ASHR'A

אשרא–החברה הישראלית לביטוח יצוא בע"מ

2005 Annual Report

ASHR'A – THE ISRAEL EXPORT INSURANCE CORP. LTD.
(Formerly - The Israel Foreign Trade Risks Insurance Corporation Ltd.)

BOARD OF DIRECTORS' REPORT
FOR 2005

1. GENERAL:

The Board of Directors' report reviews the principal changes in the activities of ASHR'A – The Israel Export Insurance Corp. Ltd. (hereafter - "the Company") during the period January-December 2005.

The Board of Directors' report has been drawn up in accordance with the provisions of the Financial Services Supervision (Insurance) Law, 1981 (formerly – the Insurance Business Supervision Law, 1981; hereafter – "the Supervision Law") and the regulations promulgated thereunder.

The report also includes the data required pursuant to the regulations and directives contained in the circulars of the Companies Authority, in so far as it is possible to include such data in conformance with the Supervision Law.

Description of the insurer, its business environment and its fields of activity

During 2005 (hereafter - "the reported year"), the Company was active in the field of medium- and long-term credit insurance (more than one year).

The risks that the Company insures are backed by state guarantees. There is also a general guarantee that protects, among other things, the Company's capital.

Approvals and medium- and long-term credit and investment insurance

During the reported year, the committee headed by the Accountant General approved the insurance of transactions totaling approximately $ 1.47 billion (compared to approximately $ 1.59 billion during the previous year). The 24 policies issued by the Company during the reported year aggregated approximately $ 101.7 million (compared to 32 policies and approximately $ 460.18 million during the previous year). The income from these policies is recognized over the same years as the performance of the underlying transactions by the exporters.

The Company's exposures against the general State guarantee

The Company's total exposure as of December 31, 2005 in respect of insurance policies issued through that date amounts to $ 449.94 million.

The distribution of the main exposures by countries is summarized in the following table:

Country	The Company's exposure in dollars*	Percentage of total exposure
China	136,442	30.3%
Brazil	99,872	22.2%
Venezuela	72,327	16.1%
Turkey	54,020	12.0%
Romania	24,954	5.5%
Other countries**	62,324	13.9%
Total	449,940	100%

* Does not include a policy covered by a specific State guarantee.

** Other countries - countries for which the net exposure distribution is less than 5%.

The Company's exposures against a specific State guarantee

During 2004, the Company issued a policy for a transaction in Turkey with a maximum exposure of $ 274 million. The policy covers political risks and is backed by a specific State guarantee. As of December 31, 2005, the exposure in the framework of this guarantee amounted to $ 181.23 million.

The new State letter of guarantee

On October 25, 2004, the Israeli Parliament's Finance Committee authorized the Accountant General in the Ministry of Finance to sign a new letter of guarantee, which guarantees the Company's losses from export activities, up to a total amount of $ 700 million, subject to the conditions stipulated in the letter of guarantee.

Pursuant to the above letter of guarantee, should the total amount of claims filed against the Company in the framework of said guarantee exceed $ 125 million, half of the Company's shareholders' equity shall be used to pay for the claims in excess of the above amount, provided that this does not result in the Company's shareholders' equity falling below $ 10 million.

The guarantee is to be valid for four years from its signing date, and shall replace and annul all the previously issued general letters of guarantee.

On September 27, 2004, the Company, the Accountant General in the Ministry of Finance and the Minister of Finance signed a letter addressed to the Supervisor of Banks, in which the Accountant General stated his policy of support for the Company; in addition, the Company and the State of Israel have undertaken not to distribute a dividend as long as the Company's shareholders' equity is less than $ 25 million, during the period in which said State guarantee is valid.

The Advisory Committee to the Bank of Israel, acting under the Bank of Israel Law, 1954, approved on November 9, 2004 the proposed proper banking management procedure with regard to single borrower limitation and minimum capital requirements. Pursuant to the above proposed procedure, the status of the Company's policies and guarantees was made equal to the status of the State guarantee with regard to single borrower limitation and minimum capital requirements.

2. FINANCIAL POSITION:

2.1 The Company's total asset value at December 31, 2005 amounts to $ 57.1 million, as compared to $ 60.7 million at December 31, 2004.

2.2 Shareholders' equity at the end of the reported year amounts to $ 21.8 million, a decrease of approximately $ 0.25 million as compared to December 31, 2004. The decrease in shareholders' equity is due to the loss in the reported period.

2.3 The total of premiums received in advance - net, which represents the net accumulated future insurance fees of the Company, aggregates approximately $ 8.0 million at December 31, 2005, as compared to $ 9.3 million in the corresponding period.

3. OPERATING RESULTS:

3.1 Total revenue from insurance fees in the reported year amounted to approximately $ 11.2 million, as compared to $ 11.5 million in 2004.

3.2 Self-retention premiums in the reported year amounted to approximately $ 2.5 million, as compared to $ 2.2 million in the corresponding year.

3.3 The profit from the Company's insurance transactions in 2005 amounted to approximately $ 401,000, as compared to a profit of approximately $ 209,000 in 2004. This increase of approximately 90% is mainly due to the fact that the insurance reserve, which reflects the insurance results for 2001, and which has been transferred to income during 2005, was higher than the insurance reserve for 2000, which formed part of the profit for 2004. The difference in the results between the years was approximately $ 0.64 million and is also due to the change in investments, as described below.

3.4 The total of investment income in the reported year amounted to approximately $ 14,000, as compared to approximately $ 1.46 million in the previous year.

The decrease in profitability during the reported year as compared to the previous year stems from the devaluation of the NIS in relation to the dollar of approximately 6.85% and to the devaluation of the euro in relation to the dollar of approximately 15.3% in 2005, as compared to the appreciation of the dollar of 1.6% and the appreciation of the euro of approximately 7.4% in 2004.

This financial income is allocated between the insurance revenue accounts and the profit and loss accounts, in accordance with the Regulations of the Supervisor of Insurance (Methods for Calculating Provisions for Future General Insurance Claims), 1984.

3.5 In 2005, administrative and general expenses amounted to approximately $ 2.11 million, as compared to $ 1.96 million in 2004.

The salaries of the Company's five highest-paid officers were as follows (NIS in thousands):

	Payroll and related expenses
Officer 1	579
Officer 2	510
Officer 3	467
Officer 4	377
Officer 5	375

The payroll and related expenses include the employees' wages and the employer's participations, including national insurance, wages tax, provisions for severance pay, provident funds and advanced training funds, and other benefits.

3.6 The tax expenses for the reported year amounted to approximately $ 0.47 million, as compared to a tax benefit of approximately $ 0.5 million in 2004.

4. CASH FLOWS AND LIQUIDITY:

Most of the Company's cash reserves are held in foreign currency and are deposited in short-term deposits (up to one year) with the Accountant General's Office in the Ministry of Finance and with commercial banks or in debentures that carry a rating higher than AA from Maalot – The Israel Securities Rating Co. Ltd, or, in the case of debentures issued overseas, an AA rating from S&P.

At the end of 2005, the total amount of investments (including marketable securities and income generating assets) amounted to approximately $ 34 million, as compared to approximately $ 36.3 million at the end of 2004.

5. IMPACT OF EXTERNAL FACTORS:

A. In August 2005, the Israel Accounting Standards Board (hereafter - the IASB) issued Israel Accounting Standard No. 22 – "Financial Instruments: Disclosure and Presentation", which is based on International Accounting Standard No. 32. This standard prescribes the rules for the presentation of financial instruments and the proper disclosure required therefore. The standard prescribes the rules pursuant to which financial instruments are to be classified and are to be presented as a liability (while broadening the definition of a financial liability) or as an equity instrument (presented within shareholders' equity). The standard also prescribes rules for bifurcating and classifying compound financial instruments (that include both an equity component and a liability component), the circumstances under which the offsetting of financial assets and financial liabilities is permitted, and the treatment of the costs of issuing financial instruments. The standard also prescribes that interest, dividends, losses and gains relating to financial instruments shall be recorded as income or expense in the income statements when the instrument is classified as a financial liability, or an as an equity movement when the instrument is classified as an equity instrument, respectively.

   This accounting standard is to be applied to financial statements for periods commencing on or after January 1, 2006, and is to be applied prospectively. Upon initial implementation of the standard, all the financial instruments existing at the transition date will be classified and presented in accordance with the classification and presentation rules prescribed by the standard; compound financial instruments will be bifurcated into their components, prior to said classification, in accordance with the transitional provisions prescribed by the standard. Comparative data will not be restated.

   When the standard takes effect, the Israeli Institute's Opinion 48 – "Accounting Treatment of Option Warrants", and Opinion 53 – "Accounting Treatment of Convertible Liabilities" will be revoked.

   Implementation of this standard is not expected to have a material effect on the Company's financial statements in future periods.

