Translated from the Hebrew original

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

FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2011

U.S. DOLLARS IN THOUSANDS

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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. ("the Company") for 2011 (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.

May 17, 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 May 17, 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. ("the Company") for 2011 (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

May 17, 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. ("the Company") for 2011 (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

May 17, 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. ("the Company") for 2011 (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

May 17, 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. ("the Company") for 2011 (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

May 17, 2012

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

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AUDITORS' REPORT

To the Shareholders of

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

We have audited the accompanying statements of financial position of Ashr'a - The Israel Foreign Trade Risks Insurance Corporation Ltd. (hereunder - the Company) as at December 31, 2011 and 2010 and the related statements of comprehensive income, changes in equity and cash flows for each of the years ended as at December 31, 2011, 2010 and 2009. 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.

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, 2011 and 2010, 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, 2011, 2010 and 2009, 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 and in accordance with the directives of the Government Companies Authority Financial Statements Circular 2011-5-1

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, regarding the audit of the internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, we have also audited the Company's internal control over financial reporting as at December 31, 2011, based on the criteria prescribed in the integrated context of the internal control published by COSO and our report as at May 17, 2012, included a negative opinion on the Company's internal control over financial reporting due to the existence of material weakness.

Tel-Aviv, Israel
May 17, 2012

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

Auditors' report to the shareholders of
Ashr'a - The Israel Foreign Trade Risks Insurance Corporation Ltd.

Pursuant to the Government Companies Regulations

(Additional reports regarding the effectiveness of the internal control over financial reporting, 2007)

We have audited the components of internal control over financial reporting of Ashr'a - The Israel Foreign Trade Risks Insurance Corporation Ltd. (hereunder - the Company) as at December 31, 2011, based on the criteria established in the combined context of the internal control that was published by the Committee of Sponsoring Organization of the Treadway Commission (hereunder - COSO). The Company's Board of Directors and Management are responsible for holding an effective internal control over financial reporting and the assessment of the effectiveness of the internal control over financial reporting, which is included in the Board of Directors and Management Report in respect of the attached internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting, based on our audits.

We have prepared our audit pursuant to the United States' Public Company Accounting Oversight Board (PCAOB) in respect of the audit of the components of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel. According to these Standards we are required to plan the audit and perform it in order to obtain a reasonable certainty, in all material respects, regarding the existence of an effective internal control over financial reporting. Our audit included obtaining an understanding regarding the internal control over financial reporting, an estimate of the risk that there is a material weakness, as well as an examination and evaluation of the effectiveness of the planning and operation of the internal control, based on the estimated risk. Our audit also included performing other procedures which we thought were necessary considering the circumstances. We think that our audit provides an adequate basis for our opinion.

The components of internal control over financial reporting of a Government company is a process that is intended to provide a reasonable assurance regarding the reliability of the financial reporting and the preparation of financial statements for external purposes, pursuant to the International Financial Reporting Standards (IFRS) and the disclosure requirements that were prescribed by the Regulator of Insurance, in accordance with the Supervision of Financial Services Law (Insurance), 1981, and the regulations enacted pursuant thereto, as well as the directives of the Government Companies Authority.

An internal control over financial reporting of a government company includes the policy and procedures that: (1) Relate to the management of records which, in reasonable detail, reflect accurately and adequately, the transactions and transfers of the company's assets (including their removal from its possession); (2) Provide a reasonable assurance that the transactions are recorded as required in order to enable the preparation of the financial statements pursuant to the IFRS standards and the disclosure requirements that were determined by the Regulator of Insurance, in accordance with the Supervision of Financial Services Law (Insurance), 1981, and the regulations enacted pursuant thereto, as well as the directives of the Government Companies Authority and that the receipts and expenses of the company are performed only after obtaining the legally required approvals of the State Authorities; and (3) Provide a reasonable assurance regarding the prevention or disclosure at the time of acquisition, non-permitted use or transfer (including removal from possession) of the company's assets, which might substantially affect the financial statements.

Due to its structured limitations, an internal control over financial reporting might not prevent or reveal any misstatement. In addition, any conclusion regarding the future based on any present estimate of effectiveness, is exposed to the risk that controls might become unsuitable as a result of changes in circumstances, or the extent of maintenance of policies or procedures might change adversely.

Material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, to such an extent that there is a reasonable possibility that presentation of a material misstatement in the Company's financial statements will not be avoided or discovered in time.

The following material weakness was identified and included in the Board of Directors and Management's assessment:

Since the appointment of Directors was not carried out on time, the Company's Board of Directors that supervises over the the determination and existence of an adequate internal control over financial reporting and proper corporate governance, did not convene during the period which began in February 2011 until December 31, 2011, and therefore the Company did not perform an effective internal control.

The abovementioned material weakness was taken into account in determining the nature, timing and extent of audit procedures adopted in our audit of the Company's financial statements as at December 31, 2011 and for the year then ended, and this report does not affect our report on said financial statements.

In our opinion, due to the impact of the material weakness that was identified above, on the achievement of the goals of the control criteria, the Company did not perform an effective internal control over financial reporting as at December 31, 2011, based on the criteria that was determined in the combined context of internal control that was published by COSO.

We have also audited, in accordance with generally accepted auditing standards in Israel, the financial statements of the Company as at December 31, 2011 and 2010 and for each of the three years the last of which ended as at December 31, 2011 and our report dated May 17, 2012, included an unqualified opinion in respect of those financial statements.

Tel-Aviv,
May 17, 2012

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

STATEMENTS OF FINANCIAL POSITION

ASSETS	Note	December 31, 2011	December 31, 2010
		U.S. dollars in thousands	
Intangible assets	4	64	118
Deferred tax assets	18f	86	102
Fixed assets	5	624	601
Leasing rights	6	659	604
Reinsurance assets	11	15,936	19,190
Current tax assets		230	336
Debtors and receivables	7	704	697
Financial investments:	8		
Quoted debt assets		27,762	25,752
Non-quoted debt assets		13	14
Others		1,883	2,015
Cash and cash equivalents	9	15,632	14,321
Total assets		63,593	63,750

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

STATEMENTS OF FINANCIAL POSITION

EQUITY AND LIABILITIES	Note	December 31, 2011	December 31, 2010
		U.S. dollars in thousands	
EQUITY	10		
Share capital		1,720	1,720
Extraordinary risk reserve		13,969	13,969
Revaluation reserve		521	521
Retained income		13,589	15,131
Total equity		29,799	31,341
LIABILITIES			
Liabilities in respect of insurance contracts	11	18,273	21,389
Liabilities in respect of employee benefits, net	12	96	88
Creditors and payables	13	15,425	10,932
Total liabilities		33,794	32,409
Total equity and liabilities		63,593	63,750

