Translated from the Hebrew original

ASHR'A - THE ISRAEL FOREIGN TRADE RISKS INSURANCE CORPORATION LTD.

(FORMERLY: ASHR'A - THE ISRAEL EXPORT INSURANCE CORPORATION LTD.)

FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2010

U.S. DOLLARS IN THOUSANDS

ASHR'A - THE ISRAEL FOREIGN TRADE RISKS INSURANCE CORPORATION LTD.

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AUDITORS' REPORT

To the Shareholders of

ASHR'A - THE ISRAEL FOREIGN TRADE RISKS INSURANCE CORPORATION LTD.

(FORMERLY: ASHR'A - THE ISRAEL EXPORT INSURANCE CORPORATION LTD.)

We have audited the accompanying statements of financial position of Ashr'a - The Israel Foreign Trade Risks Insurance Corporation Ltd. (Formerly: Ashr'a – The Israel Export Insurance Corporation Ltd.) (hereunder - the Company) as at December 31, 2010 and 2009 and the related statements of comprehensive income, statements of changes in equity and the statements of cash flows for each of the years ended as at December 31, 2010, 2009 and 2008. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

The Company includes in the financial statements additional information required in the circulars of the Government Companies Authority, see Note 2(t).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as at December 31, 2010 and 2009, and the results of its operations, the changes in its equity and its cash flows, for each of the years ended as at December 31, 2010, 2009 and 2008, in conformity with the International Financial Reporting Standards (IFRS) and in accordance with the disclosure requirements prescribed according to the Supervision of Financial Services (Insurance) Law, 1981, and the Regulations enacted pursuant thereto.

As described in Note 2c, the financial statements referred to above are presented in U.S. dollars, in conformity with IAS 21, "The Effects of Changes in Foreign Exchange Rates".

Pursuant to the Regulations of the Public Company Accounting Oversight Board (PCAOB) in the United States, we have also audited the Company's internal control regarding the financial reporting as at December 31, 2010, based on the criteria prescribed in the integrated context of the internal control of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report as at January 9, 2012, included an unqualified opinion.

Tel-Aviv, Israel
January 9, 2012

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

Letter of Representation of the Chairman of the Board of Directors *)

I, Boaz Hirsh, certify that:

1. I have reviewed the financial statements and directors' report of Ashr'a - The Israel Foreign Trade Risks Insurance Corporation Ltd. (formerly: Ashr'a The Israel Export Insurance Corporation Ltd.) ("the Company") for 2010 (collectively - "the reports").

2. To the best of my knowledge and after reviewing the reports, they do not contain any misstatement of a material fact or omit to disclose a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the reports.

3. To the best of my knowledge and after reviewing the reports, the financial statements and other financial information included in the directors' report fairly present, in all material respects, the financial position, results of operations, changes in equity and cash flows of the Company as of, and for, the periods presented in the reports.

4. The Company's other certifying officers and I are responsible for establishing and maintaining in the Company the disclosure controls and procedures required in the reports. Accordingly, we have designed such disclosure controls and procedures, or have had such disclosure controls and procedures established under our charge, designed to ensure that material information relating to the Company is made known to us by others in the Company particularly during the period in which the reports were prepared.

5. The Company's other certifying officers and I have disclosed to the Company's auditors and the Company's board of directors, based on our most recent evaluation, the following:

   a. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether material or not, that involves management or other employees who have a significant role in the Company's internal controls over financial reporting.

There is nothing in the aforesaid to derogate from my responsibility or the responsibility of anyone else, pursuant to any law.

January 9, 2012

Boaz Hirsh
Director
Chairman of
the Board of Directors' Meeting **)

*) The statement in the letter of representation is based on the Government Companies Articles of Association (Additional Report Regarding Actions Taken and Representations Made to Secure the Accuracy of the Financial Statements and Directors' Report), 2005.

**) As at the date of approval of the reports, the Company has no permanent Chairman of the Board of Directors who was appointed in accordance with the Government Companies Law, 1975. At its meeting on January 9, 2012, the Board of Directors authorized Mr. Boaz Hirsh to serve as the Chairman of the Board of Directors meeting which approved the financial statements and to sign the financial statements and all accompanying documents to the financial statements, in place of the Chairman.

Letter of Representation of the Company's CEO *)

I, Zvi Chalamish, certify that:

1. I have reviewed the financial statements and directors' report of Ashr'a - The Israel Foreign Trade Risks Insurance Corporation Ltd. (formerly: Ashr'a The Israel Export Insurance Corporation Ltd.) ("the Company") for 2010 (collectively - "the reports").

2. To the best of my knowledge and after reviewing the reports, they do not contain any misstatement of a material fact or omit to disclose a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the reports.

3. To the best of my knowledge and after reviewing the reports, the financial statements and other financial information included in the directors' report fairly present, in all material respects, the financial position, results of operations, changes in equity and cash flows of the Company as of, and for, the periods presented in the reports.

4. The Company's other certifying officers and I are responsible for establishing and maintaining in the Company the disclosure controls and procedures required in the reports. Accordingly, we have designed such disclosure controls and procedures, or have had such disclosure controls and procedures established under our charge, designed to ensure that material information relating to the Company is made known to us by others in the Company particularly during the period in which the reports were prepared.

5. The Company's other certifying officers and I have disclosed to the Company's auditors and the Company's board of directors, based on our most recent evaluation, the following:

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether material or not, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

There is nothing in the aforesaid to derogate from my responsibility or the responsibility of anyone else, pursuant to any law.

Zvi Chalamish
CEO

January 9, 2012

*) The statement in the letter of representation is based on the Government Companies Articles of Association (Additional Report Regarding Actions Taken and Representations Made to Secure the Accuracy of the Financial Statements and Directors' Report), 2005.

Letter of Representation of the Company's CFO *)

I, Yaron Messas, certify that:

1. I have reviewed the financial statements and directors' report of Ashr'a - The Israel Foreign Trade Risks Insurance Corporation Ltd. (formerly: Ashr'a The Israel Export Insurance Corporation Ltd.) ("the Company") for 2010 (collectively - "the reports").

2. To the best of my knowledge and after reviewing the reports, they do not contain any misstatement of a material fact or omit to disclose a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the reports.

3. To the best of my knowledge and after reviewing the reports, the financial statements and other financial information included in the directors' report fairly present, in all material respects, the financial position, results of operations, changes in equity and cash flows of the Company as of, and for, the periods presented in the reports.

4. The Company's other certifying officers and I are responsible for establishing and maintaining in the Company the disclosure controls and procedures required in the reports. Accordingly, we have designed such disclosure controls and procedures, or have had such disclosure controls and procedures established under our charge, designed to ensure that material information relating to the Company is made known to us by others in the Company particularly during the period in which the reports were prepared.

5. The Company's other certifying officers and I have disclosed to the Company's auditors and the Company's board of directors, based on our most recent evaluation, the following:

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether material or not, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

There is nothing in the aforesaid to derogate from my responsibility or the responsibility of anyone else, pursuant to any law.

Yaron Messas
CFO

January 9, 2012

*) The statement in the letter of representation is based on the Government Companies Articles of Association (Additional Report Regarding Actions Taken and Representations Made to Secure the Accuracy of the Financial Statements and Directors' Report), 2005.

Letter of Representation of the Company's CEO *)

I, Zvi Chalamish, certify that:

1. I have reviewed the financial statements and directors' report of Ashr'a - The Israel Foreign Trade Risks Insurance Corporation Ltd. (formerly: Ashr'a The Israel Export Insurance Corporation Ltd.) ("the Company") for 2010 (hereunder - "the reports").

2. To the best of my knowledge, the report does not contain any misstatement of a material fact or omit to disclose a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the report.

3. To the best of my knowledge, the financial statements and other financial information included in the report fairly present, in all material respects, the financial position, results of operations, changes in equity and cash flows of the insurance company as of, and for, the periods covered in the report.

4. The insurance company's other certifying officers and I are responsible for establishing and maintaining controls and procedures regarding the disclosure and the internal control over the financial reporting of the insurance company; furthermore,

   (a) We have designed such disclosure controls and procedures, or have had such disclosure controls and procedures established under our charge, designed to ensure that material information relating to the insurance company is made known to us by others in the insurance company particularly during the period in which the report was prepared.

   (b) We have designated an internal control over the financial reporing, or have supervised the designation of the internal control over the financial reporting, which is intended to provide a reasonable assurance regarding the reliability of the financial reporting and to assure that the financial statements are prepared in accordance with the Intesrnational Financial Reporting Standards (IFRS) and the directives of the Commissioner of Insurance.

   (c) We have evaluated the effectiveness of the disclosure controls and procedures of the insurance company and have presented our conclusions as to the effectiveness of those disclosure controls and procedures for the end of the period covered in the report based on our evaluation; and

   (d) We have disclosed in the report all changes in the insurance company's internal control over financial reporting that took place in the fourth quarter which had a material effect or are likely to have a material effect on the insurance company's internal control over financial reporting; and

5. The insurance company's other certifying officers and I have disclosed to the insurance company's auditors, board of directors and audit committee, based on our most recent evaluation of internal control over financial reporting, the following:

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the insurance company's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether material or not, that involves management or other employees who have a significant role in the insurance company's internal control over financial reporting.

There is nothing in the aforesaid to derogate from my responsibility or the responsibility of anyone else, pursuant to any law.

Zvi Chalamish
CEO

January 9, 2012

*) The statement in the letter of representation is based on the Institutional Entities Circular No. 2010-9-7of November 25, 2010.

Letter of Representation of the Company's CFO *)

I, Yaron Messas, certify that:

1. I have reviewed the financial statements and directors' report of Ashr'a - The Israel Foreign Trade Risks Insurance Corporation Ltd. (formerly: Ashr'a The Israel Export Insurance Corporation Ltd.) ("the Company") for 2010 (collectively - "the reports").

2. To the best of my knowledge, the report does not contain any misstatement of a material fact or omit to disclose a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the report.

3. To the best of my knowledge, the financial statements and other financial information included in the report fairly present, in all material respects, the financial position, results of operations, changes in equity and cash flows of the insurance company as of, and for, the periods covered in the report.

4. The insurance company's other certifying officers and I are responsible for establishing and maintaining controls and procedures regarding the disclosure and the internal control over the financial reporting of the insurance company; furthermore,

   (a) We have designed such disclosure controls and procedures, or have had such disclosure controls and procedures established under our charge, designed to ensure that material information relating to the insurance company is made known to us by others in the insurance company particularly during the period in which the report was prepared.

   (b) We have designated an internal control over the financial reporing, or have supervised the designation of the internal control over the financial reporting, which is intended to provide a reasonable assurance regarding the reliability of the financial reporting and to assure that the financial statements are prepared in accordance with the Intesrnational Financial Reporting Standards (IFRS) and the directives of the Commissioner of Insurance.

   (c) We have evaluated the effectiveness of the disclosure controls and procedures of the insurance company and have presented our conclusions as to the effectiveness of those disclosure controls and procedures for the end of the period covered in the report based on our evaluation; and

   (d) We have disclosed in the report all changes in the insurance company's internal control over financial reporting that took place in the fourth quarter which had a material effect or are likely to have a material effect on the insurance company's internal control over financial reporting; and

5. The insurance company's other certifying officers and I have disclosed to the insurance company's auditors, board of directors and audit committee, based on our most recent evaluation of internal control over financial reporting, the following:

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the insurance company's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether material or not, that involves management or other employees who have a significant role in the insurance company's internal control over financial reporting.

There is nothing in the aforesaid to derogate from my responsibility or the responsibility of anyone else, pursuant to any law.

Yaron Messas
CFO

January 9, 2012

*) The statement in the letter of representation is based on the Institutional Entities Circular No. 2010-9-7of November 25, 2010.

STATEMENTS OF FINANCIAL POSITION

		December 31,	
		2010	2009
ASSETS	**Note**	**U.S. dollars in thousands**	
Intangible assets	4	118	128
Deferred tax assets	18f	102	111
Fixed assets, net	5	601	584
Investment property	6	604	627
Reinsurance assets	11	19,190	28,278
Current taxe assets		336	-
Debtors and receivables	7	697	725
Financial investments:	8		
Quoted debt assets		27,320	25,370
Non-quoted debt assets		14	7,716
Others		447	158
Cash and cash equivalents	9	14,321	2,385
Total assets		63,750	66,082

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

STATEMENTS OF FINANCIAL POSITION

EQUITY AND LIABILITIES	Note	December 31, 2010	December 31, 2009
		U.S. dollars in thousands	
EQUITY	10		
Share capital		1,720	1,720
Extraordinary risk reserve		13,969	13,969
Revaluation reserve		521	521
Surplus		15,131	13,011
Total equity		31,341	29,221
LIABILITIES			
Liabilities in respect of insurance contracts	11	21,389	30,699
Liabilities in respect of employee benefits, net	12	88	64
Current tax liabilities		-	670
Creditors and payables	13	10,932	5,428
Total liabilities		32,409	36,861
Total equity and liabilities		63,750	66,082

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

January 9, 2012			
Date of approval of the financial statements	Boaz Hirsh Director Chairman of the Board of Directors Meeting (*)	Zvi Chalamish CEO	Yaron Messas CFO

(*) As at the date of approval of the reports, the Company has no permanent Chairman of the Board of Directors who was appointed in accordance with the Government Companies Law, 1975. At its meeting on January 9, 2012, the Board of Directors authorized Mr. Boaz Hirsh to serve as the Chairman of the Board of Directors meeting which approved the financial statements and to sign the financial statements and all accompanying documents to the financial statements, in place of the Chairman.

STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended December 31, 2010	2009	2008
		U.S. dollars in thousands (except net profit per share data)		
Gross earned premiums		5,917	5,756	7,075
Reinsurance premiums earned		5,315	5,183	6,386
Premiums earned on retention		602	573	689
Net investment income and finance income	14	2,883	2,193	1,820
Income from commissions	15	1,152	993	988
Total income		4,637	3,759	3,497
Payments and change in liabilities in respect of gross insurance contracts		(4,452)	3,178	(4,156)
Reinsurers' share in payments and change in liabilities in respect of insurance contracts		(4,216)	4,487	(3,064)
Payments and change in liabilities in respect of insurance contracts on retention		(236)	(1,309)	(1,092)
Marketing expenses	16	200	293	316
Administrative and general expenses	17	2,457	1,998	1,974
Total expenses		2,421	982	1,198
Income before taxes on income		2,216	2,777	2,299
Taxes on income	18	96	853	732
Net income		2,120	1,924	1,567
Other comprehensive income (after the tax effect)		-	-	-
Total comprehensive income		2,120	1,924	1,567
Net earnings per share (in U.S. dollars):				
Net earnings per share		0.88	0.80	0.65

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Extraordinary risk reserve	Revaluation reserve	Retained earnings	Total equity
	U.S. dollars in thousands				
Balance as at January 1, 2008	1,720	13,969	521	11,191	27,401
Comprehensive income	-	-	-	1,567	1,567
Dividend	-	-	-	(1,671)	(1,671)
Balance as at December 31, 2008	1,720	13,969	521	11,087	27,297
Comprehensive income	-	-	-	1,924	1,924
Balance as at December 31, 2009	1,720	13,969	521	13,011	29,221
Comprehensive income	-	-	-	2,120	2,120
Balance as at December 31, 2010	1,720	13,969	521	15,131	31,341

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

STATEMENTS OF CASH FLOWS

	Note	Year ended December 31, 2010	2009	2008
		U.S. dollars in thousands		
CASH FLOWS FROM CURRENT ACTIVITIES	a	12,042	(820)	807
CASH FLOWS FROM INVESTMENT ACTIVITIES				
Investment in fixed assets		(69)	(104)	(22)
Investment in investment property		(3)	-	(4)
Offset of investment property balances in respect of arrangement with the V.A.T. Authorities		20	-	-
Investment in intangible assets		(54)	(51)	(89)
Net cash used in investment activities		(106)	(155)	(115)
CASH FLOWS FROM FINANCE ACTIVITIES				
Dividend paid		-	-	(1,671)
Net cash used in finance activities		-	-	(1,671)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		11,936	(975)	(979)
BALANCE OF CASH AND CASH EQUIVALENTS AS AT THE BEGINNING OF THE YEAR		2,385	3,360	4,339
BALANCE OF CASH AND CASH EQUIVALENTS AS AT THE END OF THE YEAR		14,321	2,385	3,360

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

STATEMENTS OF CASH FLOWS

		Year ended December 31,		
		2010	2009	2008
		U.S. dollars in thousands		
(a)	**CASH FLOWS FROM CURRENT ACTIVITIES (1)**			
	Net income	2,120	1,924	1,567
	Items not involving cash flows:			
	Net losses (gains) from financial investments:			
	Quoted debt assets	(2,307)	(1,841)	(1,301)
	Unquoted debt assets	8	(124)	(374)
	Others	(62)	(29)	-
	Depreciation and amortization:			
	Fixed assets and prepaid lease fees	60	25	33
	Investment property and prepaid lease fees	27	25	44
	Intangible assets	64	61	49
	Change in liabilities in respect of insurance contracts	(9,310)	(2,124)	(7,664)
	Change in reinsurance assets	9,088	840	6,594
	Income tax expenses	96	853	732
	Changes in other balance sheet items:			
	Net sales (acquisitions) of financial investments	6,820	(1,253)	1,559
	Debtors and receivables	9	(13)	(1)
	Creditors and payables	5,504	(48)	(1,362)
	Liabilities in respect of employee benefits, net	24	10	(57)
	Cash paid and received during the year for:			
	Interest received	1,004	1,124	1,166
	Taxes paid	(1,103)	(502)	(329)
	Taxes received	-	252	151
	Net cash provided by (used in) current activities	12,042	(820)	807

(1) The cash flows from current activities include net acquisitions and sales of financial investments, deriving from activities in respect of insurance contracts.

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1:- GENERAL

a. Ashr'a - The Israel Foreign Trade Risks Insurance Corporation Ltd. (formerly: Ashr'a - The Israel Export Insurance Corporation Ltd.) (hereunder - the Company) is a Government company, as defined in the Government Companies Law, 1975 (hereunder - the Government Companies Law). The Company operates as an insurer in the general insurance field and provides credit insurance for medium and long term transactions to cover against commercial and political risks.

The Company is subject to the provisions of the Supervision of Financial Services (Insurance) Law, 1981 and the regulations enacted thereunder.

In addition, the Company is subject to the Government Companies Law, 1975 and the regulations enacted thereunder.

The presentations included in the financial statements are under the sole responsibility of the Company and the State of Israel is not bound by them.

b. On September 8, 2008, the Finance Committee of the Knesset (the Israeli parliament) authorized the Accountant General at the Ministry of Finance to sign a new guarantee letter in respect of the Company's losses from the export business, up to the total amount of $ 1,000 million, subject to the terms listed in the guarantee letter. On December 4, 2008, the Accountant General at the Ministry of Finance issued a new letter of guarantee to the Company. In accordance with the said guarantee letter, if the total amount of claims against the Company in the framework of the above guarantee exceeds $ 125 million, then half of the Company's equity is to be used to settle the claims in excess of the aforementioned amount, provided that the Company's equity does not fall below the amount of $ 10 million. In the event that the State's guarantee is realized at a sum higher than $ 125 million, or in the event that the Company's equity falls below the amount of $ 10 million, the Accountant General will examine the Company's future activities in general and in particular the manner of its activities in the framework of the above mentioned letter of guarantee. The guarantee will be valid for four years commencing on the date it is signed and will replace and revoke all the general letters of guarantee issued in the past.

In addition, a specific State guarantee was received to cover political risks in an extraordinary transaction.

On December 9, 2009, the Finance Committee of the Knesset (the Israeli parliament) approved that the Accountant General at the Ministry of Finance will sign a new guarantee letter in respect of the Company's losses from the export business, up to the total amount of $ 1,250 million, subject to the conditions detailed in the guarantee letter. Until the date of approval of the financial statements, no new guarantee letter was provided by the Accountant General at the Ministry of Finance.

With regard to the implications of the guarantee letter on the Company's dividend distribution policy, see Note 10(b) below.

c. On November 14, 2011 the Company's name was changed from Ashr'a - The Israel Export Insurance Corporation Ltd. to its present name.

NOTE 1:- GENERAL (Cont.)

d. Definitions:

In these financial statements:

The Company	- Ashr'a – The Israel Foreign Trade Risks Insurance Corporation Ltd. (formerly: Ashr'a - The Israel Export Insurance Corporation Ltd.)
Related parties	- as defined in IAS 24.
Israeli CPI	- The Consumer Price Index in Israel as published by the General Bureau of Statistics.
Dollar	- the U.S. dollar.
The Regulator	- The Regulator of the Insurance.
The Authority	- The Government Companies Authority.
Supervision Law	- The Supervision of Financial Services (Insurance) Law, 1981.
Capital Regulations	- Supervision of Insurance Business (Capital Adequacy Requirement from an Insurer) Regulations, 1998, as amended.
Details of Account Regulations	- Supervision of Insurance Business (Details of Account) Regulations, 1998, as amended.
Ways of Investment Regulations	- Supervision of Insurance Business (Ways of Investment of Capital and Reserves of an Insurer and Management of Its Liabilities), Regulations, 2001, as amended.
Insurance contracts	- Contracts in which one party (the insurer) assumes a significant insurance risk from another party (the policyholder) by consenting to compensate the policyholder if a pre-defined uncertain future event (the insurance case) adversely affects the policyholder.
Reinsurance assets	- Reinsurers' share in outstanding claims.
Premiums	- Premiums including fees.
Earned premiums	- Premiums relating to the reported period.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

a. Basis of presentation of the financial statements

1. Basis of Measurement

The Company's financial statements have been prepared on a cost basis, except for certain financial instruments that have been measured at fair value and except for the deferred tax assets and liabilities due to benefits to employees.

In accordance with the Government's decision (BK/70) of August 5, 2004, "the general accounting principles regarding Government companies are those of the private sector. The accounting principles that are specific to Government companies are in addition to the private sector's principles or an elaboration or clarification of subjects that are specific to Government companies, as detailed in the circulars of the Government Companies Authority. The accounting principles that are specific to Government companies will be adopted in accordance with the Government Companies Law".

2. The preparation format of the financial statements

These financial statements have been prepared in accordance with International Financial Reporting Standards (hereunder – IFRS Standards). These Standards comprise:

a) International Financial Reporting Standards (IFRS).
b) International Accounting Standards (IAS).
c) Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC).

In addition, the financial statements have been prepared in conformity with the disclosure requirements as prescribed by the Supervision Law, and in accordance with the Authority's directives.

3. Consistent accounting policies

The accounting policies adopted in the financial statements are consistent with those of all the reported periods.

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

Judgments

In the process of applying the accounting policies in the financial statements, the Company used its own judgement and considered the following issues, which have the most significant effect on the amounts recognized in the financial statements:

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Significant accounting judgments, estimates and assumptions used in the preparation of the financial statements (Cont.)

Judgments (Cont.)

1. Classification and designation of the financial investments

The Company's management has made the following judgments in classifying and designating the financial investments into the following groups:

- Financial assets measured at fair value through profit and loss.
- Investments held to maturity.
- Loans and debtors.
- Available-for-sale financial assets.

See paragraph f below.

2. Classification of lease

In order to examine whether to classify a lease as financing or operational, the Company examines whether the lease essentially transfers all risks and rewards associated with the ownership of the property. The Company also examines, among others, whether there is an option for acquisition at a special price, the leasing period in relation to the economic life span of the asset and the present value of the minimum leasing payments in relation to the fair value of the asset.

Estimates and assumptions

The preparation of the financial statements requires management to make estimates and assumptions that affect the adoption of the accounting policy and the reported amounts of assets, liabilities, income and expenses. The basis of the estimates and assumptions is reviewed regularly. The changes in accounting estimates are reported in the period of the change in estimate.

The key assumptions made in the financial statements concerning uncertainties at the rseporting date and the critical estimates computed by the Company to which a material adjustment will change the carrying amounts of assets and liabilities for the next financial year are discussed below.

1. Liabilities in respect of insurance contracts

Liabilities in respect of insurance contracts are based on a specific per claim evaluation based on opinions obtained from the Company's experts that handle the claims.

2. Pensions and other post-employment benefits

The liability in respect of a post-employment defined benefit plan is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Further details are given in Note 12.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Significant accounting judgments, estimates and assumptions used in the preparation of the financial statements (Cont.)

Estimates and assumptions (Cont.)

3. Impairment of financial investments

If there is objective evidence of an impairment loss in respect of loans and debtors reported at amortized cost, the reporting amount is allocated to the statement of comprehensive income, see Note 8. At each reporting date the Company examines whether there is such objective evidence.

4. Deferred tax assets

Deferred tax assets are recognized in respect of unused carry forward tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Management's estimate is required to determine the amount of deferred tax assets that can be recognized, based upon the timing and amount of future taxable income and its source, as well as the tax planning strategy . Further information is provided in Note 18.

c. Functional and foreign currencies

1) The financial statements presentation currency is in U.S. Dollar, which is the Company's functional currency and this in accordance with IAS 21, "The Effects of Changes in Foreign Exchange Rates".

The functional currency is the currency that best reflects the economic environment in which the Company operates and conducts its transactions and is used to measure its financial position and operating results.

2) Transactions, assets and liabilities in foreign currency

Transactions denominated in foreign currency (other than the functional currency) or in NIS are recorded upon initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in NIS or foreign currency which is not the dollar are translated at each reported date into the functional currency at the exchange rate at that date. Exchange rate differences, other than those capitalized to qualifying assets or carried to equity in hedging transactions, are recognized in the statement of comprehensive income. Non-monetary assets and liabilities measured at cost are translated at the exchange rate at the date of the transaction.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c. Functional and foreign currencies

3) Index-linked monetary items

Monetary assets and liabilities linked to the changes in the Israeli CPI are adjusted at the relevant index at each reporting date according to the terms of the agreement. Linkage differences arising from the adjustment, as mentioned, are allocated to the statement of comprehensive income.

4) The translation of these financial statements into New Israeli Shekels ("NIS") is reported in the appendix to the financial statements.

d. Current reporting format

The statements of financial position, which include the assets and liabilities of the Company, were reported by order of liquidity without separating between current and non-current assets and liabilities. This manner of presentation which provides more reliable and relevant data, is compatible with IFRS 1 "Presentation of Financial Statements".

e. Insurance contracts

IFRS 4 which deals with insurance contracts allows the insurer to continue with the accounting policies that were utilized before the transition date to IFRS regarding insurance contracts that were issued (including related acquisition costs and related intangible assets) as well as reinsurance contracts acquired.

Hereunder is a summary of the accounting principles relating to insurance contracts:

1. Revenue recognition

Insurance fees net of guarantees by the State of Israel and reinsurance, are allocated to the statement of comprehensive income using the straight line method over the period of the policy and the credit transaction. Some of the net insurance fees that relate to the period after the reporting date are allocated to the creditors and payables item.

2. Payments and change in liabilities item in respect of gross insurance contracts and insurance contracts on retention comprise, among other things, settlement and direct handling costs of claims paid and outstanding that occurred during the reported period as well as an adjustment of the provision for outstanding claims recorded in previous years. Subrogation is allocated at the date of collection.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Insurance contracts (Cont.)

3. Liabilities in respect of insurance contracts

These liabilities include outstanding claims as described in 4 below, including the State of Israel and reinsurers' share therein, and weer included in accordance with the Supervision of Insurance Business Regulations (Ways of Calculating Provisions for Future Claims in General Insurance), 1984, as amended.

4. Outstanding claims

The outstanding claims in the financial statements are computed according to the methods detailed below:

a) In accordance with the Regulator's directives, in the foreign trade risk branch an actuarial valuation is not required and the outstanding claims include known outstanding claims which include an adequate provision for settlement and handling expenses up to the end of the period and that have not yet been paid at the reporting date, and an addition to the outstanding claims calculated according to the excess of revenues over expenses method, as mentioned in b) below.

The known outstanding claims were included specifically per claim based on the opinion of the Company's experts who handle the claims.

b) In the foreign trade risk insurance branch, excess of revenues over expenses is calculated, in accordance with the regulations for calculating reserves and the Regulator's directives, on a four year accumulated basis (hereunder - the surplus) which is comprised of insurance premiums, claims, general and administrative expenses with the addition of investment income calculated at a real rate of return of 3% per annum (regardless of the actual return on the investments), all net of the reinsurers' share according to the relevant underwriting year.

The accumulated surplus up to the end of the fourth year from the date of commencement of the insurance, net of outstanding claims that were calculated as mentioned in paragraph a) above (hereunder - the accumulation) is included in outstanding claims and the deficit is recorded as an expense.

In addition, according to the said Regulations, the above mentioned accumulation in respect of the current underwriting year will not be lower than 50% of the insurance fees on retention that were recorded for that year.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Financial Instruments

1. Non-derivative financial instruments

Non-derivative financial instruments include financial assets and financial liabilities. Financial assets include financial investments (quoted debt assets, unquoted debt assets, shares and others) and other financial assets such as: other debtors and cash and cash equivalents. In addition, financial instruments include financial liabilities such as suppliers' credit and other creditors.

Initial recognition of non-derivative financial instruments is at fair value and regarding instruments not reported at fair value through profit and loss, with the addition of all direct transaction costs attributable, after initial recognition, non-derivative financial instruments are measured as detail below.

A financial asset is recognized as an asset or a liability on the date of receipt of the contractual terms by the Company (transaction date).

Cash and cash equivalents

Cash includes cash balances for immediate withdrawal and deposits on demand. Cash equivalents include highly liquid short-term investments that are readily convertible into known amounts of cash and are exposed to insignificant risk of changes in value and are not restricted.

