Translated from the Hebrew original

ASHR'A - THE ISRAEL EXPORT INSURANCE CORPORATION LTD.

FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2006

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INDEX

Auditors' Report to the Shareholders	**2**
Balance Sheets	**3 - 4**
Statements of Profit and Loss	**5**
Statements of Changes in Shareholders' Equity	**6**
Foreign Trade Risks Insurance Business Statements	**7**
Statements of Cash Flows	**8 - 9**
Details of Assets and Liabilities	**10 - 13**
Notes to the Financial Statements	**14 - 62**

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AUDITORS' REPORT

To the Shareholders of

ASHR'A – THE ISRAEL EXPORT INSURANCE CORPORATION LTD.

We have audited the accompanying balance sheets of Ashr'a - The Israel Export Insurance Corporation Ltd. (hereunder - the Company) as of December 31, 2006 and the related statement of profit and loss, statement of changes in shareholders' equity, statement of foreign trade risks insurance business and statements of cash flows for the year then ended. 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. The financial statements as at December 31, 2005 and for each of the two years in the period then ended, were audited by other accountants, whose report on those financial statements as at March 29, 2006 included an unqualified opinion.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including those prescribed by the Israeli 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 also includes in the financial statements, additional information as required in the circulars of the Government Companies Authority – see Note 2(n).

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, 2006, and the results of its operations, the changes in its shareholders' equity and its cash flows for the year then ended, in conformity with the accounting, reporting and presentation principles prescribed by the Supervision of Financial Services (Insurance) Law, 1981, and the regulations enacted pursuant thereto.

As described in Note 2(b), the aforementioned financial statements are reported in U. S. dollars in accordance with Accounting Standard No. 13 of the Israel Accounting Standards Board.

Tel-Aviv, Israel
October 22, 2007

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

BALANCE SHEETS

	Note	December 31 2006	December 31 2005	
		U.S. $ in thousands		
INVESTMENTS				
Cash and cash equivalents		2,417	2,909	
Securities	3	20,946	17,285	
Deposits:				
With the Accountant General at the Ministry of Finance	4	10,419	12,706	
With banking institutions	5	24	29	
		10,443	12,735	
Real estate for lease	6	1,176	1,226	*)
Total investments		34,982	34,155	
FIXED ASSETS, NET				
Office buildings	7	621	632	*)
Other fixed assets	8	163	178	
Total fixed assets		784	810	
AMOUNTS RECEIVABLE				
The Accountant General and reinsurers' share in outstanding claims	9;14	35,973	36,826	*)
Debtors and receivables	10	199	166	
Total amounts receivable		36,172	36,992	
OTHER ASSETS				
Deferred taxes	11	212	200	
		72,150	72,157	

*) Reclassified.

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

BALANCE SHEETS

	Note	December 31 2006	December 31 2005
		U.S. $ in thousands	
SHAREHOLDERS' EQUITY	12	24,026	21,777
LONG TERM LIABILITIES			
Liability for severance pay, net	13	122	88
OUTSTANDING CLAIMS IN FOREIGN TRADE RISKS INSURANCE	14	40,918	41,177 *)
OTHER LIABILITIES			
Prepaid premiums	15	6,314	7,979
The Accountant General at the Ministry of Finance and other reinsurers – current account	9	349	710
Policyholders – deposits and payables		58	64
Creditors and payables	16	363	362
Total other liabilities		7,084	9,115
		72,150	72,157

*) Reclassified.

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

October 22, 2007			
Date of approval of the financial statements	Nina Admoni Member of the Board of Directors	Uri Bernstein General Manager	Tami Polizer-Shahar Head of Finance

STATEMENTS- OF PROFIT AND LOSS

	Note	Year ended December 31		
		2006	2005	2004
		U.S. $ in thousands [except for earning (loss) per share data]		
Income transferred from foreign trade risks insurance business statements		777	401	209
Income (expenses) not included in the insurance business statements:				
Income (losses) from investments		1,886	(110)	851
From lease of buildings, net		(53)	(43)	(36)
		1,833	(153)	815
Income before income taxes		2,610	248	1,024
Provision for income tax and profit tax	18	361	498	345
Net income (loss) for the year		2,249	(250)	679
Net earnings (loss) per share:				
Net earnings (loss) per share (in U.S. dollars)		0.93	(0.10)	0.28
Number of shares used for the above calculations (in thousands)		2,411	2,411	2,411

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Fund for extraordinary risks	Revaluation fund	Retained earnings	Total
	U.S. $ in thousands				
Balance as at January 1, 2004	1,720	13,969	713	5,138	21,540
Net income for the year	-	-	-	679	679
Realization of revaluation fund due to sale of real estate	-	-	(99)	-	(99)
Amortization of revaluation fund due to amortization of building value	-	-	(93)	-	(93)
Balance as at December 31, 2004	1,720	13,969	521	5,817	22,027
Loss for the year	-	-	-	(250)	(250)
Balance as at December 31, 2005	1,720	13,969	521	5,567	21,777
Net profit for the year	-	-	-	2,249	2,249
Balance as at December 31, 2006	1,720	13,969	521	7,816	24,026

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

FOREIGN TRADE RISKS INSURANCE BUSINESS STATEMENTS

	Note	Year ended December 31		
		2006	2005	2004
		U.S. $ in thousands		
Premiums		10,950	10,293	10,472
Fees		800	930	1,038
Total insurance premiums		11,750	11,223	11,510
Less – State of Israel guarantee and reinsurance	1b	10,826	10,254 *)	10,454 *)
Insurance premiums earned		924	969	1,056
Investment income		1,124	124	605
Total income for the year		2,048	1,093	1,661
Increase in outstanding claims net of claims recoveries received (net of reinsurance)		(580)	(129) *)	(644) *)
Excess of income over claims for the year		1,468	964	1,017
Administrative and general expenses	17	2,158	2,110	1,958
Less – commission from the State of Israel and from reinsurance		(1,467)	(1,547) *)	(1,150) *)
Total expenses for the year, net		691	563	808
Income from foreign trade risks insurance business for the year – transferred to the statements of profit and loss		777	401	209

*) Reclassified.

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

STATEMENTS OF CASH FLOWS

	Sch	Year ended December 31		
		2006	2005	2004
		U.S. $ in thousands		
CASH FLOWS FROM CURRENT ACTIVITIES				
In foreign trade risks insurance business	a	500	643	(2,248)
In other current activities	b	1,496	(66)	1,103
Net cash provided by (used in) current activities		1,996	577	(1,145)
CASH FLOWS FROM INVESTMENT ACTIVITIES				
Changes in investments earmarked to shareholders equity and non-insurance liabilities:		(2,463)	(168)	(1,716)
Acquisition of fixed assets		(25)	(230)	(108)
Proceeds from sale of fixed assets		-	56	233
Net cash used in investment activities		(2,488)	(342)	(1,591)
Increase (decrease) in cash and cash equivalents		(492)	235	(2,736)
Balance of cash and cash equivalents as at the beginning of the year		2,909	2,674	5,410
Balance of cash and cash equivalents as at the end of the year		2,417	2,909	2,674

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

STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2006	2005	2004
	U.S. $ in thousands		
(a) Cash flows from current activities in foreign trade risks insurance business			
Income for the year from foreign trade risks insurance business	777	401	209
Income and expenses not involving cash flows:			
Increase in outstanding claims and accruals, net of Accountant General and reinsurers' share	594	215 *)	721 *)
Depreciation	67	78	92
Changes in other balance sheet items:			
Deposits with the Accountant General and other investments relating to insurance liabilities	1,094	2,623	(1,414)
Policyholders – prepaid premiums and other payables, net	(1,671)	(1,288)	(1,882)
Accountant General and reinsurers – current accounts, net	(361)	(1,386)	26
Net cash flows provided by (used in) current activities in foreign trade risks insurance business	500	643	(2,248)
(b) Cash flows from other current activities			
Net income (loss) for the year	2,249	(250)	679
Income for the year from foreign trade risks insurance business	(777)	(401)	(209)
	1,472	(651)	470
Income and expenses not involving cash flows:			
Depreciation	34	31	76
Capital gain	-	-	(78)
Increase (decrease) in deferred taxes, net	(1)	34	150
Debtors, other creditors and liabilities in respect of severance pay, net	(9)	520	485
Net cash flows provided by (used in) other current activities	1,496	(66)	1,103
(c) Significant non-cash activities			
Sale of fixed assets against debtors	-	(56)	-
Acquisition of fixed assets against creditors	-	143	-

*) Reclassified.

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

DETAILS OF ASSETS AND LIABILITIES

ASSETS	December 31, 2006				
	Distribution of assets earmarked to liabilities				
	Total assets	Foreign risks trade insurance	Minimum solvency margin	Capital surplus	Other liabilities
	U.S. $ in thousands				
INVESTMENTS					
Cash and cash equivalents	2,417	1,692	508	217	-
Securities:					
Government debentures:					
Quoted in Israel	9,547	1,639	874	7,034	-
Unquoted abroad	820	-	-	820	-
Other debentures:					
Quoted in Israel	4,100	-	-	4,100	-
Quoted abroad	5,461	-	-	5,461	-
Unquoted abroad	1,018	-	-	1,018	-
Deposits:					
With the Accountant General at the Ministry of Finance	10,419	8,335	1,563	521	-
With banking institutions	24	-	-	24	-
Real estate for lease	1,176	-	-	1,102	74
FIXED ASSETS					
Office buildings	621	-	-	621	-
Other fixed assets	163	-	-	163	-
AMOUNTS RECEIVABLE					
The Accountant General and reinsurers' share in outstanding claims	35,973	35,973	-	-	-
Debtors and receivables	199	-	-	-	199
OTHER ASSETS					
Deferred taxes	212	-	-	-	212
Total assets	72,150	47,639	2,945	21,081	485
Total capital and liabilities (according to Part B)	72,150	47,639	2,945	21,081	485
Surplus (deficiency)	-	-	-	-	-