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

May 17, 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 the meeting that was held on May 17, 2012, the Board of Directors nominated Mr. Boaz Hirsh to serve as the Chairman of the Board of Directors meeting in which the financial statements will be approved 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, 2011	2010	2009
		U.S. dollars in thousands (except net profit (loss) per share data)		
Gross earned premiums		7,018	5,917	5,756
Reinsurance premiums earned		6,319	5,315	5,183
Premiums earned on retention		699	602	573
Net investment income (loss) and finance income	14	(180)	2,883	2,193
Income from commissions	15	1,352	1,152	993
Total income		1,871	4,637	3,759
Payments and change in liabilities in respect of gross insurance contracts		443	(4,452)	3,178
Reinsurers' share in payments and change in liabilities in respect of insurance contracts		301	(4,216)	4,487
Payments and change in liabilities in respect of insurance contracts on retention		142	(236)	(1,309)
Marketing expenses	16	371	200	293
Administrative and general expenses	17	2,472	2,457	1,998
Total expenses		2,985	2,421	982
Income (loss) before taxes on income		(1,114)	2,216	2,777
Taxes on income	18	428	96	853
Net income (loss)		(1,542)	2,120	1,924
Other comprehensive income (after the tax effect)		-	-	-
Total comprehensive income (loss)		(1,542)	2,120	1,924
Net earnings (loss) per share (in U.S. dollars):				
Net earnings (loss) per share		(0.64)	0.88	0.80

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, 2009	1,720	13,969	521	11,087	27,297
Total comprehensive income	-	-	-	1,924	1,924
Balance as at December 31, 2009	1,720	13,969	521	13,011	29,221
Total comprehensive income	-	-	-	2,120	2,120
Balance as at December 31, 2010	1,720	13,969	521	15,131	31,341
Total comprehensive loss	-	-	-	(1,542)	(1,542)
Balance as at December 31, 2011	1,720	13,969	521	13,589	29,799

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

STATEMENTS OF CASH FLOWS

	Note	Year ended December 31, 2011	2010	2009
		U.S. dollars in thousands		
CASH FLOWS FROM CURRENT ACTIVITIES	(a)	1,455	12,042	(820)
CASH FLOWS FROM INVESTMENT ACTIVITIES				
Investment in fixed assets		(78)	(69)	(104)
Investment in leasing rights		(81)	(3)	-
Offset of leasing rights balances in respect of arrangement with the V.A.T. Authorities		20	20	-
Investment in intangible assets		(5)	(54)	(51)
Net cash used in investment activities		(144)	(106)	(155)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		1,311	11,936	(975)
BALANCE OF CASH AND CASH EQUIVALENTS AS AT THE BEGINNING OF THE YEAR		14,321	2,385	3,360
BALANCE OF CASH AND CASH EQUIVALENTS AS AT THE END OF THE YEAR		15,632	14,321	2,385

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

STATEMENTS OF CASH FLOWS

		Year ended December 31,		
		2011	2010	2009
		U.S. dollars in thousands		
(a)	**CASH FLOWS FROM CURRENT ACTIVITIES (1)**			
	Net income (loss)	(1,542)	2,120	1,924
	Adjustment required to present cash flows from current activities:			
	Adjustments to the profit and loss items:			
	Net losses (gains) from financial investments:			
	Quoted debt assets	136	(2,307)	(1,841)
	Unquoted debt assets	1	8	(124)
	Others	95	(62)	(29)
	Depreciation and amortization:			
	Fixed assets and prepaid leasing fees	65	60	25
	Leasing rights and prepaid leasing fees	26	27	25
	Intangible assets	59	64	61
	Change in liabilities in respect of insurance contracts	(3,116)	(9,310)	(2,124)
	Change in reinsurance assets	3,254	9,088	840
	Income tax expenses	428	96	853
	Changes in other balance sheet items:			
	Net sales (acquisitions) of financial investments	(3,513)	6,820	(1,253)
	Debtors and receivables	7	9	(13)
	Creditors and payables	4,493	5,504	(48)
	Liabilities in respect of employee benefits, net	8	24	10
	Total adjustments required to present cash flows from current activities	1,943	10,021	(3,618)
	Cash paid and received during the year for:			
	Interest received	1,404	1,004	1,124
	Taxes paid	(376)	(1,103)	(502)
	Taxes received	26	-	252
		1,054	(99)	874
	Net cash provided by (used in) current activities	1,455	12,042	(820)

(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. (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 May 18, 2011 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 $ 1,750 million, subject to the conditions detailed in the guarantee letter.

On February 26, 2012 the Accountant General at the Ministry of Finance issued a new guarantee letter to the Company in the amount of $ 1,450 million.

In accordance with this guarantee letter, should the total claims against the Company rise above $ 225 million in the framework of the said guarantee letter, half of the Company’s equity will be used to pay claims in the excess amount above the aforementioned amount, on condition that as a result the Company's equity will not decrease below $ 10 million. The guarantee letter will be valid until December 31, 2014.

With regard to the implications of the guarantee letter on the Company's dividend distribution policy, see Note 10(b)(3) 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.
Interested parties	- as defined in the Israeli Securities Regulations (Annual Financial Statements), 2010.
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.
Liabilities in respect of insurance contracts	- outstanding claims

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, except as noted in paragraph 4 below.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

a. Basis of presentation of the financial statements

4. Changes in accounting policies in view of the adoption of new standards

IAS 1 - Presentation of Financial Statements

According to the amendment to IAS 1 (hereunder - the Amendment), the changes between the opening and the closing balances of each component of other comprehensive income may be presented in the statement of changes in equity or in the notes accompanying the annual financial statements. Accordingly, the Company has elected to present this disclosure in the statement of changes in equity. The Amendment has been applied retrospectively from January 1, 2011.

IAS 24 - Related Party Disclosures

The amendment to IAS 24 (hereunder - the Amendment) clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised Standard introduces a partial exemption of disclosure requirements for government-related entities regarding transactions with the government and with other companies. The Amendment has been applied retrospectively from the financial statements for annual periods beginning on January 1, 2011.

The required disclosures have been included in the Company's financial statements.

IFRS 7 - Financial Instruments: Disclosure

The amendment to IFRS 7 (hereunder - the Amendment) clarifies the Standard's disclosure requirements. In this context, emphasis is placed on the interaction between the quantitative disclosures and the qualitative disclosures and the nature and extent of risks arising from financial instruments. In addition, the Amendment also reduces the disclosure requirements for collateral held by the Company and revises the disclosure requirements for credit risk. The Amendment has been applied retrospectively commencing from the financial statements for periods beginning on January 1, 2011.

The retrospective application of the Amendment did not have a material effect on the Company's financial statements.

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

Judgments

In the process of applying the accounting policies of the Company, and the Management 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 use its judgement and 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 employee turnover rates. Due to the long-term nature of these plans, such estimates are subject to uncertainty. See additional information in paragraph l and in Note 12 below.

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. Deferred tax assets

Deferred tax assets are recognized in respect of unused carry forward tax losses and 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 anticipated taxable income. Further information is provided in paragraph n' and in Note 18 below.

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, are recognized in the statement of comprehensive income. Non-monetary assets and liabilities, denominated in NIS or in foreign currency that is not U.S. Dollar and measured at cost are translated at the exchange rate at the date of the transaction.

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 and at each reporting date they are translated to the functional currency based on the representative exchange rate on that date. 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 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.

