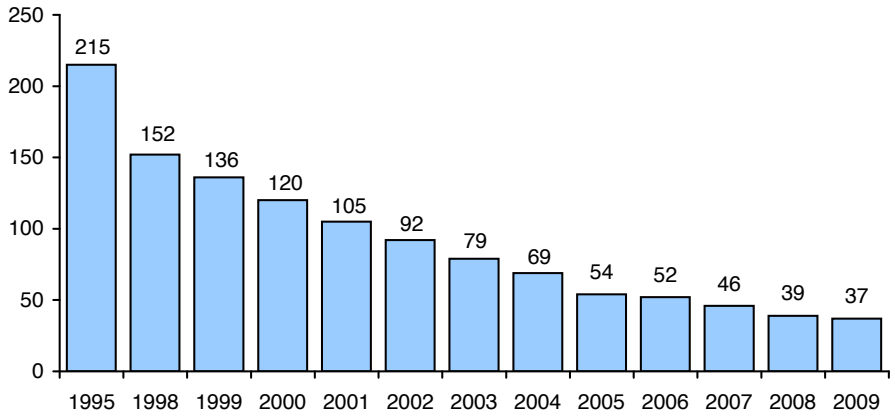


Diagram E-9

Number of tradable government bond series, 1995-2009



Nontradable Domestic Debt

The inventory of nontradable domestic debt amounted to NIS 144 billion at the end of 2009, versus NIS 142 billion at the end of 2008. The inventory of debt in respect of nontradable bonds issued to pension funds ("Arad" and "Miron" bonds) stood at NIS 99 billion at the end of 2009, similar to the previous year.

The inventory of debt in respect of nontradable bonds held by insurance companies ("Chetz" bonds) grew by 6% in 2009 and amounted to NIS 37 billion.

The emissions managed by the Accountant General Division and compulsory loans managed by the Bank of Israel remained unchanged from 2008, amounting to a total of NIS 8 billion.

Table E-4

Distribution of nontradable debt by type, 2003-2009 (NIS billions)

	2003	2004	2005	2006	2007	2008	2009
Total	161	156	153	145	144	142	144
Pension ("Arad" & "Miron")	119	115	112	105	102	99	99
Insurance ("Chetz")	30	30	31	31	33	35	37
Miscellaneous[1]	12	11	10	9	9	8	8

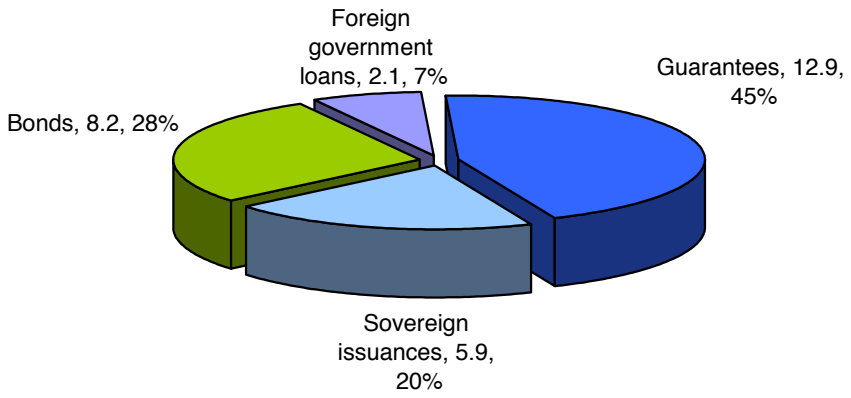
(1) Includes compulsory loans managed by the Bank of Israel, and deposits and emissions managed by the Ministry of Finance.

Foreign-Currency Debt

At the end of 2009, the government's foreign-currency debt stood at NIS 110.5 billion (approximately USD 29 billion), comprising 19% of total government debt. Following are details of the distribution of the debt by sector:

Diagram E-10

Composition of foreign-currency debt by debt source (USD billions, percentages)



Sovereign Benchmark Issuances

Between 1995-2009, twelve sovereign issuances were carried out in the United States, Europe, Japan, and the Global Market. The last sovereign issuance was performed in March 2009, at the height of the global credit crisis, on the Global Market (under US regulation), at an unprecedented volume of USD 1.5 billion (the demand for the issuance exceeded USD 10 billion).