Held-to-maturity investments

The Company has held-to-maturity investments that are financial assets (non-derivative) with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. After initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method taking into account transaction costs. Gains and losses are recognized in profit or loss when the investments are derecognized or if their impairment is recognized in their respect, and also as a result of a systematic amortization.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Financial Instruments (Cont.)

1. Non-derivative financial instruments (Cont.)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified to one of the following groups: financial assets measured at fair value through profit and loss; held-to-maturity investments; loans and receivables. After initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses from fair value adjustments, except for exchange rate differences that relate to monetary debt instruments that are allocated to profit and loss under the item investment income (loss), net and finance income, are allocated to equity as other comprehensive income (loss) to the capital reserve in respect of available for sale financial assets. When the investment is disposed of or in case of impairment, the other comprehensive income (loss) is allocated to the statement of comprehensive income.

Interest income on investments in debt instruments is recognized in the statement of comprehensive income using the effective interest method. Dividends earned on investments are recognized in the statement of comprehensive income on the determining date for eligibility to dividends.

Financial assets measured at fair value through profit and loss

The Company has financial assets measured at fair value through profit or loss, which include financial assets held for trade and financial assets designated, upon initial recognition, to be reported at fair value with changes therein and are allocated to profit or loss.

Financial instruments are classified as held for trade if they were acquired mainly for the purpose of sale or repurchase in the near future and constitute part of the identifiable financial instruments' portfolio managed together, in order to obtain short term profits. Profits or losses from investments held for trade are allocated when incurred, to the statement of profit or loss.

Financial instruments are designated at fair value through profit and loss if the Company manages this type of investments and makes buying and selling decisions based on their fair value in keeping with the Company's documentation of risk management or investment strategy. Upon initial recognition, attributable transaction costs are carried to profit and loss as incurred. These financial instruments are measured at fair value and the changes therein are allocated to profit and loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Financial Instruments (Cont.)

1. Non-derivative financial instruments (Cont.)

Loans and debtors

The Company has loans and debtors which are financial assets (which are not non-derivative) of fixed payments or definable payments, that are not traded in an active market. After initial recognition, the loans are reported according to their terms at an amortized cost using the effective interest method, which also takes the directly attributed transaction costs, if any, into account. Short term credit (such as customer credit and other debtors) is reported according to its terms, usually at nominal value. Profits and losses are recognized in profit or loss and loans and debtors are derecognized or if an impairment in value is recognized in their respect, and as a result of the systematic amortization.

2. Index linked assets and liabilities - not measured at fair value

The value of index linked financial assets and liabilities, which are not measured at fair value, are revaluated each period in accordance with the actual increase of the index.

3. The Company decided to designate the assets as follows:

- Quoted financial instruments –

  classified to the group of fair value through profit and loss.

- Non-quoted financial assets –

  assets that meet the criteria of a group of loans and receivables were classified to this group and measured at amortized cost using the effective interest method.

4. Determination of fair value

The fair value of financial instruments traded in an active market is determined by the market prices on the reported date. In respect of financial assets that do not have an active market, the fair value is determined by using evaluation methods. These methods are based on recent transactions under market conditions, reference to the present market value of another similar instrument, capitalization of cash flows or other evaluation methods. The fair value of deposits is calculated using the capitalization cash flow model.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Financial Instruments (Cont.)

5. De-recognition of financial instruments

Financial assets

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or when the company has transferred its contractual rights to receive cash flows from the financial asset or when it assumed an obligation to pay the cash flows in full without material delay to the third party and in addition, it has actually transferred all the risks and rewards related to the asset, or has neither transferred nor actually retained all the risks and rewards related to the asset, but has transferred control of the asset.

If the Company transfers its rights to receive cash flows from an asset and neither transfers nor retains substantially all the risks and rewards of the asset nor transfers control of the asset, a new asset is recognized to the extent of the Company's continuing involvement in the asset. When continuing involvement takes the form of guaranteeing the transferred asset, the extent of the continuing involvement is the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Company could be required to repay.

6. Regarding impairment of financial assets, see paragraph k below.

g. Fixed assets

1. Recognition and measurement:

Items of fixed assets are measured at cost net of accumulated depreciation.

Cost includes costs that are directly attributable to the purchase of the asset. Cost of purchased software that forms an integral part of the operation of the relevant hardware is capitalized as part of the cost of the hardware.

2. Depreciation:

Depreciation is calculated at equal annual rates using the straight-line method over the useful life of the assets.

The depreciation rates used in the current period and in the comparative periods are as follows:

	%
Office buildings *)	2 - 4
Computers	25 - 33
Office furniture and equipment	6 - 15
Vehicles	15

*) The land component is depreciated on the straight line method over the period of the lease.

The useful life, the depreciation method, and the residual value of each asset are examined at least at each year end and the changes are treated as an accounting change, prospectively.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Investment property

An investment property is property (land or a building or part of a building or both) held (by the owner or under a finance lease) to earn rentals or for capital appreciation or both rather than for use in the production or supply of goods or services or for administrative purposes; or sale in the ordinary course of business.

Real estate rights leased by the Company under an operating lease are classified and accounted for as investment property.

Investment property is measured initially at cost with the addition of directly attributable acquisition costs. In subsequent periods, after initial recognition, investment property is stated at cost, less accumulated depreciation and accumulated impairment losses and accounted for similarly to fixed assets measured at cost. As for the testing of impairment, see k below.

Investment property is depreciated on a straight-line basis over the lease period or based on the asset's estimated useful life, whichever is shorter.

i. Leases

The tests for classifying leases as finance or operating leases are based on the nature of the agreements and they are examined at the date of engagement according to the provisions of IAS 17 as follows:

Operating leases

Lease agreements in which the Company did not actually transfer all the risks and rewards involved in the ownership of the leased asset, are classified as an operating lease. Initial direct costs incurred in respect of the lease agreement, except those relating to investment propertywhich are allocated to profit or loss, are added to the cost of the leased asset and are recognized as an expenses over the lease period on the same basis as the income from the lease agreement. The lease receipts are recognized as an income in profit or loss on a straight line over the period of the lease.

j. Intangible assets

Intangible assets with indefinite useful lives are not systematically amortized and are tested for impairment annually or whenever there is an indication that the intangible asset may be impaired (also see paragraph k below). The useful life of these assets is reviewed annually to determine whether their indefinite life assessment continues to be supportable. If the events and circumstances do not continue to support the assessment, as mentioned above, the change in the useful life assessment from indefinite to finite is accounted for as prospective change in accounting estimate and on that date the impairment of the asset is tested and it is amortized systematically over its useful economic life.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Intangible assets (Cont.)

Intangible assets with definite useful lives are amortized over their useful life and are reviewed for impairment whenever there is an indication that the asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits from the asset are accounted for as prospective changes in accounting estimates. The amortization charge on intangible assets with finite useful lives is recognized in the statement of profit and loss.

1. Software

The Company's assets include computer systems comprising hardware and software. Software forming an integral part of the hardware to the extent that the hardware cannot function without the programs installed on it, is classified as fixed assets. In contrast, software that adds functionality to the hardware is classified as an intangible asset.

2. Amortization

Software is amortized on a straight line basis over 3 years. The amortization is allocated to the statement of comprehensive income using the straight line method from the date on which the assets are available for sale.

The estimates regarding the amortization method and the useful life are examined at least every end of the reporting period.

k. Impairment

The Company examines at each reporting date whether the financial asset or group of financial assets is impaired as follows:

1. Financial investments

Financial assets carried at amortized cost:

There is objective evidence in respect of debt instruments, loans and debtors that are reported at amortized cost, when one or more events adversely effected the estimate of the asset's future cash flows after the date of recognition. Evidence for impairment include indications that the debtor has financial difficulties, including liquidity difficulties and inability to comply with the payments of the principal and interest. The amount of the loss that is allocated to the statement of comprehensive income is measured as the difference between the asset's balance in the financial statements and the present value of the estimated future cash flows (excluding future credit losses that have not yet been incurred) capitalized at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). If the financial asset has a variable interest rate, the discount rate is the current effective interest rate. The balance of the asset in the financial statements is reduced by recording a provision. In a subsequent periods, the impairment loss is reversed if the recovery of the asset's value can be attributed objectively to an event that occurred after the loss was recognized. This reversal is allocated to profit and loss up to the amount of the recognized loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Impairment (Cont.)

2. Reinsurance -

The reinsurers' liabilities towards the Company do not release the Company from its obligations towards the policyholders according to the insurance policies.
However, the Company does not bear any risk arising from non compliance with liabilities of these insurers since in all of these cases, the State's liability towards the Company as a full reinsurer remains in tact according to the terms of the State's guarantee discussed in Note 1(b) above.

3. Non-financial assets -

The Company examines the need to record an impairment of non-financial assets (fixed assets and investment property) whenever events or changes in circumstances indicate that the balance in the financial statements is not recoverable. If the balance in the financial statements of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of the fair value net of selling costs and value in use. In measuring value in use, the estimated future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are allocated to the statement of comprehensive income in other expenses.

l. Liabilities for employee benefits

The Company has several employee benefit plans:

1. Short-term employee benefits -

Short-term employee benefits include salaries, paid annual leave, paid sick leave, recreation and the employer's social security contributions and are recognized as an expense when the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Company has a legal or constructive obligation to make such payment as a result of past service rendered by an employee in the past and a reliable estimate of the amount can be made.

2. Post-employment benefits -

The Company's obligation referring to a defined benefit plan in respect of post-retirement benefits is calculated for each plan separately by estimating the future amount of the benefit payable to the employee in return for their services in the current period and in past periods. This benefit is presented at present value net of the fair value of the plan's assets. The discount rate is determined based on the return on the date of reporting Government bonds with similar currency and maturity dates as the Company's obligation. The calculations are performed by a qualified actuary using the projected unit credit method.

Actuarial gains and losses are recognized in profit or loss when incurred.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. Investment income, net and finance income

Net investment income (losses) and finance income, include interest income and linkage differences in respect of amounts invested, changes in the fair value of financial assets reported at fair value through profit or loss, income (losses) from foreign currency (which is not the functional currency) in respect of financial assets and income from leasing fees of investment property.

Income (losses) from realization of investments are calculated as the difference between the sale consideration, net and the initial cost or amortized cost and are recognized at the time of the sale event.

Interest income is recognized upon accruals, using the effective interest method.

Profits and losses from exchange rate differences and changes in the fair value of investments are reported on a net basis.

n. Taxes on income

Taxes on income in profit or loss include current and deferred taxes. The income tax expense is allocated to the statement of comprehensive income unless the tax results from a transaction or an event directly recognized in equity. In such cases, the income tax expense is allocated to equity.

1. Current taxes -

The current tax is the tax amount expected to be paid on the annual taxable income, which is calculated using the tax rates and the tax laws enacted or which have been essentially enacted, up to the reporting date, and adjustments are required in relation to the tax liability to be paid in respect of previous years.

2. Deferred taxes -

Deferred taxes are calculated in respect of temporary differences between the amounts included in the financial statements and the amounts taken into account for tax purposes.

Deferred tax balances are calculated according to the tax rate expected to be applicable when these taxes will be allocated to profir or loss, or to equity, based on tax laws that were legislated or practically legislated up to the reporting date. The amount of the deferred taxes in the profit or loss expresses the changes in the above balances during the reporting period (see Note 22 below).

Deferred tax assets are exapimed at each reporting period and are amortized if they are not expected to be utilized. Concurrently, temporary differences (such as carry forward losses for tax purposes) for which deferred tax asses were not recognized, are examined and if they are expected to be utilized, a relevant deferred tax asset is recognized. Any amortization and recognition as mentioned is allocated to the taxes on income item.

All the deferred tax assets are reported in the statement of financial position as non current assets.
The Company offsets deferred tax assets and liabilities.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

o. Earnings per share

The Company presents data of basic earnings per share for its Ordinary share capital. Basic earnings per share are computed by dividing the income or loss attributable to the Ordinary shareholders of the Company by the weighted average number of Ordinary shares outstanding during the period.

p. Operating segments -

An operating segment is a component of the Company that meets the following three criteria:

1. Is engaged in business activities from which it may earn income and in which expenses may incur.

2. Its operating results are regularly reviewed by the Company's chief operating decision maker, in order to make decisions about resources to be allocated to the segment and evaluate its performance; and

3. For which separate financial information is available.

q. Presentation of statement of comprehensive income

The Company elected to record a single statement of the comprehensive income, which includes the details of the statements of profit and loss and the details of the statement of other comprehensive income.

r. Disclosure of new IFRS Standards in the period prior to its adoption

1. IFRS 7 - Financial Instruments - Disclosure

The amendment to IFRS 7 (hereunder the amendment) deals with new and extensive disclosure requirements regarding the disposal of financial assets as well as disclosure requirements in cases of unusual transfer activity around or near the end of a reporting period. The objective of the amendment is to assist users of financial statements to assess the risks to which the Company may remain exposed from transfers of financial assets and the effect of these risks on the Company's financial position. The amendment is designed to enhance the reporting transparency of transactions involving asset transfers, specifically securitization of financial assets. The amendment should be applied prospectively commencing from the financial statements for periods beginning on January 1, 2012. Earlier application is permitted.

The relevant disclosures will be included in the Company's financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

r. Disclosure of new IFRS Standards in the period prior to its adoption (Cont.)

2. IFRS 9 - Financial Instruments

a. In November 2009, the IASB issued the first part of the first stage (Phase 1 of IFRS 9, "Financial Instruments", as part of the project to replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 focuses mainly on the classification and measurement of financial assets and it applies to all financial assets within the scope of IAS 39.

According to IFRS 9, upon initial recognition, all the financial assets (including hybrid contracts with financial asset hosts) will be measured at fair value. In subsequent periods, debt instruments can be measured at amortized cost if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows.

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Notwithstanding the aforesaid, upon initial recognition, the Company may designate a debt instrument that meets both of the abovementioned conditions as measured at fair value through profit or loss if this designation eliminates or significantly reduces a measurement or recognition inconsistency ("accounting mismatch") that would have otherwise arisen.

Subsequent measurement of all other debt instruments and financial assets will be at fair value.

Financial assets that are equity instruments will be measured in subsequent periods at fair value and the changes will be recognized in the statement of profit and loss or in other comprehensive income (loss), in accordance with the election of the accounting policy on an instrument-by-instrument basis (amounts recognized in other comprehensive income cannot be subsequently transferred to profit or loss). Nevertheless, if the equity instruments are held for trading, they must be measured at fair value through profit or loss. This election is final and irrevocable. When an entity changes its business model for managing financial assets it shall reclassify all affected financial assets. In all other circumstances, reclassification of financial instruments is not permitted

The Standard will be effective starting January 1, 2013. Earlier application is permitted. Early adoption will be made with a retrospective restatement of comparative figures, subject to the reliefs set out in the Standard.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

r. Disclosure of new IFRS Standards in the period prior to their adoption (Cont.)