B. In February 2006, the IASB issued Israel Accounting Standard No. 21 - "Earnings per Share", which is based on International Accounting Standard No. 33. Accounting Standard No. 21 provides rules for the computation of earnings per share data and their presentation in the financial statements, and is to supersede, starting from its effective date, the existing rules relating to the computation and presentation of such data, which are based on Opinion 55 of the Israeli Institute; the standard is to be applied in financial statements for periods commencing on or after January 1, 2006.

According to the standard, the computation of basic earnings per share is generally based on the earnings available for distribution to holders of ordinary shares, which is divided by the weighted average number of ordinary shares outstanding during the period. This computation no longer takes into account the effect relating to potential shares that may derive from the expected conversion of convertible financial instruments, or the performance of contracts that confer rights to shares upon their holders.

In computing the diluted earnings or loss per share, the weighted average number of shares to be issued is to be added to the average number of ordinary shares used in the computation of the basic earnings per share data, assuming that all dilutive potential shares will be converted into shares. The potential shares are taken into account, as above, only when their effect is dilutive (reducing the earnings or increasing the loss per share from continuing activities); for the purpose of the computation of the weighted average, dilutive potential ordinary shares shall be deemed to have been converted into ordinary shares at the beginning of the period or, if later, the date of the issue of the potential ordinary shares. The standard also revises the treatment of the effect on the earnings resulting from the expected conversion of potential shares, and makes certain adjustments to the company's share in the operating results of associated companies and consolidated subsidiaries for the purpose of their inclusion in earnings used for the computation.

Upon the initial adoption of the standard, and in accordance with the transitional provisions stipulated therein, the comparative earnings per share data are to be restated in the financial statements, in order to reflect, with retroactive effect, the computation of the earnings per share under the new directives.

In the opinion of the Company, the implementation of this standard is not expected to have a material effect on the earnings per share data included in these financial statements.

C. In February 2006, the IASB issued Israel Accounting Standard No. 25 - “Revenue”, which is based on International Accounting Standard No. 18. This standard prescribes recognition, measurement, presentation and disclosure criteria for revenues originating from the sale of goods purchased or manufactured by the company, the provision of services, as well as revenues deriving from the use of the company’s assets by others (interest income, royalties or dividends).

The principal issue in accounting for revenue is determining the timing of revenue recognition. Revenue from the sale of goods shall be recognized when all the following conditions have been satisfied: (a) the significant risks and rewards of ownership of the goods have been transferred to the buyer; (b) the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (c) the amount of revenue can be measured reliably; (d) it is probable that the economic benefits associated with the transaction will flow to the company; and (e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from the provision of services shall be recognized by reference to the stage of completion of the transaction at the balance sheet date, subject to the satisfaction of conditions (c) through (e) above, and only when the stage of completion of the transaction at the balance sheet date can be measured reliably.

A clarification of said standard was issued by the IASB in February 2006: Clarification No. 8 - "Reporting of Revenue on a Gross or Net Basis". According to the clarification, a company acting as an agent or an intermediary, without bearing the risks and rewards resulting from the transaction, will present its revenue on a net basis (as profit or commission). However, a company that acts as a principal supplier and bears the risks and rewards resulting from the transaction will present its revenue on a gross basis, distinguishing the turnover from the related expenses.

Standard 25 shall be applicable to financial statements for periods commencing on or after January 1, 2006. The standard is to be applied prospectively; nevertheless, in accordance with the transitional provisions of the standard, the classification and presentation of revenue on a gross or net basis, as above, shall be applied with retroactive effect, including the restatement of revenues and expenses appearing in the comparative figures in the financial statements for periods commencing on the effective date of the standard.

Implementation of this standard is not expected to have a material effect on the Company's financial statements in future periods.

6. COMPANY EMPLOYEES:

At the end of the reported year, the Company employed 19 people. During the course of the reported year, an average of 17 people worked at the Company.

7. MEETINGS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES:

During 2005, the Company's Board of Directors held seven meetings and the Board of Directors' committees held 33 meetings.

8. DISCLOSURE CONCERNING AUDITORS' FEES:

Pursuant to the circulars of the Supervisor of Insurance, presented below are details of the fees to which the auditors are entitled for 2005 and 2004 (NIS in thousands, including VAT):

Details	**2005**	**2004**
Fees in respect of audit services, audit related services and tax services	229	255

At the extraordinary general meeting held on January 26, 2006, the shareholders approved the engagement of Kost Forer Gabbay & Kasierer & Co., CPAs as the Company's auditors for the 2006 financial year. The firm of Kost Forer Gabbay & Kasierer & Co. replaces Kesselman & Kesselman, CPAs.

9. DETAILS CONCERNING THE INTERNAL AUDITOR:

- Name of internal auditor: Arie Junger, CPA from the firm of Arie Junger & Co., CPAs.
- Date of commencement of appointment: March 1, 2005.
- Qualifications: CPA since 1972; member of the Institute of Internal Auditors.
- Name of previous internal auditor: Doron Ronen, CPA from the firm of Shiff Hazenfratz Ronen & Co.
- Date appointment terminated: November 1, 2004.
- Reason for termination of appointment: Resolution of the board of directors pursuant to a request from the internal auditor.
- The internal auditor is not an employee of the Company.
- Scope of annual engagement: 300 audit hours; during the course of the year, audit work was performed by three team members.
- The annual audit program is derived from a multi-year audit program that covers all the Company's operating sectors once every three years.
- The internal auditor reports to the chairman of the board of directors.
- The following table details the reports submitted by the internal auditor during 2005:

Audit topic	Date	
	Submission Of Report	Submission to Audit Committee
IT systems – "Hargel" payroll software	25.07.2005	28.08.2005
Funds and accounting	25.07.2005	28.08.2005
Control of reliability of financial and management data	25.07.2005	28.08.2005
Review of decision-making processes and decision implementation – O&M	29.09.2005	29.12.2005

- The internal auditor has been granted free access, as stated in Section 9 of the Internal Audit Law, 1992, including continuous and direct access to all the Company's IT systems, including its financial data.

10. The board of directors thanks the Company's staff and management for their devoted service.

David Blumberg **Chairman of the Board**	**Uri Bernstein** **General Manager**

Signed on March 29, 2006

ASHR'A - THE ISRAEL EXPORT INSURANCE CORPORATION LTD.
(FORMERLY - THE ISRAEL FOREIGN TRADE RISKS
INSURANCE CORPORATION LTD.)

2005 ANNUAL REPORT

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

2005 ANNUAL REPORT

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AUDITORS' REPORT

To the shareholders of

ASHR'A - THE ISRAEL EXPORT INSURANCE CORPORATION LTD.
(FORMERLY - THE ISRAEL FOREIGN TRADE RISKS INSURANCE CORPORATION LTD.)

We have audited the balance sheets of Ashr'a - The Israel Export Insurance Corporation Ltd. (formerly - The Israel Foreign Trade Risks Insurance Corporation Ltd.) (hereafter - the Company) as of December 31, 2005 and 2004 and the profit and loss accounts, general insurance revenue accounts, statement of changes in shareholders' equity and statements of cash flows for each of the three years in the period ended December 31, 2005. 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 audit in accordance with auditing standards generally accepted in Israel, including those prescribed by the Auditors (Mode of Performance) Regulations, 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, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above, present fairly, in all material respects, the financial position of the Company as of December 31, 2005 and 2004 and the results of its operations, changes in its shareholders' equity, and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with the accounting, reporting and preparation rules, as prescribed by the Supervision on Financial Services Law (Insurance), 1981 and the regulations enacted thereunder.

As explained in note 1b, the financial statements referred to above are presented in U.S. dollars, in accordance with Standard No. 13 of the Israel Accounting Standards Board.

This auditors' report is based on our auditors' report attached to the Hebrew financial statements that was signed on March 29, 2006.

Without qualifying our opinion, we draw attention to the fact that the following English translation of the Hebrew financial statements does not include Appendix A - "Translation into Shekels of the Financial Statements". This Appendix is required by the Supervisor of Insurance when Hebrew financial statements are filed with him.

Tel-Aviv, Israel
March 29, 2006

Kesselman & Kesselman
Certified Public Accountants (Isr.)

ASHR'A - THE ISRAEL EXPORT INSURANCE CORPORATION LTD.
(FORMERLY - THE ISRAEL FOREIGN TRADE RISKS
INSURANCE CORPORATION LTD.)

BALANCE SHEETS

	Note	December 31 2005	December 31 2004
		U.S. $ in thousands (see note 1b)	
A s s e t s			
INVESTMENTS:			
Cash and cash equivalents	1c(6)	2,909	2,674
Marketable securities	3	17,285	12,817
Deposits with the Accountant General in the Ministry of Finance	4	12,706	16,017
Bank deposits	5	29	3,641
Offices for rent	6	1,147	1,161
T o t a l investments		34,076	36,310
FIXED ASSETS:	6		
Office premises		711	725
Other		178	172
T o t a l fixed assets		889	897
AMOUNTS RECEIVABLE:			
Share of the Accountant General and reinsurers in insurance reserves	1e, 15	4,354	*4,652
Share of the Accountant General and reinsurers in accrual	1e, 15	16,155	*16,481
Accounts receivable	7	166	564
		20,675	21,697
LONG-TERM RECEIVABLES:			
Deferred acquisition costs	1e(2)	1,268	1,570
Deferred taxes	11c	200	224
T o t a l long-term receivables		1,468	1,794
		57,108	60,698

* Reclassified.