Table E-5 lists the details of tradable sovereign issuances brought to overseas markets in recent years by the Accountant General Division. At the end of 2009, these bonds comprised about one fifth of the total foreign-currency debt.

Table E-5

Public sovereign issuances in global financial markets, 1995-2009[1]

Year	Market	Amount in millions in original currency	Yield (percent)	Term to maturity (years)	Interest to investors (percent) – coupon	Benchmark interest (BM)[2] – government bonds	Spread from BM at issuance date (bp)[3]	Spread over SWAP curve in relevant currency on issuance date (bp)[3]
2009	Global	1,500$	5.125	10	5.19	USA	262.5	237
2006	Global	1,000$	5.58	10	5.5	USA	98	45
2005	European	750€	3.78	10	3.75	Germany	64	53
2004	Global	500$	5.2	10	5.125	USA	115	75
2003	Global	750$	4.731	10	4.625	USA	153	120
2002[4]	European	400€	5.983	7	5.875	Germany	122	100
2000	Global	500$	7.820	10	7.75	USA	144	40
1999[4]	European	400€	4.91	7	4.75	France	97	65
1998	Yankee	250$	7.313	30	7.25	USA	225	162
1997[4]	Samurai	20,000¥	3.017	10	3.0	Japan	48	25
1996[4]	European	200$	6.469	5	6.375	USA	50	25
1995[4]	Yankee	250$	6.491	10	6.375	USA	76[3]	38

(1) All issuances are of fixed-coupon bonds.

(2) Benchmark – a bond used as the criterion for yield comparisons.

(3) Basis point (bp) – one hundredth of one percent.

(4) Matured.

Issuances Backed by U.S. Government Guarantees

Table E-6 shows the inventory of bonds issued with U.S. government guarantees within the second guarantee program. These bonds were issued during 2003-2004. As noted in Section C, the Israeli government has not issued new bonds of this type since 2004. To date, bonds totaling USD 4.1 billion have been issued out of the USD 9 billion covered by the program. Bonds backed by U.S. government guarantees are issued at a relatively low interest rate, because they are assigned a high credit rating (AAA/Aaa), which is higher than the Israeli government's credit rating (A/A1). At the end of 2009, these bonds comprised 45% of the total foreign-currency debt.

Table E-6

Issuances backed by U.S. government guarantees, 2003-2009*

Issuance date	Amount in USD millions	Period (years)	Interest to investors (percent) – coupon	Underwriter	Yield (price)	Spread from 30-year US government bond on issuance date (basis points)	Commission from face value to US AID for guarantee
October 2004	750$	20	5.125	Merrill Lynch	5.159% (99.57891005)	29	3.90%
April 2004	1,000$	20	5.5	Lehman Brothers	5.5331% (99.60259342)	31	5.10%
December 2003	750$	20	5.5	Lehman Brothers	5.5199% (99.7608157)	36	4.96%
September 2003	450$	30	5.5	Barclays Capital	5.5790% (98.8557106)	38	8.27%
September 2003	1,150$	20	5.5	Merrill Lynch	5.5299% (99.6409187)	33	7.00%

* All issuances are of fixed-coupon bonds.

Issuances through the Israel Bonds Organization

The nontradable part of the debt is mainly composed of nontradable bonds issued over the years to individuals, companies, and institutional entities through the Israel Bonds Organization (State of Israel Bonds). This debt amounted at the end of 2009 to NIS 31 billion. At the end of 2009, these bonds comprised 28% of the total foreign-currency debt.

Foreign Government and Other Loans

The remainder of nontradable debt in foreign currency stems from bonds issued to foreign governments, international institutions, foreign banks, and bilateral funds, with a total balance of NIS 8 billion at the end of 2009. At the end of 2009, these bonds comprised 7% of the total foreign-currency debt.