2. IFRS 9 - Financial Instruments (Cont.)

b. In October 2010, the IASB issued certain amendments to IFRS 9 regarding derecognition and financial liabilities. According to those amendments, the provisions of IAS 39 will continue to apply to derecognition and to financial liabilities for which the fair value option has not been elected (designated as measured at fair value through profit or loss); that is, the classification and measurement provisions of IAS 39 will continue to apply to financial liabilities held for trading and financial liabilities measured at amortized cost.

The changes arising from these amendments affect the measurement of a liability for which the fair value option has been chosen. Pursuant to the amendments, the amount of the adjustment to the liability's fair value that is attributable to changes in credit risk should be reported in other comprehensive income. All other fair value adjustments should be reported in the statement of comprehensive income.

Furthermore, according to the amendments, derivative liabilities in respect of certain unquoted equity instruments can no longer be measured at cost but rather only at fair value.

The amendments are effective commencing from January 1, 2013. Earlier application is permitted provided that the Company also adopts the provisions of IFRS 9 regarding the classification and measurement of financial assets (the first part of Phase 1). Upon initial application, the amendments should be applied retrospectively, including the restatement of comparative figures, subject to the reliefs as specified in the amendments.

The Company believes that the application of the new Standard is not expected to have an effect on the financial statements.

3. IAS 24 - Related Party Disclosures

The amendment to IAS 24 clarifies the definition of a related party in order to simplify the identification of such relationships and to eliminate inconsistencies in its application. In addition, Government-related companies are provided a partial exemption of disclosure requirements for transactions with the Government and other Government-related companies. The amendment should be applied retrospectively commencing from the financial statements for annual periods beginning on January 1, 2011. Earlier application is permitted.

The relevant disclosures will be included when necessary in the Company's financial statements.

s. Details of the Israeli CPI and the representative exchange rates of the U.S. dollar:

	Consumer Price Index		Exchange rate of 1 U.S. $
	Index for	Known index	
	%	%	%
Year ended December 31, 2010	2.6	2.3	(6.0)
Year ended December 31, 2009	3.9	3.8	(0.7)
Year ended December 31, 2008	3.8	4.5	(1.1)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

t. Circulars of the Government Companies Authority

1. In February 2009, the Authority published circulars regarding the disclosure and presentation of details in the financial statements, whereby the Company is required, among others, as following:

   a) "Objectives were determined for a Government company" whereby the company will include in its financial statements essential financial information that is relevant to the State and to other users of the financial statements, in order to come to financial decisions in such a manner that the information will more adequately reflect the economic essence of events and transactions while carrying out the objectives that were determined and will include consistent and comparative information in respect of previous periods. The company will report, among others, the following issues:

      1) The objectives prescribed.

      2) Monetary performance of the objectives that were determined, including the performance rate, if the objectives and rate can be quantified according to a reasonable estimate.

      3) Financial limitations and difficulties which arose while carrying out the objectives that were determined and the monetary implications of these limitations and difficulties.

      4) The Company granted a right to limit the State, as mentioned under section 11a9a, which will indicate the limitations that were created, the reasons and rentability for creating the limitations and a description of the approvals granted in accordance with the law. In the event that the approval cannot be provided according to law, a disclosure and explanations will be provided.

      5) The objectives that were determined for a company include financial objectives, including targets for meeting recognized normative costs that should be disclosed, including the normative costs and the differences between them and the actual costs, as they are expressed in the financial statements.

      6) A report of the monetary significance regarding activities related to protecting the essential interests of the State, if determined, pursuant to Chapter h2 to the Law.

      - No objectives, as aforementioned, were determined for the Company.

   b) "A company is required to act, with respect to the adjustment to its monetary balances with the State and the other factors, as follows:

      1) A Government company will act to fully adjust the asset balances, liabilities, equity and all the other commitments reported in the financial statements with the State, its authorities and other government companies and interested parties in the company. The abovementioned is also applicable to the assets operated by the company for these entities which they do not own.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

t. Circulars of the Government Companies Authority (Cont.)

1. (Cont.)

b) (Cont.)

2) A company will act to obtain a full balance reconciliation with the State, its authorities, Government companies and other interested parties in the company and will act to obtain written approvals from authorized entities on behalf of the State, its authorities or government companies that will be addressed directly to the company's accountants, together with a copy that will be sent the company.

3) The company will verify the adequacy of the registration rights of the company and the State in the company's assets and the State assets held or operated by it, and this will be disclosed in the financial statements. If the rights are not registered, an explanation will be provided in the Board of Directors' report.

4) If no confirmations of balances are received from the authorized entities, as mentioned above, the company will provide a proper disclosure in this respect in its financial statements, subject to significance of the balances.

- See Notes 5, 6 and 20 below.

c) A company will provide a disclosure in its financial statements regarding assets (real estate and fixed assets) as detailed below:

1) The company will provide a proper disclosure in the financial statements regarding its rights in material assets (real estate and fixed assets) in its possession or operated/held by it for the State or others, including assets in respect of which there was a dispute in the past with any of the State authorities regarding the rights therein. This disclosure will include a description of the company's rights in these assets (ownership, lease and duration of term, trusteeship and other rights) as well as conditions, limitations or obligations that the company has regarding these assets (duty of transferring to the State, duty of obtaining an approval of transferring the right therein, etc.).

2) Description of the State rights and others in the above assets.

3) The position of registrations or approvals that were obtained or granted regarding the above rights, such as registration or certificate of ownership or lease, or trust, protected leasing or by permission, seizure/closing /other orders, registration of a caveat with the Land Registry Bureau and in any other relevant place in accordance with the provisions of the law.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

t. Government Companies Authority Circulars: (Cont.)

1. (Cont.)

c) (Cont.)

4) Disputes, if any, regarding the assets and rights linked to the assets.

5) The company will provide a proper disclosure in the financial statements in respect of the existence of real estate assets that are not utilized economically for the company's activities and their utilization considering their potential is partial and / or the consideration in their respect is partial and does not reflect an adequate consideration in real terms.

6) If significant assessments or valuations were performed, they will be passed on to the Board of Directors, together with any relevant detail for examining their plausibility, correctness, proficiency, as well as the independence of their operators, at a reasonable time before the discussion of the draft financial statements in the company's Board of Directors and Board of Directors will examine their plausibility and make sure that they will not contain any misleading information.

7) The company will provide a disclosure in its financial statements in respect of the application of the Companies Authority's directives regarding reporting and controlling principles, regarding real estate and fixed assets in government companies, in accordance with the financial statements circular 2006-3 dated September 17, 2006.

- The company has leasing rights on part of the real estate assets and ownership rights on the remainder of its assets. See Notes 5 and 6 below.

  In addition, during the year 2009 the company began to lease a vacant real estate asset it owns. The income from leasing the asset is recorded under the item investment income in the framework of an other segment in the statements of profit and loss.

d) Non-inclusion of misleading details in the financial statements and related information of government companies:

1. Government companies are required to ensure that the financial statements and accompanying information submitted by them will not include misleading details, including information which might mislead a reasonable reader of the financial statements and the information accompanying them.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

t. Government Companies Authority Circulars: (Cont.)

1. (Cont.)

d) (Cont.)

2) It should be explicitly noted in the financial statements that the presentations included in the financial statements and the accompanying information are under the responsibility of the company only and they do not bind the State of Israel. "

- See Note 1a'l below.

e) "As a relevant lesson from the international financial crises of late, for the purpose of accounting presentation in the financial statements, a company should make sure that:

1) When the accounting principles allow to present a number of alternatives, the company should make sure that the selected alternative is the alternative that will display the most relevant, accurate and reliable presentation.

2) If the accounting presentation that was selected includes significant uncertainty, it will be disclosed as the case may be, either in the financial statements or it will be included in the disclosure of the Board of Directors in respect of significant accounting estimates included in the financial statements

3) If the financial statements or accompanying information include information that was not entirely examined by the provider of the opinion or the company and the information is based on other factors, a disclosure should be provided in this respect.

- See Note 2 regarding the Company's significant accounting policies.

f) "Transactions with the State of Israel, its authorities and other government companies:

A government company will provide a proper disclosure in its financial statements regarding transactions and balances with the State of Israel, its authorities and other government companies, including the manner of accounting treatment of such transactions and balances. The company should ensure that the transactions will be reported in accordance with their nature (transactions with the State as the governor, as an interested party, etc.). If there is any uncertainty, a disclosure should be provided in the financial statements and the company should act in coordination with the Authorities and other state entities, in order to remove the aforementioned uncertainty.

- See Note 20 below.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

t. Government Companies Authority Circulars: (Cont.)

1. (Cont.)

g) "the annual and quarterly financial statements will include the statements of the Chairman of the Board of Directors, the general manager and the finance manager, according to a pre-determined formula".

- The Company attaches the said statements.

h) "A disclosure of the liability regarding information included in the expert's report, which the company relies on in its financial statements – an appropriate disclosure is required in the expert's report on which the company relies regarding the liability of various entities to the correctness of the said information".

i) "An accurate recording of liabilities in respect of severance pay in the financial statements – the company should make sure that the rights that will be recorded in the financial statements will not deviate from the existing rights in respect of labour laws".

j) "The company will provide a disclosure regarding the authority's policy regarding dividend distribution from the company's profits"

- See Note 10 (b) below.

2. In June 2009 the Companies Authorities published a circular regarding risk management in government companies.

The purpose of the circular is to establish principles to regulate the duty of a government company to institutionalize an orderly process for risk management for risks it is exposed to, while creating monitoring mechanisms. In this context, it was determined that the company's Board of Directors should outline a risk management policy and supervise its

The circular prescribes, among others, that all government companies should determine the types of risks to which they are exposed, to create a hierarchy among them, to determine priorities for handling them and to define the factors that are permitted to create an exposure to risks, to hedge them and to handle them and their authority, as well as the process of internal control in the framework of the company, including the manner of reporting to the Board of Directors.

It was also determined in the circular, among others, that the company's Board of Directors will appoint a risk manager from the existing board members, provided that there would not be any conflicts of interest between his role as a risk manager and his other duties and that his capability in his capacity as a risk manager will not be affected.

See Note 19.

NOTE 3:- OPERATING SEGMENTS

The Company operates in one main operating segment - foreign trade risk insurance. The "other" segment relates to the Company's investments, mainly in real estate and financial investments held against the Company's equity.

a. Results according to operating segment

	Year ended December 31, 2010		
	Foreign trade risk insurance	Other	Total
	U.S. dollars in thousands		
Gross earned premiums	5,917	-	5,917
Premiums earned by reinsurers	5,315	-	5,315
Premiums earned on retention	602	-	602
Investment income, net and finance income	786	2,097	2,883
Income from commissions	1,152	-	1,152
Total income	2,540	2,097	4,637
Payments and change in liabilities in respect of gross insurance contracts	(4,452)	-	(4,452)
Reinsurers' share in payments and change in liabilities in respect of insurance contracts	(4,216)	-	(4,216)
Payments and change in liabilities in respect of insurance contracts on retention	(236)	-	(236)
Marketing expenses	200	-	200
Administrative and general expenses	2,457	-	2,457
Total expenses	2,421	-	2,421
Income before taxes on income	119	2,097	2,216
Comprehensive income before taxes on income	119	2,097	2,216
Liabilities in respect of gross insurance contracts as at December 31, 2010	21,389	-	21,389

NOTE 3:- OPERATING SEGMENTS (Cont.)

a. Results according to operating segment (Cont.)

	Year ended December 31, 2009		
	Foreign trade risk insurance	Other	Total
	U.S. dollars in thousands		
Gross earned premiums	5,756	-	5,756
Premiums earned by reinsurers	5,183	-	5,183
Premiums earned on retention	573	-	573
Investment income, net and finance income	576	1,617	2,193
Income from commissions	993	-	993
Total income	2,142	1,617	3,759
Payments and change in liabilities in respect of gross insurance contracts	3,178	-	3,178
Reinsurers' share in payments and change in liabilities in respect of insurance contracts	4,487	-	4,487
Payments and change in liabilities in respect of insurance contracts on retention	(1,309)	-	(1,309)
Marketing expenses	293	-	293
Administrative and general expenses	1,998	-	1,998
Total expenses	982	-	982
Income before taxes on income	1,160	1,617	2,777
Comprehensive income before taxes on income	1,160	1,617	2,777
Liabilities in respect of gross insurance contracts as at December 31, 2009	30,699	-	30,699

NOTE 3:- OPERATING SEGMENTS (Cont.)

a. Results according to operating segment (Cont.)

	Year ended December 31, 2008		
	Foreign trade risk insurance	Other	Total
	U.S. dollars in thousands		
Gross earned premiums	7,075	-	7,075
Premiums earned by reinsurers	6,386	-	6,386
Premiums earned on retention	689	-	689
Investment income, net and finance income	604	1,216	1,820
Income from commissions	988	-	988
Total income	2,281	1,216	3,497
Payments and change in liabilities in respect of gross insurance contracts	(4,156)	-	(4,156)
Reinsurers' share in payments and change in liabilities in respect of insurance contracts	(3,064)	-	(3,064)
Payments and change in liabilities in respect of insurance contracts on retention	(1,092)	-	(1,092)
Marketing expenses	316	-	316
Administrative and general expenses	1,974	-	1,974
Total expenses	1,198	-	1,198
Income before taxes on income	1,083	1,216	2,299
Comprehensive income before taxes on income	1,083	1,216	2,299
Liabilities in respect of gross insurance contracts as at December 31, 2008	32,823	-	32,823

NOTE 3:- OPERATING SEGMENTS (Cont.)

b. Composition of assets and liabilities by operating segments

	December 31, 2010		
	Foreign trade risk insurance	Other	Total
	U.S. dollars in thousands		
ASSETS			
Intangible assets	-	118	118
Financial investments	2,493	25,288	27,781
Reinsurance assets	19,190	-	19,190
Other assets	10,323	6,338	16,661
Total assets	32,006	31,744	63,750
LIABILITIES			
Liabilities in respect of insurance contracts	21,389	-	21,389
Other liabilities	10,617	403	11,020
Total liabilities	32,006	403	32,409

	December 31, 2009		
	Foreign trade risk insurance	Other	Total
	U.S. dollars in thousands		
ASSETS			
Intangible assets	-	128	128
Financial investments	6,400	26,844	33,244
Reinsurance assets	28,278	-	28,278
Other assets	1,192	3,240	4,432
Total assets	35,870	30,212	66,082
LIABILITIES			
Liabilities in respect of insurance contracts	30,699	-	30,699
Other liabilities	5,171	991	6,162
Total liabilities	35,870	991	36,861

NOTE 4:- INTANGIBLE ASSETS

Movement hereunder:

	Computer software
	U.S. dollars in thousands
COST	
Balance as at January 1, 2009	322
Additions	51
Balance as at December 31, 2009	373
Additions	54
Balance as at December 31, 2010	427
ACCUMULATED AMORTIZATION	
Balance as at January 1, 2009	184
Amortization recognized during the year	61
Balance as at December 31, 2009	245
Amortization recognized during the year	64
Balance as at December 31, 2010	309
NET BALANCE	
As at December 31, 2010	118
As at December 31, 2009	128

NOTE 5:- FIXED ASSETS, NET

a. Composition and movement

In 2010

	Office buildings	Computers	Office furniture and equipment	Vehicles	Total
	U.S. dollars in thousands				
Cost					
Balance as at January 1, 2010	710	180	266	-	1,156
Acquisitions	4	4	7	54	69
Balance as at December 31, 2010	714	184	273	54	1,225
Accumulated depreciation					
Balance at January 1, 2010	237	121	214	-	572
Depreciation	19	24	9	-	52
Balance as at December 31, 2010	256	145	223	-	624
Balance of amortized cost as at December 31, 2010	458	39	50	54	601

In 2009

	Office buildings	Computers	Office furniture and equipment	Total
	U.S. dollars in thousands			
Cost				
Balance as at January 1, 2009	666	133	253	1,052
Acquisitions	44	47	13	104
Balance as at December 31, 2009	710	180	266	1,156
Accumulated depreciation				
Balance at January 1, 2009	245	108	203	556
Depreciation	(7)	12	11	16
Balance as at December 31, 2009	238	120	214	572
Balance of depreciated cost as at December 31, 2009	472	60	52	584

NOTE 5:- FIXED ASSETS, NET (Cont.)

b. Office buildings

1. The rights to the office buildings are the leasing rights from the Tel-Aviv-Jaffa Municipality. The leasing period for the office buildings with depreciated cost of $ 454 thousand ends in 2032 and for the office buildings with depreciated of $ 4 thousand the leasing period ends in 2028.

