Translated from the Hebrew original

ASHR'A - THE ISRAEL EXPORT INSURANCE CORPORATION LTD.

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2009

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INDEX

	Page
Auditors' Report	**2 - 3**
Letters of Representation	**4 - 8**
Statements of Financial Position	**9 - 10**
Statements of Comprehensive Income	**11**
Statement of Changes in Equity	**12**
Statements of Cash Flows	**13 - 14**
Notes to Financial Statements	**15 - 81**
Appendix - Translation of the Condensed Financial Statements to NIS	**82 - 85**

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AUDITORS' REPORT

To the Shareholders of

ASHR'A - THE ISRAEL EXPORT INSURANCE CORPORATION LTD.

We have audited the accompanying statements of financial position of Ashr'a - The Israel Export Insurance Corporation Ltd. (hereunder - the Company) as at December 31, 2009 and 2008 and the related statements of comprehensive income, statements of changes in equity and the statements of cash flows for each of the years ended as at December 31, 2009, 2008 and 2007. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

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, 2009 and 2008, and the results of its operations, the changes in its equity and its cash flows, for each of the years then ended, in conformity with the International Financial Reporting Standards (IFRS) and in accordance with the disclosure requirements prescribed according to the Supervision of Financial Services (Insurance) Law, 1981, and the Regulations enacted pursuant thereto.

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

Pursuant to the Regulations of the Public Company Accounting Oversight Board (PCAOB) in the United States, w e have also audited the Company's internal control regarding the financial reporting as at December 31, 2009, based on the criteria prescribed in the integrated context of the internal control of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report as at March 24, 2010, included an unqualified opinion.

Tel-Aviv, Israel
March 24, 2010

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

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

I, Oved Ben David, certify that:

1. I have reviewed the financial statements and directors' report of Ashr'a - The Israel Export Insurance Corporation Ltd. ("the Company") for 2009 (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.

Oved Ben David
Chairman of the Board of Directors

March 24, 2010

*) The statement in the letter of representation is based on the Government Companies Regulations (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, Arnon Iken, certify that:

1. I have reviewed the financial statements and directors' report of Ashr'a - The Israel Export Insurance Corporation Ltd. ("the Company") for 2009 (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.

Arnon Iken
CEO

March 24, 2010

*) The statement in the letter of representation is based on the Government Companies Regulations (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 Export Insurance Corporation Ltd. ("the Company") for 2009 (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

March 24, 2010

*) The statement in the letter of representation is based on the Government Companies Regulations (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, Arnon Iken, certify that:

1. I have reviewed the annual report of Ashr'a - The Israel Export Insurance Corporation Ltd. ("the insurance company") for 2009 ("the report").

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 presented in the report.

4. The insurance company's other certifying officers and I are responsible for establishing and maintaining the disclosure controls and procedures required in the report 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 evaluated the efficiency of the disclosure controls and procedures of the insurance company and have presented our conclusions as to the efficiency of those disclosure controls and procedures for the end of the period covered in the report based on our evaluation; and

    c. 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.

Arnon Iken
CEO

March 24, 2010

*) The statement in the letter of representation is based on the Insurance Circular No. 2005-1-49 of December 25, 2005.

Letter of Representation of the Company's CFO *)

I, Yaron Messas, certify that:

1. I have reviewed the annual report of Ashr'a - The Israel Export Insurance Corporation Ltd. ("the insurance company") for 2009 ("the report").

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 presented in the report.

4. The insurance company's other certifying officers and I are responsible for establishing and maintaining the disclosure controls and procedures required in the report 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 evaluated the efficiency of the disclosure controls and procedures of the insurance company and have presented our conclusions as to the efficiency of those disclosure controls and procedures for the end of the period covered in the report based on our evaluation; and

    c. 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

March 24, 2010

*) The statement in the letter of representation is based on the Insurance Circular No. 2005-1-49 of December 25, 2005.

STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2009	December 31, 2008
		U.S. dollars in thousands	
Intangible assets	4	128	138
Deferred tax assets	18f	111	179
Fixed assets, net	5	584	496
Investment property	6	627	631
Reinsurance assets		28,278	29,118
Debtors and receivables	7	725	742
Financial investments:	8		
Quoted debt assets		25,370	22,879
Non-quoted debt assets		7,716	8,113
Others		158	129
		33,244	31,121
Cash and cash equivalents	9	2,385	3,360
Total assets		66,082	65,785

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

STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2009	December 31, 2008
		U.S. dollars in thousands	
EQUITY	10		
Share capital		1,720	1,720
Extraordinary risk reserve		13,969	13,969
Revaluation reserve		521	521
Surplus		13,011	11,087
Total equity		29,221	27,297
LIABILITIES			
Liabilities in respect of insurance contracts	11	30,699	32,823
Liabilities in respect of employee benefits, net	12	64	54
Current tax liabilities		670	135
Creditors and payables	13	5,428	5,476
Total liabilities		36,861	38,488
Total equity and liabilities		66,082	65,785

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

March 24, 2010			
Date of approval of the financial statements	Oved Ben David Chairman of the Board	Arnon Iken CEO	Yaron Messas CFO

STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended December 31, 2009	2008	2007
		U.S. dollars in thousands (except net profit per share data)		
Gross earned premiums		5,756	7,075	12,277
Reinsurance premiums earned		5,183	6,386	11,466
Premiums earned on retention		573	689	811
Net investment income and finance income	14	2,193	1,820	3,337
Income from commissions	15	993	988	1,359
Total income		3,759	3,497	5,507
Payments and change in liabilities in respect of gross insurance contracts		3,178	(4,156)	(329)
Reinsurers' share in payments and change in liabilities in respect of insurance contracts		4,487	(3,064)	(164)
Payments and change in liabilities in respect of insurance contracts on retention		(1,309)	(1,092)	(165)
Marketing expenses	16	293	316	285
Administrative and general expenses	17	1,998	1,974	1,772
Total expenses		982	1,198	1,892
Income before taxes on income		2,777	2,299	3,615
Taxes on income	18	853	732	273
Net income		1,924	1,567	3,342
Other comprehensive income		-	-	-
Total comprehensive income		1,924	1,567	3,342
Earnings per share:				
Net earnings per share:				
Net earnings per share (in U.S. dollars)		0.80	0.65	1.39

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
	U.S. dollars in thousands				
Balance as of January 1, 2007	1,720	13,969	521	7,849	24,059
Comprehensive income	-	-	-	3,342	3,342
Balance as of December 31, 2007	1,720	13,969	521	11,191	27,401
Comprehensive income	-	-	-	1,567	1,567
Dividend	-	-	-	(1,671)	(1,671)
Balance as of December 31, 2008	1,720	13,969	521	11,087	27,297
Comprehensive income	-	-	-	1,924	1,924
Balance as of December 31, 2009	1,720	13,969	521	13,011	29,221