	Note	December 31 2005	2004
		U.S. $ in thousands (see note 1b)	
Shareholders' equity and liabilities			
SHAREHOLDERS' EQUITY	8	21,777	22,027
EMPLOYEE RIGHTS UPON RETIREMENT, net	9	88	*63
INSURANCE RESERVES AND OUTSTANDING CLAIMS - GENERAL INSURANCE:	1e		
Reserve for unexpired risks		6,871	*7,320
Accrual		19,257	*19,519
Outstanding claims		-	-
T o t a l outstanding claims		19,257	19,519
T o t a l insurance reserves and outstanding claims		26,128	26,839
OTHER LIABILITIES:			
Prepaid premiums received, net	1e(1)	7,979	9,283
Policyholders - deposits and credit balances		64	48
Accountant General and reinsurers - current account	13c(2),15	710	2,096
Other accounts payable and accruals	10	362	*342
T o t a l other liabilities		9,115	11,769
		57,108	60,698

* Reclassified.

David Blumberg	Uri Bernstein	Itamar Eldar
Chairman of the Board	General Manager	Head of Finance

Date of the approval of the financial statements: March 29, 2006.

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

ASHR'A - THE ISRAEL EXPORT INSURANCE CORPORATION LTD.
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PROFIT AND LOSS ACCOUNTS

	Note	2005	2004	2003
		U.S. $ in thousands (see note 1b)		
PROFIT BROUGHT FORWARD FROM THE GENERAL INSURANCE REVENUE ACCOUNTS		401	209	299
INCOME (EXPENSES) NOT INCLUDED IN THE GENERAL INSURANCE REVENUE ACCOUNTS:				
From investments		(110)	851	1,239
From rent of buildings, net		(43)	(36)	(106)
		(153)	815	1,133
PROFIT BEFORE TAXES ON INCOME		248	1,024	1,432
TAX SAVING (TAXES ON INCOME)	11b	(498)	(345)	16
NET PROFIT (LOSS) FOR THE YEAR		(250)	679	1,448
		U.S. $ (see note 1b)		
NET PROFIT (LOSS) PER NIS 1 OF PAR VALUE OF SHARES		(0.10)	0.28	0.60
		NIS		
PAR VALUE OF SHARES USED IN ABOVE COMPUTATION	8a	2,411,290	2,411,290	2,411,290

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

ASHR'A - THE ISRAEL EXPORT INSURANCE CORPORATION LTD.
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GENERAL INSURANCE REVENUE ACCOUNTS

	Note	2005	2004	2003
		U.S. $ in thousands (see note 1b)		
PREMIUMS		10,293	10,472	12,155
REGISTRATION AND OTHER FEES		930	1,038	1,212
TOTAL INSURANCE FEES		11,223	11,510	13,367
Less - guarantee fees to the State of Israel and reinsurers		(8,707)	(9,304)	(11,421)
INSURANCE FEES, net		2,516	2,206	1,946
Change in reserve for unexpired risks, net of Accountant General's and reinsurers' shares		151	(104)	(786)
INSURANCE FEES EARNED, net		2,667	2,102	1,160
INCOME FROM INVESTMENTS		124	605	795
TOTAL REVENUES FOR THE YEAR, net		2,791	2,707	1,955
INDEMNIFICATIONS RECEIVED, NET OF CLAIMS PAID AND CHANGE IN OUTSTANDING CLAIMS, net		125	167	459
ACCOUNTANT GENERAL'S SHARE IN INDEMNIFICATIONS, net		(39)	(90)	(281)
NET INDEMNIFICATIONS FOR THE YEAR		86	77	178
CHANGE IN ACCRUAL, NET OF ACCOUNTANT GENERAL'S AND REINSURRERS' SHARES		(64)	(595)	(336)
NET INDEMNIFICATIONS NET OF CHANGE IN ACCRUAL (CHANGE IN ACCRUAL NET OF INDEMNIFICATIONS NET) FOR THE YEAR		22	(518)	(158)
EXCESS OF REVENUES OVER CLAIMS FOR THE YEAR		2,813	2,189	1,797
ADMINISTRATIVE AND GENERAL EXPENSES	12	(2,110)	(1,958)	(2,112)
CHANGE IN DEFERRED ACQUISITION COSTS		(302)	(22)	614
TOTAL EXPENSES FOR THE YEAR, net		(2,412)	(1,980)	(1,498)
PROFIT FROM GENERAL INSURANCE BUSINESS FOR THE YEAR, carried to the Profit and Loss Accounts		401	209	299

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

ASHR'A - THE ISRAEL EXPORT INSURANCE CORPORATION LTD.
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STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Reserve for special risks*	Appraisal surplus	Retained earnings	Total
	U.S. $ in thousands (see note 1b)				
BALANCE AT JANUARY 1, 2003	1,720	14,150	713	3,690	20,273
CHANGES DURING 2003:					
Net profit				1,448	1,448
Erosion of dividend declared in 2002		(181)			(181)
BALANCE AT DECEMBER 31, 2003	1,720	13,969	713	5,138	21,540
CHANGES DURING 2004:					
Net profit				679	679
Realization of appraisal surplus due to sale of real estate			(99)		(99)
Amortization of appraisal surplus due to impairment of buildings**			(93)		(93)
BALANCE AT DECEMBER 31, 2004	1,720	13,969	521	5,817	22,027
CHANGES DURING 2005:					
Loss				(250)	(250)
BALANCE AT DECEMBER 31, 2005	1,720	13,969	521	5,567	21,777

* See note 8c.

** See notes 1g and 6.

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

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STATEMENTS OF CASH FLOWS

	2005	2004	2003
	U.S. $ in thousands (see note 1b)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
General insurance business (Appendix I)	643	(2,248)	1,826
Other activities (Appendix II)	(66)	1,103	51
Net cash provided by (used in) operating activities	577	(1,145)	1,877
CASH FLOWS FROM INVESTING ACTIVITIES:			
Changes in balances of securities and deposits relating to shareholders' equity and non-insurance Liabilities	(168)	(1,716)	2,569
Acquisition of fixed assets	(230)	(108)	(43)
Proceeds from sale of fixed assets	56	233	16
Net cash provided by (used in) investing activities	(342)	(1,591)	2,542
CASH FLOWS FROM FINANCING ACTIVITIES - dividend paid			(3,347)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	235	(2,736)	1,072
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,674	5,410	4,338
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF YEAR	2,909	2,674	5,410

ASHR'A - THE ISRAEL EXPORT INSURANCE CORPORATION LTD.
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STATEMENT OF CASH FLOWS

	2005	2004	2003
	U.S. $ in thousands (see note 1b)		
(a) Adjustments required to reflect the cash flows from operating activities:			
Profit from general insurance business	401	209	299
Income and expenses not involving cash flows:			
Change in reserve for unexpired risks, net of Accountant General's and reinsurers' shares, and deferred acquisition costs	151	126	172
Change in outstanding claims and accrual, net of the Accountant General's and reinsurers' shares	64	595	184
Depreciation	78	92	125
Capital gain			(2)
Changes in other asset and liability items:			
Deposits with the Accountant General and other investments relating to insurance liabilities	2,623	(1,414)	(3,832)
Policyholders - prepaid premiums and other credit balances, net	(1,288)	(1,882)	5,096
Accountant General and reinsurers - current accounts, net	(1,386)	26	(216)
	643	(2,248)	1,826
(b) Cash flows from other operating activities:			
Net profit (loss) for the year	(250)	679	1,448
Profit from general insurance business	(401)	(209)	(299)
	(651)	470	1,149
Depreciation	31	76	92
Capital gain		(78)	
Changes in deferred taxes	34	150	30
Other accounts receivable, accounts payable and employee rights upon retirement, net	520	485	(1,220)
	(66)	1,103	51

(c) Supplementary information on investing activities not involving cash flows:

1. In 2004, the Company sold fixed assets in the amount of $ 280,000, of which a balance of $ 56,000 has yet to be received as of December 31, 2004. Such amounts were received in 2005 and included under investing activities.

2. In 2004, the Company acquired fixed assets in the amount of $ 143,000 with suppliers' credit. The cash flows in respect of said acquisition have been included under investing activities in 2005 upon their repayment.

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies, which, except for the changes required by the transition to reporting in U.S. $ in 2004 (see b(1) below), were applied on a consistent basis, are as follows:

a. General:

Ashr'a - The Israel Export Insurance Corporation Ltd. (formerly - The Israel Foreign Trade Risks Insurance Corporation Ltd.); (hereafter - the Company) is a government company, as defined in the Government Companies Law, 1975 (hereafter - the Government Companies Law). The Company acts as an insurer in the field of general insurance and is engaged in issuing medium- and long-term trade and political risk insurance. The Company is subject to the provisions of the Supervision on Financials Services Law (Insurance), 1981 (formerly – the Supervision on Insurance Business, 1981; hereafter – the Supervision Law) and the regulations issued thereunder.