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

Part B - Details of Capital and Liabilities according to type

Capital and liabilities	December 31, 2006				
	Total liabilities	Foreign trade risks insurance	Minimum solvency margin	Capital surplus	Other liabilities
	U.S. $ in thousands				
Shareholders' equity	24,026	-	2,945	21,081	-
Liabilities in respect of severance pay, net	122	-	-	-	122
Outstanding claims in foreign trade risks insurance	40,918	40,918	-	-	-
Other liabilities					
Prepaid premiums	6,314	6,314	-	-	-
Reinsurers and the General Accountant at the Ministry of Finance	349	349	-	-	-
Creditors and payables and policyholders' balances	421	58	-	-	363
Total capital and liabilities	72,150	47,639	2,945	21,081	485

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

DETAILS OF ASSETS AND LIABILITIES

ASSETS	December 31, 2005				
	Distribution of assets earmarked to liabilities				
	Total assets	Foreign risks trade insurance	Minimum solvency margin	Capital surplus	Other liabilities
	U.S. $ in thousands				
INVESTMENTS					
Cash and cash equivalents	2,909	2,036	563	310	-
Securities:					
Government debentures:					
Quoted in Israel	9,236	903	241	8,092	-
Unquoted abroad	993	-	-	993	-
Other debentures:					
Quoted in Israel	3,087	-	-	3,087	-
Quoted abroad	1,533	-	-	1,533	-
Unquoted abroad	2,436	-	-	2,436	-
Deposits:					
With the Accountant General at the Ministry of Finance	12,706	10,165	1,906	635	-
With banking institutions	29	-	-	29	-
Real estate for lease	1,226	-	-	1,142 *)	84
FIXED ASSETS					
Office buildings	632	-	-	632 *)	-
Other fixed assets	178	-	-	178	-
AMOUNTS RECEIVABLE					
The Accountant General and reinsurers share in outstanding claims	36,826 *)	36,826 *)	-	-	-
Debtors and receivables	166	-	-	-	166
OTHER ASSETS					
Deferred taxes	200	-	-	-	200
Total assets	72,157	49,930	2,710	19,067	450
Total capital and liabilities (according to Part B)	72,157	49,930	2,710	19,067	450
Surplus (deficiency)	-	-	-	-	-

*) Reclassified.

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

Part B - Details of Capital and Liabilities according to type

	December 31, 2005				
Capital and liabilities	**Total liabilities**	**Foreign trade risks insurance**	**Minimum solvency margin**	**Capital surplus**	**Other liabilities**
	U.S. $ in thousands				
Shareholders' equity	21,777	-	2,710	19,067	-
Liabilities in respect of severance pay, net	88	-	-	-	88
Outstanding claims in foreign trade risks insurance	41,177 *)	41,177 *)	-	-	-
Other liabilities					
Prepaid premiums	7,979	7,979	-	-	-
Reinsurers and the General Accountant at the Ministry of Finance	710	710	-	-	-
Creditors and payables and policyholders' balances	426	64	-	-	362
Total capital and liabilities	72,157	49,930	2,710	19,067	450

*) Reclassified.

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 Companies Law). The Company operates as an insurer in the general insurance field and is engaged in the area of medium and long term transaction credit 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 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 October 25, 2004, the Finance Committee of the Knesset (the Israeli parliament) authorized the Accountant General 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 U.S. $ 700 million, subject to the terms listed in the guarantee letter. In accordance with the said guarantee letter, if the total amount of claims against the Company in the framework of the above guarantee exceed U.S. $ 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, subject to the Company's shareholders' equity not falling as a result below the amount of U.S. $ 10 million. In the event that the State's guarantee will be realized at a sum higher than U.S. $ 125 million, or in the event that the Company's shareholders' equity falls below the amount of U.S. $ 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.

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 12 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 the Supervision of Insurance Business Regulations (Financial Statements Details), 1998, as amended.
Index	-	consumer price index as published by the General Bureau of Statistics.
Dollar	-	United States Dollar.
The Regulator	-	Regulator of Insurance Business.
The Authorities	-	The Government Companies Authorities.
Insurance Supervision Law	-	The Supervision of Financial Services (Insurance) Law, 1981.
Capital Regulations	-	Supervision of Insurance Business Regulations (Minimum Solvency Margin Required from an Insurer), 1998, as amended.
Financial Statement Details Regulations	-	Supervision of Insurance Business Regulations (Financial Statement Details), 1998, as amended.
Ways of Investment Regulations	-	Supervision of Insurance Business Regulations (Ways of Investment of Capital and Reserves of an Insurer and Management of its Liabilities), 2001, as amended.
The Standards Board	-	The Israel Accounting Standards Board.

NOTE 2:- REPORTING PRINCIPLES AND ACCOUNTING POLICIES

The significant reporting principles and accounting policies applied in the preparation of the financial statements, are as follows:

a. Accounting principles

The financial statements are prepared in accordance with the accounting, reporting and presentation principles prescribed by the Insurance Supervision Law and the regulations enacted thereunder, including the Financial Statement Details Regulations.

NOTE 2:- REPORTING PRINCIPLES AND ACCOUNTING POLICIES (Cont.)

a. Accounting principles (Cont.)

In addition, in accordance with Government Resolution vol/70 from August 5, 2004: "The general accounting standards in respect of government companies are the standards of 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 performed in accordance with the Government Companies Law".

b. Presentation of financial statements in dollars

1. The Company prepares and presents its financial statements in U.S. dollars (hereunder - the dollar), the currency in which most of the Company's income is received.

   Taking the abovementioned 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 and since the dollar is the principal currency used in the Company's activities, the Company reports its financial statements in dollars.

2. The translation of these financial statements into NIS, in accordance with the directives of Clarification No. 4 of the Israel Accounting Standards Board, is presented in Note 23 to these financial statements.

3. The condensed data in nominal historical values for tax purposes is presented in Note 24.

c. Details of the CPI and the representative exchange rate of the U.S. dollar

	As at December 31			Rate of change for the year		
	2006	2005	2004	2006	2005	2004
	Points			%		
CPI (on the average basis of 1993)						
- For December	184.9	185.1	180.7	(0.1)	2.4	1.2
- For November	184.9	185.4	180.6	(0.3)	2.7	0.9
	NIS					
Representative exchange rate of the U.S. Dollar	4.225	4.603	4.308	(8.2)	6.8	(1.6)

NOTE 2:- REPORTING PRINCIPLES AND ACCOUNTING POLICIES (Cont.)

d. Use of estimates

The preparation of financial statements in accordance with the Insurance Supervision Law, and the Regulations in pursuance thereto and in accordance with generally accepted accounting principles, requires management to make use of estimates and valuations that affect the reported data of assets and liabilities, and information in relation to contingent assets and outstanding liabilities which are reflected in the financial statements, as well as information in relation to income and expenses during the reporting period. The actual results may differ from these estimates.

e. Foreign trade risks insurance business

1. Insurance fees net of guarantees by the State of Israel and reinsurance, are allocated to the foreign trade risks insurance business statements using the straight line method over the period of the policy and the credit business. Part of the net premiums that relate to the period after the balance sheet date, are allocated to the prepaid premium item.

2. Claims comprise 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. Claims recoveries are allocated at the date of their collection.

   In the years 2004 – 2006 no paid claims were recorded by the Company.

3. Insurance liabilities:

   The outstanding claims, including the State of Israel and reinsurers' share therein are calculated in accordance with the Supervision of Insurance Business Regulations (Ways of Calculating Provisions for Future Claims in General Insurance), 1984 as amended.

   The Company computed the insurance liabilities, as mentioned above, consistently with the previous year.

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 risks branch an actuarial valuation is not required and the outstanding claims include known outstanding claims which includes a suitable provision for settlement and handling expenses up to the end of the period and that have not yet been paid as at the balance sheet date, and an addition to the outstanding claims calculated according to the excess of income over expenses method, as mentioned in paragraph b below.

      As at December 31, 2005 and 2006 no known outstanding claims were recorded by the Company.

NOTE 2:- REPORTING PRINCIPLES AND ACCOUNTING POLICIES (Cont.)

e. Foreign trade risks insurance business (Cont.)

4. Outstanding claims: (Cont.)

The outstanding claims in the financial statements are computed according to the methods detailed below: (Cont.)

b. In the foreign trade risks insurance branch, excess of income over expenses is calculated, in accordance with the Regulator's Regulations, on a four year funded basis (hereunder – the surplus) which is comprised of insurance premiums, claims, administrative and general expenses and part of the investment income, net of the reinsurers' share according to the related 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 fund) is included under outstanding claims and the deficiency is allocated as an expense.

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

5. Investment income is computed on the basis of the ratio between the annual average of investments' sources in foreign trade insurance business to the average of the total sources for investments.

6. Reinsurance:

The reinsurers' liabilities to the Company do not release the Company from its liabilities towards the policyholders according to the insurance policies. However, the Company does not bear any risk whatsoever towards its policyholders as a result of the said insurers failing to meet their obligations, since in all these cases the State's responsibility towards the Company remains intact, pursuant to the terms of the State's guarantee [see Note 1(b)].

In addition, in accordance with the Financial Statement Details Regulations, the liabilities of the State of Israel and the reinsurers as at the balance sheet date, in respect of their share in the outstanding claims, are recorded separately in the balance sheet, under the item amounts receivable.

f. Valuation of assets and liabilities

1. Unquoted assets and liabilities linked to the CPI, are recorded in the balance sheet according to the CPI last published before the balance sheet date, in accordance with the terms of the commitment. When the nominal investment in assets is guaranteed to the Company, even if it is higher than the value adjusted to the CPI, the unquoted assets are reported at their nominal value.

NOTE 2:- REPORTING PRINCIPLES AND ACCOUNTING POLICIES (Cont.)

f. Valuation of assets and liabilities (Cont.)

2. Balances in foreign currency or linked thereto are included according to the "representative exchange rates" as at balance sheet date.

3. Cash and cash equivalents include bank deposits with maturities of three months or less and are not limited by any pledge.

4. Investments in quoted securities are included according to the market value as at the date of the financial statements.

5. Deposits with the Accountant General in the Ministry of Finance and in banking institutions are included according to their original value with the addition of income accumulated as at the date of the financial statements.

6. Fixed assets and real estate for lease are included as follows:

a. real estate for lease and office buildings are included in the balance sheet at cost, net of accumulated depreciation and net of adjustment to the market price between a willing buyer and a willing seller, that was prepared on December 31, 2004 by Mr. Mr. Erez Aviran, a certified real estate appraiser.

b. Other fixed assets are included in the balance sheet at cost less accumulated depreciation.