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Insurance contracts (Cont.)

4. Outstanding claims (Cont.)

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 the 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.

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).

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Financial Instruments (Cont.)

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

When the Company has the explicit intention and ability to hold debt instruments to maturity, they are classified as held-to-maturity. Held-to-maturity investments are measured at amortized cost using the effective interest method which also takes the transaction costs into account, less any impairment losses.

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 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Financial Instruments (Cont.)

1. Non-derivative financial instruments (Cont.)

Financial assets measured at fair value through profit and loss

A financial asset is classified as measured at fair value through profit and loss if it is held for trading or is designated as such upon initial recognition.

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 comprehensive income.

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.

Loans and debtors

Loans and debtors are non-derivative financial assets, with fixed payments or definable payments, that are not traded in an active market. After initial recognition, the loans and debtors are measured at amortized cost using the effective interest method, which takes the transaction costs, net of provisions for impairment, into account. Profits and losses are recognized in the statement of comprehensive income 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Financial Instruments (Cont.)

4. Determination of fair value

The fair value of investments traded actively in regulated financial markets, is determined by the market prices on the reported date. The fair value of the unquoted debt assets given for note purposes only, is calculated using a discounted cash flow model.

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.

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 allocated to the statement of comprehensive income using the straight-line method over the estimated useful life of each part of the items of the fixed 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.

Estimates regarding depreciation methods, useful lives and residual values are re-examined at least at the end of each reporting year.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Leasing rights

Leasing rights are property (land or a building or both) held by the owners (under operating lease) or a lessee under a financial 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.

In addition, real estate rights held by the lessee under an operating lease from the Israel Land Administration, are classified and accounted for as leasing rights.

Leasing rights are measured initially at cost with the addition of directly attributable acquisition costs. In subsequent periods, after initial recognition, leasing rights are measured at cost, less accumulated depreciation and accumulated impairment losses and accounted for according to the fixed assets that is measured at cost. As for the testing of impairment, see k below.

Leasing rights are 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 all the risks and rewards involved in the ownership of the leased asset are not transferred, are classified as an operating lease.
Lease payments are recognized as an expense in profit and loss on a straight-line on a current basis over the lease term.

Leasing of land is treated as an operating lease when the amount attributable to land under a capitalized lease is presented in the reports of the financial position as part of debtors and receivables and recognized as an expense in the statement of comprehensive income under the straight line method over the lease term

j. Intangible assets

Separately acquired intangible assets are measured on initial recognition at cost with the addition of direct acquisition costs.

After initial recognition, intangible assets are measured at their cost less any accumulated amortization and any accumulated impairment losses.

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 comprehensive income.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Intangible assets (Cont.)

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 presented 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 leasing rights) 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.

l. Liabilities for employee benefits

The Company has several employee benefit plans:

1. Short-term benefits

Short-term employee benefits include salaries, paid annual 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 and a reliable estimate of the amount can be made.

2. Post-employment benefits

The Company operates a defined benefit plan for payment of severance pay in accordance with the Severance Pay Law. By law, employees are entitled to receive severance pay upon dismissal or retirement.

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 and loss, income (losses) from foreign currency (which is not the functional currency) in respect of financial assets and income from leasing fees of leasing rights.

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

Income tax expenses comprise current and deferred taxes. Income tax expenses are allocated to the statement of comprehensive income.

The current tax is the tax amount expected to be paid on the annual taxable income, which is calculated using the tax rates applicable pursuant to the tax laws enacted or which have been essentially enacted, as at the reporting date, which include changes in tax payments relating to previous years.

Deferred taxes are recognized based on the balance sheet approach in relation to temporary differences between the carrying amount of assets and liabilities for financial reporting and their value for tax purposes.

Deferred taxes are measured at the tax rates that are expected to apply to the temporary differences in the period they are realized, based on tax laws that have been enacted or substantively enacted by the reporting date. The Company offsets deferred tax assets and liabilities

Deferred tax assets are recognized in the books when future taxable income can be expected against which the temporary differences may be utilized. The deferred tax assets are examined at each reporting date and if the respective tax benefits are not expected to be realized, they are amortized.

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.

Regarding details of the financial reporting according to segments – see Note 3.

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. IAS 1 - Presentation of Financial Statements

In June 2011, the IASB issued an amendment to IAS 1 (hereunder - the Amendment) which provides guidance for the presentation of other comprehensive income. According to the Amendment, items which may be carried to profit or loss at a later stage (such as upon derecognition or recovery) should be presented separately from items that can never be carried to profit or loss.

The Amendment is to be applied retrospectively commencing from the financial statements for annual periods beginning on January 1, 2013, or thereafter. Earlier application is permitted.

The Company believes that the amendment is not expected to have a material effect on the financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

2. IAS 19 (Revised) - Employee Benefits

In June 2011, the IASB issued IAS 19 (Revised) (hereunder - the Standard). The principal amendments included in the Standard are:

- Actuarial gains and losses will only be recognized in other comprehensive income and not recorded in profit or loss.

- The "corridor" approach which allowed the deferral of actuarial gains or losses has been eliminated.

- The return on the plan assets is recognized in profit or loss based on the discount rate used to measure the employee benefit liabilities, regardless of the actual composition of the investment portfolio.

- The distinction between short-term employee benefits and long-term employee benefits will be based on the expected settlement date and not on the date on which the employee first becomes entitled to the benefits.

- Past service cost arising from changes in the plan will be recognized immediately.

The Standard is to be applied retrospectively in financial statements for annual periods commencing on January 1, 2013, or thereafter. Earlier application is permitted.

The Company estimates that the standard is not expected to have a material impact on its financial statements.

3. IAS 32 - Financial Instruments: Presentation: and - IFRS 7 - Financial Instruments - Disclosure

In December 2011 the IASB issued amendments to IAS 32 (hereunder - the amendments to IAS 32) regarding offsetting financial assets and financial liabilities. Amendments to IAS 32 clarify, among others, the term "immediately there (CURRENTLY) legally enforceable right of offset" (hereunder - the right to offset). Amendments to IAS 32 perscribe, among others, that the right to offset must be legally enforceable not only during the regular course of business of the parties to the contract but also in the event of bankruptcy or insolvency of either party. In addition, the amendments to IAS 32 determine that in order to have the right to offset immediately, it should not depend on a future event or have periods when it will not apply, or that there will be events that will cause its expiration.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

3. IAS 32 - Financial Instruments: Presentation: and - IFRS 7 - Financial Instruments - Disclosure (Cont.)

Correspondingly, in December 2011 the IASB issued amendments to IFRS 7 (hereunder - the amendments to IFRS 7) on offsetting financial assets and financial liabilities. In accordance with the amendments to IFRS 7 the Company is required, among others, to provide information on the rights to offset and on related arrangements (such as agreements on securities), to give information on the composition of the amounts offset and to provide information on amounts subject to arrangements that allow offsets but do not meet all the criteria for offsetting as set forth in - IAS 32.