In addition, the Company is subject to the Government Companies Law and the regulations published thereunder. In accordance with Government Resolution vol/70 from July 20, 2004: "The general accounting standards applicable to government companies are those that apply to the private sector. The standards that are unique to government companies are in addition or as supplement to the private sector standards, or such that are designated to clarify issues that are specific to government companies, as described in the circulars of the Government Companies Authority. The standards that are unique to government companies shall be applied in accordance with the Government Companies Law.
The Government Companies Authority shall continue to seek the assistance of the professional teams that it had established for this purpose."

b. Presentation of financial statements in dollars:

1) The Company draws up and presents its financial statements in U.S. dollars (hereafter dollars or $), the currency in which most of the company's revenues are received and most of the Company's asset acquisitions are performed

Through December 31, 2003, the Company prepared its financial statements on the basis of historical cost adjusted for the changes in the exchange rate of the dollar, as permitted under section 29a of Opinion 36 of the Institute of Certified Public Accountants in Israel (hereafter - the Israeli Institute).

Taking the above into account and based on the provisions of section 4 of Accounting Standard No. 13 - "Effect of Changes in Foreign Currency Exchange Rates" - issued by the Israel Accounting Standards Board (hereafter - the IASB), and since the dollar is the principal currency used in the Company's operations, the Company draws up and presents, commencing January 1, 2004, its financial statements in dollars. This presentation maintains continuity of the measurement basis, as formerly applied in the Company's financial statements.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)**:**

The data for the year ended December 31, 2003, which are included in the comparative figures in these financial statements**,** are based on the adjusted financial statements for that year, as previously presented, after being divided by the exchange rate of the dollar at the end of that year.

Condensed nominal-historical Israeli currency data of the company, for tax purposes, are presented in note 17.

2) Data regarding the changes in exchange rate of the dollar and in the CPI:

	Representative exchange rate of one U.S. dollar	**CPI***	
	NIS	**Index for the month ending on balance sheet date**	**"Last known" (CPI for November)**
At end of year:			
2005	NIS 4.603	185.05 points	185.41 points
2004	NIS 4.308	180.74 points	180.56 points
2003	NIS 4.379	178.58 points	178.94 points
2002	NIS 4.737	182.01 points	182.52 points
Increase (decrease) in:			
2005	6.85%	2.38%	2.69%
2004	(1.62)%	1.21%	0.91%
2003	(7.55)%	(1.89)%	(1.96)%

* Based on the index for the month ending on each balance sheet date, on the basis of 1993 average = 100.

c. Valuation of assets and liabilities:

1) Linkage basis

Balances denominated in foreign currency or linked thereto are stated on the basis of the representative exchange rates as of balance sheet date. Balances the linkage arrangements in respect of which stipulate linkage to the last index published prior to date of payment are stated on basis of the last index published prior to balance sheet date (the index for November).

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

2) Investments

Investments in debentures and shares are stated at market value.
The amount at which investments in deposits is presented includes exchange differences and interest accruing through balance sheet date.

3) Fixed assets:

(a) These assets are stated at cost or appraised value (see (b) and 1g below). The assets are depreciated by the straight-line method, on the basis of their estimated useful life.

Annual rates of depreciation are as follows:

	%
Office premises	4
Computers and software	20-33
Office furniture and equipment	6-20

(b) On December 31, 1994, the office premises of the Company have been re-appraised. The appraisal increment was carried to an appraisal surplus and is depreciated over the balance of the original depreciation period.

As of December 31,2005, 2004 and 2003, the office premises of the company were appraised by Mr. Erez Aviran, a real estate appraiser, on the basis of their market price in an arm's length transaction. According to the appraisals as of December 31, 2003 and 2005, the economic value of the premises corresponded to its carrying value in the Company's books. According to the appraisal as of December 31, 2004, an impairment in the amount of $ 155,000 was recorded from the balance of the cost, see also notes 1g and 6 below.

4) Deferred taxes:

a. Commencing January 1, 2005, the Company applies the IASB's Accounting Standard No. 19 - "Taxes on Income" that prescribes the accounting treatment (recognition criteria, measurement, presentation and disclosure) required for taxes on income.

For the most part, the provisions of this standard are the same as the accounting principles that the Company applied prior to implementing the new standard.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

b. In accordance with the standard and with prior years' practice, the Company recognizes deferred taxes in respect of temporary differences between the amounts of assets and liabilities as reported in the financial statements and those taken into account for tax purposes; the standard requires that full recognition be given to deferred taxes in respect of all taxable temporary differences, up to the amounts referred to below.
Deferred tax assets are recognized for all temporary differences that are tax deductible, up to the amount of the differences that are expected to be utilized in the future, against taxable income.

As to the main types of temporary differences, in respect of which deferred taxes have been included - see note 11c.

c. Deferred tax balances are computed at the tax rates expected to be in effect at the time the deferred tax asset is utilized or the deferred tax liability is settled, based on the tax rates and the tax laws enacted, or substantively enacted, by the balance sheet date.

d. The current taxes, as well as the changes in the deferred tax balances, are included in the tax expenses or income in the reporting period.

5) Allowance for doubtful accounts

The allowance is determined for specific accounts doubtful of collection.

6) Cash equivalents

The Company considers all highly liquid investments, which include short-term bank deposits (up to three months from date of deposit) that are not restricted as to withdrawal or use, to be cash equivalents.

7) Use of estimates in preparation of financial statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

d. Profit and loss accounts - income from investments

Gains or losses from investments have been apportioned between the general insurance revenue accounts and the profit and loss accounts on the basis of the ratio of the average related resources during the year.

e. General insurance revenue accounts:

1) Revenue recognition:

The income is recognized on the basis of spreading the premium and insurance fees by the straight-line method, over the transaction period. The amount of prepaid premiums presented in the balance sheet reflects the Company's share net of the Accountant General's share in the premium.

2) The reserve for unexpired risks is computed in accordance with the Control on Insurance Business Regulations (Method of Calculation of Provision for Future Claims in General Insurance), 1984. In accordance with these regulations, a final accounting for a given underwriting year is prepared after the elapse of four years, during which the profits relating to such underwriting year are carried to the reserve. In addition, in accordance with said regulations, the amount of the reserve for unexpired risks relating to the current underwriting year may not be less than 50% of the self-retention premiums and registration fees recorded for that year (hereafter - the minimum reserve).

As regards the balance sheet presentation, the Reporting Regulations stipulate that the reserve computed as above is to be divided between a minimum reserve (which is presented in the balance sheets as "reserve for unexpired risks," including grossed-up "deferred acquisition costs") and "accrual", which represents the balance of the above reserve and is stated in the balance sheets as an addition to provision for outstanding claims. Through 2004, the reserve for unexpired risks and the accrual were presented by the Company in its balance sheets at their retention amounts (net of the share of the Accountant General and reinsurers). Further to a directive received by the Company from the Capital Market, Insurance and Savings Division of the Treasury (hereafter – the Supervisor of Insurance), beginning with the financial statements for 2005, the aforementioned reserve for unexpired risks and the accrual are to be presented by the Company among liabilities, at their gross amounts, while the amounts relating to the share of the Accountant General and reinsurers are to be presented among the assets on the balance sheet. The comparative data as of December 31, 2004 has been reclassified accordingly.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

On January 20, 2005, the Supervisor of Insurance issued a memorandum - "Reporting on the Development of Outstanding Claims in Foreign Trade Risks Insurance" (number 2005-1-1). In accordance with said memorandum, the computation method of reserves for unexpired risks in the Company remained unchanged. The aforementioned reserve for unexpired risks is not computed on an actuarial basis nor is it dependent on any assumptions.

3) The reserve for outstanding claims is based on a specific estimate for each claim, with the addition of a provision for anticipated specific risks for transactions that, in management's opinion, involve high risk. In the opinion of management, this reserve is adequate. As of December 31,2005 and 2004, no reserve for outstanding claims was required.

   The Company does not include in outstanding claims a provision for insurance events that have occurred, but in respect of which no notification has been received. The Company's management is of the opinion that, considering the special nature of the Company's business and its past experience, the creation of such a provision is neither possible nor necessary.

4) In accordance with Amendment 16 to the Supervision Law, the Company is required to appoint, among others, an appointed actuary whose duties are defined in the Supervision Law. Pursuant to said amendment, the appointment of an appointed actuary is not required in certain sectors, as determined by the Supervisor of Insurance. Insurance Circular Draft 2006-260, "The Duties of an Insurer's Appointed Actuary and Risk Manager, and the Nature of their Relationship with Other Officers," published by the Supervisor of Insurance on February 7, 2006, states, inter alia, that insurers in the foreign trade risks sector may choose not to appoint an appointed actuary. Accordingly an appointed actuary, as above, was not appointed.