Depreciation is calculated at fixed annual rates from the cost and from revaluation, based on the asset's estimated useful life.

7. Impairment of assets:

The Company implements Accounting Standard No. 15, Impairment of Assets (hereunder – the Standard). The Standard determines procedures that are to be implemented in order to assure that the assets (which the Standard applies to), will not be recorded in the amount higher than the recoverable amount as described in the Standard.

The Standard applies to all the assets except for tax assets and financial assets. A loss from impairment in value that is recognized, will only be cancelled if there are changes in the estimates used in determining the recoverable amount of the asset at the time the loss from the impairment in value was recognized.

NOTE 2:- REPORTING PRINCIPLES AND ACCOUNTING POLICIES (Cont.)

g. Liabilities for severance pay and vacation pay

1. 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. The Company has a balance of amounts deposit in respect of those who were Company employees in the past and left the Company. The Company's management believes that these amounts belong to the Company since at the time of departure from the Company, the Company paid them the full amount of severance pay due to them. Therefore, these amounts are included in the Company's balance sheet. The Company began legal proceedings to release the said amounts to its credit, and has also commenced arbitration proceedings concerning the balances of other deposits in the above provident fund, which relate to other employees who retired from the Company in the past. These amounts are not included in the Company's financial statements [also see Note 22(a)].

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 set-up for the supplemental severance pay.

The amount of the severance pay liability presented in the balance sheets 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.

2. The liability for vacation pay is fully covered by a provision included under creditors and payables.

h. Taxes on Income and Deferred Taxes

1. In calculating taxes on income, deferred taxes in respect of timing differences allocated to expenses and income between the monetary report and the report for tax purposes are taken into account. The deferred taxes are computed based on the tax rates that are expected to be in force at the time of payment or realization, pursuant to the law that will be in force at the time.

2. In accordance with Accounting Standard No. 19 of the Standards Board, the provision for deferred taxes in respect of the difference between the book value of non-monetary assets and the value for tax purposes, is included.

NOTE 2:- REPORTING PRINCIPLES AND ACCOUNTING POLICIES (Cont.)

h. Taxes on Income and Deferred Taxes (Cont.)

3. Deferred taxes receivable due to current temporary differences are recorded under debtors and receivables.

Deferred taxes due to long-term differences are included under other assets.

i. Earnings per share

As of January 1, 2006 the Company has implemented Accounting Standard No. 21, Earnings per Share (hereunder - the Standard). According to the Standard, basic earnings per share are computed based on the weighted average of the number of shares that actually exist during the period.

The initial implementation of the Standard had no affect on the comparative data of earnings per share relating to previous years.

j. Details of assets and liabilities

The Company's assets and liabilities included in the details of the assets and liabilities reflect the Company's report to the Regulator in accordance with the Ways of Investment Regulations.

The insurer does not have to hold separately the assets earmarked to the liabilities in foreign trade risks insurance from those earmarked to its shareholders' equity and other liabilities, and does not have to keep a separate accounting system for them.

The Investment Regulations determine limitations in respect of the ratio between certain assets and that of the insurer's liabilities, (including the insurer equity). However, there are no rules for the specific allocation of the insurer's assets held against the insurance liabilities in general insurance and that of the shareholders' equity and other liabilities, as long as the total investments are within the framework of the above-mentioned regulations.

k. Reclassification

The comparative figures were reclassified in order to adjust them to the Supervision of Insurance Businesses Regulations (Ways of Calculating Provisions for Future Claims in General Insurance), 1984, as amended, and to the Financial Statement Details Regulations.

NOTE 2:- REPORTING PRINCIPLES AND ACCOUNTING POLICIES (Cont.)

l. Initial implementation of new Accounting Standards

1. Initial implementation of Accounting Standard No. 20 (Revised), Accounting for Goodwill and Intangible Assets upon Acquisition of Investee:

   From January 1, 2006, the Company adopted Accounting Standard No. 20 (Revised) – Accounting for Goodwill and Intangible Assets upon Acquisition of Investee (hereunder – the Standard), of the Israel Accounting Standards Board. The Standard prescribes accounting for goodwill and intangible assets upon acquisition of a subsidiary and an investee that is not a subsidiary, including a company under joint control.

   The initial implementation of the Standard had no affect on the financial statements of the Company.

2. Initial implementation of Accounting Standard No. 22 Financial Instruments: Disclosure and Presentation:

   From January 1, 2006, the Company adopted Accounting Standard No. 22, Financial Instruments: Disclosure and Presentation (hereunder – the Standard), of the Israel Accounting Standards Board. The Standard prescribes principles regarding the presentation of financial instruments and specifies the proper disclosure required in their respect and supersedes Opinion 48 and 53 of the Institute of Certified Public Accountants in Israel.

   This Standard does not apply to commitments under insurance contracts, and in accordance with the directives of the Regulator it does not apply to insurance companies.

   The initial implementation of the Standard had no affect on the financial statements of the Company.

3. Initial implementation of Accounting Standard No. 24 Share-Based Payment:

   From January 1, 2006, the Company adopted the provisions of Accounting Standard No. 24, Share-Based Payment (hereunder - the Standard) of the Israel Accounting Standards Board. The Standard prescribes rules for measurement and other specific requirements for three types of share-based transactions:

   a) Equity-settled share-based payment transactions;
   b) Cash-settled share-based payment transactions;
   c) Share-based payment transactions which allow the entity or counterparty to choose the manner of settlement.

   The initial implementation of the Standard had no affect on the financial statements of the Company.

NOTE 2:- REPORTING PRINCIPLES AND ACCOUNTING POLICIES (Cont.)

m. Disclosure of the effects of new Accounting Standards in the period prior to their adoption

1. Accounting Standard No. 29 - Adoption of International Financial Reporting Standards (IFRS):

In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29, "Adoption of International Financial Reporting Standards (IFRS)" (hereunder - the Standard).

International Financial Reporting Standards (hereunder – IFRS Standards) comprise standards and interpretations adopted by the International Accounting Standards Board, and include:

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

Pursuant to the Standard, companies that are subject to the provisions of the Securities Law, 1968, and that are required to report according to the regulations published thereunder, will be required to prepare their financial statements in accordance with IFRS starting from the period commencing on January 1, 2008. These companies, as well as other companies, may adopt IFRS early and prepare their financial statements in accordance with IFRS starting with financial statements that are issued subsequent to July 31, 2006.

For transition purposes, companies that prepare their financial statements in accordance with IFRS will be required to adopt the provisions of IFRS 1, "First-time Adoption of IFRS".

A company that adopts IFRS commencing from January 1, 2008, and that has elected to include comparative data for only one year (2007) will be required to prepare an opening balance sheet as of January 1, 2007 (hereunder - Opening IFRS Balance Sheet). Adjustment of the Opening IFRS Balance Sheet will require the following:

- Recognition of all assets and liabilities whose recognition is required by IFRS.
- De-recognition of assets and liabilities if IFRS do not permit such recognition.
- Classification of assets, liabilities and components of equity according to IFRS.
- Application of IFRS in the measurement of all recognized assets and liabilities.

NOTE 2:- REPORTING PRINCIPLES AND ACCOUNTING POLICIES (Cont.)

m. Disclosure of the effects of new Accounting Standards in the period prior to their adoption (Cont.)

1. Accounting Standard No. 29 - Adoption of International Financial Reporting Standards (IFRS): (Cont.)

In order to ease first-time adoption, a number of exemptions from IFRS have been granted in respect of the Opening IFRS Balance Sheet, which exemptions may be elected, in whole or in part. Exceptions have also been established which prohibit retrospective application of certain aspects of IFRS.

According to the Standard, the Company is required to include in a note to the annual financial statements as of December 31, 2007, a balance sheet as of December 31, 2007, and a statement of income for the year then ended, that have been prepared based on the recognition, measurement and presentation criteria of IFRS.

There are differences between IFRS and generally accepted accounting principles in Israel in the recognition and measurement of assets and liabilities and in reporting and disclosure requirements. These differences could have a material impact on the Company's financial position and results of operations. The first-time adoption of IFRS will require the Company to identify such differences.

The Government Companies Authority instructed the government companies to examine the implications of the adoption of the IFRS Standards on the financial statements. This exam will include mapping and identification of all the issues and components in which the financial statements could possibly be affected due to the transition to the IFRS Standards, presentation of the existing manner of treatment regarding them today in the financial statements in accordance with the IFRS Standards, the alternative that management intends on proposing for implementation and its affect on the existing situation today.

In May 2007, the Regulator of Insurance published a circular which applies the IFRS Regulations to institutional entities, including insurance companies.

2. Accounting Standard No. 16 - Investment Property:

In February 2007, the Israel Accounting Standards Board published Accounting Standard No. 16, "Investment Property" (hereunder - the Standard) that determines the accounting treatment and disclosure requirements of investment properties.

Real estate (land or building or part of a building or both) held by the owner or by the lessee under a capital lease to earn rentals or for capital appreciation (or both).

NOTE 2:- REPORTING PRINCIPLES AND ACCOUNTING POLICIES (Cont.)

m. Disclosure of the effects of new Accounting Standards in the period prior to their adoption (Cont.)

2. Accounting Standard No. 16 - Investment Property: (Cont.)

Examples of investment properties: land held for long-term capital appreciation and not for sale in the short term in the ordinary course of business; land held for undetermined future use. If the use of the land in the short term as property used by the owner or held for sale in the ordinary course of business has not yet been determined, the land will be considered as held for capital appreciation; a building held by the entity (including under a capital lease) and leased under operating lease; a vacant building that is held for operating lease.

Investment properties will be presented at the cost model or the fair value model. According to the cost model, investment properties are accounted for pursuant to the cost model determined in Accounting Standard No. 27, "Fixed Assets". Companies that choose to adopt the cost model are required to disclose the fair value of the investment properties. In contrast, companies that adopt the fair value model will carry the changes in fair value of investment properties to the income statement in the period in which they incurred. Investment properties that are accounted for under the fair value model will not be systematically depreciated.

Properties held by a lessee under operating lease may be considered as investment properties only if the properties would have otherwise met the definition of investment properties and the lessee is using the fair value model determined by the Standard (referring to the lease as a capital lease). If the properties under operating lease were accounted for as investment properties, all the properties held by the entity that are characterized as investment properties must be accounted for using the fair value model.

