ASHR'A - THE ISRAEL EXPORT INSURANCE CORPORATION LTD.

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2008

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ERNST & YOUNG

Kost Forer Gabbay & Kasierer
3 Aminadav St.
Tel-Aviv 67067, Israel

Tel: 972 (3)6232525
Fax: 972 (3)5622555
www.ey.com/il

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. ("the Company") as of December 31, 2008 and 2007 and the related statements of income, changes in equity and cash flows for each of the years 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.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2008 and 2007, and the results of its operations, changes in equity and cash flows for each of the years then ended, in conformity with International Financial Reporting Standards ("IFRS") and with the closure requirements prescribed by the Supervisor of the Insurance in accordance with the Supervision of Financial Services (Insurance) Law, 1981, and the regulations enacted pursuant thereto.

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

Tel-Aviv, Israel
March 30, 2009

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

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

I, Ovad Ben David, certify that:

1. I have reviewed the financial statements and directors' report of Ashr'a - The Israel Export Insurance Corporation Ltd. ("the Company") for 2008 (collectively - "the reports").

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

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

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

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

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

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

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

Ovad Ben David
Chairman of the Board of Directors

March 30, 2009

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

Letter of Representation of the Company's CEO *)

I, Arnon Ikan, certify that:

1. I have reviewed the financial statements and directors' report of Ashr'a - The Israel Export Insurance Corporation Ltd. ("the Company") for 2008 (collectively - "the reports").

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

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

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

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

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

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

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

Arnon Ikan
CEO

March 30, 2009

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

Letter of Representation of the Company's CFO *)

I, Yaron Messas, certify that:

1. I have reviewed the financial statements and directors' report of Ashr'a - The Israel Export Insurance Corporation Ltd. ("the Company") for 2008 (collectively - "the reports").

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

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

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

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

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

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

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

Yaron Messas
CFO

March 30, 2009

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

Letter of Representation of the Company's CEO *)

I, Arnon Ikan, certify that:

1. I have reviewed the annual report of Ashr'a - The Israel Export Insurance Corporation Ltd. ("the insurance company") for 2008 ("the report").

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

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

4. The insurance company's other certifying officers and I are responsible for establishing and maintaining the disclosure controls and procedures required in the report of the insurance company; furthermore,

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

    b. We have evaluated the efficiency of the disclosure controls and procedures of the insurance company and have presented our conclusions as to the efficiency of those disclosure controls and procedures for the end of the period covered in the report based on our evaluation; and

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

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

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

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

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

Arnon Ikan
CEO

March 30, 2009

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

Letter of Representation of the Company's CFO *)

I, Yaron Messas, certify that:

1. I have reviewed the annual report of Ashr'a - The Israel Export Insurance Corporation Ltd. ("the insurance company") for 2008 ("the report").

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

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

4. The insurance company's other certifying officers and I are responsible for establishing and maintaining the disclosure controls and procedures required in the report of the insurance company; furthermore,

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

    b. We have evaluated the efficiency of the disclosure controls and procedures of the insurance company and have presented our conclusions as to the efficiency of those disclosure controls and procedures for the end of the period covered in the report based on our evaluation; and

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

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

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

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

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

Yaron Messas
CFO

March 30, 2009

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

BALANCE SHEETS

	Note	December 31, 2008	December 31, 2007
		U.S. dollars in thousands	
Intangible assets	4	138	97
Deferred tax assets	18e	179	252
Fixed assets	5	494	498
Investment property	6	627	651
Reinsurance assets		29,118	35,712
Current tax assets		-	347
Receivables	7	748	770
Financial investments:	8		
Marketable debt assets		22,879	23,020
Non-marketable debt assets		8,113	9,111
Other		129	40
Cash and cash equivalents	9	3,360	4,339
Total assets		65,785	74,837

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

BALANCE SHEETS

	Note	December 31, 2008	December 31, 2007
		U.S. dollars in thousands	
EQUITY:	10		
Share capital		1,720	1,720
Extraordinary risk reserve		13,969	13,969
Revaluation reserve		521	521
Surplus		11,087	11,191
Total equity		27,297	27,401
LIABILITIES:			
Liabilities in respect of insurance contracts	11	32,823	40,487
Liabilities in respect of employee benefits, net	12	54	111
Current tax liabilities		135	-
Payables	13	5,476	6,838
Total liabilities		38,488	47,436
Total equity and liabilities		65,785	74,837

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

March 30, 2009			
Date of approval of the financial statements	Ovad Ben David Chairman of the Board	Arnon Ikan CEO	Yaron Messas CFO

STATEMENTS OF INCOME

	Note	Year ended December 31, 2008	2007
		U.S. dollars in thousands (except share/per share data)	
Gross earned premiums		7,075	12,277
Reinsurance premiums earned		6,386	11,466
Premiums earned on retention		689	811
Revenues from net investments and financial income	14	1,820	3,337
Revenues from commissions	15	988	1,359
Total revenues		3,497	5,507
Payments and change in liabilities in respect of insurance contracts, net		(4,156)	(329)
Reinsurers' share in payments and change in liabilities in respect of insurance contracts		(3,064)	(164)
Payments and change in liabilities in respect of insurance contracts on retention		(1,092)	(165)
Marketing expenses	16	316	285
General and administrative expenses	17	1,974	1,772
Total expenses		1,198	1,892
Income before taxes on income		2,299	3,615
Taxes on income	18	732	273
Net income for the year		1,567	3,342
Net earnings per share:			
Net earnings per share (in U.S. dollars)		0.65	1.39
Number of shares used for the above calculations (in thousands)		2,411	2,411

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

STATEMENTS OF CHANGES IN EQUITY

	Share capital	Extraordinary risk reserve	Revaluation reserve	Retained earnings	Total
	U.S. dollars in thousands				
Balance as of January 1, 2008	1,720	13,969	521	11,191	27,401
Dividend paid	-	-	-	(1,671)	(1,671)
Net income for the year	-	-	-	1,567	1,567
Balance as of December 31, 2008	1,720	13,969	521	11,087	27,297
Balance as of January 1, 2007	1,720	13,969	521	7,849	24,059
Net income for the year	-	-	-	3,342	3,342
Balance as of December 31, 2007	1,720	13,969	521	11,191	27,401

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

STATEMENTS OF CASH FLOWS

	Appendix	Year ended December 31, 2008	2007
		U.S. dollars in thousands	
Cash flows from operating activities:			
Before taxes on income	a	1,466	2,258
Taxes on income		(659)	(269)
Net cash provided by operating activities		807	1,989
Cash flows from investing activities:			
Purchase of fixed assets		(22)	(6)
Purchase of investment property		(4)	(1)
Purchase of intangible assets		(89)	(60)
Net cash used in investing activities		(115)	(67)
Cash flows from financing activities:			
Dividend paid		(1,671)	-
Net cash used in financing activities		(1,671)	-
Increase (decrease) in cash and cash equivalents		(979)	1,922
Balance of cash and cash equivalents at beginning of year		4,339	2,417
Balance of cash and cash equivalents at end of year		3,360	4,339

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

STATEMENTS OF CASH FLOWS

		Year ended December 31,	
		2008	2007
		U.S. dollars in thousands	
(a)	Cash flows from operating activities before taxes on income:		
	Net income	1,567	3,342
	Items not involving cash flows:		
	Net losses (gains) from financial investments:		
	Marketable debt assets	(135)	(1,592)
	Non-marketable debt assets	(374)	(556)
	Other	-	(2)
	Depreciation and amortization:		
	Fixed assets and prepaid lease fees	33	34
	Investment property and prepaid lease fees	44	51
	Intangible assets	48	27
	Change in liabilities in respect of insurance contracts	(7,664)	(431)
	Change in reinsurance assets	6,594	261
	Income tax expenses	732	273
	Changes in other balance sheet items:		
	Net sales of financial investments	1,559	1,368
	Receivables	346	(274)
	Payables	(1,227)	(246)
	Liabilities in respect of employee benefits, net	(57)	3
		1,466	2,258

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.) ("the Company") is a Government company, as defined in the Government Companies Law, 1975 ("the Government Companies Law"). The Company operates as an insurer in the general insurance field and provides credit insurance for medium and long term transactions to cover against commercial and political risks.

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

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

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

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

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

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

c. Definitions:

In these financial statements:

The Company	- Ashr'a - The Israel Export Insurance Corporation Ltd.
Related parties	- as defined in IAS 24.
Israeli CPI	- The Consumer Price Index in Israel as published by the General Bureau of Statistics.
Dollar	- the U.S. dollar.

NOTE 1:- GENERAL (Cont.)