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

STATEMENTS OF CASH FLOWS

	Note	Year ended December 31, 2009	2008	2007
		U.S. dollars in thousands		
CASH FLOWS FROM CURRENT ACTIVITIES	a	(820)	807	1,989
CASH FLOWS FROM INVESTMENT ACTIVITIES				
Investment in fixed assets		(104)	(22)	(6)
Investment in investment property		-	(4)	(1)
Investment in intangible assets		(51)	(89)	(60)
Net cash used in investment activities		(155)	(115)	(67)
CASH FLOWS FROM FINANCE ACTIVITIES				
Dividend paid		-	(1,671)	-
Net cash used in finance activities		-	(1,671)	-
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(975)	(979)	1,922
BALANCE OF CASH AND CASH EQUIVALENTS AS AT BEGINNING OF THE YEAR		3,360	4,339	2,417
BALANCE OF CASH AND CASH EQUIVALENTS AS AT END OF THE YEAR		2,385	3,360	4,339

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

STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2009	2008	2007
	U.S. dollars in thousands		
(a) CASH FLOWS FROM CURRENT ACTIVITIES			
Net income	1,924	1,567	3,342
Items not involving cash flows:			
Net losses (gains) from financial investments:			
Quoted debt assets	(1,841)	(1,301)	(3,130)
Non-quoted debt assets	(124)	(374)	(572)
Others	(29)	-	(2)
Depreciation and amortization:			
Fixed assets and prepaid lease fees	25	33	34
Investment property and prepaid lease fees	25	44	51
Intangible assets	61	49	27
Change in liabilities in respect of insurance contracts	(2,124)	(7,664)	(431)
Change in reinsurance assets	840	6,594	261
Income tax expenses	853	732	273
Changes in other balance sheet items:			
Net sales (purchases) of financial investments	(1,253)	1,559	1,930
Debtors and receivables	(13)	(1)	(67)
Creditors and payables	(48)	(1,362)	(246)
Liabilities in respect of employee benefits, net	10	(57)	3
Cash paid and received during the year for:			
Interest received	1,124	1,166	992
Taxes paid	(502)	(329)	(476)
Taxes received	252	151	-
Net cash provided by (used in) current activities	(820)	807	1,989

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

NOTE 1:- GENERAL

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

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

NOTE 1:- GENERAL (Cont.)

c. Definitions:

In these financial statements:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation of the financial statements

The Company's financial statements have been prepared on a cost basis, except for certain financial instruments that have been measured at fair value.

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".

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:

1. International Financial Reporting Standards (IFRS).
2. International Accounting Standards (IAS).
3. 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 of Financial Services (Insurance) Law, 1981and the regulations enacted p and in accordance with the directives of the Government Companies Authority.

Consistent accounting policies and initial adoption of IFRS:

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

Changes in accounting policies in view of the adoption of new standards:

1. IAS 1 (Revised) - Presentation of Financial Statements

According to revised IAS 1, a separate statement "the statement of comprehensive income" is required. This statement should include, apart from the net profit taken from the statement of profit and loss, all items charged directly to equity in the reporting period and are not a result of transactions with shareholders as shareholders (other comprehensive income (loss)) such as adjustments due to translation of financial statements, etc. and the tax effect on these items, which is also charged directly to equity. Alternately, the other comprehensive income items can be reported together with the items in the statement of profit and loss in a signle statement that will be called "the statement of comprehensive income", which will replace the statement of profit and loss. Items that were allocated to equity, which are a result of transactions with shareholders as shareholders (such as distribution of dividends, etc.) will be disclosed in the statement of changes in equity as will the summary line carried forward from the statement of comprehensive income.

The revision was adopted from January 1, 2009 with a retrospective restatement of comparative figures.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

a. Basis of presentation of the financial statements (Cont.)

2. IFRS 8 – Activity Segments

IFRS 8 deals with operating segments and replaces IAS 14. According to the Standard, the Company adopted a "management approach" in reporting on the financial performance of the operating segments. The segment information is the information that is internally used by management in order to assess its performance and allocate resources to the operating segments.

The Company adopted the provisions of IFRS 8 on January 1, 2009 with a retrospective restatement of comparative figures.

The adoption of the Standard did not have any material effect on the presentation of segment information.

3. IFRS 7, Financial Instruments; Disclosures

The amendment to IFRS 7 requires additional disclosures about fair value measurement and liquidity risks. According to the amendment, additional disclosures are required, among others, as to the source of inputs used in making the measurements, using a three level fair value hierarchy for all financial instruments recognized at fair value. In addition, a reconciliation between the opening and closing balance for Level 3 fair value measurements is required (source of inputs that is not based on market data), as well as disclosure of significant transfers between levels in the fair value hierarchy.

The amendment was adopted prospectively from the financial statements for the year beginning January 1, 2009 (there is no need to provide comparative information).

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

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments in classifying and designating the financial investments into the following groups:

- financial assets at fair value through profit or loss.
- held-to-maturity investments.
- loans and receivables.
- available-for-sale financial assets.

See also e 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

The preparation of the financial statements requires management to make judgments, 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 balance sheet date and the critical estimates computed by the Group to which a material adjustment will change the carrying amounts of assets and liabilities for the next financial year are discussed below.

1. Liabilities in respect of insurance contracts

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

2. Pensions and other post-employment benefits

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c. Functional and foreign currencies (Cont.)

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 balance sheet date according to the terms of the agreement. Linkage differences arising from the adjustment, as mentioned, except for those that are capitalized to qualifying assets or directly allocated to shareholders' equity in hedging transactions, are allocated to the statement of profit and loss.

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. Foreign trade risk insurance

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

1. Revenue recognition:

Insurance fees net of guarantees by the State of Israel and reinsurance, are carried to the statement of profit and loss 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 balance sheet date are allocated to the creditors and payables item.

2. Payments and change in liabilities 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 are calculated in accordance with the Supervision of Insurance Business Regulations (Ways of Calculating Provisions for Future Claims in General Insurance), 1984, as amended.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Foreign trade risk insurance (Cont.)

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 balance sheet date, and an addition to the outstanding claims calculated according to the excess of revenues over expenses method, as mentioned in b) below.

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

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

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

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

f. Financial instruments

1. Non-derivative financial instruments

Non-derivative financial instruments include both financial assets and financial liabilities. Financial assets include financial investments (quoted debt assets, non-quoted debt assets and others) as well as other financial assets such as other debtors and cash and cash equivalents.

The initial recognition of non-derivative financial instruments is at fair value. After initial recognition, non-derivative financial instruments are measured as specified 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.)

1. Non-derivative 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 an explicit intention and ability to hold debt instruments to maturity, the debt instruments are classified as held-to-maturity. Held-to-maturity investments are measured at amortized cost using the effective interest method taking into account transaction costs, net of 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 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 profit and loss.

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

Financial assets 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 if it was designated upon initial recognition as at fair value through profit or loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Financial instruments (Cont.)

1. Non-derivative financial instruments (Cont.)

Financial assets at fair value through profit and loss (Cont.)

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 tem profits. Profits or losses from investments held for trade are allocated when incurred, to the statement of profit and loss.