In respect of properties that include parts used to earn rentals or for capital appreciation and other parts that are for own use, each part will be accounted for separately only if each part can be sold separately. Otherwise, all the properties will be accounted for as investment properties provided that the part held for own use is immaterial.

The Standard will be applicable to financial statements for periods commencing on January 1, 2007 or thereafter. The effect of the adoption of the Standard regarding the fair value model will be reported with the adjustment of the opening balance of retained earnings as of January 1, 2007.

The Company chose to present the investment properties as at January 1, 2007 based on the cost model and accordingly the investment properties will be treated in accordance with Accounting Standard No. 27 – Fixed Assets, in other words, according to the accounting treatment that has been implemented up to now and therefore the initial implementation of the Standard had no affect on the financial statements.

NOTE 2:- REPORTING PRINCIPLES AND ACCOUNTING POLICIES (Cont.)

m. Disclosure of the effects of new Accounting Standards in the period prior to their adoption (Cont.)

3. Accounting Standard No. 27 - Fixed Assets:

In September 2006, the Israel Accounting Standards Board published Accounting Standard No. 27, "Fixed Assets" (hereunder - the Standard). The Standard is applicable to financial statements for periods commencing on January 1, 2007 (the effective date) or thereafter.

The initial recognition of fixed assets will be based on the cost of purchase. After the initial recognition, the Standard enables choosing between the cost method or the reevaluation method as the accounting policy and to apply it consistently with regard to a group of fixed asset items of a similar nature and usage. According to the reevaluation method, fixed assets are to be presented at an amount revalued based on the fair value upon the date of reevaluation less accumulated depreciation and subsequent impairment losses. The revaluation of fixed assets will be carried to capital reserve in shareholders' equity with the deduction of the tax effect. This capital reserve will be carried directly to retained earnings once the asset has been disposed of or during the use of the asset (according to the rate of depreciation). Revalued assets will be depreciated based on the revalued amount.

According to the Standard, each component of fixed assets with a different life and cost that is material in relation to total cost of fixed assets is to be depreciated separately. The asset's depreciation shall be based on its useful life for the Company, which will be tested at year end, and will be discontinued at the earlier of the date of the asset's classification as held for sale or the date of the asset's disposal. An asset held for sale is an asset which is available for immediate sale as is, which the Company has an obligation to sell and in respect of which the sale is expected to be completed within a year from classification. In addition, upon the adoption of the Standard, a change in the method of depreciation will be accounted for as a change in accounting estimate, prospectively rather than by way of cumulative effect, as customary prior to the effective date.

The transitional provisions of the Standard require separate adoption, including the restatement of comparative data, except in specific cases as detailed in the Standard.

The Company chose to present the fixed assets on the basis of the cost model. Therefore the initial implementation of the Standard had no affect on the financial statements.

NOTE 2:- REPORTING PRINCIPLES AND ACCOUNTING POLICIES (Cont.)

n. Government Companies Authority Circulars

In January 2006 and in February 2007 the Authority published circulars regarding disclosure and presentation of details in financial statements, according to which the Company is required, among others, the following:

1) "Objectives were prescribed for a government company (which were determined either by legislation, government decision, or by authorized authorities in accordance with the law for prescribing objectives and also in agreements between the company and the State or anyone of its authorities) whereby the company will include in its financial statements, significant financial information relevant to the State and other users of the financial statements for reaching financial decisions."

2) "A Company that prepares its financial statements on the basis of historical nominal cost, is required, commencing from the reports of the first quarter of the year 2004, to disclose, as additional information in the framework of a Note, the adjusted financial statements data, according to Opinion 36 of the Institute of Certified Publics Accountants in Israel."

- Since adjusted financial statements do not add significant information to the Company, the financial statements were not presented as mentioned above.

3) "The Company is required make a complete adjustment of balances with the State, its authorities and other government companies. If no certification of balances are received from the authorized entities, as mentioned above, the company will provide a disclosure in this respect in its financial statements.

- Regarding this matter also see Note 19 below.

4) "The company will disclose in its financial statements, monetary losses caused to the company and its shareholders due to real estate assets that are not used financially for the company's activities."

- During the year 2007 the Company began to lease vacant real estate assets that it owns. The statements of profit and loss include information regarding losses from lease of buildings, net.

5) "The company will provide a suitable disclosure in its financial statements with respect to the correct and fair financial value of significant assets, which are not reported at their full value in the company's books and also with respect to assessments or valuations that were performed, or valuations for insurance purposes.

- See Notes 6 and 7 below and paragraph 2(f)(6) above.

NOTE 2:- REPORTING PRINCIPLES AND ACCOUNTING POLICIES (Cont.)

n. Government Companies Authority Circulars (Cont.)

6) "The company will disclose, in its financial statements in the framework of the Notes, regarding the accounting policies it has used for handling transactions and balances with the State of Israel, its authorities and other government companies."

- The accounting policy which the Company utilizes regarding transactions with the State of Israel, including reinsurance, is not different from the accounting policy that is utilized with the rest of the reinsurers and its other suppliers.

Regarding the Company's balances and activities with the State of Israel – see Notes 9 and 19 below.

7) "The annual and quarterly financial statements will include the statements of the Chairman of the Board, the general manager and the finance manager, according to a predetermined version."

- The Company includes the said statements to the financial statements.

8) "A company should verify the appropriateness of the registration of the company and the State's rights in the company's assets and the State's assets that are held or operated by it, and this issue should be disclosed in the financial statements". In addition "a company should disclose in the financial statements its attempts to locate, identify and register assets that were gained during the reported period and it should also report about operations that should be performed but have not yet been performed".

- The company has leasing rights for part of the real estate assets and ownership rights for the rest of its assets (see Notes 6 and 7 below).

9) "A Company will submit, together with the financial statements, a detailed report regarding its preparation for executing a report regarding an internal audit with respect to the financial report and its effectiveness (on a basis similar to that in paragraph 404 in the Sarbanes-Oxley Act, U.S.A.)"

- The Company began proceedings for the assimilation of the corresponding reports of the directives to paragraph 404 of the Sarbanes-Oxley Act which discusses the Company management and the auditing accountant regarding the internal audit of the financial report and its effectiveness.

10) "The financial statements should include a disclosure, as required by the Companies Authority, for performing valuations with respect to the implementation of the IFRS Standards."

- See Note 2(m)(1) above.

NOTE 3:- SECURITIES

Composition hereunder:

	December 31	
	2006	2005
	U.S. $ in thousands	
Quoted Debentures:		
Government		
Linked to the CPI	4,481	4,293
Linked to foreign currency	820	307
Unlinked	5,066	4,943
Others		
Linked to the CPI	2,412	1,308
Linked to foreign currency	8,062	6,336
Unlinked	105	98
Total securities	20,946	17,285

NOTE 4:- DEPOSITS WITH THE ACCOUNTANT GENERAL OF THE MINISTRY OF FINANCE

	Average nominal interest rate	Average term	U.S. $
	%	Years	in thousands
As at December 31, 2006:			
Denominated in dollars	5.15	0.5	10,275
Denominated in Euro	2.84	0.5	144
			10,419
As at December 31, 2005:			
Denominated in dollars	3.66	0.5	10,067
Denominated in Euro	2.00	0.5	2,639
			12,706

NOTE 5:- DEPOSITS WITH BANKING INSTITUTIONS

	Average nominal interest rate	Average term	U.S. $
	%	Years	in thousands
As at December 31, 2006:			
Linked to the CPI	3.20	0.5	3
Unlinked *)	-	1.2	21
			24
As at December 31, 2005:			
Unlinked *)	-	1.2	29

*) The deposit serves as a guarantee for the Company's employees' liabilities to the bank and its average term reflects the average term of said liabilities.

NOTE 6:- REAL ESTATE FOR LEASE

a. Composition hereunder:

	Office building for lease	
Cost	U.S. $ in thousands	
Balance as at January 1, 2006	2,340	
Acquisitions	-	
Balance as at December 31, 2006	2,340	
Accumulated depreciation		
Balance as at January 1, 2006	1,091	
Depreciation for the year	56	
Balance as at December 31, 2006	1,147	
Impairment value		
Balance as at January 1, 2006	(23)	
Depreciation for the year	6	
Balance as at December 31, 2006	(17)	
Depreciated balance as at December 31, 2006	1,176	
Depreciated balance as at December 31, 2005	1,226	*)
Annual depreciation rates (not including value of land)	4%	

*) Reclassified.

NOTE 6:- REAL ESTATE FOR LEASE (Cont.)

b. Rights in real estate are as follows:

		December 31	
		2006	2005
		U.S. $ in thousands	
Ownership rights	(1)	6	7
Leasing rights from Tel-Aviv – Yafo Municipality ending in the year 2032	(2)	1,170	1,219
		1,176	1,226

(1) The fair value of the rights in the real estate, based on the valuation of a certified real estate appraiser, is U.S. $ 370 thousand.

(2) The fair value of leasing rights in the real estate, based on the valuation of a certified real estate appraiser, is U.S. $ 1,248 thousand.

NOTE 7:- OFFICE BUILDINGS

a. Composition hereunder:

	Office buildings	
Cost	U.S. $ in thousands	
Balance as at January 1, 2006	1,202	
Acquisitions	-	
Balance as at December 31, 2006	1,202	
Accumulated depreciation		
Balance as at January 1, 2006	469	
Depreciation for the year	36	
Balance as at December 31, 2006	505	
Impairment in value		
Balance as at January 1, 2006	(101)	
Depreciation for the year	25	
Balance as at December 31, 2006	(76)	
Depreciated balance as at December 31, 2006	621	
Depreciated balance as at December 31, 2005	632	*)
Annual depreciation rates (not including value of land)	4%	

*) Reclassified.

b. The rights in the office buildings are the leasing rights from the Tel-Aviv – Yafo Municipality. The leasing period for the office buildings whose amortized cost is U.S. $ 610 thousand ends in the year 2032 and for the office buildings whose amortized cost is U.S. $ 11 thousand the leasing period ends in the year 2028.

c. The fair value of the office buildings, based on the valuation of a certified real estate appraiser, is U.S. $ 693 thousand.