The Supervisor	- The Supervisor of the Insurance.
The Authority	- The Government Companies Authority.
Supervision Law	- The Supervision of Financial Services (Insurance) Law, 1981.
Capital Regulations	- Supervision of Insurance Business (Capital Adequacy Requirement from an Insurer) Regulations, 1998, as amended.
Details of Account Regulations	- Supervision of Insurance Business (Details of Account) Regulations, 1998, as amended.
Ways of Investment Regulations	- Supervision of Insurance Business (Ways of Investment of Capital and Reserves of an Insurer and Management of Its Liabilities), Regulations, 2001, as amended.
Insurance contracts	- Contracts in which one party (the insurer) assumes a significant insurance risk from another party (the policyholder) by consenting to compensate the policyholder if a pre-defined uncertain future event (the insurance case) adversely affects the policyholder.
Reinsurance assets	- Reinsurers' share in outstanding claims.
Premiums	- Premiums including fees.
Earned premiums	- Premiums relating to the reported period.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation of the financial statements:

The preparation format of the financial statements:

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

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

These financial statements are the Company's first annual financial statements prepared in accordance with IFRS. The Company first adopted IFRS in 2008 and, accordingly, the date of transition to reporting pursuant to IFRS is January 1, 2007.

Prior to the adoption of IFRS, the Company prepared its financial statements in accordance with Israeli GAAP. The Company's last annual financial statements prepared in accordance with Israeli GAAP were as of December 31, 2007 and for the year then ended.

See Note 23 for the reconciliations between reporting pursuant to Israeli GAAP and reporting pursuant to IFRS.

3. Consistent accounting policies:

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

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

Judgments:

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

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

See also e below.

Estimates and assumptions:

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

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

1. Fair value of unquoted financial instrument:

The fair value of deposits is calculated according to the discounted cash flow model and interest discount rates are determined by a company that provides interest quotes with respect to the various risk ratings. There is uncertainty involving the estimated future cash flows and estimated discount rates.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Impairment of financial investments:

   If there is objective evidence of an impairment loss in respect of loans and receivables presented at amortized cost, the loss is carried to the income statement. Management must determine if there is such objective evidence.

3. Liabilities in respect of insurance contracts:

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

4. Pensions and other post-employment benefits:

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

5. Deferred tax assets:

   Deferred tax assets are recognized for unused carry forward tax losses and temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits.

c. Functional and foreign currencies:

   The financial statements are presented in U.S. dollars, which is the Company's functional currency based on IAS 21, "The Effects of Changes in Foreign Exchange Rates".

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

   A translation of these financial statements into NIS is presented in Note 22.

d. Foreign trade risk insurance:

   1. Revenue recognition:

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

3. Liabilities in respect of insurance contracts:

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

4. Outstanding claims:

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

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

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

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

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

      Until December 31, 2006, the revenues from actual investments were carried to the accumulation in the liabilities branch but not under an annual cumulative real return of 3%.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Financial instruments:

1. Non-derivative financial instruments:

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

The initial recognition of non-derivative financial instruments is at fair value. After initial recognition, non-derivative financial instruments are measured as specified below. A financial asset is recognized as an asset or a liability on the date of receipt of the contractual terms by the Company (transaction date).

Cash and cash equivalents:

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

Held-to-maturity investments:

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

Available-for-sale financial assets:

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets measured at fair value through profit and loss; held-to-maturity investments; loans and receivables. After initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses from fair value adjustments, except exchange differences that relate to monetary debt instruments that are carried to the statement of income in financing, are recognized directly in equity in the net unrealized gains reserve. When the investment is disposed of or in case of impairment, the cumulative gain or loss previously recorded in equity is recognized in the statement of income.

Interest income on investments in debt instruments is recognized in the statement of income using the effective interest method. Dividends earned on investments are recognized in the statement of income when the right of payment has been established.

Financial assets at fair value through profit and loss:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Financial assets are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term and if they form part of a portfolio of identified financial instruments that are managed together to earn short-term profits. Gains or losses on investments held for trading are recognized in profit and loss when incurred.

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

Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are measured at amortized cost using the effective interest method taking into account transaction costs and less any allowance for impairment. Gains and losses are recognized in the statement of income when the loans and receivables are derecognized or impaired, as well as through the systematic amortization process.

2. The Company has chosen to classify certain assets as follows:

   - Marketable financial instruments - classified to the group of fair value through profit and loss.
   - Non-marketable financial assets - assets that meet the criteria of a group of loans and receivables were classified to this group and measured at amortized cost using the effective interest method.

3. Fair value:

   The fair value of investments that are actively traded in organized financial markets is determined by reference to market prices on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow or other valuation models. The fair value of deposits is calculated using the discounted cash flow model.

4. Derecognition of financial instruments:

   A financial asset is derecognized when:

   - the contractual rights to the cash flows from the financial asset expire; or
   - the company has transferred its contractual rights to receive cash flows from the financial asset or assumes an obligation to pay the cash flows in full without material delay to a third party.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

5. Gains (losses) from net investments and financial income:

Gains (losses) from net investments, financial income and financial expenses include interest income in respect of invested amounts, revenues from dividends, changes in the fair value of financial assets at fair value through profit and loss and gains (losses) from sale of investments calculated as the difference between the net proceeds from the sale and the original cost or the amortized cost and are recognized upon the sale event. Interest income is recognized on a cumulative basis using the effective interest method. Revenues from dividends are recognized when the Company establishes the right to receive payment. If dividends are received for marketable shares, the Company recognizes revenues from dividends on the ex date.

Gains and losses from exchange rate differences and changes in fair value of investments are reported in net amounts.

f. Fixed assets:

1. Recognition and measurement:

Items of fixed assets are stated at cost less accumulated depreciation and less accumulated impairment losses. Cost includes costs that are directly attributable to the purchase of the asset. Cost of purchased software that forms an integral part of the operation of the relevant hardware is capitalized as part of the cost of the hardware.

2. Depreciation:

Depreciation is carried to the income statement using the straight-line method over the useful life of each item of fixed assets.

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

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

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

g. Investment property:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

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

h. Intangible assets:

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

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

1. Software:

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

2. Amortization:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

i. Impairment of financial assets:

The Group assesses at each balance sheet date whether the following financial asset or group of financial assets is impaired as follows:

1. Financial investments:

Assets carried at amortized cost:

If there is objective evidence that an impairment loss on loans and receivables and held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss carried to the statement of income is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account and recognized in the statement of income. If there is no objective evidence of impairment of an individually tested financial asset, the asset is included in the group of financial assets with similar credit risk characteristics that are jointly tested for impairment.

2. Reinsurance:

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

3. Non-financial assets:

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

j. Employee benefits:

The Company has several employee benefit plans:

1. Short-term employee benefits:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Post-employment benefits - defined benefit plan:

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

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

k. Taxes on income:

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

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

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

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

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

l. Earnings per share:

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

m. Segment reporting:

A segment is a component that can be distinguished by the Company. The Company's segment reporting format is based on business segments and was determined according to the Company's structure and internal reporting. As for segment financial reporting, see Note 3.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. Disclosure of new IFRS Standards in the period prior to their adoption:

1. IFRS 8 - Operating Segments:

IFRS 8 ("the Standard") deals with operating segments and replaces IAS 14. The Standard determines that segment reporting will be based on a management approach, namely according to the internal reporting format of the entity's decision making functions. Furthermore, information is required to be disclosed about the revenues from products or services (or group of products and similar services) and major customers, irrespective of whether management uses this information for making operating decisions. The Standard will apply to annual periods commencing on or after January 1, 2009.

The initial adoption of the Standard is not expected to have a material effect on the current disclosure of segment information.

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

IAS 1 (Revised) introduces an additional statement, "statement of comprehensive income". The statement may be presented as a separate statement which includes net income and all items carried in the reported period directly to equity that do not result from transactions with the shareholders in their capacity as shareholders (other comprehensive income) such as adjustments arising from translating the financial statements of foreign operations, fair value adjustments of available-for-sale financial assets, changes in revaluation reserve of fixed assets and the tax effect of these items carried directly to equity, with allocation between the Company and the minority interests. Alternatively, the items of other comprehensive income may be displayed along with the items of the statement of income in a single statement entitled "statement of comprehensive income" which replaces the statement of income, while properly allocated between the Company and the minority interests. Items carried to equity resulting from transactions with the shareholders in their capacity as shareholders (such as capital issues, dividend distribution etc.) will be disclosed in the statement of changes in equity as will the summary line carried forward from the statement of comprehensive income.

IAS 1 (Revised) also prescribes that in cases of restatement of comparative figures as a result of the retroactive adoption of the change in accounting policy, the entity must include an opening balance sheet disclosing the restated comparative figures.

IAS 1 (Revised) is effective for annual financial statements for periods beginning after January 1, 2009. Earlier application is permitted.

The effect of the adoption of IAS 1 (Revised) will require the Company to disclose the above items in the financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

3. IAS 19 (Revised) - Employee Benefits:

   Pursuant to an amendment to IAS 19, a group of other long-term benefits will also include employee benefits that are due in the short-term and are expected to be utilized within one year of the end of the period qualifying for the benefits, such as cumulative benefits in respect of vacation pay and sick leave that are expected to be used within one year of the balance sheet date. Accordingly, these benefits are now required to be recognized in the financial statements based on an actuarial calculation taking into account future salaries and discounted to present value. The amendments will be retrospectively adopted starting from the financial statements for periods beginning on January 1, 2009. Earlier application is permitted.