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

Loans and debtors:

Loans and debtors are non-derivative financial assets of fixed payments or definable payments, that are not quoted in an active market. Subsequent to initial recognition, the loans and debtors are measured at an amortized cost using the effective interest method, while taking the transaction costs net of provisions for impairment, into account. Profits and losses are allocated to the statement of profit and loss while the 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 the investments traded actively in organized financial markets is determined by the market prices on the balance sheet date. For investments that do not have an active market, the fair value is determined by using evaluation methods. These methods are based on recent transactions under market conditions, reference to the present market value of another similar instrument, capitalization of cash flows or other evaluation methods. The fair value of deposits is calculated using the capitalization cash flow model.

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

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

6. Net investment income and finance income

Net investment income and finance income and finance expenses, include income include interest income in respect of invested amounts, changes in the fair value of financial assets and liabilities reported at fair value through profit and loss and income (losses) from realization of investments that are calculated as the difference between the proceeds from the sale and the initial or amortized cost and are recognized at the time of the sale. Interest income is recognized when accrued, 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 carried to the income of profit and loss using the straight-line method over the useful life of each item of fixed assets.

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

	%
Buildings *)	2 - 4
Computers and peripheral equipment	25 - 33
Office furniture and equipment	6 - 15

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

The estimates of the depreciation method, useful life and residual value are reexamined at least at each reported year end.

h. Investment property

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

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

Investment property is measured initially at cost including transaction costs. In subsequent periods, investment property is stated at cost, less accumulated depreciation and accumulated impairment losses and accounted for as fixed assets measured at cost. As for the testing of impairment, see j' below.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

i. Intangible assets:

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

Intangible assets with a finite useful life are amortized over their useful life using the straight-line method and 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 embodied in the asset are accounted for as prospective changes in accounting estimates. The amortization charge on intangible assets with finite useful lives is recognized in the statement of profit and loss.

1. Software -

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

2. Amortization -

Software is amortized on a straight line basis over a period of three years. The amortization is carried to the statement of profit and loss from the date in which the assets are available for use.
The estimates of the amortization method and useful life are reexamined at least at each reported year end.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Impairment

The Company examines at each balance sheet date whether there is an objective evidence for impairment in respect of a financial asset or group of financial assets as follows:

1. Financial investments

Financial assets that are reported 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 profit and loss 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.

2. Reinsurance -

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

3. Non-financial assets -

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Employee benefits

The Company has several employee benefit plans:

1. Short-term employee benefits -

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

2. Post-employment benefits -

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

Actuarial gains and losses are recognized in the statement of profit and loss in the period in which they occur.

l. Taxes on income

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

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date as well as adjustments required in connection with the tax liability in respect of 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

l. Taxes on income – (Cont.)

Deferred taxes are measured at the tax rates that are expected to apply to the period when the taxes are realized, based on tax laws that have been enacted or substantively enacted by the balance sheet 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 he temporary differences may be utilized. The deferred tax assets are examined at each balance sheet date and if the respective tax benefits are not expected to be realized, they are amortized.

m. 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.

n. 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.

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

IFRS 9 - Financial Instruments

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

IFRS 9 - Financial Instruments (Cont.)

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

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

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

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. Nevertheless, if the equity instruments are held for trading, they must be measured at fair value through profit or loss. This election is final and irrevocable. When an entity changes its business model for managing financial assets it shall reclassify all affected financial assets. In all other circumstances, reclassification of financial instruments is not permitted.

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

The Company is evaluating the possible effect of the adoption of the new Standard on the financial statements but is presently unable to assess such effect, if any.

p. 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, 2009	3.9	3.8	(0.7)
Year ended December 31, 2008	3.8	4.5	(1.1)
Year ended December 31, 2007	3.4	2.8	(9.0)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

q. Circulars of the Government Companies Authority

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

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

1) The objectives prescribed.

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

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

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

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

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

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

q. Government Companies Authority Circulars: (Cont.)

1. (Cont.)

b) (Cont.)

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

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

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

- See Notes 5, 6 and 20 below.

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

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

q. Government Companies Authority Circulars: (Cont.)

1. (Cont.)

c) (Cont.)

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

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

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

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

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

  In addition, during the year 2008 the company began to lease a vacant real estate asset it owns. The income from leasing the asset is recorded under the item investment income in the framework of an other segment in the statements of profit and loss.

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

q. Government Companies Authority Circulars: (Cont.)

1. (Cont.)

d) (Cont.)

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

- See Note 1a'l below.

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

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

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

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

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

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

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

- See Note 20 below.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

q. Government Companies Authority Circulars: (Cont.)

1. (Cont.)

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

- The Company attaches the said statements.

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

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

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

- See Note 10 (b) below.

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

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

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

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

See Note 19.

NOTE 3:- OPERATING SEGMENTS

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

a. Results according to operating segment

	Year ended December 31, 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)
Commissions and marketing expenses	293	-	293
Administrative and general expenses	1,998	-	1,998
Total expenses	982	-	982
Income before taxes on income	1,160	1,617	2,777
Comprehensive income before taxes on income	1,160	1,617	2,777
Liabilities in respect of gross insurance contracts as at December 31, 2009	30,699	-	30,699

NOTE 3:- OPERATING SEGMENTS (Cont.)

a. Results according to operating segment (Cont.)

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

NOTE 3:- OPERATING SEGMENTS (Cont.)

a. Results according to operating segment (Cont.)

	Year ended December 31, 2007		
	Foreign trade risk insurance	Other	Total
	U.S. dollars in thousands		
Gross earned premiums	12,277	-	12,277
Premiums earned by reinsurers	11,466	-	11,466
Premiums earned on retention	811	-	811
Investment income, net and finance income	1,014	2,323	3,337
Income from commissions	1,359	-	1,359
Total income	3,184	2,323	5,507
Payments and change in liabilities in respect of gross insurance contracts	(329)	-	(329)
Reinsurers' share in payments and change in liabilities in respect of insurance contracts	(164)	-	(164)
Payments and change in liabilities in respect of insurance contracts on retention	(165)	-	(165)
Commissions and marketing expenses	285	-	285
Administrative and general expenses	1,772	-	1,772
Total expenses	1,892	-	1,892
Income before taxes on income	1,292	2,323	3,615
Comprehensive income before taxes on income	1,292	2,323	3,615
Liabilities in respect of gross insurance contracts as at December 31, 2007	40,487	-	40,487

NOTE 3:- OPERATING SEGMENTS (Cont.)

b. Composition of assets and liabilities by operating segments

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

	December 31, 2008		
	Foreign trade risk insurance	Other	Total
	U.S. dollars in thousands		
ASSETS			
Intangible assets	-	138	138
Financial investments	7,217	23,904	31,121
Reinsurance assets	29,118	-	29,118
Other assets	1,680	3,728	5,408
Total assets	38,015	27,770	65,785
LIABILITIES			
Liabilities in respect of insurance contracts	32,823	-	32,823
Other liabilities	5,192	473	5,665
Total liabilities	38,015	473	38,488

NOTE 4:- INTANGIBLE ASSETS

Movement hereunder:

	Computer software
	U.S. dollars in thousands
COST	
Balance as at January 1, 2008	233
Additions	89
Balance as at December 31, 2008	322
Additions	51
Balance as at December 31, 2009	373
ACCUMULATED AMORTIZATION	
Balance as at January 1, 2008	136
Amortization recognized during the year	48
Balance as at December 31, 2008	184
Amortization recognized during the year	61
Balance as at December 31, 2009	245
NET BALANCE	
As at December 31, 2009	128
As at December 31, 2008	138

NOTE 5:- FIXED ASSETS

a. Composition and movement

In 2009

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

In 2008

	Office buildings	Computers	Office furniture and equipment	Total
	U.S. dollars in thousands			
Cost				
Balance as at January 1, 2008	664	113	253	1,030
Acquisitions	2	20	-	22
Balance as at December 31, 2008	666	133	253	1,052
Accumulated depreciation				
Balance as at January 1, 2008	244	95	191	530
Depreciation	1	13	12	26
Balance as at December 31, 2008	245	108	203	556
Balance of Depreciated cost as at December 31, 2008	421	25	50	496

NOTE 5:- FIXED ASSETS (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 $ 467 thousand ends in 2032 and for the office buildings with depreciated of $ 5 thousand the leasing period ends in 2028.