NOTE 8:- OTHER FIXED ASSETS

	Computers and software	Furniture and office equipment	Total
	U.S. $ in thousands		
Cost			
Balance as at January 1, 2006	4,428	496	4,924
Acquisitions	24	1	25
Balance as at December 31, 2006	4,452	497	4,949
Accumulated depreciation			
Balance as at January 1, 2006	4,337	409	4,746
Depreciation for the year	26	14	40
Balance as at December 31, 2006	4,363	423	4,786
Depreciated balance as at December 31, 2006	89	74	163
Depreciated balance as at December 31, 2005	91	87	178
Annual depreciation rates	25% - 33%	6% - 25%	

NOTE 9:- ACCOUNTANT GENERAL AND REINSURERS SHARE IN OUTSTANDING CLAIMS

Information regarding exposure to reinsurers in foreign trade risks insurance:

As at December 31, 2006

		Open balances			
	Rating company	Total reinsurance premiums for the year 2006	Reinsurers' share in outstanding claims	Current balances in credit	Total exposure (1)
		U.S. $ in thousands			
Rated group					
State of Israel **)		9,977	33,789	(213)	33,576
AA to BBB- Zurich Re (A+)	S & P	849	2,184	(136)	2,048
Total		10,826	35,973	(349)	35,624

As at December 31, 2005

		Open balances			
	Rating company	Total reinsurance premiums for the year 2005	Reinsurers' share in outstanding claims	Current balances in credit	Total exposure (1)
		U.S. $ in thousands			
Rated group					
State of Israel **)		9,842 *)	35,855 *)	(700)	35,155
AA to BBB- Zurich Re (A+)	S & P	412	971	(10)	961
Total		10,254 *)	36,826 *)	(710)	36,116

*) Reclassified.

**) The balances against the State of Israel are only for commitment versus the State of Israel as a reinsurer.

Comment

The total exposure to reinsurers is the total share of the Accountant General and the reinsurers in outstanding claims less the current balances in credit.

NOTE 10:- DEBTORS AND RECEIVABLES

Composition hereunder:

	December 31	
	2006	2005
	U.S. $ in thousands	
Company income tax	84	-
Deferred taxes receivable (see Note 11a)	61	72
Prepaid expenses	33	57
Others	21	37
	199	166

NOTE 11:- DEFERRED TAXES

	December 31	
	2006	2005
	U.S. $ in thousands	
a. Deferred taxes receivable		
Included in the debtors and receivables item:		
In respect of short term timing differences	61	72
Included in the deferred taxes item:		
In respect of long term timing differences	212	200
	273	272

b. Movement hereunder

	Deferred taxes receivable		
	Debtors and receivables	Deferred taxes	Total
	U.S. $ in thousands		
Balance as at January 1, 2006	72	200	272
Allocation to the statement of profit and loss	(11)	12	1
Balance as at December 31, 2006	61	212	273

NOTE 12:- SHAREHOLDERS EQUITY

a. Capital required from the company according to the Capital Regulations:

		December 31	
		2006	2005
		U.S. $ in thousands	
1. Minimum shareholders' equity:			
Amount required as per regulations		2,945	2,710
Calculated amount as per regulations		3,565	3,272
Surplus	(1)	620	562
Surplus and reserves not included in the shareholders' equity		20,461	18,505
2. Primary capital:			
Minimum amount required as per regulations		2,945	2,710
Calculated amount as per regulations		24,026	21,777
Surplus		21,081	19,067

(1) According to the guarantee letter and the State's commitment that was signed between the Company and the State of Israel in December 2004, whereby the State will indemnify the Company against risks it takes while performing its business and in the framework of an agreement that was signed between the Company and the State, and the Supervisor of the Banks from September 2004, the Company committed to act to preserve the minimum level of shareholders' equity of U.S. $ 25 million before it distributes dividends from its accumulated earnings. In addition, the Company committed not to distribute dividends from the amounts accumulated in the extraordinary risks reserve. The guarantee is in force for 4 years from the date of signing.

The Company's shareholders' equity as at the balance sheet date amounts to U.S. $ 24,026 thousand.

In addition, the distribution of dividends from capital surplus is subject to the liquidity requirements and compliance with the Ways of Investment Regulations.

b. Reserve for extraordinary risks (see page 6 – statement of changes in shareholders equity):

The reserve for extraordinary risks was created in accordance with the Regulations that were in force up to May 11, 1999.

Beginning from that date, a number of 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 extraordinary risks (regarding withdrawals of dividends from the reserve for extraordinary risks in light of the guarantee letters and the State's commitment from the year 2004 – see a above).

NOTE 12:- SHAREHOLDERS EQUITY (Cont.)

c. Government Companies Authority's requirement for distribution of dividends:

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.

Nevertheless, the Company undertook, as mentioned in paragraph (a) above, not to distribute a dividend that will cause its shareholders' equity to decrease below U.S. $ 25 million, during the period the State's guarantee is in force (see above).

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

NOTE 13:- LIABILITIES FOR SEVERANCE PAY, NET

a. Composition hereunder:

	December 31	
	2006	2005
	U.S. $ in thousands	
In respect of severance pay	498	478
Less – fund amount	(376)	(390)
Excess of liabilities over fund	122	88

b. The Company's liabilities for severance pay to its employees are partially covered by managers insurance policies with insurance companies and deposits in provident funds.

In respect of part of the liabilities, there is a reserve deposited in the name of the Company in approved severance pay funds.

The amount of the liabilities for severance pay included in the financial statements, represents the balance of liability that is not covered by insurance policies and provident funds.

NOTE 14:- OUTSTANDING CLAIMS IN FOREIGN TRADE RISKS INSURANCE

a. Hereunder is the composition of the outstanding claims according to their method of calculation:

	December 31					
	Gross		Reinsurance		On retention	
	2006	2005	2006	2005	2006	2005
	U.S. $ in thousands					
Excess of income over expenses (fund)	40,918	41,177 *)	35,973	36,826 *)	4,945	4,351

*) Reclassified.

b. Hereunder the outstanding claims run-off in the foreign trade risks insurance branch regarding the underwriting years that began before the last underwriting year:

	December 31			
	2006		2005	
	Gross	On retention	Gross	On retention
	U.S. $ in thousands			
Provisions as at the beginning of the year	41,177	4,351	41,675	4,136
Investment income	985	985	66	66
Claims recoveries received	44	15	125	86
Provisions as at the end of the period	(30,844)	(4,230)	(32,022)	(3,103)
Excess of provisions	11,362	1,121	9,844	1,185
Excess of provisions resulting from release of fund for the underwriting year 2002 (last year – 2001)	11,239	1,027	9,844	1,203

NOTE 15:- PREPAID PREMIUMS

a. Prepaid premiums include insurance fees less guarantee fees to the State of Israel and reinsurance that was received and relates to the periods after the balance sheet date as mentioned in Note 2(e)(1).

b. Hereunder is the distribution of the prepaid premiums according to the settlement year:

	December 31	
	2006	2005
	U.S. $ in thousands	
2006	-	2,175
2007	1,937	1,773
2008	1,316	1,161
2009	1,001	878
2010	628	541
2011 and onwards	1,432	1,451
	6,314	7,979

NOTE 16:- CREDITORS AND PAYABLES

	December 31	
	2006	2005
	U.S. $ in thousands	
Composition hereunder:		
Liabilities to employees and other liabilities for salaries and wages – employee salary and related expenses	87	54
Provision for vacation	105	125
Suppliers and service providers	62	33
Expenses payable	109	34
Company income tax	-	116
	363	362

NOTE 17:- ADMINISTRATIVE AND GENERAL EXPENSES

Composition hereunder:

	Year ended December 31		
	2006	2005 *)	2004 *)
	U.S. $ in thousands		
Salary and related expenses	1,269	1,158	998
Office maintenance	349	328	368
Professional consultation and audit	162	123	142
Computerization and communications	83	81	104
Depreciation and amortization	70	78	92
Others	225	342	254
	2,158	2,110	1,958

*) Reclassified.

NOTE 18:- PROVISION FOR INCOME AND PROFIT TAX

a. Tax laws applicable:

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

2. The Company is assessed according to the Income Tax Law (Inflationary Adjustments), 1985 (hereunder – the income tax law). According to the income tax law, the results for tax purposes are measured in NIS, as adjusted to the changes in the Israeli CPI.

NOTE 18:- PROVISION FOR INCOME AND PROFIT TAX (Cont..)

b. Tax rates applicable to the Company

1. Until December 31, 2003, the regular tax rate applicable to income of companies was 36%. In June 2004, an amendment to the Income Tax Ordinance (No. 140 and Temporary Provision), 2004 was passed by the "Knesset" (Israeli parliament) and on July 25, 2005, another law was passed, the amendment to the Income Tax Ordinance (No. 147) 2005, which prescribe, among others, that the corporate tax rate is to be progressively reduced to the following tax rates: 2004 - 35%, 2005 - 34%, 2006 - 31%, 2007 - 29%, 2008 - 27%, 2009 - 26%, 2010 and thereafter - 25%.

2. In an order that was applicable from July 1, 2006 the Value Added Tax rate was decreased from 16.5% to 15.5%. As a result, the profit tax applicable to financial institutions also decreased during that period.

3. This resulted in a decrease in the weighted tax rate (including profit tax, according to the Value Added Tax Law), applicable to companies that are defined as financial institutions pursuant to the Value Added Tax Law as follows: 2006 – 40.65%, 2007 – 38.53% , 2008 – 36.80% ,2009 – 35.93%, and from the year 2010 and thereafter the tax rate of 35.06%. In addition, beginning from the year 2010, with the decrease in company tax rate to 25%, all real capital gain will be liable to the tax rate of 35.06%.