   A total amount of $ 179 thousand in respect of leased office buildings is presented in prepaid lease fees under debtors and receivables.

2. The fair value of office buildings as at December 31, 2010 in accordance with the Company's valuation based on rent transactions of similar assets is $ 900 thousand (as at December 31, 2009 - $ 870 thousand).

NOTE 6:- INVESTMENT PROPERTY

a. Movement

	December 31	
	2010	2009
	U.S. dollars in thousands	
COST		
Balance at January 1	1,547	1,547
Acquisitions	3	-
Disposals *)	(20)	-
Balance as at December 31	1,530	1,547
ACCUMULATED DEPRECIATION		
Balance at January 1	920	916
Depreciation	6	4
Balance at December 31	926	920
Balance of depreciated cost as at December 31	604	627

*) In accordance with the agreement with the Tax Authorities from April 2010, the Company was allowed to offset the VAT receipts from the investment property cost in respect of leasing transactions it collects from its tenants up to the amount of NIS 650 thousand (about $ 185 thousand). In the year 2010 the amounts of $ 20 thousand were offset.

NOTE 6:- INVESTMENT PROPERTY (Cont.)

b. Rights in real estate

	December 31,	
	2010	2009
	U.S. dollars in thousands	
Under ownership	5	5
Under leasehold rights from Tel-Aviv-Jaffa Municipality ending in 2032	599	622
	604	627

c. Fair value of investment property

	December 31,			
	2010		2009	
	Depreciated cost	Fair value	Depreciated cost	Fair value
	U.S. dollars in thousands			
Included in:				
Investment property above	604	1,391	627	1,221
Prepaid lease fees (Note 7)	438	695	458	611
	1,042	2,086	1,085	1,832

The fair value at December 31, 2010 was determined based on an internal calculation of estimated expected future cash flows to derive from the property. In estimating the cash flows, the Company took into consideration their inherent risk. In calculating the fair value, the Company used a capitalization rate of 13.5% (in the year 2009 – 11.5%).

NOTE 7:- DEBTORS AND RECEIVABLES

Composition:

	December 31,	
	2010	2009
	U.S. dollars in thousands	
Prepaid lease expenses *)	617	646
Prepaid expenses	28	38
Others	52	41
	697	725

*) The Company has a lease agreement with the Tel-Aviv-Jaffa Municipality regarding the Company's real estate property on 65 Menachem Begin Rd., Tel Aviv, part of which the Company rents and part of which is used as the Company's offices. Pursuant to the lease agreement, the Company has rights to lease the land for a period of 47 years starting from the date of acquisition of the rights and ending in 2032.

The amounts paid for the land component represent prepaid lease fees and are amortized over the lease period.

NOTE 8:- FINANCIAL INVESTMENTS

a. Composition according to measurement basis

	December 31, 2010		
	Reported at fair value through profit and loss	Loans and debtors	Total
	U.S. dollars in thousands		
Quoted debt assets	27,320	-	27,320
Unquoted debt assets	-	14	14
Others	447	-	447
Total	27,767	14	27,781

	December 31, 2009		
	Reported at fair value through profit and loss	Loans and debtors	Total
	U.S. dollars in thousands		
Quoted debt assets	25,370	-	25,370
Unquoted debt assets	-	7,716	7,716
Other	158	-	158
Total	25,528	7,716	33,244

NOTE 8:- FINANCIAL INVESTMENTS (Cont.)

b. Quoted debt assets

Composition:

	December 31,	
	2010	2009
	U.S. dollars in thousands	
Reported at fair value through profit and loss and designated upon initial recognition:		
Government bonds	15,403	15,399
Other non-convertible debt assets	11,917	9,971
Total quoted debt assets	27,320	25,370

c. Unquoted debt assets

	December 31,	
	2010	2009
	U.S. dollars in thousands	
Reported as loans and debtors:		
Deposits with the Accountant General at the Ministry of Finance	-	7,703
Deposits with banking institutions	14	13
	14	7,716

Comment: the fair value of unquoted debt assets does not materially differ from their carrying amount.

d. Other financial investments

	Carrying amount	Cost
	U.S. dollars in thousands	
As at December 31, 2010		
Quoted:		
Reported at fair value through profit and loss	447	401
As at December 31, 2009		
Quoted:		
Reported at fair value through profit and loss	158	130

Other financial investments include investment in basket certificates.

NOTE 8:- FINANCIAL INVESTMENTS (Cont.)

e. Classification of financial instruments by fair value hierarchy

The table below represents an analysis of financial instruments reported at fair value. The various levels were defined in the following manner:

Level 1 - Fair value that is measured by using quoted prices (unadjusted) in active markets for identical instruments.

Level 2 - Fair value that is measured by using anticipated data, directly or indirectly, that is not included in Level 1 above.

Level 3 - Fair value that is measured by using data that is not based on anticipated market data.

The balance in the financial statements of cash, debtors and receivables and current tax assets, matches or almost matches their fair value.

	As at December 31, 2010			
	Level 1	Level 2	Level 3	total
	NIS in thousands			
Quoted debt asses	27,320	-	-	27,320
Others	447	-	-	447
Total	27,767	-	-	27,767

NOTE 9:- CASH AND CASH EQUIVALENTS

	December 31,	
	2010	2009
	U.S. dollars in thousands	
Cash and deposits for immediate withdrawal	2,100	1,019
Short-term deposits	12,221	1,366
	14,321	2,385

Short term deposits deposited in banking institutions are for periods of between one week to three months. The deposits bear the interest rate of 1% per annum (as at December 31, 2009 – 0.5%).

NOTE 10:- EQUITY AND CAPITAL REQUIREMENTS

a. Composition of share capital

	December 31, 2010 and 2009	
	Authorized	Issued and paid-up
	Number of shares	
Foundation shares of NIS 1 nominal value each	1	1
Ordinary shares of NIS 1 nominal value each	2,999,999	2,411,289

b. Management and capital requirements:

1. The management's policy is to hold a strong capital base in order to preserve the Company's ability to continue its activities and in order to support future business activities. The Company is subject to capital requirements prescribed by the Regulator of Insurance.

2. Hereunder is data regarding the Company's required and existing capital in accordance with the Supervision of Financial Services (Insurance) (Minimum Solvency Margin Required from an Insurer) (Amendment), 2004, (hereunder – the capital amendment) and the Regulator's directives.

	As at December 31	
	2010	2009
	U.S. dollars in thousands	
Minimum shareholders' equity:		
Amount required as per the regulations and the Regulator's directives	3,999	3,675
Amount calculated as per regulations	4,244	3,990
Surplus *)	245	315
Surplus and funds not included in the calculation of the minimum equity	27,097	25,231
Primary capital:		
Minimum amount required as per regulations	3,999	3,675
Amount calculated as per regulations	31,341	29,221
Surplus	27,342	25,546

*) Apart from the general requirements in the Companies Law and the provisions of the Companies' Authority, the distribution of dividends out of excess capital in insurance companies is also subject to liquidity requirements and compliance with the principles of investment regulations and is subject to the Authority's guidelines as mentioned in paragraphs 4 and 7 below.

NOTE 10:- SHAREHOLDERS' EQUITY AND CAPITAL REQUIREMENTS (Cont.)

b. Management and capital requirements: (Cont.)

3. In accordance with the State's guarantee letter issued to the Company in December 2008 by the Accountant General at the Ministry of Finance whereby the State will indemnify the Company for risks assumed by it in performing its business (see Note 1b above) and in the context of an agreement signed between the Company and the Supervisor of Banks in September 2004, the Company has undertaken to act to preserve a minimum capital level of $ 25 million prior to redistributing dividends out of retained earnings. The Company has also undertaken not to distribute dividends out of amounts accrued in the extraordinary risk reserve. The guarantee is for a period of four years from closing.

   The Company's shareholders' equity as at the balance sheet date amounts to $ 31,341 thousand.

4. Designation of income and dividends

   The Authority's existing policy (which is liable to be modified from time to time and is subject to special limitations, if any, pursuant to any law) regarding the designation of earnings for the payment of dividends and the process of designating from 1995 onward stipulates as follows:

   a) Dividends out of current income will be paid in non-utility companies at 50% of annual current net income before bonuses out of retained earnings are paid to employees.

   b) Dividends out of income from public related services will be determined for each company individually while considering several relevant data and factors.

   On March 30, 2009 the Company's Board of Directors approved a dividend distribution at a rate of 50% of the profits for the year 2008 in the sum of $ 783 thousand. Following the approval of the financial statements the Regulator published a directive regarding limitation of dividend distribution in insurance companies as mentioned in paragraph 7 below. In light of the abovementioned, the Company's Board of Directors cancelled, in its meeting from May 27, 2009, the decision regarding distribution of 50% of the profits for the year 2008. The Company's management approached the Regulator requesting to approve the dividend distribution at the rate of 25% of the allowable income for distribution for the year 2008. The Regulator's decision was not yet received by the date of approval of the financial statements.

NOTE 10:- SHAREHOLDERS' EQUITY AND CAPITAL REQUIREMENTS (Cont.)

b. Management and capital requirements: (Cont.)

5. On July 10, 2007, the EU adopted a proposed Solvency II Directive proposal (hereunder - the proposed Directive). The proposed Directive introduces a thorough and comprehensive change of the regulation pertaining to assuring the solvency and capital adequacy of insurance companies in the European Union countries.

   According to a circular that was published by the Regulator of Insurance, he intends to apply the provisions of the proposed Directive with respect to insurance companies in Israel when this Directive is applied in the countries who are members the European Union. The proposed Directive is based on three levels: quantitative requirements, qualitative requirements and disclosure requirements.

6. Following the Company's approach to the Regulator in October 2008, with the request to receive a relief or exemption from the obligation to implement the proposed Directive, the Regulator approved, in April 2009, that the Company will be from Section 1.3 of Circular 2008-1-5 regarding the performance of a quantitative valuation survey which constitutes the main issue of the first level.

   The Company approached the Regulator once again in October 2009, requesting him for a full exemption from the application of the proposed Directive, among others, in light of the fact that companies around the world that are equivalent to the Company, received this exempt. On February 1, 2010, the Regulator informed the Company that he does not think that he should grant a full exemption from applying the Directive. However, he will not refuse to examine individual requests for mitigations regarding the application of directives that are irrelevant to the Company's activities or due to lack of significance or lack of likelihood it will be relevant to do so.

   Beginning from the first quarter of the year 2011, the Company is holding additional discussions with the Regulator regarding the implementation of the directive in light of the Company's unique nature. As at the date of publication of these financial statements, the Company did not yet receive the Regulator's directives regarding the manner of implementation of the directive in respect of the Company.

7. In November 2009, an amendment to the Supervision of Financial Services Regulations (Minimum Solvency Margin Required from an Insurer) (Amendment), 2009 (hereunder – the amendment), was published.

   In the framework of the amendment, the definition of basic capital was eliminated, the definitions of first tier capital and second tier capital were changed and the definition of third tier capital was added. The definitions of second tier capital and third tier capital became subject to the conditions and rates that the Regulator will define. In this respect the Regulator published a temporary order according to which during the period from the commencement of the amendment up to the date the Regulator announces, there is no change in the definitions, structure and calculation of the existing capital of insurance companies. This temporary order was cancelled in the insurance circular published in August 2011.

NOTE 10:- SHAREHOLDERS' EQUITY AND CAPITAL REQUIREMENTS (Cont.)

b. Management and capital requirements: (Cont.)

8. In March 2010, a letter of clarification was published with respect to the criteria for approval of distribution of dividends by an insurer (hereunder - the clarification).

According to the clarification the insurance company will be entitled to submit a request for obtaining the Regulator's approval for distributing dividends, commencing from the date of publication of the periodic financial statements for the year 2009, subject to the compliance with the shareholders' equity as detailed in the clarification, as well as submitting an annual profit forecast for the years 2010 and 2011.

Nevertheless, it was mentioned in the clarification that any company whose shareholders' equity, after the distribution of dividends, will be higher than 110% of the amount required in the clarification, will be entitled to distribute dividends without the prior approval of the Regulator, on condition that it notified the Regulator about the dividend distribution and provided him with the necessary documents before the distribution of the dividends.