5) As to the method for allocating income and losses from investments between the general insurance revenue accounts and the profit and loss accounts, see d. above.

6) Income from indemnifications is recognized on a cash basis.

f. Net profit per share

Net profit per NIS 1 of par value of shares - which is computed in accordance with Opinion 55 of the Israeli Institute - is determined on the basis of the par value of the issued and paid-up shares.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

g. Impairment of assets

The Company reviews - at each balance sheet date - whether any events have occurred or changes in circumstances have taken place, which might indicate that there has been an impairment of non-monetary assets, mainly fixed assets. When such indicators of impairment are present, the Company evaluates whether the carrying value of the asset in the Company's accounts can be recovered from the cash flows anticipated from that asset, and, if necessary, records an impairment provision up to the amount needed to adjust the carrying amount to the recoverable amount.

The recoverable value of an asset is determined according to the higher of the net selling price of the asset or its value in use to the Company. The value in use is determined according to the present value of anticipated cash flows from the continued use of the asset, including those expected at the time of its future retirement and disposal.

In 2004, the Company recorded a provision for the impairment of its fixed assets, see note 1c above and note 6 below.

The impairment loss is expensed directly against income, except for the impairment of assets in respect of which a reappraisal surplus was previously credited to capital surplus. Where indicators are present that beneficial events have occurred or beneficial changes in circumstances have taken place, the impairment provision in respect of the asset may be cancelled or reduced in the future, so long as the recoverable value of the asset has increased, as a result of changes in the estimates previously employed in determining such value.

h. Exposure to reinsurers

"Exposure to reinsurers" - The receivables due from the Company's reinsurer, including the reinsurer's share in the Company's outstanding claims and its reserve for unexpired risks, all net of the reinsurer's deposits with the Company (see also note 15).

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

i. Recently issued pronouncement:

1) In August 2005, the IASB issued Israel Accounting Standard No. 22 - "Financial Instruments: Disclosure and Presentation", which is based on International Accounting Standard No. 32. This standard prescribes the rules for presentation of financial instruments and the proper disclosure required therefore. The standard prescribes the rules pursuant to which financial instruments are to be classified and are to be presented as a liability (while broadening the definition of a financial liability) or as an equity instrument (presented within shareholders' equity). The standard also prescribes rules for bifurcating and classifying compound financial instruments (that include both an equity component and a liability component), the circumstances under which the offsetting of financial assets and financial liabilities is permitted, and the treatment of the costs of issuing financial instruments. The standard also prescribes that interest; dividends, losses and gains relating to financial instruments shall be recorded as income or expense in the income statements when the instrument is classified as a financial liability, or as an equity movement when the instrument is classified as an equity instrument, respectively.

   The accounting standard is to be applied to financial statements for periods commencing on or after January 1, 2006, and is to be applied prospectively. Upon initial implementation of the standard, all the financial instruments existing at the transition date will be classified and presented in accordance with the classification and presentation rules prescribed by the standard; compound financial instruments will be bifurcated into their components, prior to said classification, in accordance with the transitional provisions prescribed by the standard. Comparative data will not be restated.

   When the standard take effect, the Israeli Institute's Opinion 48 - "Accounting Treatment of Option Warrants", and Opinion 53 - "Accounting Treatment of Convertible Liabilities" will be revoked.

   Implementation of this standard is not expected to have a material effect on the financial statements of the Company in future periods.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

2) In February 2006, the IASB issued Israel Accounting Standard No. 21 - "Earnings per Share", which is based on International Accounting Standard No. 33. Accounting Standard No. 21 provides rules for the computation of earnings per share data and their presentation in the financial statements, and is to supersede, starting from its effective date, the existing rules relating to the computation and presentation of such data, which are based on Opinion 55 of the Israeli Institute; the standard is to be applied in financial statements for periods commencing on or after January 1, 2006.

According to the standard, the computation of basic earnings per share is generally based on the earnings available for distribution to holders of ordinary shares, which is divided by the weighted average number of ordinary shares outstanding during the period. This computation no longer takes into account the effect relating to potential shares that may derive from the expected conversion of convertible financial instruments, or the performance of contracts that confer rights to shares upon their holders.
In computing the diluted earnings or loss per share, the weighted average number of shares to be issued is to be added to the average number of ordinary shares used in the computation of the basic earnings per share data, assuming that all dilutive potential shares will be converted into shares. The potential shares are taken into account, as above, only when their effect is dilutive (reducing the earnings or increasing the loss per share from continuing activities); for the purpose of the computation of the weighted average, dilutive potential ordinary shares shall be deemed to have been converted into ordinary shares at the beginning of the period or, if later, the date of the issue of the potential ordinary shares. The standard also revises the treatment of the effect on the earnings resulting from the expected conversion of potential shares, and makes certain adjustments to the company's share in the operating results of associated companies and consolidated subsidiaries for the purpose of their inclusion in earnings used for the computation**.**

Upon the initial adoption of the standard, and in accordance with the transitional provisions stipulated therein, the comparative earnings per share data are to be restated in the financial statements, in order to reflect, with retroactive effect, the computation of the earnings per share under the new directives.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

In the opinion of the Company, the implementation of this standard is not expected to have a material effect on the earnings per share data included in these financial statements.

3) In February 2006, the IASB issued Israel Accounting Standard No. 25 - "Revenue", which is based on International Accounting Standard No. 18. This standard prescribes recognition, measurement, presentation and disclosure criteria for revenues originating from the sale of goods purchased or manufactured by the company, the provision of services, as well as revenues deriving from the use of the company's assets by other (interest income, royalties or dividends).

The principal issue in accounting for revenue is determining the timing of revenue recognition. Revenue from the sale of goods shall be recognized when all the following conditions have been satisfied: (a) the significant risks and rewards of ownership of the goods have been transferred to the buyer; (b) the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (c) the amount of revenue can be measured reliably; (d) it is probable that the economic benefits associated with the transaction will flow to the company; and (e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from the provision of services shall be recognized by reference to the stage of completion of the transaction at the balance sheet date, subject to the satisfaction of conditions (c) through (e) above, and only when the stage of completion of the transaction at the balance sheet date can be measured reliably. A clarification of said standard was issued by the IASB in February 2006: Clarification No. 8 - "Reporting of Revenue on a Gross or Net Basis". According to the clarification, a company acting as an agent or an intermediary without bearing the risks and rewards resulting from the transaction will present its revenue on a net basis (as profit or commission). However, a company that acts as a principal supplier and bears the risks and rewards resulting from the transaction will present its revenue on a gross basis, distinguishing the turnover from the related expenses.

Standard 25 shall be applicable to financial statements for periods commencing on or after January 1, 2006. The standard is to be applied prospectively; nevertheless, in accordance with the transitional provisions of the standard, the classification and presentation of revenue on a gross or net basis, as above, shall be applied with retroactive effect, including the restatement of revenues and expenses appearing in the comparative figures in the financial statements for periods commencing on the effective date of the standard.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

Until the publication of said standard and the related clarification, there were no accounting pronouncements in Israel concerning revenue, and the accounting treatment of this issue was mostly based on generally accepted accounting practices and foreign accounting pronouncements; nevertheless, as the principles applied by the Company do not differ materially from the directives of the standard, its implementation is not expected to have a material effect on the financial statements of the Company in future periods.

NOTE 2 - GUARANTEES AND COMMITMENTS OF THE STATE OF ISRAEL:

On October 25, 2004, the Finance Committee of the Knesset (the Israeli parliament) authorized the General Accountant in the Ministry of Finance to sign a new guarantee letter in respect of the Company's losses from export business, up to the total amount of $ 700 million, subject to the terms listed in the guarantee letter. Pursuant to said guarantee letter, should the total amount of claims against the Company in the framework of the above guarantee exceed $ 125 million, then half of the Company's shareholders' equity is to be used to pay for the claims in excess of the aforementioned amount, conditional upon the Company's shareholders' equity not falling as a result below the amount of $ 10 million. This guarantee will be valid for four years commencing on its signature date, and will replace and revoke all general guarantee letters previously issued. The guarantee was signed on December 5, 2004.

In addition, State guarantees are received from time to time for specific political risks.

With regard to the guarantee letter's implications on the Company's dividend distribution policy, see note 8d.

NOTE 3 - MARKETABLE SECURITIES:

	December 31	
	2005	2004
	U.S. $ in thousands	
Non-convertible debentures:		
Governmental bonds:		
Linked to the CPI	4,293	3,238
Linked to foreign currency	307	358
Unlinked	4,943	3,480
Other debentures:		
Linked to the CPI	1,308	631
Linked to foreign currency	6,336	4,933
Unlinked	98	59
Debentures convertible into shares:		
Linked to the CPI		29
Linked to foreign currency		89
	17,285	12,817
Including debentures deposited with the Bank of Israel		112

NOTE 4 - DEPOSITS WITH THE ACCOUNTANT GENERAL:

	Annual interest rate as of December 31, 2005	December 31	
	2005	2005	2004
	%	U.S. $ in thousands	
In dollars	3.66%	10,067	13,823
In Euros	2%	2,639	2,194
		12,706	16,017

NOTE 5 - BANK DEPOSITS:

	December 31	
	2005	**2004**
	U.S. $ in thousands	
In dollars		3,043
In NIS - unlinked		586
In NIS - unlinked and non-interest bearing*	29	12
	29	3,641

* The deposit secures the obligations of the Company's employees to the bank.