The deferred tax balances are computed in accordance with the above new tax rates as determined in the said amendments.

c. Composition of taxes on income:

	Year ended December 31		
	2006	2005	2004
	U.S. $ in thousands		
Current	362	464	195
Deferred (see Note 11 above)	(1)	34	150
	361	498	345

NOTE 18:- PROVISION FOR INCOME AND PROFIT TAX (Cont..)

d. Reconciliation of the theoretical tax amount due, had the profit from current activities been liable to tax at the statutory tax rate applicable on an insurance company to that of the provision for income taxes from current operations as allocated in the statements of profit and loss:

	Year ended December 31		
	2006	2005	2004
	U.S. $ in thousands		
Profit for the year before income taxes	2,610	248	1,024
The statutory tax rate applicable on insurance companies in Israel	40.65%	43.59%	44.53%
The amount of tax according to the statutory tax rate	1,061	107	456
Differences in measurement of assets and liabilities for tax purposes (index) and for the purpose of the financial statements (dollar), net *)	(692)	336	(208)
	369	443	248
Tax (tax savings) in relation to:			
Decrease in deferred tax receivable due to the reduction of tax rates (see b above)	10	18	46
Unallowable expenses	22	17	28
Income exempt from tax and preferred income	-	-	(10)
Profit tax on salary tax	18	15	12
Taxes in respect of previous years	(16)	27	-
Other influences, net	(42)	(22)	21
	361	498	345

*) The fluctuations in the provision for income and profit taxes in relation to the profit before taxes, is affected by the changes in the representative exchange rate of the dollar and in the CPI as follows:

- Since the Company's financial statements are prepared in dollars, a gap is created between the profit before taxes in dollars and the nominal profit in NIS, which constitutes the basis for the calculation of the tax. This gap is affected by the change in the representative exchange rate of the dollar.

- The provisions of the Income Tax Law are applicable to the Company, and accordingly, the results are measured in NIS and adjusted to the CPI.

e. The Company received final tax assessments up to December 31, 2004.

NOTE 19:- 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 in 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(n)(6) above.

b. Certification of balance was received with respect to deposits held by the Accountant General. Regarding the balance of the Accountant General's share in insurance transactions, no balance certifications 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	
	2006	2005
	U.S. $ in thousands	
Investments:		
Deposits with the Accountant General in the Ministry of Finance	10,419	12,706
Other liabilities:		
State of Israel's share in insurance transactions	213	700

d. Expenses paid to interested party

	Year ended December 31		
	2006	2005	2004
	U.S. $ in thousands		
Salaries and related expenses to the Company's CEO	144	126	126
Salary and related expenses to the members of the Board of Directors	33	38	36
Guarantee fees expenses to the State of Israel	9,977	9,842 *)	10,175 *)
State of Israel's share in claims recoveries received, less claims paid, net	29	39	90

*) Reclassified.

NOTE 19:- RELATED AND INTERESTED PARTIES (Cont.)

e. Indemnification and insurance of directors and officeholders

The Company's Articles of Association allow the insurance and indemnification of directors and officeholders as prescribed under the law. Accordingly, the Company has prescribed an indemnification policy and decided to insure the directors' and officeholders' liabilities subject to legal provisions and additional limitations.

Hereunder are the details of expenses according to years:

	Year ended December 31		
	2006	2005	2004
	U.S. $ in thousands		
Amount of expenses for indemnification and insurance of directors and officeholders	30	34	29

NOTE 20:- INFORMATION REGARDING CREDIT AND INTEREST RISKS

a. Details of the assets and liabilities according to exposure to interest risks

		December 31		
		2006	2005	
		U.S. $ in thousands		
Assets with direct interest risk	(1)			
Securities – debentures		20,946	17,285	
Deposits with the Accountant General and in banking institutions		10,443	12,735	
Accountant General and reinsurers' share in outstanding claims		35,973	36,826	*)
Total		67,362	66,846	
Assets without direct interest risk	(2)	4,788	5,311	
Total assets		72,150	72,157	
Liabilities with direct interest risk				
Outstanding claims	(1)	40,918	41,177	*)
Liabilities without direct interest risk	(3)			
Others		7,206	9,203	
Shareholders' equity		24,026	21,777	
Total		31,232	30,980	
Total shareholders' equity and liabilities		72,150	72,157	

*) Reclassified.

NOTE 20:- INFORMATION REGARDING CREDIT AND INTEREST RISKS (Cont.)

a. Details of the assets and liabilities according to exposure to interest risks (Cont.)

Comments

1. Direct interest risk is the risk that the change in the market interest will cause a change in the fair value of financial asset or liability. This risk relates to assets whose settlement is done in cash. The addition of the word "direct" stresses the fact that the change in interest can also affect other types of assets, but not directly, such as the affect of the change in interest on the shares rate.

2. Other assets that have no direct interest risk – include fixed assets and real estate for lease, as well as balance sheet groups of financial assets whose average term is up to one month. Therefore the interest risk in their respect is immaterial (cash and cash equivalents).

3. Liabilities that have no direct interest risk include shareholders equity and the other group of liabilities in the Company's balance sheet.

In analyzing the risks and exposure to changes in interest rates, the distribution of the total assets and liabilities according to due dates should be taken into account, based on contractual conditions and/or forecasts, and taking into account the anticipated cash flows in respect of policies in force and new policies.

The Company has a risks manager which, among others, he is to assist the management to estimate the entire issue.

b. Details of the assets and liabilities according to linkage basis

	In NIS unlinked	In NIS linked to the CPI	In foreign currency or linked thereto	Non-monetary items and others	Total
	U.S. $ in thousands				
As at December 31, 2006					
Cash and cash equivalents	638	-	1,779	-	2,417
Nonconvertible debentures:					
Quoted in Israel	5,171	6,893	1,583	-	13,647
Quoted abroad	-	-	7,299	-	7,299
Deposits with the Accountant General and with banking institutions	21	3	10,419	-	10,443
Real estate for lease	-	-	-	1,176	1,176
Fixed assets	-	-	-	784	784
Accountant General and reinsurers' share in outstanding claims	-	-	35,973	-	35,973
Other debtors and receivables	-	100	-	311	411
Total assets	5,830	6,996	57,053	2,271	72,150
Outstanding claims	-	-	40,918	-	40,918
Other liabilities	485	-	6,721	-	7,206
Shareholders' equity	-	-	24,026	-	24,026
Total capital and liabilities	485	-	71,665	-	72,150
Net balance as at December 31, 2006	5,345	6,996	(14,612)	2,271	-

NOTE 20:- INFORMATION REGARDING CREDIT AND INTEREST RISKS (Cont.)

b. Details of the assets and liabilities according to linkage basis (Cont.)

	In NIS unlinked	In NIS linked to the CPI	In foreign currency or linked thereto	Non-monetary items and others	Total
	U.S. $ in thousands				
As at December 31, 2005					
Cash and cash equivalents	669	-	2,240	-	2,909
Nonconvertible debentures:					
Quoted in Israel	5,041	5,601	1,681	-	12,323
Quoted abroad	-	-	4,962	-	4,962
Deposits with the Accountant General and with banking institutions	29	-	12,706	-	12,735
Real estate for lease	-	-	-	1,226 *)	1,226
Fixed assets	-	-	-	810 *)	810
Accountant General and reinsurers' share in outstanding claims	-	-	36,826 *)	-	36,826 *)
Other debtors and receivables	37	-	-	329	366
Total assets	5,776	5,601	58,415	2,365	72,157
Outstanding claims	-	-	41,177 *)	-	41,177 *)
Other liabilities	334	116	8,753	-	9,203
Shareholders' equity	-	-	21,777	-	21,777
Total capital and liabilities	334	116	71,707	-	72,157
Net balance as at December 31, 2005	5,442	5,485	(13,292)	2,365	-

*) Reclassified.

NOTE 20:- INFORMATION REGARDING CREDIT AND INTEREST RISKS (Cont.)

c. Information regarding the Company's credit risk

	AA and above	BBB to AA	Not rated	Total
	U.S. $ in thousands			
As at December 31, 2006				
Cash and cash equivalents	2,376	-	41	2,417
Deposits with banks and with the Accountant General	10,422	-	21	10,443
Quoted government debentures	9,547	-	-	9,547
Other quoted debentures	3,459	640	-	4,099
Other assets in Israel	-	-	199	199
Total assets in Israel	25,804	640	261	26,705
Other assets abroad	5,374	1,925	-	7,299
Total assets bearing credit risk	31,178	2,565	261	34,004
Total assets without credit risk				38,146
Total assets				72,150
As at December 31, 2005				
Cash and cash equivalents	2,872	-	37	2,909
Deposits with banks and with the Accountant General	12,706	-	29	12,735
Quoted government debentures	9,236	-	-	9,236
Other quoted debentures	2,648	439	-	3,087
Other assets in Israel	-	-	166	166
Total assets in Israel	27,462	439	232	28,133
Other assets abroad	4,962	-	-	4,962
Total assets bearing credit risk	32,424	439	232	33,095
Total assets without credit risk				39,062 *)
Total assets				72,157

*) Reclassified.

Comments

(1) The source for the rating level in Israel is the rating company "Ma'alot" – The Israel Securities Rating Company Ltd.

(2) The rating aboard is determined by the rating company S&P.

(3) Although the State of Israel was rated at S&P, the credit risk on deposits with the Accountant General and government debentures were rated as AA and above.

NOTE 21:- INCOME FROM PRINCIPAL CUSTOMERS

Following are details of the income from principal customers, whose volume of the insurance premiums which were recorded for them constitutes 5% or more of the total premium income the Company allocated to its financial statements:

	Year ended December 31	
	2006	2005
	U.S. $ in thousands	
Customer A	2,748	869
Customer B	1,822	1,887
Customer C	1,511	1,658
Customer D	893	729
Customer E	872	1,167
Customer F	853	855
Customer G	-	920
Customer H	-	641
Total	8,699	8,726

NOTE 22:- CLAIMS AND COMMITMENTS

a. Claims

On September 25, 2006, a former employee of the Company (hereunder – the plaintiff) filed a declarative and monetary claim (hereunder – the claim) against the Company and against Leumi Gemel which manages the provident fund "Sagi" for benefits and severance pay and in its framework the plaintiff requests to declare that she is entitled to monies accumulated in the severance pay component (c) in the above mentioned provident fund, beyond the amount of severance pay that was paid to her at the end of her employment (which amount to 150% of the severance pay that was due to the plaintiff by law and was paid to her). The plaintiff demands the release of the amount accumulated which is estimated at about $ U.S. 60 thousand.

The Company submitted a statement of defense and a counter claim against the plaintiff and against Leumi Gemel, and requested to state that the monies in dispute belong to the Company and that the provident fund should release the monies to the Company.