   The Company believes that the effect of the amendment on its financial position, operating results and cash flows is not expected be material.

o. Details of the changes in the Israeli CPI and the representative exchange rates of the U.S. dollar:

	Israeli CPI for	Known Israeli CPI for	Exchange rate of 1 U.S. $
	%	%	%
Year ended December 31, 2008	3.8	4.51	(1.1)
Year ended December 31, 2007	3.4	2.79	(9.0)

p. Circulars of the Government Companies Authority:

In February 2009, the Authority published circulars regarding disclosure and presentation of details in the 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 an authority authorized by law to determine such objectives as well as by agreements between the company and the State or any of its authorities) whereby the company will include in its financial statements critical financial information that is relevant to the State and to other users of the financial statements for receiving financial decisions."

2. "A company is required to act toward full balance reconciliations with the State, its authorities and other Government companies. If no confirmations of balances are received from the authorized entities, as mentioned above, the company will provide a disclosure in this respect in its financial statements."

   In this issue, see also Note 20 below regarding related and interested parties.

3. "A 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."

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

During 2007, the Company began to lease vacant real estate assets that it owns. The revenues from the lease of the asset is included in revenues from investments in the "other" segment in the income statements.

4. "A company will provide a proper 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 5 and 6 below.

5. "A 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 adopted by the Company in connection with transactions with the State of Israel, including reinsurance, does not differ from the accounting policy adopted in respect of its other suppliers.

   As for the Company's balances and transactions with the State of Israel, see the note on risk management regarding reinsurers and Note 20 regarding related parties below.

6. "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 said statements.

7. "A company will verify the adequacy of registering both the company and the State's rights to the assets of the company and the State's assets held or operated by it and will disclose the matter in its financial statements" and "a company will disclose in its financial statements the activities of locating, identifying and registering assets carried out in the reported period and activities, as above, which are required but have not yet been executed".

   The Company has leasing rights for part of the real estate properties and ownership rights for the rest of its properties (see Notes 5 and 6 below).

8. "A company will file a report along with its financial statements which specifies the company's preparation for carrying out a report of internal control over financial reporting and effectiveness (on a similar basis to that in section 404 to the Sarbanes-Oxley Act, U.S.A.)"

   The Company began proceedings for integrating the corresponding directives of paragraph 404 of the Sarbanes-Oxley Act which discusses the Company management and the auditor regarding the internal control over financial reporting and effectiveness.

NOTE 3:- OPERATING SEGMENTS

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

a. Operating segment results:

	Year ended December 31, 2008		
	Foreign trade risk insurance	Other	Total
	U.S. dollars in thousands		
Gross earned premiums	7,075	-	7,075
Reinsurance premiums earned	6,386	-	6,386
Premiums earned on retention	689	-	689
Revenues from net investments and financial income	604	1,216	1,820
Revenues from commissions	988	-	988
Total revenues	2,281	1,216	3,497
Payments and change in liabilities in respect of insurance contracts, net	(4,156)	-	(4,156)
Reinsurers' share in payments and change in liabilities in respect of insurance contracts	(3,064)	-	(3,064)
Payments and change in liabilities in respect of insurance contracts on retention	(1,092)	-	(1,092)
Commissions and marketing expenses	316	-	316
General and administrative expenses	1,974	-	1,974
Total expenses	1,198	-	1,198
Income before taxes on income	1,083	1,216	2,299

NOTE 3:- OPERATING SEGMENTS (Cont.)

	Year ended December 31, 2007		
	Foreign trade risk insurance	Other	Total
	U.S. dollars in thousands		
Gross earned premiums	12,277	-	12,277
Reinsurance premiums earned	11,466	-	11,466
Premiums earned on retention	811	-	811
Revenues from net investments and financial income	1,014	2,323	3,337
Revenues from commissions	1,359	-	1,359
Total revenues	3,184	2,323	5,507
Payments and change in liabilities in respect of insurance contracts, net	(329)	-	(329)
Reinsurers' share in payments and change in liabilities in respect of insurance contracts	(164)	-	(164)
Payments and change in liabilities in respect of insurance contracts on retention	(165)	-	(165)
Commissions and marketing expenses	285	-	285
General and administrative expenses	1,772	-	1,772
Total expenses	1,892	-	1,892
Income before taxes on income	1,292	2,323	3,615

b. Composition of assets and liabilities by operating segments:

	December 31, 2008		
	Foreign trade risk insurance	Unallocated to operating segments	Total
	U.S. dollars in thousands		
Assets:			
Intangible assets	-	138	138
Financial investments	7,217	23,904	31,121
Reinsurance assets	29,118	-	29,118
Other assets	1,680	3,728	5,408
Total assets	38,015	27,770	65,785

NOTE 3:- OPERATING SEGMENTS (Cont.)

	December 31, 2008		
	Foreign trade risk insurance	Unallocated to operating segments	Total
	U.S. dollars in thousands		
Liabilities:			
Liabilities in respect of insurance contracts	32,823	-	32,823
Other liabilities	5,192	473	5,665
Total liabilities	38,015	473	38,488

	December 31, 2007		
	Foreign trade risk insurance	Unallocated to operating segments	Total
	U.S. dollars in thousands		
Assets:			
Intangible assets	-	97	97
Financial investments	9,119	23,052	32,171
Reinsurance assets	35,712	-	35,712
Other assets	2,170	4,687	6,857
Total assets	47,001	27,836	74,837
Liabilities:			
Liabilities in respect of insurance contracts	40,487	-	40,487
Other liabilities	6,514	435	6,949
Total liabilities	47,001	435	47,436

NOTE 4:- INTANGIBLE ASSETS

The movement in computer software:

	U.S. dollars in thousands
Cost	
Balance at January 1, 2007	176
Additions	60
Disposals	(3)
Balance at December 31, 2007	233
Additions	89
Balance at December 31, 2008	322
Accumulated amortization	
Balance at January 1, 2007	112
Amortization recognized during the year	27
Disposals	(3)
Balance at December 31, 2007	136
Amortization recognized during the year	48
Balance at December 31, 2008	184
Net balance	
December 31, 2008	138
December 31, 2007	97

NOTE 5:- FIXED ASSETS

a. Composition and movement:

In 2008

	Office buildings	Computers	Office furniture and equipment	Total
	U.S. dollars in thousands			
Cost:				
Balance at January 1, 2008	664	113	253	1,030
Purchases	2	20	-	22
Balance at December 31, 2008	666	133	253	1,052
Accumulated depreciation:				
Balance at January 1, 2008	246	95	191	532
Depreciation	2	12	12	26
Balance at December 31, 2008	248	107	203	558
Depreciated cost at December 31, 2008	418	26	50	494

In 2007

	Office buildings	Computers	Office furniture and equipment	Total
	U.S. dollars in thousands			
Cost:				
Balance at January 1, 2007	664	108	252	1,024
Purchases	-	5	1	6
Balance at December 31, 2007	664	113	253	1,030
Accumulated depreciation:				
Balance at January 1, 2007	235	82	178	495
Depreciation	11	13	13	37
Balance at December 31, 2007	246	95	191	532
Depreciated cost at December 31, 2007	418	18	62	498

NOTE 5:- FIXED ASSETS (Cont.)

b. Office buildings:

1. The rights to the office buildings are the leasing rights from the Tel-Aviv-Jaffa Municipality. The leasing period for the office buildings with depreciated cost of $ 412 thousand ends in 2032 and for the office buildings with depreciated of $ 6 thousand the leasing period ends in 2028. A total of $ 188 thousand in respect of leased office buildings is presented in prepaid lease fees under receivables.

2. The fair value of office buildings based on the Company's valuation based on rent transactions of similar assets is $ 790 thousand.

NOTE 6:- INVESTMENT PROPERTY

a. Movement:

	Total 2008	Total 2007
	U.S. dollars in thousands	
Cost:		
Balance at January 1,	1,543	1,542
Purchases	4	1
Balance at December 31,	1,547	1,543
Accumulated depreciation:		
Balance at January 1,	892	865
Depreciation	28	27
Balance at December 31,	920	892
Depreciated cost at December 31,	627	651

b. Rights to real estate are as follows:

	December 31,	
	2008	2007
	U.S. dollars in thousands	
Ownership rights	5	5
Leasehold rights from Tel-Aviv-Jaffa Municipality ending in 2032	622	646
	627	651

NOTE 6:- INVESTMENT PROPERTY (Cont.)

c. Fair value of investment property:

	December 31,			
	2008		2007	
	Depreciated cost	Fair value	Depreciated cost	Fair value
	U.S. dollars in thousands			
Included in:				
Investment property above	627	1,081	651	1,115
Prepaid lease fees (Note 7)	494	540	475	557
	1,121	1,621	1,126	1,672

The fair value at December 31, 2008 was determined based on an internal calculation of estimated expected future cash flows to derive from the property. In estimating the cash flows, the Company took into consideration their inherent risk. In calculating fair value, the Company used a discount rate of 11%. The fair value at December 31, 2007 was determined based on the valuation of a certified real estate appraiser.