Amendments to IAS 32 will be applied retrospectively from the financial statements for annual periods beginning on January 1, 2014 or thereafter. Early adoption is permitted, but it is required to provide a disclosure to this fact and provide the disclosures required by the amendments to IFRS 7 as stated above. Amendments to IFRS 7 will be applied retrospectively from the financial statements for periods beginning on January 1, 2013 or thereafter.

The Company believes the amendments to IAS 32 are not expected to have a significant effect on the financial statements. The disclosures required by the amendments to IFRS 7 will be included in the financial statements of the Company.

4. 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.)

5. IFRS 13 - Fair Value Measuremen

IFRS 13 (hereunder – Standard 13) establishes guidance for the measurement of fair value, to the extent that such measurement is required according to IFRS. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS 13 also specifies the characteristics of market participants and determines that fair value is based on the assumptions that would have been used by market participants. According to IFRS 13, fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market.

IFRS 13 requires an entity to maximize the use of relevant observable inputs and minimize the use of unobservable inputs. IFRS 13 also includes a fair value hierarchy based on the inputs used to determine fair value as follows:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.

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

Level 3 - unobservable inputs (valuation techniques that do not make use of observable inputs).

IFRS 13 also prescribes certain disclosure requirements.

The new disclosures, and the measurement of assets and liabilities pursuant to IFRS 13, are to be applied prospectively for periods commencing after the Standard's effective date, in financial statements for annual periods commencing on January 1, 2013 or thereafter. Earlier application is permitted. The new disclosures will not be required for comparative data.

The appropriate disclosures will be included in the Company's financial statements upon initial adoption.

As for the effect on the financial statements, the Company believes that IFRS 13 is not expected to have a material impact on its financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

6. 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 (hereunder - the Standard) 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 the Standard, 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, 2015. Earlier application is permitted. Early adoption will be made retrospectively, together with providing a required disclosure or 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 the Standard 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. According to the amendments, the amount of change in fair value of the liability - which is attributed to changes in credit risk - credited to other comprehensive income. All other changes in fair value credited to profit or loss. If the imputed change in fair value of the liability, resulting from changes in credit risk, to the other comprehensive income will produce an accounting asymmetry in profit or loss, that change will be allocated to profit or loss and not to other 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, 2015. Earlier application is permitted provided that the Company also adopts the provisions of the Standard regarding the classification and measurement of financial assets (the first part of Phase 1). Upon initial application, the amendments should be applied retrospectively, together with providing the required disclosure or restatement of comparative figures, subject to the reliefs as specified in the amendments.

The Company believes that the application of the Standard is not expected to have a significant effect on the 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, 2011	2.2	2.6	7.7
Year ended December 31, 2010	2.7	2.3	(6.0)
Year ended December 31, 2009	3.9	3.8	(0.7)

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, 2011		
	Foreign trade risk insurance	Other	Total
	U.S. dollars in thousands		
Gross earned premiums	7,018	-	7,018
Premiums earned by reinsurers	6,319	-	6,319
Premiums earned on retention	699	-	699
Investment losses, net and finance income	(78)	(102)	(180)
Income from commissions	1,352	-	1,352
Total income (loss)	1,973	(102)	1,871
Payments and change in liabilities in respect of gross insurance contracts	443	-	443
Reinsurers' share in payments and change in liabilities in respect of insurance contracts	301	-	301
Payments and change in liabilities in respect of insurance contracts on retention	142	-	142
Marketing expenses	371	-	371
Administrative and general expenses	2,472	-	2,472
Total expenses	2,985	-	2,985
Loss before taxes on income	(1,012)	(102)	(1,114)
Comprehensive loss before taxes on income	(1,012)	(102)	(1,114)
Liabilities in respect of gross insurance contracts as at December 31, 2011	18,273	-	18,273

NOTE 3:- OPERATING SEGMENTS (Cont.)

a. Results according to operating segment (Cont.)

	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.)

b. Composition of assets and liabilities by operating segments

	December 31, 2011		
	Foreign trade risk insurance	Other	Total
	U.S. dollars in thousands		
ASSETS			
Intangible assets	-	64	64
Financial investments	9,563	20,095	29,658
Reinsurance assets	15,936	-	15,936
Other assets	7,816	10,119	17,935
Total assets	33,315	30,278	63,593
LIABILITIES			
Liabilities in respect of insurance contracts	18,273	-	18,273
Other liabilities	15,042	479	15,521
Total liabilities	33,315	479	33,794

	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

NOTE 4:- INTANGIBLE ASSETS

Movement hereunder:

	Computer software
	U.S. dollars in thousands
COST	
Balance as at January 1, 2010	373
Additions	54
Balance as at December 31, 2010	427
Additions	5
Balance as at December 31, 2011	432
ACCUMULATED AMORTIZATION	
Balance as at January 1, 2010	245
Amortization recognized during the year	64
Balance as at December 31, 2010	309
Amortization recognized during the year	59
Balance as at December 31, 2011	368
NET BALANCE	
As at December 31, 2011	64
As at December 31, 2010	118

NOTE 5:- FIXED ASSETS, NET

a. Composition and movement

In 2011

	Office buildings	Computers	Office furniture and equipment	Vehicles	Total
	U.S. dollars in thousands				
Cost					
Balance as at January 1, 2011	714	184	273	54	1,225
Acquisitions	51	10	17	-	78
Balance as at December 31, 2011	765	194	290	54	1,303
Accumulated depreciation					
Balance at January 1, 2011	256	145	223	-	624
Depreciation	15	21	11	8	55
Balance as at December 31, 2011	271	166	234	8	679
Balance of amortized cost as at December 31, 2011	494	28	56	46	624

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

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 $ 492 thousand ends in 2032 and for the office buildings with depreciated of $ 2 thousand the leasing period ends in 2028.

   A total amount of $ 170 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, 2011 in accordance with the Company's valuation based on rent transactions of similar assets is $ 865 thousand (as at December 31, 2010 - $ 900 thousand).

NOTE 6:- LEASING RIGHTS

a. Movement

	December 31	
	2011	2010
	U.S. dollars in thousands	
COST		
Balance at January 1	1,530	1,547
Acquisitions	81	3
Disposals *)	(20)	(20)
Balance as at December 31	1,591	1,530
ACCUMULATED DEPRECIATION		
Balance at January 1	926	920
Depreciation	6	6
Balance at December 31	932	926
Balance of depreciated cost as at December 31	659	604

*) In accordance with the agreement with the Tax Authorities from April 2010, the Company was allowed to offset the VAT receipts from the leasing rights cost in respect of leasing fees it collects from its tenants up to the amount of NIS 650 thousand (about $ 170 thousand). In the years 2011 and 2010 the amount of $ 20 thousand were offset, each year.

NOTE 6:- LEASING RIGHTS (Cont.)

b. Rights in real estate

	December 31,	
	2011	2010
	U.S. dollars in thousands	
Under ownership	5	5
Under leasehold rights from Tel-Aviv-Jaffa Municipality ending in 2032	654	599
	659	604

c. Fair value of leasing rights

	December 31,			
	2011		2010	
	Depreciated cost	Fair value	Depreciated cost	Fair value
	U.S. dollars in thousands			
Included in:				
Leasing rights above	659	1,317	604	1,391
Prepaid leasing fees (Note 7)	417	658	438	695
	1,076	1,975	1,042	2,086

The fair value at December 31, 2011 and 2010 was determined based on an internal calculation of estimated expected future cash flows to derive from the asset. 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 14.25% (in the year 2010 – 13.5%).