The case is set for deliberation of proofs on March 11, 2008.

In the opinion of the Company's legal consultants, the chances of the claim are low, whereas the chances for a counter claim are high.

It should be noted that the amounts accumulated in the severance pay funds in respect of employees who left are higher than the amounts paid to them according to legal provisions, are not recorded in the Company's books and the Company is working to release them, among others, through the Labour Court.

b. Commitments

The Company has a framework agreement regarding commitment to operational leasing of its vehicle fleet. The volume of the monthly commitment as at December 31, 2006 is about $ U.S. 6 thousand per month for the remaining average period of about two years.

NOTE 23:- TRANSLATION OF FINANCIAL STATEMENTS INTO NEW ISRAELI SHEKELS

a. Hereunder is the data translated into NIS according to the directives of Clarification No. 4 – "Translation of the Financial Statements into Shekel from the Reported Currency which is not the Shekel" – of the Israel Accounting Standards Board. The translation of the data from dollars to shekels for the period subsequent to January 1, 2004 is performed as follows:

1. The assets and liabilities for each balance sheet date are translated according to the exchange rate for that day.

2. Income and expenses are translated according to the average exchange rates for the year, and their utilization constitutes a proximity to the actual exchange rate at the date of the transaction.

3. Share capital and the capital reserves, as are included in the financial statements as at December 31, 2003 are translated according to the representative exchange rate as at the same date. Changes in share capital and capital reserves after this date are translated according to the representative exchange rate on the date of their issue or upon creation.

4. The profit balance, as is included in the financial statements as at December 31, 2003 are translated according to the exchange rate as at the same date, and the dividend is translated according to the exchange rate on the date it is paid.

5. The translation differences created as a result of the said handling, are allocated directly to the shareholders' equity under a separate item.

NOTE 23:- TRANSLATION OF FINANCIAL STATEMENTS INTO NEW ISRAELI SHEKELS (Cont.)

b. Balance Sheets

	December 31		
	2006	2005	
	NIS in thousands		
Investments			
Cash and cash equivalents	10,212	13,390	
Securities	88,497	79,564	
Deposits:			
With the Accountant General in the Ministry of Finance	44,020	58,486	
With banking institutions	101	133	
Real estate for lease	4,969	5,643	*)
Total investments	147,799	157,216	
Fixed Assets, net			
Office buildings	2,624	2,907	*)
Other fixed assets	689	822	
Total fixed assets	3,313	3,729	
Amounts receivable			
Accountant General and reinsurers' share in outstanding claims	151,986	169,510	*)
Debtors and receivables	841	764	
Total amounts receivable	152,827	170,274	
Other assets			
Deferred taxes	896	921	
	304,835	332,140	
Shareholders' equity	101,510	100,240	
Long term liabilities			
Liabilities for severance pay, net	515	405	
Outstanding claims in foreign trade risks insurance	172,879	189,539	*)
Other liabilities			
Prepaid premium	26,677	36,727	
The Accountant General in the Ministry of Finance and other reinsurers – current account	1,475	3,268	
Policyholders – deposits and payables	245	295	
Creditors and payables	1,534	1,666	
Total other liabilities	29,931	41,956	
	304,835	332,140	

*) Reclassified.

NOTE 23:- TRANSLATION OF FINANCIAL STATEMENTS INTO NEW ISRAELI SHEKELS (Cont.)

c. Statements of profit and loss

	Year ended December 31		
	2006	2005	2004
	NIS in thousands		
Profit transferred from the foreign trade risks insurance business	3,463	1,799	938
Income (expenses) not included in the insurance business statements:			
Investment income (losses)	8,404	(494)	3,813
From leasing of buildings, net	(236)	(193)	(160)
	8,168	(687)	3,653
Profit before taxes on income	11,631	1,112	4,591
Provision for income and profit taxes	1,609	2,234	1,546
Net profit (loss) for the year	10,022	(1,122)	3,045

d. Statements of changes in shareholders' equity

	Share Capital	Reserve for extraordinary risks	Revaluation reserve	Translation differences	Retained Earnings	Total
	NIS in thousands					
Balance as at January 1, 2004	7,531	61,170	3,121	-	22,503	94,325
Net profit for the year	-	-	-	-	3,045	3,045
Realization of revaluation reserve due to the sale of real estate	-	-	(449)	-	-	(449)
Write-off of revaluation reserve due to sale of value of buildings	-	-	(401)	-	-	(401)
Difference resulting from translation of financial statements	-	-	-	(1,627)	-	(1,627)
Balance as at December 31, 2004	7,531	61,170	2,271	(1,627)	25,548	94,893
Loss for the year	-	-	-	-	(1,122)	(1,122)
Differences resulting from translation of financial statements	-	-	-	6,469	-	6,469
Balance as at December 31, 2005	7,531	61,170	2,271	4,842	24,426	100,240
Net profit for the year	-	-	-	-	10,022	10,022
Differences resulting from translation of financial statements	-	-	-	(8,752)	-	(8,752)
Balance as at December 31, 2006	7,531	61,170	2,271	(3,910)	34,448	101,510

NOTE 23:- TRANSLATION OF FINANCIAL STATEMENTS INTO NEW ISRAELI SHEKELS (Cont.)

e. Foreign trade risks insurance business statements

	Year ended December 31		
	2006	2005	2004
	NIS in thousands		
Premiums	48,793	46,182	46,924
Fees	3,565	4,173	4,651
Total insurance fees	52,358	50,355	51,575
Less – State of Israel guarantee and reinsurance	48,241	46,007 *)	46,843 *)
Insurance fees earned	4,117	4,348	4,732
Investment income	5,009	556	2,711
Total income for the year	9,126	4,904	7,443
Increase in outstanding claims less claims recoveries received (net of reinsurance)	(2,584)	(579) *)	(2,881) *)
Excess income over claims for the year	6,542	4,325	4,562
Administrative and general expenses	9,616	9,467	8,778
Less – commission from the State of Israel and reinsurance	(6,537)	(6,941)	(5,154)
Total expenses for the year, net	3,079	2,526	3,624
Profit from foreign trade risks insurance for the year – transferred to the statements of profit and loss	3,463	1,799	938

*) Reclassified.

NOTE 23:- TRANSLATION OF FINANCIAL STATEMENTS INTO NEW ISRAELI SHEKELS (Cont.)

f. Statements of cash flows

	Sch.	Year ended December 31		
		2006	2005	2004
		NIS in thousands		
Cash flows from current activities				
In foreign trade risks insurance business	a	2,227	2,883	(9,646)
In other current activities	b	6,664	(296)	4,835
Net cash provided by (used in) current activities		8,891	2,587	(4,811)
Cash flows from investment activities				
Changes in investments earmarked to shareholders' equity and non-insurance liabilities		(10,975)	(754)	(7,392)
Acquisition of fixed assets		(107)	(1,032)	(482)
Proceeds from realization of fixed assets		-	251	1,004
Net cash used in investment activities		(11,082)	(1,535)	(6,870)
Differences resulting from translation of balances of cash and cash equivalents to NIS		(987)	818	(490)
Increase (decrease) in cash and cash equivalents		(3,178)	1,870	(12,171)
Balance of cash and cash equivalent as at the beginning of the year		13,390	11,520	23,691
Balance of cash and cash equivalent as at the end of the year		10,212	13,390	11,520

NOTE 23:- TRANSLATION OF FINANCIAL STATEMENTS INTO NEW ISRAELI SHEKELS (Cont.)

f. Statements of cash flows

	Year ended December 31		
	2006	2005	2004
	NIS in thousands		
(a) Cash flows from current activities in foreign trade risks insurance business			
Income for the year from foreign trade risks insurance business	3,463	1,799	938
Income and expenses not involving cash flows:			
Increase in outstanding claims, net of the Accountant General and reinsurers' share	2,647	965 *)	3,106 *)
Depreciation	298	349	396
Changes in other balance sheet items:			
Deposits with the Accountant General and other investments ascribed to insurance liabilities	4,874	11,768	(6,091)
Policyholders – prepaid premiums and other payables, net	(7,446)	(5,779)	(8,107)
The Accountant General and reinsurers - current accounts, net	(1,609)	(6,219)	112
Cash flows provided by (used in) current activities in foreign trade risks insurance business	2,227	2,883	(9,646)
(b) Cash flows from other current activities			
Net profit (loss) for the year	10,022	(1,122)	3,045
Income for the year from foreign trade risks insurance business	(3,463)	(1,799)	(938)
	6,559	(2,921)	2,107
Income and expenses not involving cash flows:			
Depreciation	149	139	327
Capital gain	-	-	(335)
Increase (decrease) in deferred taxes, net	(53)	153	643
Other debtors and liabilities for severance pay, net	9	2,333	2,093
Cash flows provided by (used in) other current activities	6,664	(296)	4,835

*) Reclassified.

NOTE 23:- TRANSLATION OF FINANCIAL STATEMENTS INTO NEW ISRAELI SHEKELS (Cont.)

g. Details of assets and liabilities

	December 31, 2006				
	Distribution of assets earmarked to liabilities				
	Total assets	Foreign trade risks insurance	Minimum capital	Capital surplus	Other liabilities
Assets	NIS in thousands				
Investments					
Cash and cash equivalents	10,212	7,149	2,146	917	-
Securities:					
Government debentures:					
Quoted in Israel	40,336	6,925	3,693	29,718	-
Unquoted abroad	3,465	-	-	3,465	-
Other debentures:					
Quoted in Israel	17,323	-	-	17,323	-
Quoted abroad	23,073	-	-	23,073	-
Unquoted abroad	4,300	-	-	4,300	-
Deposits:					
With the Accountant General in the Ministry of Finance	44,020	35,216	6,604	2,200	-
In banking institutions	101	-	-	101	-
Real estate for lease	4,969	-	-	4,657	312
Fixed assets					
Office buildings	2,624	-	-	2,624	-
Other fixed assets	689	-	-	689	-
Amounts receivable					
Accountant General and reinsurers' share in outstanding claims	151,986	151,986	-	-	-
Debtors and receivables	841	-	-	-	841
Other assets					
Deferred taxes	896	-	-	-	896
Total assets	304,835	201,276	12,443	89,067	2,049
Total capital and liabilities (according to Part B)	304,835	201,276	12,443	89,067	2,049
Surplus (deficiency)	-	-	-	-	-

NOTE 23:- TRANSLATION OF FINANCIAL STATEMENTS INTO NEW ISRAELI SHEKELS (Cont.)

g. Details of assets and liabilities (Cont.)