NOTE 7:- RECEIVABLES

	December 31,	
	2008	2007
	U.S. dollars in thousands	
Prepaid lease expenses *)	682	705
Prepaid expenses	30	20
Receivables for rent	4	27
Others	32	18
	748	770

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

NOTE 8:- FINANCIAL INVESTMENTS

a. Composition according to measurement basis:

	December 31, 2008		
	Presented at fair value through profit and loss	Loans and receivables	Total
	U.S. dollars in thousands		
Marketable debt assets	22,879	-	22,879
Non-marketable debt assets	-	8,113	8,113
Other	129	-	129
Total	23,008	8,113	31,121

	December 31, 2007		
	Presented at fair value through profit and loss	Loans and receivables	Total
	U.S. dollars in thousands		
Marketable debt assets	23,020	-	23,020
Non-marketable debt assets	-	9,111	9,111
Other	40	-	40
Total	23,060	9,111	32,171

b. Marketable debt assets:

	December 31,	
	2008	2007
	U.S. dollars in thousands	
Presented at fair value through profit and loss and designated upon initial recognition:		
Government bonds	12,640	10,929
Non-convertible other debt assets	10,239	12,091
	22,879	23,020

c. Non-marketable debt assets:

	December 31,	
	2008	2007
	U.S. dollars in thousands	
Presented as loans and receivables:		
Deposits with the Accountant General at the Ministry of Finance	8,100	9,087
Bank deposits	13	24
	8,113	9,111

Note: the fair value of non-marketable debt assets does not materially differ from their carrying amount.

NOTE 8:- FINANCIAL INVESTMENTS (Cont.)

d. Other financial investments:

	December 31,	
	2008	2007
	U.S. dollars in thousands	
Marketable:		
Presented at fair value through profit and loss	129	40

NOTE 9:- CASH AND CASH EQUIVALENTS

	December 31,	
	2008	2007
	U.S. dollars in thousands	
Cash and deposits for immediate withdrawal	2,098	1,699
Short-term deposits	1,262	2,640
	3,360	4,339

NOTE 10:- EQUITY AND CAPITAL REQUIREMENTS

a. Composition of share capital:

	December 31, 2008 and 2007	
	Authorized	Issued and outstanding
	Number of shares	
Foundation shares of NIS 1 par value	1	1
Ordinary shares of NIS 1 par value	2,999,999	2,411,290

b. Capital management and requirements:

1. Management's policy is to maintain a solid capital basis in order to preserve the Company's ability to continue to operate and to support future business activity. The Company is subject to regulatory capital requirements as prescribed by the Supervisor.

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

2. Following are data of the Company's required and existing capital in accordance with the Supervision of Insurance Business (Capital Adequacy Requirement from an Insurer) Regulations, 2004 ("the capital regulations") and the Supervisor's directives:

	December 31, 2008 *)
	U.S. dollars in thousands
Minimum capital adequacy:	
Amount required by the regulations	3,515
Amount calculated by the regulations	3,962
Surplus (c)	447
Surplus and funds not included in the calculation of capital adequacy	23,335
Primary capital:	
Minimum amount required by the regulations	3,515
Amount calculated by the regulations	27,297
Surplus	23,782

*) As for comparative figures, see 6 below.

Apart from the general requirements in the Companies Law and the guidelines of the Companies Authority (see 4 below), the distribution of dividends out of excess capital in insurance companies is also subject to liquidity requirements and compliance with rules of investment regulations.

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

The Company's capital at balance sheet date amounts to $ 27,297 thousand. On March 30, 2009, the Company's Board approved the distribution of a dividend out of the 2008 earnings in a total of $ 783 thousand.

On March 30, 2008, the Company's Board approved the distribution of a dividend out of the 2007 earnings in a total of $ 1,671 thousand.

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

4. Designation of earnings and dividends:

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

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

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

5. In October 2007 and April 2008, amendment drafts to the Supervision of Financial Services (Capital Adequacy Requirement from an Insurer) Regulations, 2007 (Revised) were issued ("the draft").

   In the draft, capital requirements in the following categories are suggested in addition to the existing capital requirements:

   (1) Return yielding programs in life assurance that are backed, in whole or in part, by designated debentures.

   (2) Longevity risk in annuity policies in which the annuity coefficients embody promise of longevity.

   (3) Operating risks.

   (4) Credit risks as a percentage of assets based on the level of risk that characterizes the different assets.

   (5) Catastrophe risks in general insurance.

   The new capital requirements are expected to increase the required minimum capital but their effect cannot be assessed until the final formulation of the regulations. According to the draft, the increase of the capital adequacy requirement will be done by 2010 in three equal annual portions.

   At this stage, the Supervisor has instructed insurance companies to avoid the distribution of dividends exceeding 50% of net income for 2007 and in amounts exceeding half of the earnings from ordinary operations from the beginning of 2008, unless under the Supervisor's prior approval.

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

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

   According to a circular issued by the Supervisor, the Supervisor intends to implement the provisions of the proposed Directive with respect to Israeli insurance companies once it is adopted in countries of the European Union. The proposed Directive consists of three pillars: quantitative requirements, qualitative requirements and disclosure requirements. The Company began preparing for the adoption of the proposed Directive under the set schedules.

7. Comparative figures at December 31, 2007 were calculated based on the financial statements prepared in accordance with Israeli GAAP:

	December 31, 2007
	U.S. dollars in thousands
Minimum capital adequacy:	
Amount required by the regulations	3,325
Amount calculated by the regulations	3,916
Surplus	591
Surplus and funds not included in the calculation of capital adequacy	23,470
Primary capital:	
Minimum amount required by the regulations	3,325
Amount calculated by the regulations	27,386
Surplus	24,061

NOTE 11:- LIABILITIES IN RESPECT OF INSURANCE CONTRATS

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

	December 31,					
	Gross		Reinsurance		On retention	
	2008	2007	2008	2007	2008	2007
	U.S. dollars in thousands					
Excess of revenues over expenses (accumulation)	27,041	36,080	23,336	31,305	3,705	4,775
Outstanding claims	5,782	4,407	5,782	4,407	-	-
Total liabilities in respect of insurance contracts included in general insurance segment	32,823	40,487	29,118	35,712	3,705	4,775

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

	December 31,					
	Gross		Reinsurance		On retention	
	2008	2007	2008	2007	2008	2007
	U.S. dollars in thousands					
Balance at the beginning of the year	40,487	40,918	35,712	35,973	4,775	4,945
Cumulative cost of claims for current underwriting year	3,002	3,464	3,002	3,459	-	5
Change in estimated cumulative cost of claims for previous underwriting years	1,882	1,020	1,904	1,022	(22)	(2)
Total change in cumulative cost of claims	4,884	4,484	4,906	4,481	(22)	3
Payments for settling claims during the year:						
Current underwriting year	(659)	(100)	(659)	(95)	-	(5)
Previous underwriting years	(2,849)	22	(2,871)	21	22	1
Total payments in the period	(3,508)	(78)	(3,530)	(74)	22	(4)
Accumulation for current underwriting year	2,885	7,317	2,396	6,648	489	669
Accumulation carried to earnings for released underwriting year	(10,074)	(11,607)	(8,436)	(10,272)	(1,638)	(1,335)
Balance of change in accumulation	(1,851)	(547)	(1,930)	(1,044)	79	497
Total change in accumulation	(9,040)	(4,837)	(7,970)	(4,668)	(1,070)	(169)
Balance at the end of the year	32,823	40,487	29,118	35,712	3,705	4,775

1. Opening and closing balances include: outstanding claims and excess of revenues over expenses.

2. Cumulative cost of claims includes: balance of outstanding claims (no accumulation) with the addition of total claims payments including direct and indirect expenditures for settling claims.

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

Employee benefits consist of short-term benefits, post-employment benefits, other long-term benefits and dismissal benefits.

Post-employment benefits:

According to the labor laws and Severance Pay Law in Israel, the Company is required to pay compensation to an employee upon dismissal or retirement. The Company's liability is accounted for as a post-employment benefit. The computation of the Company's employee benefit liability is made in accordance with a valid employment contract based on the employee's salary and employment term which establish the entitlement to receive the compensation.

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

Defined benefit plans:

Payment of compensation is accounted for by the Company as a defined benefit plan for which an employee benefit liability is recognized and for which the Company deposits amounts in central severance pay funds and in qualifying insurance policies.