NOTE 7:- DEBTORS AND RECEIVABLES

Composition:

	December 31,	
	2011	2010
	U.S. dollars in thousands	
Prepaid lease expenses *)	587	617
Prepaid expenses	68	28
Others	49	52
	704	697

*) 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, 2011		
	Reported at fair value through profit and loss	Loans and debtors	Total
	U.S. dollars in thousands		
Quoted debt assets	27,762	-	27,762
Unquoted debt assets	-	13	13
Others	1,883	-	1,883
Total	29,645	13	29,658

	December 31, 2010		
	Reported at fair value through profit and loss	Loans and debtors	Total
	U.S. dollars in thousands		
Quoted debt assets	25,752	-	25,752
Unquoted debt assets	-	14	14
Other	2,015	-	2,015
Total	27,767	14	27,781

NOTE 8:- FINANCIAL INVESTMENTS (Cont.)

b. Quoted debt assets

Composition:

	December 31,	
	2011	2010
	U.S. dollars in thousands	
Reported at fair value through profit and loss and designated upon initial recognition:		
Government bonds	19,447	15,403
Other non-convertible debt assets	8,315	10,349
Total quoted debt assets	27,762	25,752

c. Unquoted debt assets

	December 31,	
	2011	2010
	U.S. dollars in thousands	
Reported as loans and debtors:		
Deposits with banking institutions	13	14

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, 2011		
Quoted:		
Reported at fair value through profit and loss	1,883	1,791
As at December 31, 2010		
Quoted:		
Reported at fair value through profit and loss	2,015	1,958

Other financial investments include investment in basket certificates and structured products.

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, 2011			
	Level 1	Level 2	Level 3	total
	NIS in thousands			
Quoted debt assets	27,762	-	-	27,762
Others	1,883	-	-	1,883
Total	29,645	-	-	29,645

	As at December 31, 2010			
	Level 1	Level 2	Level 3	total
	NIS in thousands			
Quoted debt assets	25,752	-	-	25,752
Others	2,015	-	-	2,015
Total	27,767	-	-	27,767

NOTE 9:- CASH AND CASH EQUIVALENTS

	December 31,	
	2011	2010
	U.S. dollars in thousands	
Cash and deposits for immediate withdrawal	2,969	2,100
Short-term deposits	12,663	12,221
	15,632	14,321

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, 2010 – 1%).

NOTE 10:- EQUITY AND CAPITAL REQUIREMENTS

a. Composition of share capital

	December 31, 2011 and 2010	
	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), 1998, as amended, (hereunder – the capital amendment) and the Regulator's directives:

	As at December 31	
	2011	2010
	U.S. dollars in thousands	
Minimum shareholders' equity:		
Amount required as per the regulations and the Regulator's directives	3,809	3,999
Amount calculated as per regulations	29,799	4,244
Surplus *)	25,990	245
Surplus and funds not included in the calculation of the shareholders' equity	-	27,097
Primary capital:		
Minimum amount required as per regulations	3,809	3,999
Amount calculated as per regulations	29,799	31,341
Surplus	25,990	27,342

*) 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 and the Regulator'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 reporting date amounts to $ 29,799 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 from accumulated profits 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. 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.)

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

   According to the letter 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 letter, as well as submitting an annual profit forecast for the years 2010 and 2011, an operative action plan to raise capital approved by the Board of Directors of the insurance company and the minutes of the discussion in the insurance company's Board of Directors in which the dividend distribution was approved.

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

b. Management and capital requirements: (Cont.)

7. (Cont.)

Nevertheless, it was mentioned in the letter that any company whose shareholders' equity, after the distribution of dividends, will be higher than 110% of the amount required in the letter, 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.

Iin October 2011, a draft letter (hereunder – "the second clarification") which includes the criteria mentioned in the letter 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%).

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,					
	2011	2010	2011	2010	2011	2010
	Gross		Reinsurance		On retention	
	U.S. dollars in thousands					
Excess of income over expenses(accruals)	13,708	13,167	11,371	10,968	2,337	2,199
Outstanding claims	4,565	8,222	4,565	8,222	-	-
Total liabilities in respect of insurance contracts included in general insurance segment	18,273	21,389	15,936	19,190	2,337	2,199

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,					
	2011	2010	2011	2010	2011	2010
	Gross		Reinsurance		On retention	
	U.S. dollars in thousands					
Balance as at the beginning of the year	21,389	30,699	19,190	28,278	2,199	2,421
Change in estimated cumulative cost of claims in respect of previous underwriting years	(73)	(416)	(75)	(399)	2	(17)
Total change in cumulative cost of claims	(73)	(416)	(75)	(399)	2	(17)
Payments for settling claims during the year:						
In respect of previous underwriting year, net of claims recoveries	(3,584)	(4,861)	(3,582)	(4,878)	(2)	17
Total payments for the year	(3,584)	(4,861)	(3,582)	(4,878)	(2)	17
Accumulation for in respect of the current underwriting year	5,630	4,738	4,967	4,163	663	575
Accumulation allocated to income in respect of the underwriting year released	(5,464)	(9,166)	(4,750)	(8,314)	(714)	(852)
Balance of change in accumulation	375	395	186	340	189	55
Total change in accumulation for the year	541	(4,033)	403	(3,811)	138	(222)
Balance as at the end of the year	18,273	21,389	15,936	19,190	2,337	2,199

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 2011 the expenses in respect of the defined deposit plan amounted to $53 thousand, and in the years 2010 and 2009 in the amount of $49 thousand and $ 45 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,	
	2011	2010
	U.S. dollars in thousands	
Liability in respect of defined benefit plan	689	682
Fair value of plan's assets	593	594
Total net liabilities in respect of defined benefit plans	96	88

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

	2011	2010
	U.S. dollars in thousands	
Balance at January 1,	682	543
Interest cost	27	28
Current service cost	55	61
Benefits paid	-	(28)
Net actuarial loss (income)	(23)	39
Other adjustments	(52)	39
Balance at December 31,	689	682

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

	2011	2010
	U.S. dollars in thousands	
Balance at January 1,	594	479
Expected return	24	25
Net actuarial gain (loss)	(36)	34
Deposits to plans by employer	53	49
Benefits paid	-	(28)
Other adjustments	(42)	35
Balance at December 31,	593	594

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:

	2011	2010	2009
	%		
Discount rate	1.8	1.4	2.2
Expected rate of return on plan assets	1.4	2.2	3.9
Anticipated average rate of salary increases	1.5	1.5	1.5

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

	2011	2010	2009
	U.S. dollars in thousands		
Present value of liabilities in respect of defined benefits	689	682	543
Fair value of the plans assets	593	594	479
Deficiency in plan	(96)	(88)	(64)