Activity in Derivatives

The current composition of the government's debt portfolio is characterized by a high proportion of liabilities in foreign currency, which constitutes 19% of the total government debt. In addition to this, the mix of the foreign-currency debt is characterized by the absolute dominance of dollar-denominated debt. At the end of 2009, 91% of the foreign-currency debt is dollar denominated, 7% is denominated in euros and the remainder is in other currencies (see diagram E-11). The Debt Management Unit carries out hedging transactions, dollar-shekel forward transactions, and dollar-shekel and dollar-euro swap transactions, aimed at reducing (or diversifying) the exposure to the exchange rates. No new hedging transactions were carried out in 2009.

Diagram E-11

Composition of foreign-currency debt by currency without hedging transactions.

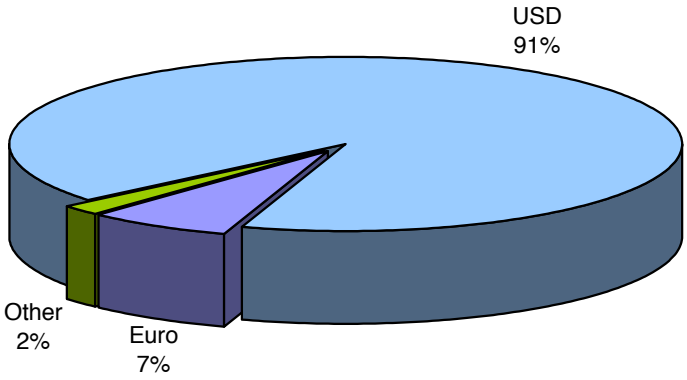
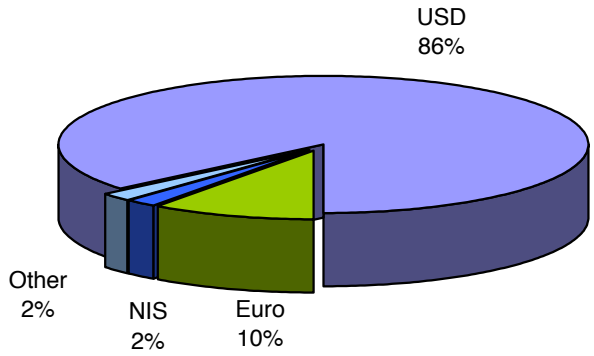


Diagram E-12

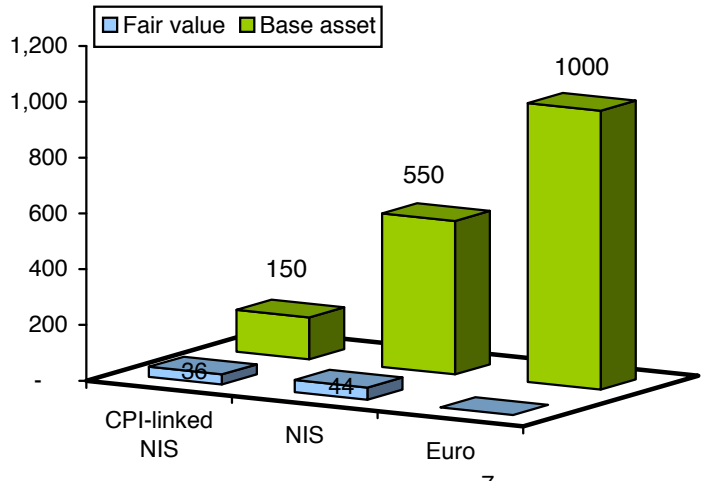
Composition of foreign-currency debt by currency including hedging transactions



During 2009, dollar-shekel forward transactions in the total amount of USD 625 million were redeemed. As of December 31, 2009, the government's inventory of swap transactions amounts to USD 1,700 million, of which dollar-euro transactions amount to USD 1,000 million, dollar-shekel transactions amount to USD 550 million, and linked dollar-shekel transactions amount to USD 150 million. As of December 31, 2009, the mark to market value of all transactions amounted to USD 73 million.