Due to the fluctuations in the capital market, the Regulator published, in October 2011, a draft letter (hereunder – "the second clarification") which includes the criteria mentioned in the clarification with the addition of a requirement for an approval by the insurance company's Board of Director of the debt service plan and an approval stating that after the approval of the Regulator, that the minimum ratio between the existing shareholders' equity after dividend distribution and the required amount will stay at the rate of 105%. Regarding the dividend distribution without advanced approval by the Regulator, the ratio between the existing shareholders' equity after dividend distribution and the required amount in the second clarification was updated to the rate of 115% (instead of 110%).

c. Declared dividend

The following dividends were declared and paid for by the Company:

	Year ended as at December 31		
	2010	2009	2008
	U.S. dollars in thousands		
NIS 2.75 per ordinary share	-	-	1,671

NOTE 11:- LIABILITIES IN RESPECT OF INSURANCE CONTRACTS

a. The liabilities in respect of insurance contracts included in foreign trade risk insurance segment by types:

	December 31,					
	2010	2009	2010	2009	2010	2009
	Gross		Reinsurance		On retention	
	U.S. dollars in thousands					
Excess of income over expenses(accruals)	13,167	17,200	10,968	14,779	2,199	2,421
Outstanding claims	8,222	13,499	8,222	13,499	-	-
Total liabilities in respect of insurance contracts included in general insurance segment	21,389	30,699	19,190	28,278	2,199	2,421

NOTE 11:- LIABILITIES IN RESPECT OF INSURANCE CONTRACTS (Cont.)

b. Movement in liabilities in respect of insurance contracts included in the foreign trade risk insurance segment:

	December 31,					
	2010	2009	2010	2009	2010	2009
	Gross		Reinsurance		On retention	
	U.S. dollars in thousands					
Balance as at the beginning of the year	30,699	32,823	28,278	29,118	2,421	3,705
Cumulative cost of claims in respect of current underwriting year	-	12,429	-	12,429	-	-
Change in estimated cumulative cost of claims in respect of previous underwriting years	(416)	588	(399)	601	(17)	(13)
Total change in cumulative cost of claims	(416)	13,017	(399)	13,030	(17)	(13)
Payments for settling claims during the year:						
In respect of current underwriting year	-	(1,929)	-	(1,929)	-	-
In respect of previous underwriting year, net of claims recoveries	(4,861)	(3,371)	(4,878)	(3,384)	17	13
Total payments for the year	(4,861)	(5,300)	(4,878)	(5,313)	17	13
Accumulation for in respect of the current underwriting year	4,738	413	4,163	-	575	413
Accumulation allocated to income in respect of the underwriting year released	(9,166)	(9,659)	(8,314)	(7,907)	(852)	(1,752)
Balance of change in accumulation	395	(595)	340	(650)	55	55
Total change in accumulation for the year	(4,033)	(9,841)	(3,811)	(8,557)	(222)	(1,284)
Balance as at the end of the year	21,389	30,699	19,190	28,278	2,199	2,421

1. Opening and closing balances include: outstanding claims and excess of income over expenses.
2. Accumulative cost of claims includes: balance of outstanding claims (not including accruals) with the addition of total claims payments including direct and indirect expenditures for settling claims.

NOTE 12:- LIABILITIES IN RESPECT OF EMPLOYEE BENEFITS, NET

Employee benefits consist of short-term benefits and post-employment benefits.

Post-employment benefits

According to the labor laws and Severance Pay Law in Israel, the Company is required to pay compensation to an employee upon dismissal or retirement. The Company's liability is accounted for as a post-employment benefit.

The computation of the Company's employee benefit liability is made in accordance with a valid employment contract based on the employee's salary and employment term.

The post-employment employee benefits are normally financed by contributions classified as defined benefit plans or as defined deposit plans as detailed below:

Defined deposit plans

The provisions of Section 14 to the Severance Pay Law, 1963, apply to a portion of the severance pay. According to these provisions, the Company's current deposits in insurance companies' policies and/or in pension funds, are exempt from any additional liability to employees, in respect of who amounts were depositing, as mentioned above. These deposits and deposits in respect of benefits, constitute a defined deposit plan. In the year 2010 the expenses in respect of the defined deposit plan amounted to $42 thousand, and in the years 2009 and 2008 in the amount of $39 thousand and $ 44 thousand, respectively and were included under administrative and general expenses.

Defined benefit plan

The portion of severance pay that is not covered by deposits in defined deposit plans, is handled by the Company as a defined benefit plan according to which a liability is recognized in respect of employee benefits and for which the Company deposits amounts in the relevant insurance policies and in central severance pay funds.

a. Composition of liabilities in respect of employee benefits, net

	December 31,	
	2010	2009
	U.S. dollars in thousands	
Liability in respect of defined benefit plan	682	543
Fair value of plan's assets	594	479
Total net liabilities in respect of defined benefit plans	88	64

NOTE 12:- LIABILITIES IN RESPECT OF EMPLOYEE BENEFITS, NET (Cont.)

Defined benefit plan (Cont.)

b. Information regarding defined benefit plans

1. Changes in the present value of liabilities in respect of defined benefit plans

	2010	2009
	U.S. dollars in thousands	
Balance at January 1,	543	435
Interest cost	28	36
Current service cost	61	45
Benefits paid	(28)	(10)
Net actuarial loss	25	26
Other adjustments	53	11
Balance at December 31,	682	543

2. Plan assets

a) Plan assets

Plan assets comprise assets held by a long-term employee benefit fund (provident fund for hired employees and pension funds) and qualifying insurance policies.

b) The movement in the fair value of the plan assets

	2010	2009
	U.S. dollars in thousands	
Balance at January 1,	479	381
Expected return	25	25
Net actuarial gain	20	24
Deposits to plans by employer	49	45
Benefits paid	(28)	(10)
Other adjustments	49	14
Balance at December 31,	594	479

NOTE 12:- LIABILITIES IN RESPECT OF EMPLOYEE BENEFITS, NET (Cont.)

Defined benefit plan (Cont.)

b. Information regarding defined benefit plans

3. The principal actuarial assumptions used in determining the defined benefit plan obligation:

	2010	2009	2008
	%		
Discount rate	1.4	2.2	3.3
Expected rate of return on plan assets	2.2	3.9	3.4
Anticipated salary increases	1.5	1.5	0 – 1.5

4. The amount regarding the current year and the previous years

	2010	2009	2008
	U.S. dollars in thousands		
Present value of liabilities in respect of defined benefits	682	543	435
Fair value of the plans assets	594	479	381
Surplus (deficiency) in plan	(88)	(64)	(54)

5. Expenses allocated to profit and loss

	Year ended as at December 31		
	2010	2009	2008
	U.S. dollars in thousands		
Cost of current services	61	45	36
Interest in respect of liabilities for benefits	28	36	40
Anticipated yield on the plan assets	(25)	(25)	(27)
Net actuarial loss, recognized this year	5	2	64
Cost of previous services	(1)	(4)	(65)
Total expenses in respect of employee benefits *)	68	54	48
Actual yield on the plan assets	3.2%	2.2%	3.4%

*) The expenses are included in the item salaries and related expenses under administrative and general expenses, see Note 17.

NOTE 13:- CREDITORS AND PAYABLES

	December 31,	
	2010	2009
	U.S. dollars in thousands	
Prepaid premium	9,399	4,443
Employees other liabilities for payroll and salaries	180	177
Accrued expenses	79	42
Suppliers and service providers	56	37
Accountant general at the Ministry of Finance and other reinsurers - current accounts	1,210	726
Policyholders	8	2
Other	-	1
	10,932	5,428

See details of assets and liabilities distributed according to linkage basis under Note 19(c)(3).

NOTE 14:- NET INVESTMENT INCOME AND FINANCE INCOME

	Year ended December 31,		
	2010	2009	2008
	U.S. dollars in thousands		
Current income in respect of investment property *)	140	95	60
Income from financial investments, except for exchange rate differences in respect of assets reported at fair value through profit and loss	2,361	1,994	1,675
Interest income from taxes on income	-	19	9
Exchange rate differences	443	143	116
Bank commissions	(61)	(58)	(40)
Total net investment income and finance income	2,883	2,193	1,820
*) Reported net of depreciation	27	26	45

NOTES TO THE FINANCIAL STATEMENTS

NOTE 15:- INCOME FROM COMMISSIONS

	Year ended December 31,		
	2010	2009	2008
	U.S. dollars in thousands		
Commission fees from the State of Israel in respect of reinsurance	1,152	993	988

NOTE 16:- MARKETING EXPENSES

	Year ended December 31,		
	2010	2009	2008
	U.S. dollars in thousands		
Salaries and related expenses	137	210	252
Other marketing expenses	63	83	64
Total marketing expenses	200	293	316

NOTE 17:- ADMINISTRATIVE AND GENERAL EXPENSES

	Year ended December 31,		
	2010	2009	2008
	U.S. dollars in thousands		
Salaries and related expenses	1,627	1,317	1,368
Professional services	262	207	166
Office maintenance and communications	193	197	191
Vehicle maintenance	138	131	140
Depreciation and amortization	151	113	126
Travel abroad	34	92	84
Marketing and advertising	63	83	64
Professional literature and information	42	42	48
IT	63	49	44
Membership fees in the Berne Union	28	24	35
Refreshments and meals	44	37	35
Others	39	25	34
Total	2,684	2,317	2,335
Less:			
Depreciation and amortization reclassified to net investment income and finance income	(27)	(26)	(45)
Amounts reclassified to marketing expenses (Note 16)	(200)	(293)	(316)
Administrative and general expenses	2,457	1,998	1,974

NOTE 18:- TAXES ON INCOME

a. Tax laws applicable to the Company

1. General

The Company is a "financial institution" as defined by the Value Added Tax Law, 1975. The tax applicable to financial institutions is comprised of corporate tax and profit tax.

2. Income Tax (Inflationary Adjustments) Law, 1985

Pursuant to the law, up to the end of the year 2007, the results for tax purposes in Israel are measured when they are adjusted to the changes in the CPI.

In February 2008, an amendment to the Income Tax law (Inflationary Adjustments), 1985, was passed by the "Knesset" (Israeli parliament) which prescribed that the Adjustment Law will end from the tax year 2007. From the year 2008 this law will not be applied, except for the transitional provisions which are intended to prevent the distortions in the tax calculations. From the year 2008, the results for tax purposes are measured in nominal values, except for certain adjustments in respect of changes in the CPI in the period up to December 31, 2007. Adjustments relating to capital gains, such as realization of real estate (betterment) and securities, continue to be applicable up to the date of realization. The amendment to the law includes, among others, the cancellation of the adjustment to the addition and the deduction for inflation and the additional deduction due to depreciation beginning from the year 2008.

3. Amendment to the VAT Law

Further to the foregoing amendment in Section a 2 above, the Value Added Tax Law (Amendment 35) was also amended and stipulates that in the calculation of the gains tax applicable to financial institutions, as of 2009, tax is applicable to the full amount of the salaries paid. In the 2008 tax year, deduction of half of the salary tax payments for the said year were permitted. In addition, the salaries tax that will be paid as at 2009, was also paid on the employer's share of National Insurance. In the 2008 tax year, salaries tax was paid on half of the employer's share of National Insurance

4. Tax arrangements that are unique to the insurance industry

The Agreement with the Tax Authorities

There is an agreement between the insurance companies association and the Tax Authorities (hereunder - the Tax Agreement) that is renewed and updated every year and arranges the unique tax issues of the insurance business for the tax years up to and including the 2008 tax year. The agreement relates, among others, to the initial implementation of IFRS standards and their effect on the tax reports.

The agreement for the 2009 and 2010 tax years was not yet signed.

NOTE 18:- TAXES ON INCOME (Cont.)

b. The tax rates applicable to the Company's income

1. The statutory tax rate applicable to financial institutions is comprised of corporate tax and profit tax.

2. In accordance with the Value Added Tax Orders (the tax rate for non-profit business organizations and financial institutions) (Temporary Order), 2009, which was approved by the Knesset (the Israeli Parliament) in July and December 2009, the profit tax rate applicable to financial institutions will be as follows:

   - 16.5% beginning from July 1, 2009 up to December 31, 2009.
   - 16.0% in the years 2010 - 2012.
   - 15.5% beginning from January 1, 2013.

3. In July 2009, the "Knesset" (the Israeli Parliament) passed the Law for Economic Efficiency (Amended Legislation for Implementing the Economic Plan for 2009 and 2010), 2009, which prescribes, among others, an additional gradual reduction in the rates of the Israeli corporate tax and real capital gains tax beginning from 2011.

   Hereunder are the statutory tax rates applicable to financial institutions including the Company (also see Note 22):

Year	Corporate tax rate	Profit tax rate		Overall tax rate in financial institutions
	%			
2008	27	15.5		36.80
2009	26	16.0	*)	36.21
2010	25	16.0		35.34
2011	24	16.0		34.48
2012	23	16.0		33.62
2013	22	15.5		32.47
2014	21	15.5		31.60
2015	20	15.5		30.74
2016 and thereafter	18	15.5		29.00

*) Weighted rate.

The effect of the said changes on the deferred tax balances resulted in a decrease in the net profit in the amount of about $ 13 thousand in the year 2009. The total aforementioned amount, which stems from the decrease of assets in respect of deferred taxes, is allocated to th e item taxes on income. The change in the profit tax rate had no significant effect on the deferred taxes. The change in the tax rate in the year 2010 had no material affect on the deferred taxes.

NOTE 18:- TAXES ON INCOME (Cont.)

c. Tax assessments

The Company received final assessments up to and including the tax year 2007.

d. Losses carried forward for tax purposes and other temporary differences

The Company has capital losses for tax purposes which amount to about U.S. $ 643 thousand (NIS 2,281 thousand) as at December 31, 2010. No deferred tax assets in respect of capital losses to be carried forward were recognized since they were not expected to be utilized in the foreseeable future.

The sum of U.S. $ 102 thousand was recorded in the financial statements in respect of other deductible temporary differences.

e. Taxes on income included in the statements of comprehensive income

	Year ended December 31,		
	2010	2009	2008
	U.S. dollars in thousands		
Current taxes	87	816	659
Deferred taxes – also see paragraph f' below	9	55	73
Taxes in respect of previous years	-	(31)	-
Adjustment of deferred tax balances following change in the tax rate – also see paragraph f' below	-	13	-
	96	853	732

f. Deferred taxes

Composition:

	Employee benefits *)	Fixed assets and investment property	Total
	U.S. dollars in thousands		
Balance as at January 1, 2009	47	132	179
Changes allocated to profit and loss	1	(56)	(55)
Adjustment of deferred tax balances following change in the tax rate	-	(13)	(13)
Balance at December 31, 2009	48	63	111
Changes allocated to profit and loss	16	(25)	(9)
Balance at December 31, 2010	64	38	102

*) Regarding this item – employee benefits include amount in respect of liabilities for employee benefits after termination of employment and amounts in respect of vacation.

NOTE 18:- TAXES ON INCOME (Cont.)

g. The deferred taxes are recorded in the balance sheet as follows:

	December 31,	
	2010	2009
	U.S. dollars in thousands	
Deferred tax assets	102	111

h. Theoretical tax

A reconciliation between the theoretical tax assuming that all income and expenses and profits and losses in the statement of comprehensive income were taxed at the statutory tax rate and taxes on income as allocated in the statement of the comprehensive income:

	Year ended December 31,		
	2010	2009	2008
	U.S. dollars in thousands		
Income before taxes on income	2,216	2,777	2,299
Comprehensive statutory tax rate applicable to financial institutions (see b' above)	35.34%	36.21%	36.8%
Tax computed at the comprehensive statutory tax rate	783	1,005	846
Increase (decrease) in taxes on income resulting from the following factors:			
Non allowable expenses for tax purposes	4	4	19
Income exempt	-	-	(3)
Profit tax on salary tax	11	9	10
Differences in the measurement basis (nominal NIS for tax purposes and foreign currency in the financial statements) *)	(665)	(119)	(184)
Adjustment of the deferred tax balances in respect of changes in the tax rates	-	13	-
Other	(37)	(59)	44
Taxes on income	96	853	732
Average effective tax rate	4.33%	30.71%	31.84%

*) The fluctuations in the provision for income taxes and income in relation to income before taxes are affected by the changes in the representative exchange rate of the U.S. dollar since the Company's financial statements are prepared in dollars, therefore a difference is created between the income before taxes in dollars and the nominal income in NIS, which constitutes the basis for the calculation of the tax. This difference is affected by the change in the representative exchange rate of the dollar.