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

	December 31,	
	2008	2007
	U.S. dollars in thousands	
Liabilities in respect of defined benefit plan	435	569
Fair value of plan's assets	381	458
Total net liabilities in respect of defined benefit plans	54	111

b. Information of defined benefit plans:

1. Changes in the present value of defined benefit obligation:

	2008	2007
	U.S. dollars in thousands	
Balance at January 1,	569	549
Interest cost	40	35
Current service cost	36	73
Benefits paid	(140)	(138)
Net actuarial gain (loss)	(2)	5
Exchange differences	(68)	45
Balance at December 31,	435	569

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

2. Plan assets:

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

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

	2008	2007
	U.S. dollars in thousands	
Balance at January 1,	458	440
Expected return	25	24
Net actuarial gain (loss)	(66)	(6)
Contributions by employer	47	59
Benefits paid	(63)	(97)
Other adjustments	(20)	38
Balance at December 31,	381	458

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

	2008	2007
	%	
Discount rate	3.28	3.46
Expected rate of return on plan assets	3.41	3.46
Future salary increases	0 - 1.5	0 - 1.5

NOTE 13:- PAYABLES

	December 31,	
	2008	2007
	U.S. dollars in thousands	
Prepaid premium	4,542	5,490
Employees and payroll accruals	132	161
Accrued expenses	33	77
Trade payables	47	86
Accountant general at the Ministry of Finance and other reinsurers - current accounts	641	985
Policyholders	9	39
Other	72	-
	5,476	6,838

NOTE 14:- REVENUES FROM NET INVESTMENTS AND FINANCIAL INCOME

	Year ended December 31,	
	2008	2007
	U.S. dollars in thousands	
Current revenues from investment property *)	60	5
Gains from financial investments, excluding exchange rate differences for assets presented at fair value through profit and loss	1,418	1,111
Interest income in respect of income tax	9	3
Exchange rate differences	373	2,253
Interest and commissions	(40)	(35)
Total gains from net investments and financial income	1,820	3,337
*) Presented net of depreciation	45	67

NOTE 15:- REVENUES FROM COMMISSIONS

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

NOTE 16:- MARKETING EXPENSES

	Year ended December 31,	
	2008	2007
	U.S. dollars in thousands	
Wages and related expenses	252	183
Other marketing expenses	64	102
	316	285

NOTE 17:- GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31,	
	2008	2007
	U.S. dollars in thousands	
Wages and related expenses	1,394	1,136
Vehicle maintenance	140	110
Depreciation and amortization	126	115
Office maintenance and communications	191	209
Travel abroad	84	106
Marketing and advertising	64	102
Professional literature and information	48	40
Computerization	44	46
Professional services	166	170
Membership fees in the Berne Union	35	35
Others	43	55
Total	2,335	2,124
Less:		
Depreciation and amortization classified in revenues from net investments and financial income	45	67
Amounts classified in marketing expenses (Note 16)	316	285
	1,974	1,772

NOTE 18:- TAXES ON INCOME

a. Tax laws applicable to the Company:

1. General:

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

2. Income Tax (Inflationary Adjustments) Law, 1985:

According to the law, until 2007, the results for tax purposes were adjusted for the changes in the Israeli CPI.

In February 2008, the "Knesset" (Israeli parliament) passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting 2008 and thereafter. Starting 2008, the results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the Israeli CPI carried out in the period up to December 31, 2007. The amendment to the law includes, inter alia, the elimination of the inflationary additions and deductions and the additional deduction for depreciation starting 2008.

NOTE 18:- TAXES ON INCOME (Cont.)

3. Amendment to the VAT Law:

In furtherance to 2) above, the VAT Law was also amended (Amendment No. 35) and now prescribes that the calculation of profit tax applicable to financial institutions, the fully paid salary taxes will be deductible starting from the 2009 tax year. In the 2008 tax year, half of the paid salary taxes for that year will be deductible. In addition, salary tax will be paid starting from the 2009 tax year for the employer's share in national insurance fees as well. In the 2008 tax year, salary tax will be paid for half of the employer's share in national insurance fees.

b. Tax rates applicable to the Company's income:

The statutory tax applicable to financial institutions, including the Company, is comprised of corporate tax and profit tax. The applicable tax rates are as follows:

	Corporate tax rate	Profit tax rate	Overall tax rate in financial institutions
		%	
Year			
2007	29	15.50	38.53
2008	27	15.50	36.80
2009	26	15.50	35.93
2010 and thereafter	25	15.50	35.06

c. Tax assessments:

The Company's tax assessments through the 2004 tax year are deemed final.

d. Taxes on income included in the statements of income:

	Year ended December 31,	
	2008	2007
	U.S. dollars in thousands	
Current taxes	659	269
Deferred taxes (see e below)	73	4
	732	273

NOTE 18:- TAXES ON INCOME (Cont.)

e. Deferred taxes:

	Employee benefits	Fixed assets and investment property	Other	Total
	U.S. dollars in thousands			
Balance at January 1, 2007	61	173	22	256
Changes carried to the income statement	4	(8)	-	(4)
Balance at December 31, 2007	65	165	22	252
Changes carried to the income statement	(18)	(33)	(22)	(73)
Balance at December 31, 2008	47	132	-	179

f. Theoretical tax:

A reconciliation between the theoretical tax assuming that all revenues and expenses and gains and losses were taxed at the statutory tax rate and taxes on income as reported in the statements of income:

	Year ended December 31,	
	2008	2007
	U.S. dollars in thousands	
Income before taxes on income	2,299	3,615
Statutory tax rate applicable to financial institutions (see b above)	36.8%	38.53%
Tax computed at the overall statutory tax rate	846	1,393
Increase (decrease) in taxes on income resulting from the following factors:		
Nondeductible expenses for tax purposes	19	17
Tax-exempt income	(3)	-
Profit tax on salary tax	10	16
Differences in the measurement basis (CPI for tax purposes and foreign currency in the financial statements) *)	(184)	(1,102)
Other	44	(51)
Taxes on income	732	273
Average effective tax rate	31.84%	7.55%

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

NOTE 19:- RISK MANAGEMENT

The Company operates in the foreign trade risk insurance segment. The Company's activities expose it to the following risks:

- Market risks;
- Insurance risks;
- Operating risks.

a. Description of risk management procedures and methods:

The Company's risk management is carried out on an ongoing basis by three main factors:

1. The credit risk management department is in charge of managing credit risks which are material and central in the Company. Credit risk is the risk that a counterparty in a transaction insured by the Company will fail to meet its obligations such as a borrower's non compliance with principal/interest payments of a loan or a default risk in the borrower's continuing default. It should be noted that the risk inherent in this activity is relatively low given the guarantee letter received by the Company from the ministry of Finance according to which the amounts of the insurance claims filed with the Company will be paid by the Ministry of Finance, as specified in Note 1b above. The Company applies control and reporting procedures in respect of the credit risks to which the Company is exposed which consist of a rigorous process of approving insurance transactions under the charge of the Company's underwriting department and the approval of the Company's internal underwriting committee headed by the CEO and the approval of an inter-ministerial committee headed by the Accountant General at the Ministry of Finance. In order to issue an insurance liability, every transaction must be approved by the Board's risk management committee. Furthermore, in 2008, the Company adopted several actions and procedures for enhancing the control over credit risks which include, among other things, developing an insurance related risk management model. The model is expected to be adopted in the second half of 2009. The actions taken in 2008 include, among other things:

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

   b) Restructuring that will secure segregation of the underwriting department that is in contact with customers and leads the transactions from the credit analysis department in charge of assessing credit risks of borrowers in transactions and recommending the approval or dismissal of the transactions from a pure credit risk perspective. In addition, there is the credit risk management department that is in charge of building models, monitoring and otherwise supervising on an ongoing basis the risks arising from the Company's transaction portfolio.

NOTE 19:- RISK MANAGEMENT (Cont.)

c) Initiating an in-house process for formulating a credit risk management model under an external risk management advisor for handling the variety of risks arising from transaction insurance and forming a major tool in the Company's decision making process. The model will be completed and approved by the Accountant General and assimilated in the Company during 2009.

d) Developing and assimilating a customized information system that supplies control and reporting mechanisms for the Company's exposures and full data of all transactions, debtors and customers on an ongoing and consecutive basis and assists the relevant factors, including management, the inter-ministerial committee and the Board in making decisions. The system will be implemented in full and upgraded according to changing demands and risk management models developed in the Company in the course of 2009.

2. The finance department is in charge of managing and controlling market risks in the process of managing the Company's nostro investment portfolio and of operating risks, including data security risks.

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

b. Legal requirements:

The relevant legal requirements applicable to the Company pertaining to risk management are included in circular 2006-1-14 regarding "insurer's supervising actuary and risk manager roles and their relations with other officers".