   A total amount of $ 188 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, 2009 in accordance with the Company's valuation based on rent transactions of similar assets is $ 870 thousand (as at December 31, 2008 - $ 790 thousand).

NOTE 6:- INVESTMENT PROPERTY

a. Movement

	Total	
	2009	2008
	U.S. dollars in thousands	
COST		
Balance at January 1	1,547	1,543
Acquisitions	-	4
Balance at December 31	1,547	1,547
ACCUMULATED DEPRECIATION		
Balance at January 1	916	892
Depreciation	4	24
Balance at December 31	920	916
Depreciated cost at December 31	627	631

b. Rights in real estate

	December 31,	
	2009	2008
	U.S. dollars in thousands	
Under ownership	5	5
Under leasehold rights from Tel-Aviv-Jaffa Municipality ending in 2032	622	626
	627	631

NOTE 6:- INVESTMENT PROPERTY (Cont.)

c. Fair value of investment property

	December 31,			
	2009		2008	
	Depreciated cost	Fair value	Depreciated cost	Fair value
	U.S. dollars in thousands			
Included in:				
Investment property above	627	1,221	631	1,081
Prepaid lease fees (Note 7)	458	611	490	540
	1,085	1,832	1,121	1,621

The fair value at December 31, 2009 was determined based on an internal calculation of estimated expected future cash flows to derive from the property. In estimating the cash flows, the Company took into consideration their inherent risk. In calculating the fair value, the Company used a capitalization rate of 15% (in the year 2008 – 11%).

NOTE 7:- DEBTORS AND RECEIVABLES

Composition:

	December 31,	
	2009	2008
	U.S. dollars in thousands	
Prepaid lease expenses *)	646	676
Prepaid expenses	38	30
Others	41	36
	725	742

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

	December 31, 2008		
	Reported at fair value through profit and loss	Loans and debtors	Total
	U.S. dollars in thousands		
Quoted debt assets	22,879	-	22,879
Unquoted debt assets	-	8,113	8,113
Other	129	-	129
Total	23,008	8,113	31,121

b. Quoted debt assets

Composition:

	December 31,	
	2009	2008
	U.S. dollars in thousands	
Reported at fair value through profit and loss and designated upon initial recognition:		
Government bonds	15,399	12,640
Other non-convertible debt assets	9,971	10,239
Total quoted debt assets	25,370	22,879

NOTE 8:- FINANCIAL INVESTMENTS

c. Unquoted debt assets

	December 31,	
	2009	2008
	U.S. dollars in thousands	
Reported as loans and debtors:		
Deposits with the Accountant General at the Ministry of Finance	7,703	8,100
Deposits with banking institutions	13	13
	7,716	8,113

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, 2009		
Quoted:		
Reported at fair value through profit and loss	158	130
As at December 31, 2008		
Quoted:		
Reported at fair value through profit and loss	129	130

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, outstanding premiums, customers, debtors and receivables and current tax assets, matches or almost matches their fair value.

	As at December 31, 2009			
	Level 1	Level 2	Level 3	total
	NIS in thousands			
Quoted debt asses	25,370	-	-	25,370
Others	158	-	-	158
Total	25,528	-	-	25,528

NOTE 9:- CASH AND CASH EQUIVALENTS

	December 31,	
	2009	2008
	U.S. dollars in thousands	
Cash and deposits for immediate withdrawal	1,019	2,098
Short-term deposits	1,366	1,262
	2,385	3,360

NOTE 10:- SHAREHOLDERS' EQUITY AND CAPITAL REQUIREMENTS

a. Composition of share capital

	December 31, 2009 and 2008	
	Authorized	Issued and paid-up
	Number of shares	
Foundation shares of NIS 1	1	1
Ordinary shares of NIS 1	2,999,999	2,411,290

b. Management and capital requirements:

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

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

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

b. Management and capital requirements: (Cont.)

2. (Cont.)

	As at December 31	
	2009	2008
	U.S. dollars in thousands	
Minimum shareholders' equity:		
Amount required as per regulations	3,675	3,515
Amount calculated as per regulations	3,990	3,962
Surplus *)	315	447
Surplus and funds not included in the calculation of the shareholders' equity	25,231	23,335
Primary capital:		
Minimum amount required as per regulations	3,675	3,515
Amount calculated as per regulations	29,221	27,297
Surplus	25,546	23,782

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

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

The Company's shareholders' equity as at the balance sheet date amounts to $ 29,221 thousand.

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

b. Management and capital requirements: (Cont.)

4. Designation of income and dividends

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

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

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

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

5. On July 10, 2007, the EU adopted a proposed Solvency II Directive proposal (hereunder - the proposed Directive). The proposed Directive introduces a thorough and comprehensive change of the regulation pertaining to assuring the solvency and capital adequacy of insurance companies in the European Union countries. According to the schedules set forth by the EU, the implementation of the proposed Directive in countries of the European Union in expected in the second half of 2012.

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. The Company began to prepare for the application of the proposed Directive according to the determined schedule.

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

b. Management and capital requirements: (Cont.)

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. After the balance sheet date, 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.

   The Company's management is examining its future preparation for the application of the directive in light of the Regulator's response.

7. According to a letter published by the Regulator on March 29, 2009, commencing from the financial statements for the year 2008 and up to December 30, 2010, an insurance company will not distribute dividends, unless it obtains the Regulator's prior approval. According to the letter, as a whole, there will not be an approval of a distribution of dividends at a rate that is higher than 25% of the profit allowable for distribution. Following the aforementioned letter, a letter of clarification was published in March 2010, with respect to the criteria for approval of distribution of dividends by an insurer (hereunder - the clarification).

   According to the clarification an insurance company will be entitled to submit a request for obtaining the Regulator's approval for distributing dividends, commencing from the date of publication of the periodic financial statements for the year 2009, subject to the compliance with the shareholders' equity as detailed in the clarification, as well as submitting an annual profit forecast for the years 2010 and 2011, an updated debt settlement plan that is approved by the Board of Directors of the holding company that holds the insurance company, an effective working plan for fund raising that was approved by the insurance company's Board of Directors and the minutes of the discussions in the insurance company's Board of Directors in which the dividend distribution was approved.