Part B - Details of Capital and Liabilities by types

	December 31, 2006				
Capital and liabilities	**Total liabilities**	**Foreign trade risks insurance**	**Minimum capital**	**Capital surplus**	**Other liabilities**
	NIS in thousands				
Shareholders' equity	101,510	-	12,443	89,067	-
Liabilities for severance pay, net	515	-	-	-	515
Outstanding claims in foreign trade risk insurance	172,879	172,879	-	-	-
Other liabilities					
Prepaid premiums	26,677	26,677	-	-	-
Reinsurers and the Accountant General in the Ministry of Finance	1,475	1,475	-	-	-
Creditors and payables and reinsurers' balances	1,779	245	-	-	1,534
Total capital and liabilities	304,835	201,276	12,443	89,067	2,049

NOTE 23:- TRANSLATION OF FINANCIAL STATEMENTS INTO NEW ISRAELI SHEKELS (Cont.)

g. Details of assets and liabilities (Cont.)

	December 31, 2005				
	Distribution of assets earmarked to liabilities				
Assets	Total assets	Foreign trade risks insurance	Minimum capital	Capital surplus	Other liabilities
	NIS in thousands				
Investments					
Cash and cash equivalents	13,390	9,372	2,591	1,427	-
Securities:					
Government debentures:					
Quoted in Israel	42,515	4,157	1,111	37,247	-
Unquoted abroad	4,571	-	-	4,571	-
Other debentures:					
Quoted in Israel	14,209	-	-	14,209	-
Quoted abroad	7,056	-	-	7,056	-
Unquoted abroad	11,213	-	-	11,213	-
Deposits:					
With the Accountant General in the Ministry of Finance	58,486	46,790	8,773	2,923	-
In banking institutions	133	-	-	133	-
Real estate for lease	5,643	-	-	5,257 *)	386
Fixed assets					
Office buildings	2,907	-	-	2,907 *)	-
Other fixed assets	822	-	-	822	-
Amounts receivable					
Accountant General and reinsurers' share in outstanding claims	169,510 *)	169,510 *)	-	-	-
Debtors and receivables	764	-	-	-	764
Other assets					
Deferred taxes	921	-	-	-	921
Total assets	332,140	229,829	12,475	87,765	2,071
Total capital and liabilities (according to Part B)	332,140	229,829	12,475	87,765	2,071
Surplus (deficiency)	-	-	-	-	-

*) Reclassified.

NOTE 23:- TRANSLATION OF FINANCIAL STATEMENTS INTO NEW ISRAELI SHEKELS (Cont.)

g. Details of assets and liabilities (Cont.)

Part B - Details of Capital and Liabilities by types

	December 31, 2005				
Capital and liabilities	**Total liabilities**	**Foreign trade risks insurance**	**Minimum capital**	**Capital surplus**	**Other liabilities**
	NIS in thousands				
Shareholders' equity	100,240	-	12,475	87,765	-
Liabilities for severance pay, net	405	-	-	-	405
Outstanding claims in foreign trade risk insurance	189,539 *)	189,539 *)	-	-	-
Other liabilities					
Prepaid premiums	36,727	36,727	-	-	-
Reinsurers and the Accountant General in the Ministry of Finance	3,268	3,268	-	-	-
Creditors and payables and reinsurers' balances	1,961	295	-	-	1,666
Total capital and liabilities	332,140	229,829	12,475	87,765	2,071

*) Reclassified.

NOTE 23:- TRANSLATION OF FINANCIAL STATEMENTS INTO NEW ISRAELI SHEKELS (Cont.)

h. Capital required from the Company according to the capital regulations:

		December 31	
		2006	2005
		NIS in thousands	
1. Minimum shareholders equity:			
Amount required as per the regulations		12,443	12,475
Amount calculated as per the regulations		15,062	15,062
Surplus	(1)	2,619	2,587
Surplus and reserves not included in the calculation of shareholders' equity	(1)	86,448	85,178
2. Primary Capital:			
Minimum amount required as per the regulations		12,443	12,475
Amount calculated as per the regulations		101,510	100,240
Surplus		89,067	87,765

(1) In accordance with a letter of guarantee and the State's commitment which was signed between the Company and the State in December 2004, whereby the State will indemnify the Company against risks it took in the performance of its business in the framework of the agreement signed between the Company and the State and between the Supervisor of the Banks from September 2004, the Company undertook to preserve the level of minimum capital of U.S. $ 25 million before it distributes dividends from its accrued profits. In addition, The Company undertook not to distribute dividends from the sums accrued in the extraordinary risks reserve. The guarantee is in force for 4 years from the date of signing.

The Company's shareholders' equity as at the date of the balance sheet amounts to NIS 101,510 thousand which is U.S. $ 24,026 thousand.

In addition, a dividend distribution from the capital surplus is subject to the liquidity requirements and compliance with the Ways of Investment Regulations.

NOTE 24:- CONDENSED FINANCIAL STATEMENTS IN TERMS OF NOMINAL HISTORICAL VALUES FOR TAX PURPOSES

a. The Company includes historical nominal data for tax purposes only.

b. Significant accounting principles

The financial statements were prepared in accordance with the generally accepted accounting principles, based on the conventional historical cost without taking into account the changes in the general purchasing power of the Israeli currency. This is except for fixed assets (including office premises for lease which are recorded under investments) which were revalued in accordance with its value in the dollar balance sheet.

c. Balance sheets

	December 31		
	2006	2005	
	Nominal NIS in thousands		
Investments			
Cash and cash equivalents	10,212	13,390	
Securities	88,497	79,564	
Deposits:			
With the General Accountant in the Ministry of Finance	44,020	58,486	
In banking institutions	101	133	
Real estate for lease	4,969	5,643	*)
Total investments	147,799	157,216	
Fixed assets, net			
Office buildings	2,624	2,907	*)
Other fixed assets	689	822	
Total fixed assets, net	3,313	3,729	
Amounts receivable			
The General Accountant and reinsurers' share in outstanding claims	151,986	169,510	*)
Debtors and receivables	841	764	
Total amounts receivable	152,827	170,274	
Deferred taxes	896	921	
	304,835	332,140	
Shareholders' equity	101,510	100,240	
Long term liabilities			
Liabilities for severance pay, net	515	405	
Outstanding claims in foreign trade risks insurance	172,879	189,539	*)
Other liabilities			
Prepaid premiums	26,677	36,727	
The General Accountant in the Ministry of Finance and other reinsurers – current account	1,475	3,268	
Policyholders – deposits and payables	245	295	
Creditors and payables	1,534	1,666	
Total other liabilities	29,931	41,956	
	304,835	332,140	

*) Reclassified.

NOTE 24:- CONDENSED FINANCIAL STATEMENTS IN TERMS OF NOMINAL HISTORICAL VALUES FOR TAX PURPOSES (Cont.)

d. Statements of profit and loss - Company

	Year ended December 31		
	2006	2005	2004
	Nominal NIS in thousands		
Income transferred from foreign trade risks insurance business statements	3,387	1,846	900
Income (expenses) not included in the foreign trade risks insurance business statements:			
Investment income	138	4,934	2,160
From lease of buildings, net	(215)	(109)	772
	(77)	4,825	2,932
Income before income taxes	3,310	6,671	3,832
Provision for income and profit tax	1,620	2,203	1,639
Net income for the year	1,690	4,468	2,193

NOTE 24:- CONDENSED FINANCIAL STATEMENTS IN TERMS OF NOMINAL HISTORICAL VALUES FOR TAX PURPOSES (Cont.)

e. Statements of changes in shareholders' equity

	Share capital	Extraordinary risks reserve	Revaluation reserve	Retained earnings	Total
	Nominal NIS in thousands				
Balance as at January 1, 2004	2,411	45,363	12,413	34,138	94,325
Net income for the year	-	-	-	2,193	2,193
Realization of revaluation reserve due to sale of real estate	-	-	(449)	-	(449)
Write-off of revaluation reserve for buildings	-	-	(401)	-	(401)
Adjustment of nominal fixed assets to its adjusted amount	-	-	(775)	-	(775)
Balance as at December 31, 2004					
Net income for the year	-	-	-	4,468	4,468
Adjustment of nominal fixed assets to its adjusted amount	-	-	879	-	879
Balance as at December 31, 2005	2,411	45,363	11,667	40,799	100,240
Net income for the year	-	-	-	1,690	1,690
Adjustment of nominal fixed assets to its adjusted amount	-	-	(420)	-	(420)
Balance as at December 31, 2006	2,411	45,363	11,247	42,489	101,510

f. Composition of share capital

	Authorized		Issued and paid-up	
	December 31,			
	2006	2005	2006	2005
	Number of shares			
Founders shares of NIS 1	1	1	1	1
Ordinary shares of NIS 1	2,999,999	2,999,999	2,411,290	2,411,290

NOTE 24:- CONDENSED FINANCIAL STATEMENTS IN TERMS OF NOMINAL HISTORICAL VALUES FOR TAX PURPOSES (Cont.)

g. Foreign trade risks insurance business statements

	Year ended December 31		
	2006	2005	2004
	Nominal NIS in thousands		
Premiums	48,131	44,638	45,135
Fees	3,479	4,015	4,460
Total insurance premiums	51,610	48,653	49,595
Less – State of Israel and reinsurers' guarantee	47,323	44,374 *)	44,829 *)
Insurance premiums earned	4,287	4,279	4,766
Investment income	3,287	4,912	383
Total income for the year	7,574	9,191	5,149
Increase in outstanding claims net of claims recoveries received (net of reinsurance)	(793)	(4,212) *)	(124) *)
Excess of income over claims for the year	6,781	4,979	5,025
Administrative and general expenses	9,931	9,828	9,057
Less – commission from the State of Israel and reinsurance	(6,537)	(6,695)	(4,932)
Total expenses for the year, net	3,394	3,133	4,125
Income from foreign trade risks insurance business for the year – transferred to the statements of profit and loss	3,387	1,846	900

*) Reclassified.