The Company has appointed a risk manager whose main roles consist of:

- Identifying the material insurance and financial risks to the Company's strength and compliance with obligations to existing and prospective policyholders, see more details in a1 above.
- Quantifying the exposure and assessing the potential effect of material risks identified according to standards defined by the insurer and for future periods as determined.
- Evaluating the shareholders' equity required from an insurance company for bearing the material risks while relating to the level of compatibility between the various risks.

c. Market risks:

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

NOTE 19:- RISK MANAGEMENT (Cont.)

1. Sensitivity tests relating to market risks:

Following are sensitivity tests presenting the change in income (loss) and in equity for the financial assets and insurance liabilities in respect of the relevant risk variable as of each report date assuming that all the other variables are fixed. The change in CPI, for example, is assuming that all the other parameters are unchanged. The sensitivity tests only disclose direct effects and not minor ones. The sensitivities are not linear so that larger or smaller changes in relation to the changes described below are not necessarily a simple extrapolation of the effect of those changes.

December 31, 2008

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

December 31, 2007

	Rate of change in Israeli CPI		Rate of change in U.S. dollar exchange rate	
	+1%	-1%	+1%	-1%
	U.S. dollars in thousands			
Income/equity	54	(54)	95	(95)

2. Direct interest risk:

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

NOTE 19:- RISK MANAGEMENT (Cont.)

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

	December 31,	
	2008	2007
	U.S. dollars in thousands	
Assets with direct interest risk:		
Marketable debt assets	22,879	23,020
Non-marketable debt assets	8,113	9,111
Other financial investments	129	40
Cash and cash equivalents	3,360	4,339
Reinsurance assets	29,118	35,712
Total assets with direct interest risk	63,599	72,222
Assets with no direct interest risk	2,186	2,615
Total assets	65,785	74,837
Liabilities in respect of insurance contracts	32,823	40,487
Liabilities with no direct interest risk	5,665	6,949
Equity	27,297	27,401
Total equity and liabilities	65,785	74,837

d. Liquidity risks:

Liquidity risk is the risk that the Company will be required to dispose of its assets at an inferior price in order to meet its obligations. According to Note 1b above, the Company is acting within the context of a guarantee letter provided to the Company by the Accountant General at the Ministry of Finance. According to the abovementioned, the Company is backed by reinsurance for its activity by the State of Israel and accordingly, the liquidity risk to which it is exposed is very small.

e. Concentrations of insurance risks:

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

Suppliers' credit insurance policy (deliveries)

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

NOTE 19:- RISK MANAGEMENT (Cont.)

Pre-delivery insurance policy

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

Buyers' credit insurance policy

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

Inter-bank credit line insurance policy

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

Credit letters insurance policy

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

Note discount insurance policy

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

Investment insurance policy

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

NOTE 19:- RISK MANAGEMENT (Cont.)

Owners' investment insurance policy

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

Lender's investment insurance policy

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

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

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

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

3. The insurance coverage includes, among other things:

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

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

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

NOTE 19:- RISK MANAGEMENT (Cont.)

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

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

f. Reinsurance:

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

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

In the following table:

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

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

   At December 31, 2008:

			Reinsurance assets	
	Total reinsurance premiums for 2008	**Net credit (debit) balances (b)**	**Foreign trade risk insurance**	**Total exposure (a)**
	U.S. dollars in thousands			
Rating group:				
State of Israel *)	5,121	(422)	26,530	26,108
A and above -				
Zurich RE (AA-)	1,241	(199)	2,521	2,322
Sovereign (A+)	4	-	61	61
Beazley Group PLC (A+)	10	(10)	3	(7)
Chaucer PLC (A+)	10	(10)	3	(7)
Total	6,386	(641)	29,118	28,477

*) The balances with the State of Israel are only for commitments with the State of Israel as a reinsurer.

NOTE 19:- RISK MANAGEMENT (Cont.)

At December 31, 2007:

	Total reinsurance premiums for 2008	Net credit (debit) balances (b)	Reinsurance assets: Foreign trade risk insurance	Total exposure (a)
	U.S. dollars in thousands			
Rating group:				
State of Israel *)	10,377	(138)	32,637	32,499
Zurich Re (A+)	1,089	(847)	3,075	2,228
Total	11,466	(985)	35,712	34,727

*) The balances with the State of Israel are only for commitments with the State of Israel as a reinsurer.

g. Segmentation of debt assets by location:

	December 31, 2008		
	Marketable	Non-marketable	Total
	U.S. dollars in thousands		
Israel	17,265	8,113	25,378
Abroad	5,743	-	5,743
Total debt assets	23,008	8,113	31,121

	December 31, 2007		
	Marketable	Non-marketable	Total
	U.S. dollars in thousands		
Israel	16,311	9,111	25,422
Abroad	6,749	-	6,749
Total debt assets	23,060	9,111	32,171

See also details of assets segmented into ratings below.

NOTE 19:- RISK MANAGEMENT (Cont.)

h. Segmentation of assets by ratings:

1. Debt assets:

	Local rating		
	December 31, 2008		
	AA- and above	BBB up to A+	Total
	U.S. dollars in thousands		
Debt assets in Israel:			
Marketable debt assets:			
Government bonds	11,994	-	11,994
Corporate bonds	5,271	-	5,271
Total local marketable debt assets	17,265	-	17,265
Non-marketable debt assets:			
Deposits in banks and financial institutions	8,100	13	8,113
Total local debt assets	25,365	13	25,378

	Local rating		
	December 31, 2007		
	AA- and above	BBB up to A+	Total
	U.S. dollars in thousands		
Debt assets in Israel:			
Marketable debt assets:			
Government bonds	10,405	-	10,405
Corporate bonds	5,906	-	5,906
Total local marketable debt assets	16,311	-	16,311
Non-marketable debt assets:			
Deposits in banks and financial institutions	9,087	24	9,111
Total local debt assets	25,398	24	25,422

2. Credit risks in respect of other (local) assets:

	Local rating	
	December 31, 2008	
	Unrated	Total
	U.S. dollars in thousands	
Receivables, excluding reinsurers' balances	748	748
Deferred tax assets	179	179
Cash and cash equivalents	3,360	3,360

NOTE 19:- RISK MANAGEMENT (Cont.)

	Local rating	
	December 31, 2007	
	Unrated	Total
	U.S. dollars in thousands	
Receivables, excluding reinsurers' balances	770	770
Deferred tax assets	252	252
Cash and cash equivalents	4,339	4,339

i. Details of the exposure to economical branches in respect of investments in marketable and non-marketable financial debt assets:

	December 31, 2008	
	Balance sheet credit risk	
	Amount	% of total
	U.S. dollars in thousands	
Economical branch:		
Industrial manufacture	2,814	9.0
Banks	2,227	7.2
Investments and holdings	2,099	6.7
Electricity	1,435	4.6
Financial services	980	3.2
Communications	491	1.6
Construction and real estate	157	0.5
Commerce	92	0.3
Other	86	0.3
	10,381	33.4
Deposits with the Accountant General at the Ministry of Finance	8,100	26.0
State bonds	12,640	40.6
Total	31,121	100.00

NOTE 19:- RISK MANAGEMENT (Cont.)

	December 31, 2007	
	Balance sheet credit risk	
	Amount	% of total
	U.S. dollars in thousands	
Economical branch:		
Industrial manufacture	2,738	8.5
Banks	2,863	8.9
Investments and holdings	2,074	6.4
Electricity	1,286	4.0
Financial services	1,668	5.2
Communications	520	1.6
Construction and real estate	804	2.5
Commerce	67	0.2
Other	135	0.5
	12,155	37.8
Deposits with the Accountant General at the Ministry of Finance	9,087	28.2
State bonds	10,929	34.0
Total	32,171	100.00

NOTE 19:- RISK MANAGEMENT (Cont.)

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

	At December 31, 2008				
	In unlinked NIS	In NIS, linked to CPI	In or linked to foreign currency	Non-monetary and other items	Total
	U.S. dollars in thousands				
Intangible assets	-	-	-	138	138
Deferred tax assets	-	-	-	179	179
Fixed assets, net	-	-	-	494	494
Investment property, net	-	-	-	627	627
Receivables	66	-	-	682	748
Other financial investments:					
Marketable debt assets	8,275	7,087	7,517	-	22,879
Non-marketable debt assets	13	-	8,100	-	8,113
Other	129	-	-	-	129
Reinsurance assets	-	-	29,118	-	29,118
Cash and cash equivalents	1,325	-	2,035	-	3,360
Total assets	9,808	7,087	46,770	2,120	65,785
Total equity	-	-	27,297	-	27,297
Liabilities:					
Liabilities in respect of insurance contracts	-	-	32,823	-	32,823
Liabilities in respect of employee benefits, net	54	-	-	-	54
Current tax liabilities	-	135	-	-	135
Payables	293	-	5,183	-	5,476
Total liabilities	347	135	38,006	-	38,488
Total equity and liabilities	347	135	65,303	-	65,785
Excess of assets over liabilities (liabilities over assets)	9,461	6,952	(18,533)	2,120	-

NOTE 19:- RISK MANAGEMENT (Cont.)