Diagram E-13

Balance of hedging transactions as of December 31, 2009 (in USD millions)



Appendices

Appendix A – Forecast of Principal Redemptions and Interest Payments

Diagram A-1
Principal redemptions and interest payments on tradable domestic debt, 2010-2036 (NIS millions)

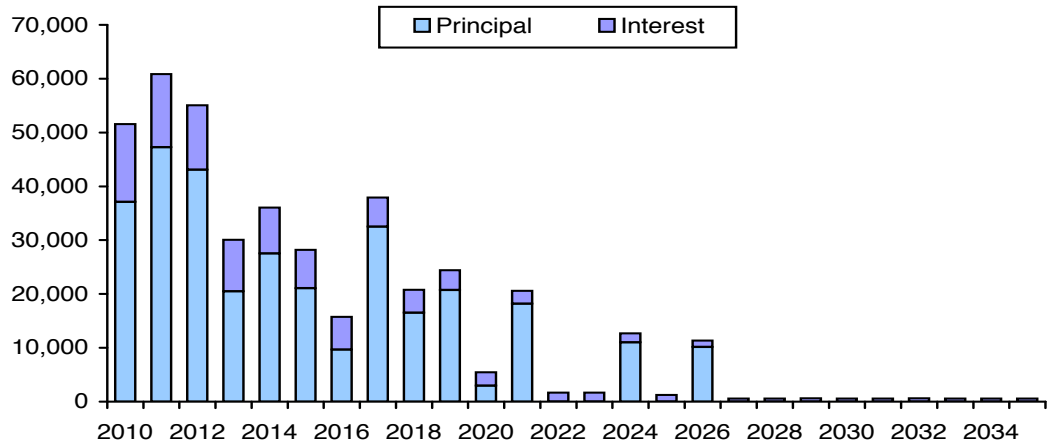


Diagram A-2
Principal redemptions and interest payments on the nontradable domestic debt, 2010-2033 (NIS millions)

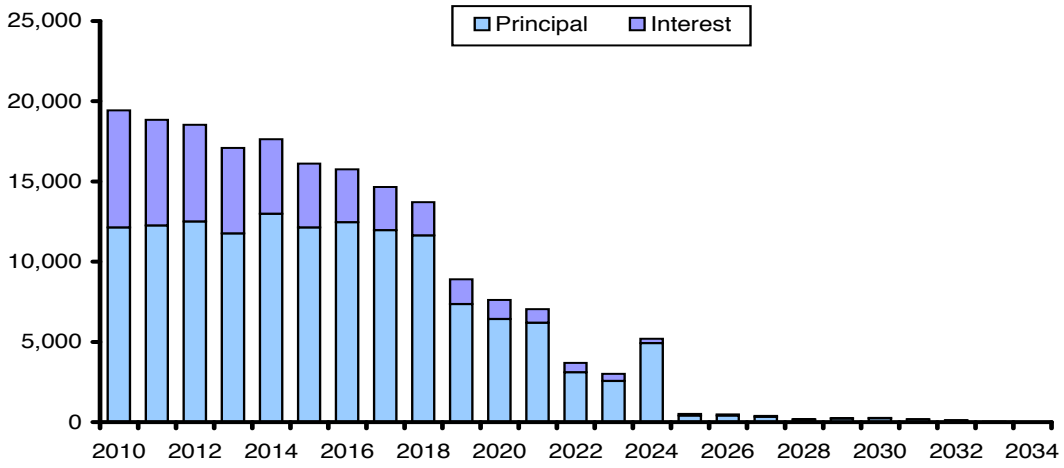
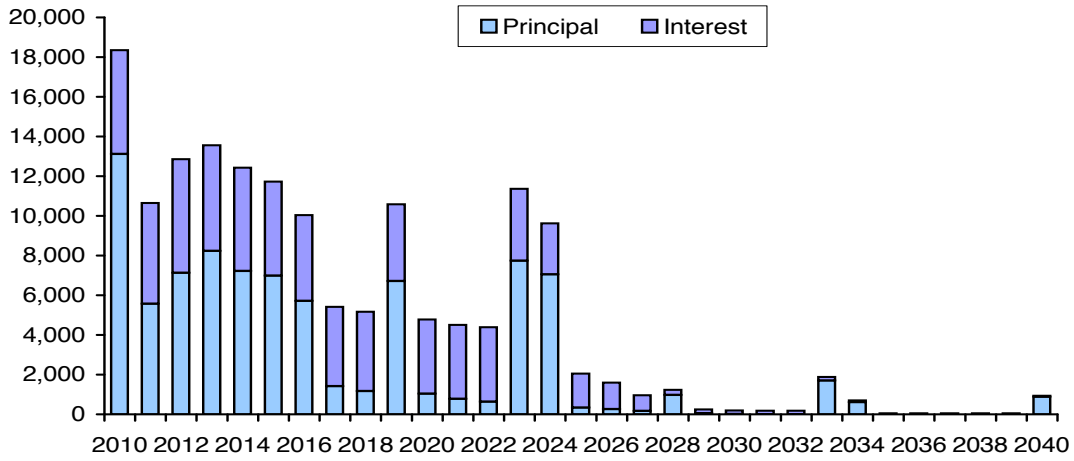