NOTE 6 - FIXED ASSETS:

Composition of fixed assts and offices for rent and their accumulated depreciation, grouped by major classifications, and changes therein during 2005, are as follows:

	Offices for rent			Offices for self-use			Other fixed assets		Total	
	Cost	Appraisal increment	Total	Cost	Appraisal increment	Total	Computers and software	Office furniture and equipment	2005	2004
	U.S. $ in thousands									
Cost or appraised value:										
Balance at beginning of year	2,145	227	2,372	1,215	116	1,331	4,389	475	8,567	9,032
Additions during the year	17	-	17	10	-	10	39	21	87	251
Retirements during the year	-	-	-	-	-	-	-	-	-	(561)
Balance at end of year	2,162	227	2,389	1,225	116	1,341	4,428	496	8,654	8,722
Accumulated depreciation:										
Balance at beginning of year	984	227	1,211	490	116	606	4,300	392	6,509	6,592
Depreciation for the year	31	-	31	24	-	24	37	17	109	168
In respect of retirements during the year	-	-	-	-	-	-	-	-	-	(251)
Balance at end of year	1,015	227	1,242	514	116	630	4,337	409	6,618	6,509
Depreciated balance at end of year before impairment to recoverable value*	1,147	-	1,147	711	-	711	91	87	2,036	2,213
Impairment to recoverable value*										(155)
Depreciated balance at at end of year	1,147	-	1,147	711	-	711	91	87	2,036	2,058

* In 2004, the Company recorded an impairment provision in the amount of $ 155,000, see note 1g.

NOTE 6 - FIXED ASSETS (continued):

The balance sheet presentation is as follows:

	December 31	
	2005	**2004**
Under investments - offices for rent	1,147	1,161
Under fixed assets	889	897
	2,036	2,058

NOTE 7 - ACCOUNTS RECEIVABLE:

	December 31	
	2005	**2004**
	U.S. $ in thousands	
Deferred taxes (see note 11c)	72	82
Prepaid expenses	57	61
State of Israel - income tax	-	338
Other	*37	*83
	166	564

* The balance is net of an allowance for doubtful accounts in the amount of $ 50,000 and $ 54,000 as of December 31, 2005 and 2004 respectively.

NOTE 8 - SHAREHOLDERS' EQUITY:

a. Share capital:

The share capital at December 31, 2005 and 2004 is composed of shares of NIS 1 par value, as follows:

	Authorized	**Issued and paid**
	Number of shares	
Ordinary shares	2,999,999	2,411,290
Founders' share	1	1

NOTE 8 - SHAREHOLDERS' EQUITY (continued):

b. Capital adequacy

The capital of the Company in terms of the Supervision on Insurance Business Regulations (Minimum Shareholders' Equity Required for an Insurer), 1998 (hereafter - the Shareholders' Equity Regulations):

	December 31, 2005		December 31, 2004	
	Primary capital	Shareholders' equity	Primary capital	Shareholders' equity
	NIS in thousands			
Required	100,240	15,062	94,893	15,062
Existing	12,475	12,475	12,148	12,148
Surplus	87,765	2,587	82,745	2,914

* The amounts of primary capital and shareholders' equity were computed based on the data that appear in the translation of the condensed changes in shareholders' equity into NIS included in Appendix a to the Hebrew financial statements ("Translation into Shekels of the financial statements"). The said appendix is not included in this English translation of the Hebrew financial statements.

As of December 31, 2004, the Company's investments in a single issuer exceeded the permitted amount by NIS 405,000, pursuant to the Supervision on Insurance Business Regulations (Capital Investment Methods, Funds, and Insurers' Liabilities), 2001 (hereafter - Investment Methods Regulations).

c. Reserve for special risks

The reserve for special risks was created under the articles of association effective until May 11, 1999. Thereafter, several articles in the Company's articles of association have been amended to allow the payment of dividends out of the amounts accrued in the reserve for special risks.

NOTE 8 - SHAREHOLDERS' EQUITY (continued):

d. Order by the Government Companies Authority for the distribution of a dividend

The policy of the Government Companies Authority regarding the appropriation of profits for dividend payments, which has been in effect since 1995 (subject to any special restrictions under any law), divides the profits from which dividends are to be paid into two categories:

1) A dividend from current profits that is to be paid according to the following rule:

   (a) For public service companies - at the rate of 60% of the current annual net profit, before bonuses are paid to employees out of profits.

   (b) Other companies - at the rate of 50% of said profits.

2) A dividend from accrued profits - for all relevant companies, a specific order will be made. The amount of the dividend will be determined with reference to the provisions of the Company's statutory documents, the provisions of any relevant legislation and such other factors as stipulated in the aforementioned provisions.

   Pursuant to a letter dated September 27, 2004, which was signed by the Company, the Accountant General in the Ministry of Finance and the Minister of Finance, during the effective period of the State guarantee mentioned in note 2 above, the Company is not to distribute a dividend that will result in its shareholders' equity falling below $ 25 million.

   In its letter dated October 12, 2004, the Government Companies Authority agreed to the non-distribution of dividends, as above.

NOTE 9 - EMPLOYEE RIGHTS UPON RETIREMENT:

a. Labor laws and agreements require the Company to pay severance pay to employees dismissed or retiring from its employ in certain other circumstances. The Company's severance pay liability to its employees is covered mainly by regular deposits with recognized severance pay funds in the employees' names and by the purchase of insurance policies.

The amounts that are deposited as stated above are not included in the balance sheets since they are not under the Company's management. An exception to this is an amount of $ 26,000 that represents the balance of amounts deposited in respect of persons who left the Company's employ. The Company is claiming that these amounts belong to the Company, since - at the time these persons left the Company's employ - the Company had paid them the full amount of severance pay due to them; accordingly, the above amounts are included in the Company's balance sheet.

NOTE 9 - EMPLOYEE RIGHTS UPON RETIREMENT (continued)**:**

The Company has begun legal proceedings to release the aforesaid amounts to its credit, and has also commenced arbitration proceedings concerning the balances of other deposits in the aforementioned provident fund, which relate to other former employees who left the Company's employ.

In respect of employees dismissed, who are entitled to severance pay, the Company is committed to supplement the difference between severance pay computed as on the basis of the latest salary and the amounts accumulated in the abovementioned funds and insurance policies. An appropriate provision has been made for the supplemental severance pay.

The amount of the severance pay liability presented in the balance sheets (see b. below) reflects that part of the liability not covered by the funds and/or insurance policies mentioned above, in accordance with labor agreements in force and based on salary components which, in management's opinion, create entitlement to severance pay, as well as the liability for supplemental severance pay mentioned above.

b. The balance sheet liability for employee rights upon retirement is as follows:

	December 31	
	2005	**2004**
	U.S. $ in thousands	
Total liability - in respect of Severance pay	88	63

NOTE 10 - OTHER ACCOUNTS PAYABLE AND ACCRUALS:

	December 31	
	2005	**2004**
	U.S. $ in thousands	
Provisions for vacation and recreation pay and wages	178	167
Institutions and trade payables	184	168
Rental income received in advance	-	7
	362	342

NOTE 11 - TAXES ON INCOME:

a. 1. Measurement of results for tax purposes under the Income Tax (Inflationary Adjustments) Law, 1985 (hereafter - the inflationary adjustments law)

Under the inflationary adjustments law, results for tax purposes are measured in real terms, having regard to the changes in the CPI. The Company is taxed under this law.

2. The Company's income is liable to corporate tax and profit tax. Through December 31, 2003, the corporate tax rate was 36%. In July 2004, an amendment was made to the Income Tax Ordinance and on August 10, 2005, a further amendment was made to the Ordinance (hereafter - the 2005 amendment). As a result of the aforementioned amendments, the corporate tax rate is to be gradually reduced over time from 36% to 25%. The corporate tax rates for 2004 and thereafter are as follows: 2004 - 35%,
2005 - 34%, 2006 - 31%, 2007 - 29%, 2008 - 27%, 2009 - 26% and for 2010 and thereafter - 25%.

Due to the Company being a "financial institution" for the purposes of the Value Added Tax Law, the reduction in the corporate tax rates translates into a reduction in the aggregate tax rates that apply to the Company, as follows: the aggregate tax rate for 2005 is 43.59%, 2006 - 41.03%, 2007 - 39.32%, 2008 - 37.61%, 2009 - 36.75% and for 2010 and thereafter - 35.90% (assuming that profit tax remains at its present rate of 17%).