	At December 31, 2007				
	In unlinked NIS	In NIS, linked to CPI	In or linked to foreign currency	Non-monetary and other items	Total
	U.S. dollars in thousands				
Intangible assets	-	-	-	97	97
Deferred tax assets	-	-	-	252	252
Current tax assets	-	347	-	-	347
Fixed assets, net	-	-	-	498	498
Investment property, net	-	-	-	651	651
Receivables	65	-	-	705	770
Other financial investments:					
Marketable debt assets	6,031	8,508	8,481	-	23,020
Non-marketable debt assets	24	-	9,087	-	9,111
Other	40	-	-	-	40
Reinsurance assets	-	-	35,712	-	35,712
Cash and cash equivalents	879	-	3,460	-	4,339
Total assets	7,039	8,855	56,740	2,203	74,837
Total equity	-	-	27,401	-	27,401
Liabilities:					
Liabilities in respect of insurance contracts	-	-	40,487	-	40,487
Liabilities in respect of employee benefits, net	111	-	-	-	111
Payables	324	-	6,514	-	6,838
Total liabilities	435	-	47,001	-	47,436
Total equity and liabilities	435	-	74,402	-	74,837
Excess of assets over liabilities (liabilities over assets)	6,604	8,855	(17,662)	2,203	-

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

a. Since the Company is a Government company which is held by the State of Israel at the rate of 100%, the State of Israel is defined as an interested party. All transactions in the financial statements with the State of Israel and/or the Accountant General at the Ministry of Finance are therefore transactions with an interested party. Additional information regarding the relationship with the State of Israel is presented in Note 2p(5) above.

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

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

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

	December 31,	
	2008	2007
	U.S. dollars in thousands	
Investments:		
Deposits with the Accountant General at the Ministry of Finance	8,100	9,087
Other liabilities:		
State of Israel's share in insurance transactions	422	138

d. Benefits to related and interested parties:

	Year ended December 31,	
	2008	2007
	U.S. dollars in thousands	
Salaries and related expenses to the Company's CEO	*) 254	162
Wages and related expenses to the Board's members	29	10
Expenses relating to guarantee fees to the State of Israel (reinsurance)	5,121	10,377
Less - commission fees from the State of Israel	(988)	(1,238)
State of Israel's share in claim recoveries received, less claims paid, net	3,530	74
*) Including to the former CEO	182	
Number of people to which the wages and benefits relate:		
Related and interested parties employed by or on behalf of the Company	2	1
Directors not employed by the Company	9	8
	11	9

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

e. Indemnification and insurance of directors and officers:

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

Following are the details of expenses by years:

	Year ended December 31,	
	2008	2007
	U.S. dollars in thousands	
Expenses relating to indemnification and insurance of directors and officers	21	26

NOTE 21:- COMMITMENTS

a. The Company's vehicle fleet:

The Company has a master agreement regarding an operating lease commitment for its vehicle fleet. The volume of the monthly commitment at December 31, 2008 is approximately $ 8 thousand per month for the remaining average period of around two years.

b. Operating lease of investment property:

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

NOTE 22:- TRANSLATION OF THE FINANCIAL STATEMENTS INTO NIS

Functional and foreign currencies:

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

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

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

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

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

NOTE 22:- TRANSLATION OF THE FINANCIAL STATEMENTS INTO NIS (Cont.)

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

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

a. Balance sheets:

	December 31,	
	2008	2007
	NIS in thousands	
Intangible assets	525	373
Deferred tax assets	681	969
Fixed assets	1,876	1,914
Investment property	2,386	2,504
Reinsurance assets	110,707	137,348
Current tax assets	-	1,335
Receivables	2,843	2,961
Financial investments:		
Marketable debt assets	86,984	88,536
Non-marketable debt assets	30,846	35,041
Other	492	154
Cash and cash equivalents	12,775	16,688
Total assets	250,115	287,823

NOTE 22:- TRANSLATION OF THE FINANCIAL STATEMENTS INTO NIS (Cont.)

	December 31,	
	2008	2007
	NIS in thousands	
EQUITY:		
Share capital	7,531	7,531
Extraordinary risk reserve	61,170	61,170
Revaluation reserve	2,271	2,271
Translation differences	(15,193)	(13,911)
Surplus	48,005	48,323
Total equity	103,784	105,384
LIABILITIES:		
Liabilities in respect of insurance contracts	124,794	155,713
Liabilities in respect of employee benefits, net	205	427
Current tax liabilities	513	-
Payables	20,819	26,299
Total liabilities	146,331	182,439
Total equity and liabilities	250,115	287,823

NOTE 22:- TRANSLATION OF THE FINANCIAL STATEMENTS INTO NIS (Cont.)

b. Statements of income:

	Year ended December 31,	
	2008	2007
	NIS in thousands (except share and per share data)	
Gross earned premiums	25,367	50,458
Reinsurance premiums earned	22,897	47,125
Premiums earned on retention	2,470	3,333
Revenues from net investments and financial income	6,525	13,715
Revenues from commissions	3,542	5,585
Total revenues	12,537	22,633
Payments and change in liabilities in respect of insurance contracts, net	(14,901)	(1,352)
Reinsurers' share in payments and change in liabilities in respect of insurance contracts	10,986	(674)
Payments and change in liabilities in respect of insurance contracts on retention	(3,915)	(678)
Marketing expenses	1,133	1,171
General and administrative expenses	7,076	7,282
Total expenses	4,294	7,775
Income before taxes on income	8,243	14,858
Taxes on income	2,624	1,122
Net income	5,619	13,736
Net earnings per share:		
Net earnings per share (in NIS)	2.33	5.70
Number of shares used for the above calculations (in thousands)	2,411	2,411

NOTE 22:- TRANSLATION OF THE FINANCIAL STATEMENTS INTO NIS (Cont.)

c. Statements of changes in equity:

	Share capital	Extraordinary risk reserve	Revaluation reserve	Translation differences	Retained earnings	Total
	NIS in thousands					
Balance as of January 1, 2008	7,531	61,170	2,271	(13,911)	48,323	105,384
Dividend paid	-	-	-	-	(6,624)	(6,624)
Erosion of dividend	-	-	-	(687)	687	-
Foreign currency translation differences	-	-	-	(595)	-	(595)
Net income	-	-	-	-	5,619	5,619
Balance as of December 31, 2008	7,531	61,170	2,271	(15,193)	48,005	103,784
Balance as of January 1, 2007	7,531	61,170	2,271	(3,910)	34,587	101,649
Foreign currency translation differences	-	-	-	(10,001)	-	(10,001)
Net income	-	-	-	-	13,736	13,736
Balance as of December 31, 2007	7,531	61,170	2,271	(13,911)	48,323	105,384

NOTE 23:- RECONCILIATIONS BETWEEN ISRAELI GAAP AND IFRS

As described in Note 2a, these financial statements are the first annual financial statements the Company has prepared in accordance with IFRS. The Company first adopted IFRS in 2008 and, accordingly, the date of transition to reporting pursuant to IFRS is January 1, 2007. The Company prepared an opening balance sheet as of the date of transition to IFRS.

Prior to the adoption of IFRS, the Company prepared its financial statements in accordance with Israeli GAAP. The annual financial statements as of December 31, 2007 and for the year then ended are the last the Company has prepared in accordance with Israeli GAAP.

Accordingly, the Company presents the following reconciliations between the amounts reported under Israeli GAAP and amounts reported under IFRS as of January 1, 2007 (the date of transition to IFRS), as of December 31, 2007 and for the year then ended (The Company's latest annual financial statements prepared in accordance with Israeli GAAP).

According to IFRS 1, the adoption of IFRS in the opening balance sheet as of the date of transition is to be applied retrospectively.

Following are the exemptions elected by the Group pursuant to IFRS 1, which have not been retrospectively adopted on the date of transition to IFRS:

Designation of previously recognized financial asset/financial instrument:

On January 1, 2007, the Company designated its financial investments (securities) (that meet certain criteria prescribed by IAS 39, "Financial Instruments - Recognition and Measurement"), to the category of financial assets at fair value through profit or loss since no such designation was made on the date of initial recognition (that is, on the date of the acquisition of the financial instrument/financial asset).

Insurance contracts:

The Company applies the transition provisions of IAS 4, "Insurance Contracts".