Diagram A-3
Principal redemptions and interest payments on external debt, 2010-2040 (NIS millions) at an exchange rate of USD/NIS = 3.8



Appendix B – Features of Tradable Bonds in the Domestic Market

Bond	First issuance date	Interest	Interest payment
CPI-linked			
Galil*	Dec. 31, 1984	Fixed – based on average yields of fixed-coupon CPI-linked bonds, according to the term to maturity of the series or 1% (whichever is higher).	Annually.
Linked Government Bond	Jun. 26, 2006	Fixed – as determined by the Ministry of Finance.	Annually.
Dollar-linked			
Gilboa**	Oct. 24, 1988	Floating – based on six-month LIBOR interest rate.	Semi-annually.
Unlinked			
New Gilon	Apr. 28, 1999	Floating – based on Makam yields for a period of 3-12 months.	Once every three months.
Floating-Rate Government Bond	Jan. 8, 2008	Floating – based on Makam yields for a period of 12 months.	Once every three months.
Shahar*	Aug. 24, 1995	Fixed – as determined by the Ministry of Finance.	Annually.
Government Bond	Nov. 6, 2006	Fixed – as determined by the Ministry of Finance.	Annually.
Short-term Government Bond	Aug. 13, 2007	No coupon – issued at a discount	Does not pay interest

* This bond is no longer issued.

** This bond is no longer issued. As of December 13, 2009, one series remained in circulation, which matured on January 13, 2010, in the amount of NIS 372 million.

Appendix C – Features of Bonds Issued by the Israel Bonds Organization

Bond type	Interest formula	Interest payment	Redemption period (years)	Minimum purchase
Fixed Coupon				
Jubilee 1 Year	TB1y + spread	Every six months	1	USD 25,000 (and in multiples of USD 5,000)
Jubilee 2 Years[1]	TB2y + spread	Every six months	2	USD 25,000 (and in multiples of USD 5,000)
Jubilee 3 Years	TB3y + spread	Every six months	3	USD 25,000 (and in multiples of USD 5,000)
Jubilee 5 Years	TB5y + spread	Every six months	5	USD 25,000 (and in multiples of USD 5,000)
Jubilee 10 Years	TB10y + spread	Every six months	10	USD 25,000 (and in multiples of USD 5,000)
1-Year Savings Bond	Strip1y + spread	End of period	2	USD 2,500
2-Year Savings Bond[1]	Strip2y + spread	End of period	2	USD 2,500
3-Year Savings Bond	Strip3y + spread	End of period	3	USD 2,500
Mazel Tov 5-Year Bond	Strip5y + spread	End of period	5	USD 100 (and in multiples of USD 50)
10-Year Savings Bond	Strip10y + spread	End of period	10	USD 2,500
Mazel Tov 10-Year Bond	Strip10y + spread	End of period	10	USD 100 (and in multiples of USD 50)
Canadian Jubilee1 Year	Canadian TB1y + spread	Every six months	1	CAD 25,000 (and in multiples of CAD 5,000)
Canadian Jubilee2 Years[1]	Canadian TB2y + spread	Every six months	2	CAD 25,000 (and in multiples of CAD 5,000)
Canadian Jubilee3 Years	Canadian TB5y + spread	Every six months	5	CAD 25,000 (and in multiples of CAD 5,000)
Canadian Jubilee5 Years	Canadian TB5y + spread	Every six months	5	CAD 25,000 (and in multiples of CAD 5,000)
1-Year Canadian Savings Bond	Canadian Strip1y + spread	End of period	1	CAD 2,500