As a result of the changes in the aforesaid tax rates, the Company adjusted - in each of the years 2004 and 2005 - at the time the amendments to the Ordinance were made, its deferred tax balances, in accordance with the tax rates expected to be in effect in the coming years; the effect of the change has been carried to income on a current basis.

b. Taxes on income (tax saving) included in the profit and loss accounts:

	2005	2004	2003
	U.S. $ in thousands		
For the reported year:			
Current	437	184	21
Deferred	34	161	30
	471	345	51
For previous years - current	27		(67)
	498	345	(16)

NOTE 11 - TAXES ON INCOME (continued)**:**

c. Deferred taxes:

1) The composition of deferred taxes and the changes therein during the reported year are as follows:

	Short-term deferred tax asset				Long-term deferred tax asset			
	Vacation and recreation Pay	Doubtful Accounts	Prepaid rental income	Total	Fixed assets	Liability for employee rights upon retirement	Total	Grand total
	U.S. $ in thousands							
Balance at January 1, 2004	56	24	13	93	277	34	311	404
Changes in 2004:	(1)	(1)	(9)	(11)	(141)	(9)	(150)	(161)
Charged to capital reserve (see note 1g)					63		63	63
Balance at December 31, 2004	55	23	4	82	199	25	224	306
Changes during 2005 - Charged to profit and loss	(4)	(2)	(4)	(10)	(31)	7	(24)	(34)
Balance at December 31, 2005	51	21		72	168	32	200	272

2) The deferred taxes are presented in the balance sheets as follows:

	December 31	
	2005	2004
	U.S. $ in thousands	
Among other accounts receivable	72	82
Among long-term receivables	200	224
	272	306

The balance of short-term deferred taxes as of December 31, 2005 is computed at a weighted tax rate of 41.03%.
The balance of long-term deferred taxes as of December 31, 2005 is computed at a weighted tax rate of 37.46%.

NOTE 11 - TAXES ON INCOME (continued)**:**

d. Following is reconciliation between the theoretical tax expense, assuming all income is taxed at the regular tax rates applicable to insurance companies in Israel, and the actual tax expense recorded in the profit and loss accounts:

	2005	2004	2003
	U.S. $ in thousands		
Profit before taxes on income, as reported in the profit and loss accounts	246	1,024	1,432
Theoretical tax expense*	107	456	655
Increase (decrease) in taxes in respect of:			
Different bases of measurement for financial reporting purposes (the dollar) and tax purposes (the CPI), net	336	(208)	(572)
Profit tax on wages tax	15	12	14
Revaluation of tax advances	-	(16)	(19)
Non-deductible expenses	17	28	21
Erosion of dividend payable carried to surplus			(38)
Taxes for previous years	27		(67)
Effect of the change in tax rates applicable to the Company	18	46	
Sales tax paid on the sale of a building		19	
Exempt income		(10)	
Other, net	(22)	18	(10)
Taxes on income (tax saving), per profit and loss accounts	498	345	(16)
* Computed at a weighted tax rate of	43.59%	44.52%	45.76%

e. Tax assessments

The Company has received final tax assessments through tax year 2001.

NOTE 12 - GENERAL AND ADMINISTRATIVE EXPENSES:

	2005	2004	2003
	U.S. $ in thousands		
Payroll and related expenses	1,158	998	1,115
Office operating costs	176	190	*156
Office maintenance and municipal taxes	154	186	*165
Professional fees	183	190	217
Depreciation and amortization	78	94	128
Other	361	300	331
	2,110	1,958	2,112

* Reclassified.

NOTE 13 - INTERESTED PARTIES:

a. Cost of benefits to interested parties employed by the Company (interested party - as defined in the Securities Law, 1968):

	2005	2004	2003
Cost of benefits (U.S. $ in thousands)	164	162	164
Number of recipients of these benefits	9	10	8

b. As the Company is a 100% owned government company, the State of Israel is defined as an interested party. All transactions with the State of Israel and/or the Accountant General in the Ministry of Finance are therefore transactions with interested parties. Additional information regarding the relationship with the State of Israel is presented in note 2.

c. Transactions and balances with an interested party (the State of Israel):

1) Transactions during the reporting year:

a) Guarantee fees paid to the State of Israel in 2005 aggregated $ 8,295,000 (2004 and 2003 - $ 9,025,000 and $ 11,349,000, respectively).

b) The State of Israel's share in indemnifications received net of claims paid was an expense of $ 39,000 in 2005 (2004 - net expense of $ 90,000; 2003 - net expense of $ 281,000).

NOTE 13 - INTERESTED PARTIES (continued):

2) Balances as of balance sheet date *:

- Current account with the State of Israel for insurance transactions - liability of $ 700,000 as of December 31, 2005 (December 31, 2004 - $ 1,676,000 payable).

- The balance of the Company's deposits with the Accountant General as of December 31, 2005 was $ 12,706,000 (out of total investments of $ 34,076,000); (December 31, 2004 - $ 16,017,000, out of total investments of $ 36,310,000).

* Regarding the Accountant General's share in insurance transactions - no balance confirmations were received.

NOTE 14 - CONCENTRATIONS OF CREDIT AND RATE RISKS:

a. Details of the Company's assets and liabilities as of December 31, 2005, according to interest risks.

	General insurance, capital and non-insurance liabilities December 31 2005
	U.S. $ in thousands
Assets with a direct interest risk	
Debenture	17,285
Institutions and bank deposits	12,735
Share of the Accountant General and reinsurers in insurance reserves	4,354
Share of the Accountant General and reinsurers in accrual	16,155
Total	50,529
Assets without a direct interest risk	6,579
Total assets	57,108
Liabilities with a direct interest risk:	
Insurance liabilities	26,128
Total	26,128
Liabilities without a direct interest risk	9,203
Total liabilities	35,331

NOTE 14 - CONCENTRATIONS OF CREDIT AND RATE RISKS (continued):

b. Presentation of the Company's assets and liabilities as of December 31, 2005, according to linkage basis.

	Not linked	NIS Linked to the CPI	In foreign currency (dollar, euro and other) or linked thereto	Non-monetary and other items	Total
	December 31 2005				
	U.S. $ in thousands				
Cash and cash equivalents	669		2,240		2,909
Securities					
Debentures that are not convertible into shares:					
Merchantable in Israel	5,041	5,601	1,681		12,323
Merchantable abroad			4,962		4,962
Deposits	29		12,706		12,735
Real estate for rent				1,147	1,147
Other fixed assets				889	889
Share of the Accountant General and reinsurers in insurance reserves			4,354		4,354
Share of the Accountant General and reinsurers in accrual			16,155		16,155
Deferred acquisition costs				1,268	1,268
Accounts receivable	37			329	366
Total assets	5,776	5,601	42,098	3,633	57,108
Employee rights upon retirement, net				88	88
Insurance reserves and outstanding claims			26,128		26,128
Other accounts payable and accruals	120	117	774	8,104	9,115
Shareholders' equity			21,777		21,777
Total shareholders' equity and liabilities	120	117	48,679	8,192	57,108
Net balance at December 31, 2005	5,656	5,484	(6,581)	(4,559)	

NOTE 14 - CONCENTRATIONS OF CREDIT AND RATE RISKS (continued):

c. Information concerning the Company's credit risk as of December 31, 2005.

	AA and up	BBB till AA	Not graded	Total
	U.S. $ in thousands			
Cash and cash equivalents(*)	2,872		37	2,909
Deposits with the Accountant General and the bank	(***)12,706		29	12,735
Marketable bond(*)	9,236			9,236
Other marketable debentures (*)	2,648	437	2	3,087
Other assets in Israel			166	166
Other assets abroad(**)	4,962			4,962
Total assets subject to credit risks	32,424	437	234	33,095
Total assets without credit risks			24,013	24,013
Total	32,424	437	24,247	57,108

(*) Rating source for assets in Israel - Maalot, The Israel Securities Rating Co. Ltd.

(**) Rating source for assets outside Israel - Standard & Poor's.

(***) Despite S&P's rating of the State of Israel, the credit risk of the State of Israel (deposits with the Accountant General and government bonds) is recorded with a rating of AA or higher.

NOTE 15 - REINSURER EXPOSURE:

a. From time to time, the Company takes action to share with other insurers the risks that it insures in relation to Israeli export transactions. The Company does not bear any risk whatsoever vis-à-vis the insured parties, as a result of the said insurers failing to meet their obligations; the reason for this is that, in all such cases, the State's responsibility vis-à-vis the Company remains intact, pursuant to the terms of the State's guarantee (see note 2).

b. **Reinsurers' debit and credit balances - general insurance**

			Open Balances						
Rating of reinsurers	**Rating company**	**Premium recorded to the reinsurer's account**	**Current debt balance**	**Reserve for unexpired risks (prepaid premium)**	**Outstanding claims**	**Deposits of the reinsurer with the Israeli insurer**	**Amount of letters of credit provided against the reinsurer's debt**	**Total exposure**	**Current debts, due in half a year to a year, which are included under open accounts**
		U.S. $ in thousands							
State of Israel*		8,295		4,148	15,390	(700)		18,838	
+A	S&P	412		206	765	(10)		961	
		8,707	-,-	4,354	16,155	(710)	-,-	19,799	-,-

* The balances with the State of Israel relate solely to arrangements with the State of Israel as a reinsurer, and do not include other balances of the State of Israel, existing at balance sheet date.