5. Expenses allocated to profit and loss

	Year ended as at December 31		
	2011	2010	2009
	U.S. dollars in thousands		
Cost of current services	55	61	45
Interest in respect of liabilities for benefits	27	28	36
Anticipated yield on the plan assets	(24)	(25)	(25)
Net actuarial loss, recognized this year	13	5	2
Cost of previous services	(3)	(1)	(4)
Total expenses in respect of employee benefits *)	68	68	54
Actual yield on the plan assets	(0.03%)	3.2%	2.2%

*) 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,	
	2011	2010
	U.S. dollars in thousands	
Prepaid premiums	14,698	9,399
Employees other liabilities for payroll and salaries	214	180
Accrued expenses	82	79
Suppliers and service providers	87	56
Accountant general at the Ministry of Finance and other reinsurers - current accounts	299	1,210
Policyholders	45	8
	15,425	10,932

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

NOTE 14:- NET INVESTMENT INCOME (LOSS) AND FINANCE INCOME

	Year ended December 31,		
	2011	2010	2009
	U.S. dollars in thousands		
Current income in respect of leasing rights *)	173	140	95
Income (loss) from financial investments, except for exchange rate differences in respect of assets reported at fair value through profit and loss	(232)	2,361	1,994
Interest income (expenses) from taxes on income	(19)	-	19
Exchange rate differences	(36)	443	143
Bank commissions	(66)	(61)	(58)
Total net investment income (loss) and finance income	(180)	2,883	2,193
*) Reported net of depreciation in the sum of	20	27	26

NOTE 15:- INCOME FROM COMMISSIONS

	Year ended December 31,		
	2011	2010	2009
	U.S. dollars in thousands		
Commission fees from the State of Israel in respect of reinsurance	1,352	1,152	993

NOTE 16:- MARKETING EXPENSES

	Year ended December 31,		
	2011	2010	2009
	U.S. dollars in thousands		
Salaries and related expenses	263	137	210
Other marketing expenses	108	63	83
Total marketing expenses	371	200	293

NOTE 17:- ADMINISTRATIVE AND GENERAL EXPENSES

	Year ended December 31,		
	2011	2010	2009
	U.S. dollars in thousands		
Salaries and related expenses	1,787	1,627	1,317
Professional services	162	262	207
Office maintenance and communications	198	193	197
Vehicle maintenance	131	138	131
Depreciation and amortization	150	151	113
Travel abroad	132	34	92
Marketing and advertising	108	63	83
Professional literature and information	38	42	42
IT	91	63	49
Membership fees in the Berne Union	26	28	24
Refreshments and meals	21	44	37
Others	19	39	25
Total	2,863	2,684	2,317
Less:			
Depreciation and amortization reclassified to net investment income and finance income	(20)	(27)	(26)
Amounts reclassified to marketing expenses (Note 16 above)	(371)	(200)	(293)
Administrative and general expenses	2,472	2,457	1,998

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 (hereunder – the law)

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 law 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.

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.

On December 5, 2011, the Israeli Parliament (the Knesset) passed the Law for Tax Burden Reform (Legislative Amendments), 2011 (hereunder - the Law) which, among others, cancels effective from 2012, the scheduled progressive reduction in the corporate tax rate. The Law also increases the corporate tax rate to 25% in 2012. In view of this increase in the corporate tax rate to 25% in 2012, the real capital gains tax rate and the real betterment tax rate were also increased accordingly.

NOTE 18:- TAXES ON INCOME (Cont.)

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

2. (Cont.)

Hereunder are the statutory tax rates applicable to financial institutions including the Company :

Year	Corporate tax rate	Profit tax rate		Overall tax rate in financial institutions
	%			
2009	26	16.0	*)	36.21
2010	25	16.0		35.34
2011	24	16.0		34.48
2012	25	16.0		35.34
2013 and thereafter	25	15.5		35.06

*) Weighted tax rate.

The effect of the said changes on the deferred tax balances amounted to $ 8 thousand.

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. $ 597 thousand (NIS 2,281 thousand) as at December 31, 2011. 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. $ 86 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,		
	2011	2010	2009
	U.S. dollars in thousands		
Current taxes	362	87	816
Deferred taxes – also see paragraph f' below	8	9	55
Taxes in respect of previous years	50	-	(31)
Adjustment of deferred tax balances following change in the tax rate – also see paragraph f' below	8	-	13
	428	96	853

NOTE 18:- TAXES ON INCOME (Cont.)

f. Deferred taxes

Composition:

	Employee benefits *)	Fixed assets and leasing rights	Total
	U.S. dollars in thousands		
Balance as at January 1, 2010	48	63	111
Changes allocated to profit and loss	16	(25)	(9)
Balance at December 31, 2010	64	38	102
Changes allocated to profit and loss	11	(27)	(16)
Balance at December 31, 2011	75	11	86

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

g. The deferred taxes are recorded in the statement of financial position as follows:

	December 31,	
	2011	2010
	U.S. dollars in thousands	
Deferred tax assets	86	102

NOTE 18:- TAXES ON INCOME (Cont.)

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,		
	2011	2010	2009
	U.S. dollars in thousands		
Income (loss) before taxes on income	(1,114)	2,216	2,777
Comprehensive statutory tax rate applicable to financial institutions (see b' above)	34.48%	35.34%	36.21%
Tax (tax benefit) computed at the comprehensive statutory tax rate	(384)	783	1,006
Increase (decrease) in taxes on income resulting from the following factors:			
Unallowable expenses for tax purposes	10	4	4
Profit tax on salary tax	13	11	9
Taxes in respect of previous years	50	-	(31)
Differences in the measurement basis (nominal NIS for tax purposes and foreign currency in the financial statements) *)	757	(665)	(89)
Update of the deferred tax balances in respect of changes in the tax rates	8	-	13
Other	(26)	(37)	(59)
Taxes on income	428	96	853
Average effective tax rate	-	4.33%	30.72%

*) 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's business activity in the year 2011 focused on the field of medium and long term credit insurance and foreign trade risks . In the framework of its activities, the Comapny insures or guarantees the commercial and/or political risks in export transactions in which there is long-term credit (one year or more). In addition, the Company also insures the investments of Issraeli investors abroad against political risks.

The Company is mainly exposed to risks deriving from its activities in the insurance business, but it is also exposed to operating risks, financial risks, compliance risks, strategic risks and other risks. The issue of risk management and the instruments for measurement and reduction of the various risks of the Company are detailed in the Risk Management chapter in the Corporation's Business report.

a. Description of risk management procedures and methods

1. 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.

2. 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 "appetite" 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 updated in the year 2011 is expected to be approved by the Board of Directors in the year 2012. The document 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.

3. 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 years 2011 - 2012 and the risk management array operates continuously, as an integral part of all the Company’s processes.

4. The Company's risk manger is responsible for the 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. Beginning from the year 2012, the risk manager will update the Company’s Board of Directors and Management once every quarter regarding the risk management at a broader outlook, within the context of the risk management report.