   Nevertheless, it was mentioned in the clarification that any company whose shareholders' equity, after the distribution of dividends, will be higher than 110% of the amount required in the clarification, will be entitled to distribute dividends without obtaining 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.

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

c. Dividend declared

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

	Year ended as at December 31		
	2009	2008	2007
	U.S. dollars in thousands		
NIS 2.75 per ordinary share	-	1,671	-

NOTE 11:- LIABILITIES IN RESPECT OF INSURANCE CONTRACTS

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

	December 31,					
	2009	2008	2009	2008	2009	2008
	Gross		Reinsurance		On retention	
	U.S. dollars in thousands					
Excess of income over expenses (accruals)	17,200	27,041	14,779	23,336	2,421	3,705
Outstanding claims	13,499	5,782	13,499	5,782	-	-
Total liabilities in respect of insurance contracts included in general insurance segment	30,699	32,823	28,278	29,118	2,421	3,705

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,					
	2009	2008	2009	2008	2009	2008
	Gross		Reinsurance		On retention	
	U.S. dollars in thousands					
Balance as at the beginning of the year	32,823	40,487	29,118	35,712	3,705	4,775
Cumulative cost of claims in respect of current underwriting year	12,429	3,002	12,429	3,002	-	-
Change in estimated cumulative cost of claims in respect of previous underwriting years	652	1,882	652	1,904	-	(22)
Total change in cumulative cost of claims	13,081	4,884	13,081	4,906	-	(22)
Payments for settling claims during the year:						
In respect of current underwriting year	(1,929)	(659)	(1,929)	(659)	-	-
In respect of previous underwriting year	(3,435)	(2,849)	(3,435)	(2,871)	-	22
Total payments for the year	(5,364)	(3,508)	(5,364)	(3,530)	-	22
Accumulation for in respect of the current underwriting year	413	2,885	-	2,396	413	489
Accumulation allocated to income in respect of the underwriting year released	(9,659)	(10,074)	(7,907)	(8,436)	(1,752)	(1,638)
Balance of change in accumulation	(595)	(1,851)	(650)	(1,930)	55	79
Total change in accumulation for the year	(9,841)	(9,040)	(8,557)	(7,970)	(1,284)	(1,070)
Balance as at the end of the year	30,699	32,823	28,278	29,118	2,421	3,705

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, for whom amounts were depositing, as mentioned above. These deposits, as well as deposits in respect of benefits, constitute defined deposit plans. In the years 2008-2009 the expenses in respect of the defined deposit plans amounted to $ U.S. 33 thousand each year and were included under administration 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,	
	2009	2008
	U.S. dollars in thousands	
Liability in respect of defined benefit plan	543	435
Fair value of plan's assets	479	381
Total net liabilities in respect of defined benefit plans	64	54

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

	2009	2008
	U.S. dollars in thousands	
Balance at January 1,	435	569
Interest cost	36	40
Current service cost	45	36
Benefits paid	(10)	(140)
Net actuarial gain (loss)	26	(2)
Other adjustments	11	(68)
Balance at December 31,	543	435

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

	2009	2008
	U.S. dollars in thousands	
Balance at January 1,	381	458
Expected return	25	25
Net actuarial gain (loss)	24	(66)
Deposits to plans by employer	45	47
Benefits paid	(10)	(63)
Other adjustments	14	(20)
Balance at December 31,	479	381

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

b. Information of defined benefit plans

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

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

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

	2009	2008	2007
	U.S. dollars in thousands		
Present value of liabilities in respect of defined benefits	543	435	569
Fair value of the plans assets	479	381	458
Surplus (deficiency) in plan	(64)	(54)	111

5. Expenses allocated to profit and loss

	Year ended as at December 31		
	2009	2008	2007
	U.S. dollars in thousands		
Cost of current services	45	36	73
Interest in respect of liabilities for benefits	36	40	35
Anticipated yield on the plan assets	(25)	(27)	(22)
Net actuarial loss, recognized this year	2	64	10
Cost of previous services	(4)	(65)	(6)
Total expenses in respect of employee benefits	54	48	90
Actual yield on the plan assets	2.2%	3.4%	3.46%

*) 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,	
	2009	2008
	U.S. dollars in thousands	
Prepaid premium	4,443	4,542
Employees other liabilities for payroll and salaries	177	132
Accrued expenses	42	33
Suppliers and service providers	37	47
Accountant general at the Ministry of Finance and other reinsurers - current accounts	726	641
Policyholders	2	9
Other	1	72
	5,428	5,476

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

NOTE 14:- NET INVESTMENT INCOME AND FINANCE INCOME

	Year ended December 31,		
	2009	2008	2007
	U.S. dollars in thousands		
Current income in respect of investment property *)	95	60	5
Income from financial investments, except for exchange rate differences in respect of assets recorded at fair value through profit and loss	1,829	1,418	1,111
Interest income from taxes on income	19	9	3
Exchange rate differences	308	373	2,253
Bank commissions	(58)	(40)	(35)
Total net investment income and finance income	2,193	1,820	3,337
*) Reported net of depreciation	26	45	67

NOTE 15:- INCOME FROM COMMISSIONS

	Year ended December 31,		
	2009	2008	2007
	U.S. dollars in thousands		
Commission fees from the State of Israel in respect of reinsurance	993	988	1,359

NOTE 16:- MARKETING EXPENSES

	Year ended December 31,		
	2009	2008	2007
	U.S. dollars in thousands		
Salaries and related expenses	210	252	183
Other marketing expenses	83	64	102
Total marketing expenses	293	316	285

NOTE 17:- ADMINISTRATIVE AND GENERAL EXPENSES

	Year ended December 31,		
	2009	2008	2007
	U.S. dollars in thousands		
Salaries and related expenses	1,317	1,368	1,113
Professional services	207	166	170
Office maintenance and communications	197	191	209
Vehicle maintenance	131	140	110
Depreciation and amortization	113	126	115
Travel abroad	92	84	106
Marketing and advertising	83	64	102
Professional literature and information	42	48	40
IT	49	44	46
Membership fees in the Berne Union	24	35	35
Refreshments and meals	37	35	34
Others	25	34	44
Total	2,317	2,335	2,124
Less:			
Depreciation and amortization reclassified to net investment income and finance income	26	45	67
Amounts rclassified to marketing expenses (Note 16)	293	316	285
Administrative and general expenses	1,998	1,974	1,772

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

The Company is subject to the Income Tax Law (Adjustments Due to Inflation) – 1985 up to the end of the year 2007. In accordance with the law, the results for tax purposes are measured when they are adjusted to the changes in the CPI.

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

NOTE 18:- TAXES ON INCOME (Cont.)

a. Tax laws applicable to the Company (Cont.)

3. Amendment to the VAT Law

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

4. Tax arrangements that are unique to the insurance industry

The Agreement with the Tax Authorities

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

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 year 2010.
   - 15.5% beginning from January 1, 2011.

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

NOTE 18:- TAXES ON INCOME (Cont.)

b. Tax rates applicable to the Company's income (Cont.)