NOTE 19:- RISK MANAGEMENT

The Company operates in the credit insurance segment. The Company's activities expose it to the various risks, among them, operating risks, financial risks (mainly credit risks) compliance risks, strategic risks and additional risks.

a. Description of risk management procedures and methods

1. In the last quarter of the year 2009, the Company's Board of Directors appointed a risk manager for the Company. The risk manger is responsible for infrastructure, collection and reporting of information, control and guidance of the relevant entities in the Company, follow up and reporting regarding risks control management in the Company on an ongoing basis, according to the decision of the Board of Directors and also prior to the entrance or change in the fields of activities and/or products and/or significant services. The risk manager updates the Company's Board of Directors and Management once every quarter regarding tools developed for identifying, estimating, monitoring, controling and reducing risks.

2. In the year 2010 the Company started the process of scheduling an overall risk management array including the performance of a comprehensive risk survey and writing a risk management policy. This array is expected to reduce and/or cut down the level of risk the Company is exposed to. The process will be completed and implemented in the year 2011 and the risk management array will operate continuously, as an integral part of all the Company's processes.

3. The Board of Directors appointed, from among its members, a Board of Directors' risk management committee (hereunder – "the committee") which will hold periodical discussions whenever the Company's summons such meetings, and in any event at least once a quarter, in order to discuss the approval of activities and subjects. In the framework of its activities the Company's Board of Directors holds current supervision and control on the Company's risks management activities resulting from the insurance business.

4. The primary objective of the risk management process is to maximize the likelihood of achieving the company's strategic goals. The company will carry out the risk management objectives by combining the risk management domain with the long-term strategic plan and the annual business planning, and the introduction of company risk management discipline.
The fulfillment of the risk management objectives is the combined responsibility of the Management and the various entities of the Company, including the risk manager and the Board of Directors.

   The risk management policy is intended to outline a clear framework, which defines the entire risks the Company is exposed to, how to measure and manage them, and how to control them. The policy defines the Company's risk tolerance, its risk "apetite" in various areas, and the limits of the risks and exposure. The policy stipulates the functions and the various organs which take part in the process of creating risks, their management and monitoring, their interactions, and the reporting channels.
The risk management policy document which was completed at the end of the year 2010 (but not yet approved by the Board of Directors) will be examined and updated once a year, or in the event that there will be significant changes in the Company's policy and activities.

   The risk management policy has not yet been approved by the Company's Board of Directors and will be presented for its approval during the year 2011.

NOTE 19:- RISK MANAGEMENT

b. Legal requirements

The relevant legal requirements applicable to the Company pertaining to risk management are included in the following circulars: Circular 2006-1-14 of the Regulator of Insurance regarding "insurer's appointed actuary and risk manager roles and their relations with other officers" and a circular regarding "risk management in government companies" of the Authority, dated June 11, 2009.

c. Market risks

Market risk is the risk that the fair value or future cash flows of financial assets, or insurance liabilities will change due to changes in market prices. Market risks also include risks arising from changes in interest rates, the CPI and foreign currency.

1. Sensitivity tests relating to market risks

Following is a sensitivity analysis relating to the effect of the change in these variables, on the income (loss) for the period. The sensitivity analysis is in relation to the financial assets, and liabilities in respect of insurance contracts in respect of the relevant risk variable as at each reporting date, under the assumption that all the other parameters are fixed. Thus, for instance the change in interest is under the assumption that the other parameters did not change. In addition, it was assumed that the aforementioned changes do not reflect a permanent impairment of the assets that are reported at an amortized cost.

The sensitivity tests only disclose direct effects and not minor ones.

It should be noted that the sensitivities are not linear so that larger or smaller changes in relation to the changes described below are not necessarily a simple extrapolation of the effect of those changes.

December 31, 2010

	Rate of change in Israeli CPI		Rate of change in U.S. dollar exchange rate over the balances in NIS	
	+1%	-1%	+1%	-1%
	U.S. dollars in thousands			
Profit (loss)	61	(61)	(129)	129

December 31, 2009

	Rate of change in Israeli CPI		Rate of change in U.S. dollar exchange rate over the balances in NIS	
	+1%	-1%	+1%	-1%
	U.S. dollars in thousands			
Profit (loss)	48	(48)	(110)	110

NOTE 19:- RISK MANAGEMENT (Cont.)

c. Market risks (Cont.)

2. Direct interest risk

Direct interest risk is the risk that a change in market interest will cause a change in the fair value of the financial asset. This risk relates to assets whose settlement is in cash. Adding the word "direct" emphasizes the fact that a change in interest may also affect other types of assets but not directly, such as the effect of a change in interest over stock prices.

Following are details of assets and liabilities according to exposure to interest risks:

	December 31,	
	2010	2009
	U.S. dollars in thousands	
Assets with direct interest risk:		
Quoted debt assets	27,320	25,370
Unquoted debt assets	14	7,716
Other financial investments	447	158
Cash and cash equivalents	14,321	2,385
Reinsurance assets	19,190	28,278
Total assets with direct interest risk	61,292	63,907
Liabilities with no direct interest risk	2,458	2,175
Total assets	63,750	66,082
Liabilities with direct interest risk:		
Liabilities in respect of insurance contracts	21,389	30,699
Liabilities for employee benefits, net	88	64
Total liabilities with interest risk	21,477	30,763
Liabilities with no direct interest risk:		
Other liabilities	10,932	6,098
Equity	31,341	29,221
Total equity and liabilities	63,750	66,082
Total assets net of liabilities	31,341	29,221

NOTE 19:- RISK MANAGEMENT (Cont.)

c. Market risks (Cont.)

3. Details of the assets and liabilities by linkage basis

a. As at December 31, 2010

	In unlinked NIS	In NIS, linked to CPI	In foreign currency or linked thereto	Non-financial and other items	Total
	U.S. dollars in thousands				
Intangible assets	-	-	-	118	118
Deferred tax assets	-	-	-	102	102
Fixed assets, net	-	-	-	601	601
Investment property	-	-	-	604	604
Reinsurance assets	-	-	19,190	-	19,190
Current tax assets	-	336	-	-	336
Debtors and receivables	80	-	-	617	697
Financial investments:					
Quoted debt assets	10,129	8,669	8,522	-	27,320
Unquoted debt assets	14	-	-	-	14
Others	-	447	-	-	447
Cash and cash equivalents	655	-	13,666	-	14,321
Total assets	10,878	9,452	41,378	2,042	63,750
Total equity	-	-	31,341	-	31,341
Liabilities in respect of insurance contracts	-	-	21,389	-	21,389
Liabilities in respect of employee benefits, net	88	-	-	-	88
Creditors and payables	315	-	10,617	-	10,932
Total liabilities	403	-	32,006	-	32,409
Total equity and liabilities	403	-	63,347	-	63,750
Excess of assets over liabilities (liabilities over assets)	10,475	9,452	(21,969)	2,042	-

NOTE 19:- RISK MANAGEMENT (Cont.)

c. Market risks (Cont.)

3. Details of the assets and liabilities by linkage basis:

b. As at December 31, 2009

	In unlinked NIS	In NIS, linked to CPI	In foreign currency or linked thereto	Non-financial and other items	Total
	U.S. dollars in thousands				
Intangible assets	-	-	-	128	128
Deferred tax assets	-	-	-	111	111
Fixed assets, net	-	-	-	584	584
Investment property	-	-	-	627	627
Reinsurance assets	-	-	28,278	-	28,278
Debtors and receivables	79	-	-	646	725
Financial investments:					
Quoted debt assets	9,404	8,023	7,943	-	25,370
Unquoted debt assets	13	-	7,703	-	7,716
Others	-	158	-	-	158
Cash and cash equivalents	540	-	1,845	-	2,385
Total assets	10,036	8,181	45,769	2,096	66,082
Total equity	-	-	29,221	-	29,221
Liabilities in respect of insurance contracts	-	-	30,699	-	30,699
Liabilities in respect of employee benefits, net	64	-	-	-	64
Liabilities in respect of current assets	-	670	-	-	670
Creditors and payables	257	-	5,171	-	5,428
Total liabilities	321	670	35,870	-	36,861
Total equity and liabilities	321	670	65,091	-	66,082
Excess of assets over liabilities (liabilities over assets)	9,715	7,511	(19,322)	2,096	-

NOTE 19:- RISK MANAGEMENT (Cont.)

d. Liquidity risks

Liquidity risk is the risk that the Company will be required to dispose of its assets at an inferior price in order to meet its obligations.

According to Note 1b above, the Company is acting within the context of a guarantee letter provided to the Company by the Accountant General at the Ministry of Finance. According to the abovementioned, the Company is backed by reinsurance for its activity by the State of Israel and accordingly, the liquidity risk to which it is exposed is very small.

According to the Ways of Investment Regulations the Company is required to hold liquid assets (namely, government bonds or cash and cash equivalents) in the amount of not less than 15% of the required capital.

Management of assets and liabilities

The Company manages its assets and liabilities in accordance with the requirements of the Supervision Law and its amendments.

The table below present the estimated repayment dates of the Company's non-capitalized insurance liabilities.

Liabilities in respect of insurance contracts

	Up to one year	Over one year and up to3 years	Over 3 years and up to5 years	Total
As at December 31, 2010	5,465	11,185	4,739	21,389
As at December 31, 2009	9,166	10,619	10,914	30,699

e. Description of the insurance risks

1. The following are the insurance products provided by the Company:

Suppliers' credit insurance policy (deliveries)

This policy protects the exporter from the buyer's default due to commercial or political reasons. This insurance vessel is appropriate for transactions where the exporter delivers goods or renders services to a foreign buyer that in turn repays its debt in installments over the credit period and based on a predetermined settlement schedule.

NOTE 19:- RISK MANAGEMENT (Cont.)

e. Description of insurance risks (Cont.)

1. The following are the insurance products provided by the Company: (Cont.)

Pre-delivery insurance policy

This policy insures export orders against cancellation by the buyer in the performance stages and is an addendum to the suppliers' credit policy. The policy precedes the covered period for the beginning of production and insures the costs of production in the period preceding the delivery.

Buyers' credit insurance policy

In response to the burden of financing inherent in providing suppliers' credit, the Company offers to guarantee the repayment of the loan extended to the buyer by the commercial bank chosen by the exporter upon the supply of the goods and services pursuant to the commercial agreement. This policy is used as collateral for the lending and risk covering bank to secure that the buyer will repay the loan. The exporter receives the full export proceeds during and/or at the completion of supply, namely a credit transaction becomes a non-recourse cash transaction for the exporter.

Inter-bank credit line insurance policy

Similarly to buyers' credit, under this system, the burden of financing is lifted from the exporter. The debtor of the Israeli bank in this case is the foreign bank and not the buyer. The bank that finances the transaction provides a loan to the foreign bank which in turn provides a loan to the buyer. The Company insures the financing bank and covers the risk of the foreign bank not honoring its liability to settle the loan. Creating inter-bank credit lines provides a solution to large scope export transactions and shortens the execution process.

Credit letters insurance policy

This policy covers the risk of non compliance with the credit letter opening bank's liability to provide the payment specified in the letter of credit. The policyholder is a bank fulfilling the credit letter opened in favor of the exporter. This finance tool is a substitute for an inter-bank credit agreement.

Note discount insurance policy

An exporter that holds promissory notes received from the buyer to secure future payment for the goods supplied is sometimes interested in raising funds by discounting these notes in a bank and in fact converting a note credit transaction into a cash transaction. This policy covers the risk of default of the note on the agreed date. In this case, the policyholder is the bank discounting the promissory notes for the exporter.

NOTE 19:- RISK MANAGEMENT (Cont.)

e. Description of insurance risks (Cont.)

1. The following are the insurance products provided by the Company: (Cont.)

Investment insurance policy

The Company offers two insurance plans for covering investments in foreign countries performed by transfer of funds, equipment or know-how, entitling the Israeli investor to shares in a foreign company in which the investment id carried out. The policies cover up to 95% of the investment value for one year which can be extended annually and also cover against political risks in the portfolio country.

Owners' investment insurance policy

This policy insures the Israeli investor that made an equity investment and/or provided an owners' loan entitling it to a share in the portfolio company's shares. The policy protects against loss of investment value due to political risks that prevent the execution of the investment or he transfer of the funds into Israel.

Lender's investment insurance policy

This policy insures financial institutions (mainly banks) which lend funds to Israeli companies for carrying out foreign investments. This policy provides protection based on the customer's needs against various political risks such as confiscation, government intervention, non conversion, non transfer, cancellation of governmental contract and/or its violation and the prevention of justice, which obstruct the repayment of the loan granted for the investment.

2. The risk arising from the assumptions underlying the basis of the product's pricing:

The premium pricing model according to which the Company operates is the CAPM model introduced in OECD countries. The premium is also calculated according to the following parameters:

a) Type of debtor.
b) Rating of debtor.
c) Duration and profile of insurance exposure.
d) Premium maturity date.
e) Premium financing.
f) Type of policy.
g) Percentage of coverage.

NOTE 19:- RISK MANAGEMENT (Cont.)

e. Description of insurance risks (Cont.)

3. The insurance coverage includes, among others:

- Underwriting risks - the risk of using the wrong price due to deficiencies in the underwriting process and the gap between the risk when establishing the price and premium and the actual occurrence so that the premiums collected are not sufficient to cover future claims and expenses. The gaps may arise from accidental changes in business results and changes in the cost of the average claim and/or the incidence of claims due to various factors;

- The model risk - the risk of choosing the wrong model for pricing and/or for evaluating the insurance liabilities;

- The parameter risk - the risk of using the wrong parameters among which the risk that the amount paid for settling the Company's insurance liability or the date of settling the insurance liability are different than expected.

4. The tools used by the Company to minimize the insurance risk:

a) Using solid reinsurers.
b) Shortening the overall risk period.
c) Adjusting the maturity profile in order to minimize overall exposure at each point in time.
d) Lowering the coverage percentage.
e) Using collaterals and bank products.

NOTE 19:- RISK MANAGEMENT (Cont.)

f. Information regarding credit risks

1. Distribution of financial debt assets according to their location

	December 31, 2010		
	Quoted	Unquoted	Total
	U.S. dollars in thousands		
In Israel	20,573	14	20,587
Abroad	6,747	-	6,747
Total debt assets	27,320	14	27,334

	December 31, 2009		
	Quoted	Unquoted	Total
	U.S. dollars in thousands		
In Israel	18,985	7,716	26,701
Abroad	6,385	-	6,385
Total debt assets	25,370	7,716	33,086

2. Details of assets dividend into ratings

a) Debt financial assets in Israel

	Local rating *)		
	December 31, 2010		
	AA and above	BBB to A	Total
	U.S. dollars in thousands		
Quoted debt assets -			
Government bonds	14,038	-	14,038
Corporate bonds	6,232	303	6,535
Total quoted debt assets in Israel	20,270	303	20,573
Unquoted debt assets -			
Deposits with banks and financial institutions	-	14	14
Total debt assets in Israel	20,270	317	20,587

NOTE 19:- RISK MANAGEMENT (Cont.)

f. Information regarding credit risks (Cont.)