NOTE 23:- RECONCILIATIONS BETWEEN ISRAELI GAAP AND IFRS (Cont.)

a. Reconciliations to balance sheets:

		January 1, 2007			December 31, 2007		
		Israeli GAAP	Effect of transition to IFRS	IFRS	Israeli GAAP	Effect of transition to IFRS	IFRS
	Item	U.S. dollars in thousands					
Intangible assets	d(1)	64	-	64	97	-	97
Deferred tax assets	d(2)	212	44	256	208	44	252
Fixed assets	d(1)	720	(203)	517	692	(194)	498
Investment property	d(1)	1,176	(496)	680	1,126	(475)	651
Reinsurance assets		35,973	-	35,973	35,712	-	35,712
Current tax assets		-	84	84	-	347	347
Receivables	d(2)	199	590	789	465	305	770
Financial investments:	d(4)						
Marketable debt assets		20,911	-	20,911	23,020	-	23,020
Non-marketable debt assets		10,443	-	10,443	9,111	-	9,111
Other		35	-	35	40	-	40
Cash and cash equivalents		2,417	-	2,417	4,339	-	4,339
Total assets		72,150	19	72,169	74,810	27	74,837
EQUITY:							
Share capital		1,720	-	1,720	1,720	-	1,720
Extraordinary risk reserve		13,969	-	13,969	13,969	-	13,969
Revaluation reserve		521	-	521	521	-	521
Surplus	d(6)	7,816	33	7,849	11,176	15	11,191
Total equity		24,026	33	24,059	27,386	15	27,401
LIABILITIES:							
Liabilities in respect of insurance contracts		40,918	-	40,918	40,487	-	40,487
Liabilities in respect of employee benefits, net	d(3)	122	(14)	108	99	12	111
Payables		7,084	-	7,084	6,838	-	6,838
Total liabilities		48,124	(14)	48,110	47,424	12	47,436
Total equity and liabilities		72,150	19	72,169	74,810	27	74,837

NOTE 23:- RECONCILIATIONS BETWEEN ISRAELI GAAP AND IFRS (Cont.)

b. Reconciliations to the statement of income:

	Year ended December 31, 2007		
	Israeli GAAP	Effect of transition to IFRS	IFRS
	U.S. dollars in thousands		
Gross earned premiums	12,277	-	12,277
Reinsurance premiums earned	11,466	-	11,466
Premiums earned on retention	811	-	811
Revenues from net investments and financial income	3,337	-	3,337
Revenues from commissions	1,359	-	1,359
Total revenues	5,507	-	5,507
Payments and change in liabilities in respect of insurance contracts, net	(329)	-	(329)
Reinsurers' share in payments and change in liabilities in respect of insurance contracts	(164)	-	(164)
Payments and change in liabilities in respect of insurance contracts on retention	(165)	-	(165)
Marketing expenses	-	285	285
General and administrative expenses	2,031	(259)	1,772
Total expenses	1,866	26	1,892
Income before taxes on income	3,641	(26)	3,615
Taxes on income	281	(8)	273
Net income for the year	3,360	(18)	3,342

NOTE 23:- RECONCILIATIONS BETWEEN ISRAELI GAAP AND IFRS (Cont.)

c. Difference in the reporting format between Israeli GAAP and the current reporting format:

1. Balance sheet:

The reporting format under Israeli GAAP was different with respect to the majority of items. The principal changes are as follows:

a) Bank deposits and securities were previously presented in separate lines. In the current reporting format, they are presented as follows:

1) Securities that represent debt instruments were split between marketable and non-marketable debt assets. Exchange traded notes or funds are included in the current reporting format under other financial investments.

2) Bank deposits and deposits with the Accountant General were previously presented separately. Under the current reporting format, they are included in the group of non-marketable debt assets.

b) The reinsurers' share in outstanding claims, which was previously presented separately, is included in the current reporting format under reinsurance assets.

c) Receivables and other accounts of reinsurers, which were previously presented separately, are included in the current reporting format under other receivables.

d) Liabilities to reinsurers and payables, which were previously presented separately, are included in the current reporting format under payables.

2. Statement of income:

a) The presentation of the statement of the general insurance business and the statement of profit and loss were consolidated into a single income statement.

b) Under the current reporting format, the turnover of received premiums is not presented but rather only earned premiums are presented.

c) Commissions received from reinsurers and State guarantee fees, which were previously presented separately, are included in the current reporting format under revenues from commissions.

d) Settled and outstanding claims are included in the current reporting format under increase (decrease) in insurance liabilities and payments in respect of insurance contracts.

3. Statement of cash flows and details of assets and liabilities:

These statements were modified according to the changes in the balance sheet items.

NOTE 23:- RECONCILIATIONS BETWEEN ISRAELI GAAP AND IFRS (Cont.)

d. Below are notes to the reconciliations of the balance sheets as of January 1, 2007 and December 31, 2007 and to the statement of operations for the year ended December 31, 2007 from Israeli GAAP to IFRS:

1. Land lease rights from the Tel-Aviv-Jaffa Municipality:

The Company has a lease agreement with the Tel-Aviv-Jaffa Municipality regarding the Company's real estate property on 65Menahem Begin Rd., Tel Aviv, part of which the Company rents and part is used as the Company's offices. Pursuant to the lease agreement, the Company has rights to lease the land for a period of 47 years starting from the date of acquisition of the rights and ending in 2032. The Company paid approximately $ 1,591 thousand (approximately NIS 2,368 thousand) for the land component. During 2005, half a floor in the Company's office building was sold. According to the lease agreement, the Company does not have an option to extend the lease period.

According to Israeli GAAP, the amounts paid for the above lease rights were presented under fixed assets real estate for lease as land that is not depreciated.

According to IFRS, this type of lease is classified according to the provisions of IAS 17, "Leases", as an operating lease and, therefore, the amount paid represents a prepaid lease fee.

Upon the transition to IFRS, as of January 1, 2007, the amount was reclassified from fixed assets and real estate for lease and presented under "prepaid operating lease expenses" and is amortized over the term of the lease (47 years).

Simultaneously, the depreciation rates for the office building and the real estate for lease (in respect of the building component) were modified so that they will reflect the estimated economic life of the real estate and the term of use of the rights.

2. Deferred taxes:

According to Israeli GAAP, deferred tax assets were classified as current or non-current assets based on the classification of the respective assets. According to IFRS, deferred tax assets are classified as non-current assets even if their utilization is expected to occur in the short term. Accordingly, upon the transition to IFRS, the short-term deferred tax balance was reclassified from receivables in current assets to deferred tax assets.

3. Employee benefits:

According to Israeli GAAP, the severance pay liability is measured based on the employee's latest monthly salary multiplied by the number of years of employment as of each balance sheet date, based on the "shut down" method, and severance pay funds are measured at their surrender value at each balance sheet date.

According to IAS 19, "Employee Benefits", the Company's benefit plan is considered a defined benefit plan and, therefore, the severance pay liability is required to be calculated on an actuarial basis. The actuarial calculation takes into consideration future salary increases and the rates of employee turnover based on the timing of payments.

NOTE 23:- RECONCILIATIONS BETWEEN ISRAELI GAAP AND IFRS (Cont.)

The amounts are presented based on expected future discounted cash flows at interest rates on Government bonds whose maturity matches the period of the liabilities relating to the severance pay. Also, the assets in respect of employee benefits are measured at fair value.

One of the alternatives for accounting for actuarial gains (losses) is the direct recognition of actuarial gains (losses) in profit and loss in accordance with IAS 19. The Company has chosen this method.

4. Financial instruments:

According to Israeli GAAP, the Company's investments were classified as current investment presented at fair value with changes in fair value being recorded in and allocated between the statement of foreign trade risk insurance business and the statement of income.

Pursuant to IAS 39, "Financial Instruments - Recognition and Measurement", the accounting treatment of financial instruments is based on their classification into one of the following four categories:

- Financial asset or financial liability at fair value through profit or loss.
- Held-to-maturity investments.
- Loans and receivables.
- Available-for-sale financial assets.

Upon the transition to IFRS, the Company designated its financial investments and reclassified them pursuant to the provisions of IAS 39, "Financial Instruments - Recognition and Measurement" as "financial assets at fair value through profit or loss". Accordingly, these securities are presented at fair value at each balance sheet date with changes in fair value being recognized in profit or loss on a regular basis.

The designation of the financial assets had no effect on the financial statement in relation to the treatment pursuant to Israeli GAAP.

5. Contingent liabilities and provisions for legal claims:

According to Israeli GAAP, the Company recognized a provision for legal claims if it was probable that there would be an outflow of the Company's resources to settle the liability. Furthermore, the provision was measured based on the full amount expected to settle the claim.

According to IAS 37, "Provisions, Contingent Liabilities and Contingent Assets", the Company recognized a provision in respect of those claims for which it is more likely than not that there will be an outflow of the Company's resources to settle the liability. Furthermore, when the effect of the time value of money is material, the provision is measured at its present value.

The adoption of this Standard had no material effect on the financial statements.

NOTE 23:- RECONCILIATIONS BETWEEN ISRAELI GAAP AND IFRS (Cont.)

6. Dividend declared after the balance sheet date:

According to Israeli GAAP, dividends declared after the balance sheet date and before the date the financial statements were approved were presented in shareholders' equity as a reduction of retained earnings and an increase in dividend declared after the balance sheet date.

Upon the transition to IFRS, the Company only provides disclosure of the dividend declared after the balance sheet date.

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