2-Year Canadian Savings Bond[1]	Canadian Strip2y + spread	End of period	2	CAD 2,500
10-Year Canadian Savings Bond	Canadian Strip10y + spread	End of period	10	CAD 2,500
5-Year Canadian Mazel Tov	Canadian Strip5y + spread	End of period	5	CAD 100
10-Year Canadian Mazel Tov	Canadian Strip10y + spread	End of period	10	CAD 100
2-Year Euro Savings Bond	German Strip + spread	End of period	2	EUR 5,000
10-Year Euro Savings Bond	German Strip + spread	End of period	10	EUR 5,000
Floating Rate				
3-Year Libor Floating Rate Bond	Libor + spread	Every six months	3	USD 5,000 (and in multiples of USD 2,500)
3-Year Libor Floating Rate Bond – Financing	Libor + spread	Every six months	3	USD 100,000 (and in multiples of USD 25,000)
4-Year Libor Floating Rate Bond	Libor + spread	Every six months	4	USD 100,000 (and in multiples of USD 25,000)
5-Year Libor Floating Rate Bond	Libor + spread	Every six months	5	USD 100,000 (and in multiples of USD 25,000)
10-Year Libor Floating Rate Bond	Libor + spread	Every six months	10	USD 5,000 (and in multiples of USD 2,500)
1 Year Euro Floating Rate Bond	Euribor + spread	Every six months	1	EUR 5,000
2 Year Euro Floating Rate Bond	Euribor + spread	Every six months	2	EUR 5,000
Institutional Bonds				
Jubilee 5 Years	TB5y + spread	Every six months	5	USD 500,000 (and in multiples of USD 100,000)
5-Year Libor Floating Rate Bond	Libor + spread	Every six months	5	USD 500,000 (and in multiples of USD 100,000)

Appendix D – Primary Dealers' Rankings at the end of 2009

Primary market (issuances on the Bloomberg platform)

The ranking is based on the volume of purchases in government bond auctions.

The ranking is presented from the highest purchase volume to the lowest purchase volume:

1. Bank Leumi
2. Goldman Sachs
3. Barclays*
4. Deutsche Bank
5. Mizrahi Bank
6. U-Bank
7. Discount Bank
8. Union Bank
9. First International Bank of Israel
10. Morgan Stanley
11. Citibank
12. Bank Hapoalim
13. UBS
14. Clal Finance

Secondary market (trading on the MTS platform)

The ranking is based on the weighting of several parameters: trading volume, quote order size, quote spreads and quote time on the MTS platform.

The ranking is presented from the highest activity volume to the lowest activity volume:

1. Bank Leumi
2. Discount Bank
3. U-Bank
4. Deutsche Bank
5. Goldman Sachs
6. Bank Hapoalim
7. Mizrahi Bank
8. Citibank
9. Union Bank
10. Barclays*
11. Morgan Stanley
12. UBS
13. First International Bank of Israel
14. Clal Finance

* Barclays began acting as a primary dealer in May. The ranking has been adjusted to annual terms.

Appendix E – Personnel of the Government Debt Management Unit

in the Accountant General Division
(at the end of 2009)

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