NOTE 16 – REVENUES FROM PRINCIPAL CUSTOMERS:

Following are details of the revenues from principal customers, the premiums recognized by the Company in 2005 and 2004 in respect of transactions therewith represent 5% or more of total premium revenues recognized by the Company in its financial statements for said years.

	2005	2004
	U.S. $ in thousands	
Customer A	1,887	2,237
Customer B	1,658	1,698
Customer C	1,167	1,074
Customer D	920	987
Customer E	869	372
Customer F	855	1,230
Customer G	729	535
Customer H	641	816
TOTAL	8,726	8,949

NOTE 17 - NOMINAL-HISTORICAL DATA OF THE COMPANY FOR TAX PURPOSES:

Note:
The following nominal data are the basis for the Company's tax adjustment report and are presented in these financial statements solely for this purpose. These data are based on the accounts of the Company, maintained in nominal-historical Israeli currency. The accounting policies applied in the preparation and presentation of the aforementioned data are identical to those applied in the preparation of the financial statements, with the exception of fixed assets (including offices for rent presented under investments), which have been adjusted to their value in the dollar balance sheets.

NOTE 17 - NOMINAL-HISTORICAL DATA OF THE COMPANY FOR TAX PURPOSES (continued):

a. Balance sheet data:

	Nominal NIS in thousands	
	December 31	
	2005	2004
Investments	156,854	156,424
Fixed assets	4,091	3,864
Share of the Accountant General and reinsurers in insurance reserves	20,041	*20,039
Share of the Accountant General and reinsurers in accrual	74,361	*71,002
Accounts receivable	764	2,430
Deferred acquisition costs and other assets	6,757	7,729
	262,868	261,488
Shareholders' equity	100,240	94,893
Liability for employee rights upon retirement, net	405	*271
Insurance reserves and outstanding claims	120,267	*115,623
Other liabilities	41,956	50,701
	262,868	261,488

* Reclassified.

b. Profit and loss accounts data:

	Nominal NIS in thousands		
	2005	2004	2003
Profit brought forward from the general insurance revenue accounts	1,846	900	1,311
Income (expenses) not included in the general insurance revenue accounts:			
From investments	4,934	2,160	(1,602)
From rent of buildings, net	(109)	772	(463)
	4,825	2,932	(2,065)
Profit (loss) before taxes on income	6,671	3,832	(754)
Taxes on income	2,203	1,639	243
Net profit (loss) for the year - nominal	4,468	2,193	(997)

NOTE 17 - NOMINAL-HISTORICAL DATA OF THE COMPANY FOR TAX PURPOSES (continued):

c. General insurance revenue accounts data:

	Nominal NIS in thousands		
	2005	**2004**	**2003**
Premiums	44,638	45,135	53,225
Registration and other fees	4,015	4,460	5,306
T o t a l insurance fees	48,653	49,595	58,531
Less - Guarantee fees to the State of Israel and reinsurers	(37,679)	(39,897)	(50,011)
Premiums for the year, net	10,974	9,698	8,520
Adjustment of the insurance reserves in foreign currency at beginning of year, due to change in the exchange rate	(787)	(182)	(1,097)
Change in reserve for unexpired risks	695	(82)	(2,803)
Insurance fees earned, net	10,882	9,434	4,620
Income from investments	4,912	383	3,481
T o t a l revenues for the year, net	15,794	9,817	8,101
Indemnifications received net of claims paid and change in outstanding claims, including accrual, net	(3,017)	745	1,428
Accountant General's share, net	(176)	(399)	(1,311)
Claims and change in accrual for the year, net	(3,193)	346	117
Excess of revenues over claims for the year	12,601	10,163	8,218
Administrative and general expenses	(9,828)	(9,057)	(9,246)
Change in deferred acquisition costs	(927)	(206)	2,339
Total expenses for the year, net	(10,755)	(9,263)	(6,907)
Profit for the year, carried to the profit and loss accounts	1,846	900	1,311

NOTE 17 - NOMINAL-HISTORICAL DATA OF THE COMPANY FOR TAX PURPOSES (continued):

d. Statements of changes in shareholders' equity:

	Nominal NIS in thousands				
	Share capital	**Reserve for special risks***	**Appraisal surplus**	**Retained earnings**	**Total**
Balance at January 1, 2003	2,411	45,363	13,124	35,135	96,033
Changes during 2003:					
Loss				(997)	(997)
Dividend**					
Adjustment of the nominal value of fixed assets to their adjusted value			(711)		(711)
Balance at December 31, 2003	2,411	45,363	12,413	34,138	94,325
Changes during 2004:					
Net profit				2,193	2,193
Realization of appraisal surplus on sale of real estate			(449)		(449)
Realization of an appraisal surplus as a result of depreciation of buildings**			(401)		(401)
Adjustment of the nominal value of fixed assets to their adjusted value			(775)		(775)
Balance at December 31, 2004	2,411	45,363	10,788	36,331	94,893
Changes during 2005:					
Net profit				4,468	4,468
Adjustment of the nominal value of fixed assets to their adjusted value			879		879
Balance at December 31, 2005	2,411	45,363	11,667	40,799	100,240

* See note 8c.
** See notes 1g and 6.

APPENDIX I

ASHR'A - THE ISRAEL EXPORT INSURANCE CORPORATION LTD.
(FORMERLY - THE ISRAEL FOREIGN TRADE RISKS
INSURANCE CORPORATION LTD.)

ANALYSIS OF ASSETS RELEATING TO

SHAREHOLDERS' EQUITY AND LIABILITIES

	December 31, 2005			
	Total	**General insurance business**	**Minimum share-holders' Equity**	**Capital Surplus And other Liabilities**
	U.S. $ in thousands			
Assets (Part A)				
Investments:				
Cash and cash equivalents	2,909	2,036	563	310
Marketable securities:				
Government bonds	9,544	903	241	8,400
Other debentures	7,741			7,741
Deposits:				
With the Accountant General	12,706	10,165	1,906	635
With banks	29			29
Offices for rent	1,147			1,147
Fixed assets:				
Office premises	711			711
Other	178			178
Amounts receivable -				
Share of the Accountant General and reinsurers in insurance reserves	4,354	4,354		
Share of the Accountant General and reinsurers in accrual	16,155	16,155		
other receivables	166			166
Long-term receivables:				
Deferred acquisition costs	1,268	1,268		
Deferred taxes	200	-		200
Total assets	57,108	34,881	2,710	19,517
Shareholders' equity and liabilities (Part B)				
Shareholders' equity	21,777		2,710	19,067
Liability for employee rights upon retirement	88			88
Reserve for unexpired risks	6,871	6,871		
Outstanding claims	19,257	19,257		
Prepaid premiums received, net	7,979	7,979		
The Accountant General and reinsurers	710	710		
Other payables	426	64		362
Total equity and liabilities	57,108	34,881	2,710	19,517

APPENDIX I

ASHR'A - THE ISRAEL EXPORT INSURANCE CORPORATION LTD.
(FORMERLY - THE ISRAEL FOREIGN TRADE RISKS
INSURANCE CORPORATION LTD.)

ANALYIS OF ASSETS RELATING TO SHAREHOLDERS' EQUITY AND LIABILITIES

	December 31, 2004			
	Total	**General insurance business**	**Minimum Share-holders' Equity**	**Capital Surplus And Other Liabilities**
	U.S. $ in thousands			
Assets (Part A)				
Investments:				
Cash and cash equivalents	2,674	1,872	292	510
Marketable securities:				
Government bonds	7,076	877	125	6,074
Other debentures	5,741			5,741
Deposits:				
With the Accountant General	16,017	12,814	2,403	800
With banks	3,641			3,641
Offices for rent	1,161			1,161
Fixed assets:				
Office premises	725			725
Other	172			172
Amounts receivable -				
Share of the Accountant General and reinsurers in insurance reserves	4,652	*4,652		
Share of the Accountant General and reinsurers in accrual	16,481	*16,481		
other receivables	564			564
Long-term receivables:				
Deferred acquisition costs	1,570	1,570		
Deferred taxes	224			224
Total assets	60,698	38,266	2,820	19,612
Shareholders' equity and liabilities (Part B)				
Shareholders' equity	22,027		2,820	19,207
Liability for employee rights upon retirement	63			63
Reserve for unexpired risks	7,320	*7,320		
Outstanding claims	*19,519	*19,519		
Prepaid premiums received, net	9,283	9,283		
The Accountant General and reinsurers	2,096	2,096		
Other payables	390	48		*342
Total equity and liabilities	60,698	38,266	2,820	19,612

*Reclassified.