3. (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	15.5		34.20	
2012	23	15.5		33.33	
2013	22	15.5		32.47	
2014	21	15.5		31.60	
2015	20	15.5		30.74	
2016 and thereafter	18	15.5		29.00	

*) Weighted rate.

The effect of the said change on the deferred tax balances resulted in a decrease in the net profit in the amount of about $ 24 thousand. The total aforementioned amount, which stems from the decrease of assets in respect of deferred taxes, is allocated to th e item taxes on income. The change in the profit tax rate had no significant effect on the current taxes.

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. $ 600 thousand (NIS 2,281 thousand) as at December 31, 2009. 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. $ 111 thousand was recorded in the financial statements in respect of other deductible temporary differences.

NOTE 18:- TAXES ON INCOME (Cont.)

e. Taxes on income included in the statements of profit and loss

	Year ended December 31,		
	2009	2008	2007
	U.S. dollars in thousands		
Current taxes	816	659	269
Deferred taxes – also see paragraph f' below	55	73	4
Taxes in respect of previous years	(31)	-	-
Adjustment of deferred tax balances following change in the tax rate – also see paragraph f' below	13	-	-
	853	732	273

f. Deferred taxes

Composition:

	Employee benefits	Fixed assets and investment property	Others	Total
	U.S. dollars in thousands			
Balance at January 1, 2008	65	165	22	252
Changes allocated to the statement of profit and loss	(18)	(33)	(22)	(73)
Balance at December 31, 2008	47	132	-	179
Changes allocated to the statement of profit and loss	1	(56)	-	(55)
Adjustment of deferred tax balances following change in the tax rate	-	(13)	-	(13)
Balance at December 31, 2009	48	63	-	111

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

	December 31,	
	2009	2008
	U.S. dollars in thousands	
Deferred tax assets	111	179

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 were taxed at the statutory tax rate and taxes on income as allocated in the statements of profit and loss:

	Year ended December 31,		
	2009	2008	2007
	U.S. dollars in thousands		
Income before taxes on income	2,777	2,299	3,615
Comprehensive statutory tax rate applicable to financial institutions (see b' above)	36.21%	36.8%	38.53%
Tax computed at the comprehensive statutory tax rate	1,005	846	1,393
Increase (decrease) in taxes on income resulting from the following factors:			
Non allowable expenses for tax purposes	4	19	17
Income exempt	-	(3)	-
Profit tax on salary tax	9	10	16
Differences in the measurement basis (CPI for tax purposes and foreign currency in the financial statements) *)	(119)	(184)	(1,102)
Adjustment of the deferred tax balances in respect of changes in the tax rates	13	-	-
Other	(59)	44	(51)
Taxes on income	853	732	273
Average effective tax rate	30.25%	31.84%	7.55%

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

NOTE 19:- RISK MANAGEMENT

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

a. Description of risk management procedures and methods

The risk management field is under the responsibility of the risk management department. The risk management array is handled by the risk management department in accordance with the policy that will be approved by the Board of Directors. The risk management department is expected to complete the risk management procedure in the year 2010 and it will include a comprehensive risk review of all the Company's divisions.

1. Risk management in a broad view

In the year 2009 it was decided to expand the fields of responsibility of the risk management department which will deal with the risk management in the broad view to include other areas and not only credit risks management. The risk management department is responsible for creating a risk management array in which will be integrated as an integral part of all the Company's procedures. In the year 2010 the Company is expected to develop, with the assistance of an external consultant, the appropriate instruments for identification, valuation, monitoring, controlling and reducing the variety of risks that are relevant to the Company. The instruments will be developed in an orderly process which will include a comprehensive risk survey, an outlining of a policy and working procedures and their approval by the Company's Board of Directors. An effective risk management will assist in the decision receiving processes regarding various issues and therefore it is expected to bring about an improvement in the Company's level of management. This array is expected to reduce and/or minimize the risk level which the Company is exposed to and to allow compliance with various directives that the Company is committed fulfill, including the Government Companies Authority's Directive and the directives of the Regulator of Insurance regarding risk management.

2. Specific risk management

a) Risk management department and information system -

This department is in charge of managing credit risks which are material and central in the Company. Credit risk is the risk that a counterparty in a transaction insured by the Company will fail to meet its obligations such as a borrower's non compliance with principal/interest payments of a loan or a default risk in the borrower's continuing default. It should be noted that the risk inherent in this activity is relatively low given the guarantee letter received by the Company from the ministry of Finance according to which the amounts of the insurance claims filed with the Company will be paid by the Ministry of Finance, as specified in Note 1b above. The Company applies control and reporting procedures in respect of the credit risks to which the Company is exposed which consist of a rigorous process of approving insurance transactions under the charge of the Company's underwriting division and the approval of the Company's internal underwriting committee headed by the CEO and the approval of an inter-ministerial committee headed by the Accountant General at the Ministry of Finance.

NOTE 19:- RISK MANAGEMENT

a. Description of risk management procedures and methods (Cont.)

2. Specific risk management (Cont.)

a) Risk management department and information system - (Cont.)

In order to issue an insurance liability, every transaction must be approved by the Board's risk management committee. Furthermore, in 2009, the Company adopted several actions and procedures for enhancing the control over credit risks which include, among other things, development and application of an insurance related risk management model. The model will be fully integrated in the Company in the year 2010. The actions taken in 2009 include, among other things:

- An improvement and integration of a risk management model in collaboration with the Accountant General at the Ministry of Finance which enables control over the exposures arising from the Company's transaction portfolio. Control is needed in order to ascertain that at any given time there is no deviation from the exposure allowed for the Company in the guarantee letter and from the Company's risk budget as determined by the Accountant General at the Ministry of Finance based on a geographical diversity model of the exposures and risks arising from insurance transactions.

- A credit risk management model was outlined with the assistance of an external risk management advisor for handling the variety of risks arising from the insurance of transactions and it will form a major tool in the Company's decision making process. The model was approved by the Accountant General and the Company’s Board of Directors. The model will be completed and integrated in the Company during the year 2010.

- Integration and upgrade of a customized information system that provides control and reporting mechanisms for the Company's exposures and full data of all transactions, debtors and exporters on an ongoing and consecutive basis and assists the relevant factors, including management, the inter-ministerial committee and the Board in making decisions. The system will be implemented in full and upgraded according to changing demands and risk management models developed in the Company in the course of 2010.

- The Company acquired a system that provides the Company with market indications on a current basis and allows the application of the internal model that was outlined. The Company also employed a credit risk analyst who is responsible for the application of the various models as well as ongoing reporting and control, in the framework of the underwriting procedures regarding the actual credit risks deriving from the transactions portfolio and from the related potential credit risks, as well as the requests for insurance that the Company receives.

NOTE 19:- RISK MANAGEMENT (Cont.)

a. Description of risk management procedures and methods (Cont.)