NOTE 19:- RISK MANAGEMENT

b. Regulatory requirements

The relevant regulatory 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, 2011

	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			
Net profit (loss)/equity	63	(63)	(125)	125

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			
Net profit (loss)/equity	61	(61)	(129)	129

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,	
	2011	2010
	U.S. dollars in thousands	
Assets with direct interest risk:		
Quoted debt assets	27,762	25,752
Unquoted debt assets	13	14
Other financial investments	1,883	2,015
Cash and cash equivalents	15,632	14,321
Reinsurance assets	15,936	19,190
Total assets with direct interest risk	61,226	61,292
Liabilities with no direct interest risk	2,367	2,458
Total assets	63,593	63,750
Liabilities with direct interest risk:		
Liabilities in respect of insurance contracts	18,273	21,389
Liabilities for employee benefits, net	96	88
Total liabilities with interest risk	18,369	21,477
Liabilities with no direct interest risk:		
Other liabilities	15,425	10,932
Equity	29,799	31,341
Total equity and liabilities	63,593	63,750
Total assets net of liabilities	29,799	31,341

NOTE 19:- RISK MANAGEMENT (Cont.)

c. Market risks (Cont.)

3. Details of the assets and liabilities by linkage basis

a. As at December 31, 2011

	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	-	-	-	64	64
Deferred tax assets	-	-	-	86	86
Fixed assets, net	-	-	-	624	624
Leasing rights	-	-	-	659	659
Reinsurance assets	-	-	15,936	-	15,936
Current tax assets	-	230	-	-	230
Debtors and receivables	117	-	-	587	704
Financial investments:					
Quoted debt assets	9,276	8,742	9,744	-	27,762
Unquoted debt assets	13	-	-	-	13
Others	-	835	1,048	-	1,883
Cash and cash equivalents	491	-	15,141	-	15,632
Total assets	9,897	9,807	41,869	2,020	63,593
Total equity	-	-	-	29,799	29,799
Liabilities in respect of insurance contracts	-	-	18,273	-	18,273
Liabilities in respect of employee benefits, net	-	-	-	96	96
Creditors and payables	383	-	15,042	-	15,425
Total liabilities	383	-	33,315	96	33,794
Total equity and liabilities	383	-	33,315	29,895	63,593
Excess of assets over liabilities (liabilities over assets)	9,514	9,807	8,554	(27,875)	-

NOTE 19:- RISK MANAGEMENT (Cont.)

c. Market risks (Cont.)

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

b. 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
Leasing rights	-	-	-	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	8,151	7,473	-	25,752
Unquoted debt assets	14	-	-	-	14
Others	-	965	1,049	-	2,015
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	315	-	32,006	88	32,409
Total equity and liabilities	315	-	32,006	31,429	63,750
Excess of assets over liabilities (liabilities over assets)	10,563	9,452	9,372	(29,387)	-

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 - gross

	Up to one year	Over one year and up to3 years	Over 3 years and up to5 years	Total
As at December 31, 2011	2,647	9,996	5,630	18,273
As at December 31, 2010	5,465	11,184	4,738	21,389

e. Concentration of risks resulting from insurance - business activities

A description of the insurance products the Company offers is detailed in paragraph 3.2 to the corporate business report. Hereunder are the types of risks to which the Company is exposed in the framework of the insurance – business activities:

1. Operational risks

The operational risks in the business activity are actually managed mainly in the underwriting department and include, among others, exposure to the risks resulting from the base product pricing, risks resulting from incorrect assumptions, from outdated models and so forth. The operational risks include the risk arising from the assumptions underlying the basis of the product's pricing:

NOTE 19:- RISK MANAGEMENT (Cont.)

e. Concentration of risks resulting from insurance - business activities (Cont.)

1. Operational risks (Cont.)

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.

2. Financial risks

Risk of realization of the policy in respect of credit failure/insolvency - this risk is the main insurance risk resulting from the Company's activities.

"Reinsurer risk" is also included in the framework the credit risks – the exposure to the risk that the reinsurer will not repay its liabilities to the Company when required. The most significant exposure (about 90% of the Company's portfolio transactions) is to the target countries.

Concentration risk - Concentration of credit exposure with branches/countries/geographic areas with a high correlation between them.

Basis risk - most insurance policies are denominated and paid in U.S. dollars, which is the Company's base currency. This risk exists for about 10% of the policies which are denominated in Euros.

Interest risk –interest risk involved in insurance policies - exposure to loss due to changes in interest of loans or change in settlement dates.

3. Legal risks in the Company's business activities

of the overall legal risks, including the risk of exposure to international lawsuits and lawsuits in developing countries are managed by the Company's legal adviser.

4. Strategic business risks:

Business risks are defined as off-organizational risks, risks arising from changes in the business environment which may cause a decrease in profits.

NOTE 19:- RISK MANAGEMENT (Cont.)

e. Concentration of risks resulting from insurance - business activities (Cont.)

5. Goodwill risks.

Tools used by the Company to manage and reduce insurance risk:

a. Using a risk management model and analysis of countries and debtors (including bank analysis model).

b. Using strong reinsurers.

c. Reducing exposure by shortening the period of risk and lowering the hedge percentage in the relevant cases.

d. Use of securities and appropriate banking products in relevant cases.

e. Compliance with exposure limitations at regional and countries level and at the overall level of the portfolio.

f. Legal and operational controls in the underwriting processes.

g. Current monitoring processes of the insurance portfolio, including the monitoring committee headed by the CEO, beginning from the end of the year 2011.

NOTE 19:- RISK MANAGEMENT (Cont.)

f. Information regarding credit risks (Cont.)

1. Distribution of financial debt assets according to their location

	December 31, 2011		
	Quoted	Unquoted	Total
	U.S. dollars in thousands		
In Israel	18,580	13	18,593
Abroad	9,182	-	9,182
Total debt assets	27,762	13	27,775

	December 31, 2010		
	Quoted	Unquoted	Total
	U.S. dollars in thousands		
In Israel	19,005	14	19,019
Abroad	6,747	-	6,747
Total debt assets	25,752	14	25,766

2. Details of assets dividend into ratings

a) Debt financial assets in Israel

	Local rating *)		
	December 31, 2011		
	AA and above	BBB to A	Total
	U.S. dollars in thousands		
Quoted debt assets -			
Government bonds	13,284	-	13,284
Corporate bonds	4,924	372	5,296
Total quoted debt assets in Israel	18,208	372	18,580
Unquoted debt assets -			
Deposits with banks	-	13	13
Total debt assets in Israel	18,208	385	18,593

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, 2010		
	AA and above	BBB to A	Total
	U.S. dollars in thousands		
Quoted debt assets -			
Government bonds	14,038	-	14,038
Corporate bonds	4,664	303	4,967
Total quoted debt assets in Israel	18,702	303	19,005
Unquoted debt assets -			
Deposits with banks	-	14	14
Total debt assets in Israel	18,702	317	19,019

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

b) Debt financial assets abroad (Cont.)