2. Details of assets dividend into ratings

a) Debt financial assets in Israel (Cont.)

	Local rating *)		
	December 31, 2009		
	AA and above	BBB to A	Total
	U.S. dollars in thousands		
Quoted debt assets -			
Government bonds	14,457	-	14,457
Corporate bonds	4,116	412	4,528
Total quoted debt assets in Israel	18,573	412	18,985
Unquoted debt assets -			
Deposits with banks and financial institutions	7,703	13	7,716
Total debt assets in Israel	26,276	425	26,701

b) Debt financial assets abroad (Cont.)

	International rating *)		
	December 31, 2010		
	A and above	BBB	Total
	U.S. dollars in thousands		
Debt assets abroad			
Quoted debt assets			
Government bonds	1,365	-	1,365
Corporate bonds	3,214	2,168	5,382
Total debt assets abroad	4,579	2,168	6,747

*) Each rating includes all the ranges: for example, rate A includes A- up to A+.

NOTE 19:- RISK MANAGEMENT (Cont.)

f. Information regarding credit risks (Cont.)

2. Details of assets dividend into ratings (Cont.)

b. Debt financial assets abroad (Cont.)

	International rating *)		
	December 31, 2009		
	A and above	BBB	Total
	U.S. dollars in thousands		
Debt assets abroad			
Quoted debt assets -			
Government bonds	942	-	942
Corporate bonds	3,110	2,333	5,443
Total debt assets abroad	4,052	2,333	6,385

*) Each rating includes all the ranges: for example, rate A includes A- up to A+.

3. Credit risks in respect of other assets (in Israel)

	Local rating	
	December 31, 2010	
	Unrated	Total
	U.S. dollars in thousands	
Current tax assets	336	336
Deferred tax assets	102	102
Cash and cash equivalents	14,321	14,321

	Local rating	
	December 31, 2009	
	Unrated	Total
	U.S. dollars in thousands	
Deferred tax assets	111	111
Cash and cash equivalents	2,385	2,385

NOTE 19:- RISK MANAGEMENT (Cont.)

g. Details of the exposure to economical branches in respect of investments in quoted and unquoted debt financial assets

As at December 31, 2010

	Balance sheet credit risk	
	Amount	% of total
	U.S. dollars in thousands	
Economical branch:		
Electricity and Electronics	4,284	15.67
Banks	2,885	10.56
Investments and Holdings	2,056	7.52
Industry	1,059	3.87
Financial services	450	1.65
Communications	383	1.40
Commerce	325	1.19
Petrol	284	1.04
Food	187	0.68
Other	18	0.07
	11,931	43.65
State bonds	15,403	56.35
Total	27,334	100.00

As at December 31, 2009

	Balance sheet credit risk	
	Amount	% of total
	U.S. dollars in thousands	
Economical branch:		
Industry	2,677	8.09
Banks	2,263	6.84
Electricity and Electronics	1,784	5.39
Investments and Holdings	1,498	4.53
Financial services	1,016	3.07
Communications	349	1.06
Petrol	95	0.29
Commerce	75	0.22
Food	72	0.22
Other	155	0.47
	9,984	30.18
Deposits with the Accountant General at the Ministry of Finance	7,703	23.28
State bonds	15,399	46.54
Total	33,086	100.00

NOTE 19:- RISK MANAGEMENT (Cont.)

h. Reinsurance

The Company covers all its policies by reinsurance, most of which is done by the Accountant General at the Ministry of Finance, as discussed in Note 1(b) above, and partly by foreign reinsurance. Nevertheless, reinsurance does not release the Company from its liabilities towards its policyholders according to the insurance policies.

However, the Company does not bear any risk as a result of these reinsurers' non compliance with their liabilities since in all these cases, there is no impairment of the State's accountability towards the Company, which acts as a full reinsurer, pursuant to the terms of the State's guarantee as discussed in Note 1(b) above.

In the following table:

1. The total exposure to the reinsurers is as follows: net credit (debit) balances and reinsurance assets.

2. The rating is mainly established by S&P or, if not by S&P, by another rating company and is converted into the key determined in the ways of investment regulations.

3. There are no other reinsurers apart from those detailed above that the exposure the exposure in their respect is over 10% of the total exposure of reinsurers or the premiums in their respect is over 10% of the total reinsurance premiums for the year 2010.

As at December 31, 2010:

Rating group:	Total reinsurers premiums for 2010	Net debit (credit) balances	Reinsurance assets: In foreign trade risk insurance	Total exposure
	U.S. dollars in thousands			
State of Israel *)	4,197	(1,116)	14,801	13,685
A and above -				
Zurich American Instrance Company (AA-)	881	(94)	3,404	3,310
Euler HERMES (AAA)	204	-	817	817
Sovereign (AA-)	33	-	168	168
Total	5,315	(1,210)	19,190	17,980

*) The balances versus the State of Israel are only for commitments as an insurer for reinsurance purposes.

NOTE 19:- RISK MANAGEMENT (Cont.)

h. Reinsurance (Cont.)

As at December 31, 2009:

Rating group:	Total reinsurers premiums for 2009	Net debit (credit) balances (b)	Reinsurance assets: In foreign trade risk insurance	Total exposure (a)
	U.S. dollars in thousands			
State of Israel *)	4,182	(628)	21,668	21,040
A and above -				
Zurich American Instrance Company (AA-)	968	(98)	6,183	6,085
Sovereign (A+)	33	-	427	427
Total	5,183	(726)	28,278	27,552

*) The balances versus the State of Israel are only for commitments as an insurer for reinsurance purposes.

NOTE 20:- BALANCES AND TRANSACTIONS WITH RELATED AND INTERESTED PARTIES

a. Since the Company is a Government company which is held by the State of Israel at the rate of 100%, the State of Israel is defined as an interested party. All transactions in the financial statements with the State of Israel and/or the Accountant General at the Ministry of Finance are therefore transactions with an interested party. Additional information regarding the relationship with the State of Israel is presented in Note 2(q) above.

b. Balance confirmations were received with respect to deposits held by the Accountant General. Regarding the balance of the Accountant General's share in insurance transactions, no balance confirmations were received.

It should be noted that the reinsurance transactions with the Accountant General are settled on a quarterly basis.

c. Balances with related parties are included in the following balance sheet items

	December 31,	
	2010	2009
	U.S. dollars in thousands	
Under unquoted debt assets:		
Deposits with the Accountant General at the Ministry of Finance	-	7,703
Under reinsurance assets:		
State of Israel's share in outstanding claims	14,801	21,668
Under creditors and payables:		
State of Israel's share in insurance transactions	1,116	628

NOTE 20:- BALANCES AND TRANSACTIONS WITH RELATED AND INTERESTED PARTIES (Cont.)

d. Benefits to related and interested parties

	Year ended December 31,		
	2010	2009	2008
	U.S. dollars in thousands		
Salaries and related expenses to the Company's CEO	283 *)	172	254 *)
Wages and related expenses to the Board's members	43	44	29
Guarantee fee expenses to the State of Israel (reinsurance)	4,197	4,182	5,121
Less - commission from the State of Israel	(1,152)	(993)	(988)
State of Israel's share in claim recoveries received, less claims paid, net	4,878	5,313	3,530
*) Including to the former CEO	169		182
Number of people to which the wages and benefits relate:			
Related and interested parties employed by or on behalf of the Company	2	1	2
Directors not employed by the Company	10	10	9
	12	11	11

e. Indemnification and insurance of directors and officeholders

The Company's articles allow the insurance and indemnification of directors and officeholders as required by law. Accordingly, the Company has determined an indemnification policy and decided to insure the directors' and officers' liabilities subject to legal provisions and additional limitations.

Following are the details of expenses by years:

	Year ended December 31,		
	2010	2009	2008
	U.S. dollars in thousands		
Amount of expenses for indemnification and insurance of directors and officeholders	19	19	21

NOTE 21:- COMMITMENTS

a. The Company's vehicle fleet

The Company has a framework agreement regarding an operating lease commitment for its vehicle fleet. The volume of the monthly commitment at December 31, 2010 is about $ 9 thousand per month for the remaining average period of about three years.

b. Operating lease of investment property

The Company has real estate rights based on an operating lease contract from the Tel-Aviv Municipality. As mentioned in Notes 5 and 6 above, the Company accounted for these rights as investment property and fixed assets. The rights were measured at cost.

NOTE 22:- EVENTS AFTER THE BALANCE SHEET DATE

a. At the beginning of November 2011, the law memorandum for Social Economic Change (Legislative Amendments) (Taxes), 2011 (hereunder – the law memorandum), was published. In the framework of the law memorandum it was proposed, among others, to cancel, beginning from the year 2012, the outline of the reduction of the corporate tax laws. In the framework of the law memorandum it was also proposed to increase the corporate tax rate to 25% in the year 2012. In light of the proposed increase of the corporate tax rate to 25% in the year 2012, the tax rate on capital gains, in real terms, and the betterment tax, in real terms, will be increased respectively.

The deferred tax balances included in the financial statements as at December 31, 2010, are calculated according to the tax rates in force as at the date of the financial statements and do not take into consideration the effects that could result from the law memorandum. The said effects will be included in the financial statements which will be published beginning from the date in which the law is passed.

On December 5, 2011, the Knesset (the Israeli Parliament) passed the Law for Tax Burden Reform (Legislative Amendments), 2011 (hereunder - the Law)

The Company estimates that the approval of the abovementioned law by the Knesset, is not expected to have a significant effect on its financial statements.

b. On April 3, 2011 the Government Companies Authority granted the Companythe authority to issue new policies without an active Board of Directors, in accordance with Section 76 of the Companies Law, 1999.

APPENDIX

Translation of the Financial Statements into New Israeli Shekels

Functional and foreign currencies

The Company prepares financial statements presented in NIS translated from the U.S. dollar, which is the functional and presentation currency.

Pursuant to IFRS, the translation of the Company's results and financial position from the presentation currency into NIS is performed as follows:

1. Assets and liabilities for each reporting date are translated at the exchange rate at that date.

2. Income and expenses are translated at average exchange rates for the year, a rate that approximates the actual exchange rates at the date of the transaction.

3. Share capital and capital reserves, as included in the financial statements at December 31, 2003 are translated at the exchange rate at that date. Changes in share capital and capital reserves after this date are translated at the exchange rate on the date of their issue or their incurrence.

4. Retained earnings, as included in the financial statements at December 31, 2003 are translated at the exchange rate at that date.

5. The translation differences resulting from the above treatment are recognized directly as a separate component of equity.

   a. Statements of financial position:

	December 31,	
	2010	2009
	NIS in thousands	
Intangible assets	419	483
Deferred tax assets	362	419
Fixed assets, net	2,134	2,204
Investment property	2,143	2,368
Reinsurance assets	68,105	106,749
Current tax assets	1,192	-
Debtors and receivables	2,474	2,738
Financial investments:		
Quoted debt assets	96,958	95,772
Unquoted debt assets	50	29,128
Other	1,588	596
Cash and cash equivalents	50,825	9,003
Total assets	226,250	249,460

APPENDIX

Translation of the Financial Statements into New Israeli Shekels (Cont.)

a. Statements of financial position: (Cont.)

	December 31,	
	2010	2009
	NIS in thousands	
EQUITY		
Share capital	7,531	7,531
Extraordinary risk reserve	61,170	61,170
Revaluation reserve	2,271	2,271
Translation differences	(20,153)	(15,630)
Surplus	60,411	54,967
Total equity	111,230	110,309
LIABILITIES		
Liabilities in respect of insurance contracts	75,910	115,890
Liabilities in respect of employee benefits, net	312	242
Liabilities in respect of current taxes	-	2,528
Creditors and payables	38,798	20,491
Total liabilities	115,020	139,151
Total equity and liabilities	226,250	249,460

APPENDIX

Translation of the Financial Statements into New Israeli Shekels (Cont.)

b. Statements of comprehensive income:

	Year ended December 31,		
	2010	2009	2008
	NIS in thousands (except for net earnings per share data)		
Gross earned premiums	22,095	22,595	25,367
Reinsurance premiums earned	19,847	20,345	22,897
Premiums earned on retention	2,248	2,250	2,470
Net investment income and finance income	10,767	8,606	6,525
Income from commissions	4,302	3,898	3,542
Total income	17,317	14,754	12,537
Payments and change in liabilities in respect of insurance contracts	(16,625)	12,475	(14,901)
Reinsurers' share in payments and change in liabilities in respect of insurance contracts	15,743	(17,613)	10,986
Payments and change in liabilities in respect of insurance contracts on retention	(882)	(5,138)	(3,915)
Marketing expenses	747	1,150	1,133
Administrative and general expenses	9,177	7,841	7,076
Total expenses	9,042	3,853	4,294
Income before taxes on income	8,275	10,901	8,243
Taxes on income	2,831	3,720	2,843
Net income	5,444	7,181	5,400
Other comprehensive income (after the tax effect):			
Differences resulting from the translation of financial statements (net of the applicable tax)	(4,523)	(656)	(376)
Total comprehensive income	921	6,525	5,024
Net earnings per share:			
Net earnings per share (in NIS)	2.3	3.0	2.2

APPENDIX

Translation of the Financial Statements into New Israeli Shekels (Cont.)

c. Statements of changes in equity:

	Share capital	Extraordinary risks reserve	Revaluation reserve	Translation differences	Retained earnings	Total
	NIS in thousands					
Balance as of January 1, 2008	7,531	61,170	2,271	(13,911)	48,323	105,384
Net income	-	-	-	-	5,400	5,400
Adjustment resulting from the translation of the financial statement into Shekels	-	-	-	(376)	-	(376)
Total comprehensive income	-	-	-	(376)	5,400	5,024
Dividend paid	-	-	-	-	(6,624)	(6,624)
Revaluation of dividend	-	-	-	(687)	687	-
Balance as of December 31, 2008	7,531	61,170	2,271	(14,974)	47,786	103,784
Net income	-	-	-	-	7,181	7,181
Adjustment resulting from the translation of the financial statement into Shekels	-	-	-	(656)	-	(656)
Comprehensive income	-	-	-	(656)	7,181	6,525
Balance as of December 31, 2009	7,531	61,170	2,271	(15,630)	54,967	110,309
Net income	-	-	-	-	5,444	5,444
Adjustment resulting from the translation of the financial statement into Shekels	-	-	-	(4,523)	-	(4,523)
Total comprehensive income	-	-	-	(4,523)	5,444	921
Balance as of January 1, 2010	7,531	61,170	2,271	(20,153)	60,411	111,230

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