2. Specific risk management (Cont.)

b) The finance division - is in charge of managing market risks in the framework of managing the Company's Nostro investment portfolio.

c) The Company's legal advisor - The Company has documentary risks consisting of note risks and legal risks. The risk is that the draft of a contract or a note will include or omit a clause that will cause financial damages to the Company or will omit a clause that will cause financial damages to the insurer as well as the Company's inability to claim indemnification from the violating factor and the risk that notes received as debt collateral will not be exercisable by the lender in case of an insurance event.

d) Underwriting division – is responsible for management and risk control of the underwriting procedures including handling of the Company’s transactions from the stage a policy is requested and up to the issue of the policy and its management.

e) Marketing division – responsible for risk management and control relating to the marketing processes and management of exporters.

f) Information systems – the risk management is in accordance with the Regulatory requirements the Company is subject to in this field and is actually performed by the risk management department, the information systems and by the data security manager.

b. Legal requirements

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

c. Market risks

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

NOTE 19:- RISK MANAGEMENT (Cont.)

c. Market risks (Cont.)

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, financial liabilities 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, 2009

	Rate of change in Israeli CPI		Rate of change in U.S. dollar exchange rate	
	+1%	-1%	+1%	-1%
	U.S. dollars in thousands			
Profit (loss)	47	(47)	(110)	110

December 31, 2008

	Rate of change in Israeli CPI		Rate of change in U.S. dollar exchange rate	
	+1%	-1%	+1%	-1%
	U.S. dollars in thousands			
Profit (loss)	44	(44)	(104)	104

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 or liability. 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.

NOTE 19:- RISK MANAGEMENT (Cont.)

c. Market risks

1. Direct interest risk (Cont.)

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

	December 31,	
	2009	2008
	U.S. dollars in thousands	
Assets with direct interest risk:		
Quoted debt assets	25,370	22,879
Non-quoted debt assets	7,716	8,113
Other financial investments	158	129
Cash and cash equivalents	2,385	3,360
Reinsurance assets	28,278	29,118
Total assets with direct interest risk	63,907	63,599
Liabilities with direct interest risk	2,175	2,186
Total assets	66,082	65,785
Liabilities with direct interest risk:		
Liabilities for employee benefits, net	64	54
Liabilities in respect of insurance contracts	30,699	32,823
Total liabilities with interest risk	30,763	32,877
Liabilities with no direct interest risk:		
Other liabilities	6,098	5,611
Equity	29,221	27,297
Total equity and liabilities	66,082	65,785
Total assets net of liabilities	29,221	27,297

NOTE 19:- RISK MANAGEMENT (Cont.)

c. Market risks (Cont.)

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

a. As at December 31, 2009

	At December 31, 2009				
	In unlinked NIS	In NIS, linked to CPI	In foreign currency or linked thereto	Non-financial and other items	Total
	U.S. dollars in thousands				
Intangible assets	-	-	-	128	128
Deferred tax assets	-	-	-	111	111
Fixed assets, net	-	-	-	584	584
Investment property	-	-	-	627	627
Reinsurance assets	-	-	28,278	-	28,278
Debtors and receivables	79	-	-	646	725
Financial investments:					
Quoted debt assets	9,404	8,023	7,943	-	25,370
Unquoted debt assets	13	-	7,703	-	7,716
Others	158	-	-	-	158
Cash and cash equivalents	540	-	1,845	-	2,385
Total assets	10,194	8,023	45,769	2,096	66,082
Total equity	-	-	29,221	-	29,221
Liabilities in respect of insurance contracts	-	-	30,699	-	30,699
Liabilities in respect of employee benefits, net	64	-	-	-	64
Liabilities in respect of current taxes	-	670	-	-	670
Creditors and payables	257	-	5,171	-	5,428
Total liabilities	321	670	35,870	-	36,861
Total equity and liabilities	321	670	65,091	-	66,082
Excess of assets over liabilities (liabilities over assets)	9,873	7,353	(19,322)	2,096	-

NOTE 19:- RISK MANAGEMENT (Cont.)

c. Market risks (Cont.)

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

b. As at December 31, 2008

	At December 31, 2008				
	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	-	-	-	138	138
Deferred tax assets	-	-	-	179	179
Fixed assets, net	-	-	-	496	496
Investment property, net	-	-	-	631	631
Reinsurance assets	-	-	29,118	-	29,118
Debtors and receivables	66	-	-	676	742
Other financial investments:					
Quoted debt assets	8,275	7,087	7,517	-	22,879
Unquoted debt assets	13	-	8,100	-	8,113
Others	129	-	-	-	129
Cash and cash equivalents	1,325	-	2,035	-	3,360
Total assets	9,808	7,087	46,770	2,120	65,785
Total equity	-	-	27,297	-	27,297
Liabilities:					
Liabilities in respect of insurance contracts	-	-	32,823	-	32,823
Liabilities in respect of employee benefits, net	54	-	-	-	54
Liabilities in respect of current taxes	-	135	-	-	135
Creditors and payables	293	-	5,183	-	5,476
Total liabilities	347	135	38,006	-	38,488
Total equity and liabilities	347	135	65,303	-	65,785
Excess of assets over liabilities (liabilities over assets)	9,461	6,952	(18,533)	2,120	-

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.

NOTE 19:- RISK MANAGEMENT (Cont.)

d. Liquidity risks (Cont.)

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

Management of assets and liabilities

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

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

Liabilities in respect of insurance contracts

	Up to one year	Over one year and up to3 years	Over 3 years and up to5 years	Total
As at December 31, 2009	9,166	10,619	10,914	30,699
As at December 31, 2008	9,658	17,937	5,228	32,823

e. Description of the insurance risks

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

Suppliers' credit insurance policy (deliveries)

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

Pre-delivery insurance policy

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

NOTE 19:- RISK MANAGEMENT (Cont.)

e. Description of insurance risks (Cont.)

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

Buyers' credit insurance policy

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

Inter-bank credit line insurance policy

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

Credit letters insurance policy

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

Note discount insurance policy

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

Investment insurance policy

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

NOTE 19:- RISK MANAGEMENT (Cont.)

e. Description of insurance risks (Cont.)

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

Owners' investment insurance policy

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

Lender's investment insurance policy

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

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

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

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

3. The insurance coverage includes, among other things:

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

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

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

NOTE 19:- RISK MANAGEMENT (Cont.)

e. Concentrations of insurance risks (Cont.)

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

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

f. Information regarding credit risks

1. Distribution of financial debt assets according to their location

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

	December 31, 2008		
	Quoted	Unquoted	Total
	U.S. dollars in thousands		
In Israel	17,136	8,113	25,249
Abroad	5,743	-	5,743
Total debt assets	22,879	8,113	30,992

NOTE 19:- RISK MANAGEMENT (Cont.)

f. Information regarding credit risks (Cont.)

2. Details of assets dividend into ratings

a) Financial debt assets in Israel

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

	Local rating *)		
	December 31, 2008		
	AA and above	BBB to A	Total
	U.S. dollars in thousands		
Quoted debt assets -			
Government bonds	11,994	-	11,994
Corporate bonds	5,142	-	5,142
Total quoted debt assets in Israel	17,136	-	17,136
Unquoted debt assets -			
Deposits with banks and financial institutions	8,100	13	8,113
Total debt assets in Israel	25,236	13	25,249

*) 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. Financial debt assets abroad (Cont.)

b) Financial debt assets abroad

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

	International rating *)		
	December 31, 2008		
	A and above	BBB	Total
	U.S. dollars in thousands		
Debt assets abroad			
Quoted debt assets			
Government bonds	647	-	647
Corporate bonds	5,096	-	5,096
Total debt assets abroad	5,743	-	5,743

*) 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.)