	International rating *)		
	December 31, 2011		
	A and above	Lower than BBB	Total
	U.S. dollars in thousands		
Debt assets abroad			
Quoted debt assets			
Government bonds	6,163	-	6,163
Corporate bonds	1,051	1,968	3,019
Total debt assets abroad	7,214	1,968	9,182

*) 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, 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+.

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

	Local rating	
	December 31, 2011	
	Unrated	Total
	U.S. dollars in thousands	
Current tax assets	230	230
Deferred tax assets	86	86
Cash and cash equivalents	15,632	15,632

	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

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, 2011

	Balance sheet credit risk	
	Amount	% of total
	U.S. dollars in thousands	
Economical branch:		
Electricity and Electronics	2,500	9.00
Banks	3,066	11.04
Investments and Holdings	258	0.93
Industry	926	3.34
Insurance	357	1.29
Communications	439	1.58
Commerce	330	1.19
Petrol	153	0.55
Food	167	0.60
Real estate	108	0.39
Other	24	0.07
	8,328	29.98
State bonds	19,447	70.02
Total	27,775	100.00

As at December 31, 2010

	Balance sheet credit risk	
	Amount	% of total
	U.S. dollars in thousands	
Economical branch:		
Electricity and Electronics	4,284	16.63
Banks	3,022	11.73
Investments and Holdings	541	2.10
Industry	1,059	4.11
Insurance	261	1.01
Communications	383	1.49
Commerce	325	1.26
Petrol	284	1.10
Food	187	0.72
Other	17	0.07
	10,363	40.22
State bonds	15,403	59.78
Total	25,766	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 2011.

As at December 31, 2011:

			Reinsurance assets	
Rating group:	Total reinsurers premiums for the year	Net debit (credit) balances	In foreign trade risk insurance	Total exposure
	U.S. dollars in thousands			
State of Israel *)	4,762	(297)	11,729	11,432
A and above -				
Zurich American Instrance Company (AA-)	1,225	(2)	3,027	3,025
Euler HERMES (AAA)	299	-	1,091	1,091
Sovereign (AA-)	33	-	89	89
Total	6,319	(299)	15,936	15,637

*) 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, 2010:

Rating group:	Total reinsurers premiums for the year	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 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.

b. 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,	
	2011	2010
	U.S. dollars in thousands	
Under reinsurance assets:		
State of Israel's share in outstanding claims	11,729	14,801
Under creditors and payables:		
State of Israel's share in insurance transactions	297	1,116

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

d. Benefits to related and interested parties

	Year ended December 31,		
	2011	2010	2009
	U.S. dollars in thousands		
Salaries and related expenses to the Company's CEO	192	283 *)	172
Wages and related expenses to the Board's members	2 *)	43	44
Guarantee fee expenses to the State of Israel (reinsurance)	4,762	4,197	4,182
Less - commission from the State of Israel	(1,352)	(1,152)	(993)
State of Israel's share in claim recoveries received, less claims paid, net	3,582	4,878	5,313
*) Including to the former CEO	-	169	-
Number of people to which the wages and benefits relate:			
Related and interested parties employed by or on behalf of the Company	1	2	1
Directors not employed by the Company	8	10	10
	9	12	11

*) Relates to part of the year.

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.

	Year ended December 31,		
	2011	2010	2009
	U.S. dollars in thousands		
Amount of expenses for indemnification and insurance of directors and officeholders	17	19	19

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

f. Disclosure regarding benefits

The disclosure in this section is given in accordance with Article 89 to the Accounting and Finance Circular – Financial Statements (2011-5-1) of the Government Companies Authority from December 11, 2011. Hereunder are the benefits given, in the reporting year, as recognized in the financial statements for the reporting year:

1. The five receivers of highest benefits in the Company:

Officeholder	Scope of employment	Rate of holding in Company's equity	Benefits for salary In U.S. $ in thousands *)	Grant in U.S. $ in thousands
Officeholder 1	100%	-	206	-
Officeholder 2	100%	-	187	10
Officeholder 3	100%	-	159	-
Officeholder 4	100%	-	158	-
Officeholder 5	100%	-	134	7

*) Salary – including salary related conditions, such as vehicle maintenance, telephone, social benefits, provision for severance pay and any income allocated to salary for component granted to employee.

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, 2011 is about $ 8 thousand per month for the remaining average period of about two years.

b. Leasing rights

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 leasing rights and fixed assets. The rights were measured at cost.

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 period, 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 to equity under translation differences.

a. Statements of financial position:

	December 31,	
	2011	2010
	NIS in thousands	
Intangible assets	245	419
Deferred tax assets	329	362
Fixed assets, net	2,384	2,134
Leasing rights	2,518	2,143
Reinsurance assets	60,891	68,105
Current tax assets	880	1,192
Debtors and receivables	2,690	2,474
Financial investments:		
Quoted debt assets	106,080	91,394
Unquoted debt assets	50	50
Other	7,193	7,151
Cash and cash equivalents	59,731	50,826
Total assets	242,991	226,250

APPENDIX

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

a. Statements of financial position (Cont.)

	December 31,	
	2011	2010
	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	(14,813)	(20,153)
Retained profits	57,705	60,411
Total equity	113,864	111,230
LIABILITIES		
Liabilities in respect of insurance contracts	69,821	75,910
Liabilities in respect of employee benefits, net	367	312
Creditors and payables	58,939	38,798
Total liabilities	129,127	115,020
Total equity and liabilities	242,991	226,250

APPENDIX

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

b. Statements of comprehensive income

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands (except for net earnings (loss) per share data)		
Gross earned premiums	25,112	22,095	22,595
Reinsurance premiums earned	22,611	19,847	20,345
Premiums earned on retention	2,501	2,248	2,250
Net investment income (loss) and finance income	(644)	10,767	8,606
Income from commissions	4,838	4,302	3,898
Total income	6,695	17,317	14,754
Payments and change in liabilities in respect of insurance contracts	1,585	(16,625)	12,475
Reinsurers' share in payments and in change in liabilities in respect of insurance contracts	1,077	(15,743)	17,613
Payments and change in liabilities in respect of insurance contracts on retention	508	(882)	(5,138)
Marketing expenses	1,326	747	1,150
Administrative and general expenses	8,847	9,177	7,841
Total expenses	10,681	9,042	3,853
Income (loss) before taxes on income	(3,986)	8,275	10,901
Taxes on income (tax benefit)	(1,280)	2,831	3,720
Net income (loss)	(2,706)	5,444	7,181
Other comprehensive income (after the tax effect):			
Differences resulting from the translation of financial statements (net of the applicable tax)	5,340	(4,523)	(656)
Total comprehensive income	2,634	921	6,525
Net earnings (losses) per share:			
Net earnings (loss) per share (in NIS)	(1.1)	2.3	3.0

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, 2009	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 December 31, 2010	7,531	61,170	2,271	(20,153)	60,411	111,230
Loss	-	-	-	-	(2,706)	(2,706)
Adjustment resulting from the translation of the financial statement into Shekels	-	-	-	5,340	-	5,340
Total comprehensive income	-	-	-	5,340	(2,706)	2,634
Balance as of December 31, 2011	7,531	61,170	2,271	(14,813)	57,705	113,864

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