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

	Local rating	
	December 31, 2009	
	Unrated	Total
	U.S. dollars in thousands	
Debtors and receivables, excluding reinsurers' balances	725	725
Deferred tax assets	111	111
Cash and cash equivalents	2,385	2,385

	Local rating	
	December 31, 2008	
	Unrated	Total
	U.S. dollars in thousands	
Debtors and receivables, excluding reinsurers' balances	742	742
Deferred tax assets	179	179
Cash and cash equivalents	3,360	3,360

NOTE 19:- RISK MANAGEMENT (Cont.)

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

As at December 31, 2009

	Balance sheet credit risk	
	Amount	% of total
	U.S. dollars in thousands	
Economical branch:		
Industry	2,677	8.09
Banks	2,263	6.84
Electricity	1,784	5.39
Investments and Holdings	1,498	4.53
Financial services	1,016	3.07
Communications	349	1.06
Commerce	170	0.51
Other	237	0.72
	9,994	30.21
Deposits with the Accountant General at the Ministry of Finance	7,703	23.28
State bonds	15,389	46.51
Total	33,086	100.00

As at December 31, 2008

	Balance sheet credit risk	
	Amount	% of total
	U.S. dollars in thousands	
Economical branch:		
Industry	2,814	9.08
Banks	2,227	7.19
Investments and Holdings	1,970	6.36
Electricity	1,435	4.63
Financial services	980	3.16
Communications	491	1.58
Construction and real estate	157	0.51
Commerce	92	0.30
Other	86	0.27
	10,252	33.08
Deposits with the Accountant General at the Ministry of Finance	8,100	26.14
State bonds	12,640	40.78
Total	30,992	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 2009.

At December 31, 2009:

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

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

NOTE 19:- RISK MANAGEMENT (Cont.)

h. Reinsurance (Cont.)

At December 31, 2008:

	Total reinsurers premiums for 2008	Net debit (credit) balances (b)	Reinsurance assets: In foreign trade risk insurance	Total exposure (a)
	U.S. dollars in thousands			
Rating group:				
State of Israel *)	5,121	(422)	21,153	20,731
A and above -				
Zurich RE (AA-)	1,259	(199)	7,447	7,248
Sovereign (A+)	4	-	286	286
Beazley Group PLC (A+)	1	(10)	116	106
Chaucer PLC (A+)	1	(10)	116	106
Total	6,386	(641)	29,118	28,477

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

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

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

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

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

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

	December 31,	
	2009	2008
	U.S. dollars in thousands	
Under unquoted debt assets:		
Deposits with the Accountant General at the Ministry of Finance	7,703	8,100
Under reinsurance assets:		
State of Israel's share in outstanding claims	21,668	21,153
Under creditors and payables:		
State of Israel's share in insurance transactions	628	422

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

d. Benefits to related and interested parties

	Year ended December 31,		
	2009	2008	2007
	U.S. dollars in thousands		
Salaries and related expenses to the Company's CEO	172	254 *)	162
Wages and related expenses to the Board's members	44	29	10
Guarantee fee expenses to the State of Israel (reinsurance)	4,182	5,121	10,377
Less - commission from the State of Israel	(993)	(988)	(1,238)
State of Israel's share in claim recoveries received, less claims paid, net	5,327	3,530	74
*) Including to the former CEO		182	
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	10	9	8
	11	11	9

e. Indemnification and insurance of directors and officeholders

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

Following are the details of expenses by years:

	Year ended December 31,		
	2009	2008	2007
	U.S. dollars in thousands		
Amount of expenses for indemnification and insurance of directors and officeholders	19	21	26

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, 2009 is about $ 8 thousand per month for the remaining average period of about one year.

b. Operating lease of investment property

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

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 balance sheet date are translated at the exchange rate at that date.

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

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

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

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

a. Statements of financial position:

	December 31,	
	2009	2008
	NIS in thousands	
Intangible assets	483	525
Deferred tax assets	419	681
Fixed assets	2,204	1,884
Investment property	2,368	2,401
Reinsurance assets	106,749	110,707
Debtors and receivables	2,738	2,820
Financial investments:		
Quoted debt assets	95,772	86,984
Unquoted debt assets	29,128	30,846
Other	596	492
Cash and cash equivalents	9,003	12,775
Total assets	249,460	250,115

APPENDIX

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

a. Statements of financial position: (Cont.)

	December 31,	
	2009	2008
	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	(15,630)	(14,974)
Surplus	54,967	47,786
Total equity	110,309	103,784
LIABILITIES		
Liabilities in respect of insurance contracts	115,890	124,794
Liabilities in respect of employee benefits, net	242	205
Liabilities in respect of current taxes	2,528	513
Creditors and payables	20,491	20,819
Total liabilities	139,151	146,331
Total equity and liabilities	249,460	250,115

APPENDIX

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

b. Statements of comprehensive income:

	Year ended December 31,		
	2009	2008	2007
	NIS in thousands (except for net earnings per share data)		
Gross earned premiums	22,595	25,367	50,458
Reinsurance premiums earned	20,345	22,897	47,125
Premiums earned on retention	2,250	2,470	3,333
Net investment income and finance income	8,606	6,525	13,715
Income from commissions	3,898	3,542	5,585
Total income	14,754	12,537	22,633
Payments and change in liabilities in respect of insurance contracts	12,475	(14,901)	(1,352)
Reinsurers' share in payments and change in liabilities in respect of insurance contracts	17,613	(10,986)	(674)
Payments and change in liabilities in respect of insurance contracts on retention	(5,138)	(3,915)	(678)
Marketing expenses	1,150	1,133	1,171
Administrative and general expenses	7,841	7,076	7,282
Total expenses	3,853	4,294	7,775
Income before taxes on income	10,901	8,243	14,858
Taxes on income	3,720	2,843	4,975
Net income	7,181	5,400	9,883
Other comprehensive income:			
Differences resulting from the translation of financial statements (net of the applicable tax)	(656)	(376)	(6,148)
Total comprehensive income	6,525	5,024	3,735
Net earnings per share:			
Net earnings per share (in NIS)	2.3	2.2	4.1

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, 2007	7,531	61,170	2,271	(7,763)	38,440	101,649
Comprehensive income	-	-	-	(6,148)	9,883	3,735
Balance as of December 31, 2007	7,531	61,170	2,271	(13,911)	48,323	105,384
Dividend paid	-	-	-	-	(6,624)	(6,624)
Erosion of dividend	-	-	-	(687)	687	-
Comprehensive income	-	-	-	(376)	5,400	5,024
Balance as of December 31, 2008	7,531	61,170	2,271	(14,974)	47,786	103,784
Comprehensive income	-	-	-	(656)	7,181	6,525
Balance as of January 1, 2009	7,531	61,170	2,271	(15,630)	54,967	110,309

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