Translated from the Hebrew original

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

FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2013

U.S. DOLLARS IN THOUSANDS

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

I, Boaz Hirsh, certify that:

1. I have reviewed the financial statements and directors' report of Ashr'a - The Israel Foreign Trade Risks Insurance Corporation Ltd. ("the Company") for 2013 (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.

March 31, 2014

Boaz Hirsh
Chairman of the Board of Directors

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

Letter of Representation of the Company's CEO *)

I, David Klein, certify that:

1. I have reviewed the financial statements and directors' report of Ashr'a - The Israel Foreign Trade Risks Insurance Corporation Ltd. ("the Company") for 2013 (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.

March 31, 2014

David Klein
Acting CEO

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

Letter of Representation of the Company's CFO *)

I, Yaron Messas, certify that:

1. I have reviewed the financial statements and directors' report of Ashr'a - The Israel Foreign Trade Risks Insurance Corporation Ltd. ("the Company") for 2013 (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.

March 31, 2014

Yaron Messas
CFO

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

Letter of Representation of the Company's CEO *)

I, David Klein, certify that:

1. I have reviewed the financial statements and directors' report of Ashr'a - The Israel Foreign Trade Risks Insurance Corporation Ltd. ("the Insurance Company") for 2013 (collectively - "the reports").

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

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

4. The insurance company's other certifying officers and I are responsible for establishing and maintaining controls and procedures regarding the disclosure and the internal control over the financial reporting of the insurance company; furthermore,

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

    (b) We have designated an internal control over the financial reporting, or have supervised the designation of the internal control over the financial reporting, which is intended to provide a reasonable assurance regarding the reliability of the financial reporting and to assure that the financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) and the directives of the Commissioner of Insurance.

    (c) We have evaluated the effectiveness of the disclosure controls and procedures of the insurance company and have presented our conclusions as to the effectiveness of those disclosure controls and procedures for the end of the period covered in the report based on our evaluation; and

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

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

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

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

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

March 31, 2014

David Klein
Acting CEO

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

Letter of Representation of the Company's CFO *)

I, Yaron Messas, certify that:

1. I have reviewed the financial statements and directors' report of Ashr'a - The Israel Foreign Trade Risks Insurance Corporation Ltd. ("the Insurance Company") for 2013 (collectively - "the reports").

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

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

4. The insurance company's other certifying officers and I are responsible for establishing and maintaining controls and procedures regarding the disclosure and the internal control over the financial reporting of the insurance company; furthermore,

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

   (b) We have designated an internal control over the financial reporting, or have supervised the designation of the internal control over the financial reporting, which is intended to provide a reasonable assurance regarding the reliability of the financial reporting and to assure that the financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) and the directives of the Commissioner of Insurance.

   (c) We have evaluated the effectiveness of the disclosure controls and procedures of the insurance company and have presented our conclusions as to the effectiveness of those disclosure controls and procedures for the end of the period covered in the report based on our evaluation; and

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

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

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

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

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

March 31, 2014

Yaron Messas
CFO

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

Building a better working world

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AUDITORS' REPORT

To the Shareholders of

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

We have audited the statements of financial position of Ashr'a - The Israel Foreign Trade Risks Insurance Corporation Ltd. (hereunder - the Company) as at December 31, 2013 and 2012 and the related statements of profit or loss and other comprehensive income, changes in equity and cash flows for each of the years ended as at December 31, 2013, 2012 and 2011. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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".

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as at December 31, 2013 and 2012, and the results of its operations, the changes in its equity and its cash flows, for each of the years ended as at December 31, 2013, 2012 and 2011, in conformity with the International Financial Reporting Standards (IFRS) and in accordance with the disclosure requirements prescribed by the Supervisor of Insurance Business according to the Supervision of Financial Services Law (Insurance), 1981, and the Regulations enacted pursuant thereto and in accordance with the directives of the Government Companies Authority Financial Statements Circulars.

Pursuant to the Regulations of the Public Company Accounting Oversight Board (PCAOB) in the United States, regarding the audit of the internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, we have also audited the Company's internal control over financial reporting as at December 31, 2013, based on the criteria prescribed in the integrated context of the internal control published by COSO and our report as at March 31, 2014, included an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Tel-Aviv, Israel	KOST FORER GABBAY & KASIERER
March 31, 2014	A Member of Ernst & Young Global

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

Pursuant to the Government Companies Regulations

(Additional reports regarding the effectiveness of the internal control over financial reporting), 2007 and in accordance with the directives of the Commissioner of the Capital Market, Insurance and Savings regarding internal control over financial reporting

We have audited the components of internal control over financial reporting of Ashr'a - The Israel Foreign Trade Risks Insurance Corporation Ltd. (hereunder - the Company) as at December 31, 2013, based on the criteria established in the combined context of the internal control that was published by the Committee of Sponsoring Organization of the Treadway Commission (hereunder - COSO). The Company's Board of Directors and Management are responsible for holding an effective internal control over financial reporting and the assessment of the effectiveness of the internal control over financial reporting, which is included in the Board of Directors and Management Report in respect of the attached internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting, based on our audits.

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

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

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

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

In our opinion the Company performed, in all material respects, an effective internal control over financial reporting as at December 31, 2013, based on the criteria that was determined in the combined context of internal control that was published by COSO.

We have also audited, in accordance with generally accepted auditing standards in Israel, the financial statements of the Company as at December 31, 2013 and 2012 and for each of the three years the last of which ended as at December 31, 2013 and our report dated March 31, 2014, included an unqualified opinion in respect of those financial statements.

Tel-Aviv,
March 31, 2014

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

STATEMENTS OF FINANCIAL POSITION

		December 31,	
		2013	2012
ASSETS	**Note**	**U.S. dollars in thousands**	
Intangible assets	4	145	122
Deferred tax assets	18g	367	121
Fixed assets	5	608	660
Leasing rights	6	568	624
Reinsurance assets	11	23,208	14,576
Current tax assets		585	366
Debtors and receivables	7	575	649
Financial investments:	8		
Quoted debt assets		37,970	40,434
Non-quoted debt assets		14	13
Shares		2,884	-
Others		5,025	1,681
		45,893	42,128
Cash and cash equivalents	9	2,869	4,440
Total assets		74,818	63,686

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

STATEMENTS OF FINANCIAL POSITION

		December 31,	
		2013	2012
EQUITY AND LIABILITIES	**Note**	U.S. dollars in thousands	
EQUITY	10		
Share capital		1,720	1,720
Extraordinary risk reserve		13,969	13,969
Revaluation reserve		521	521
Retained income		13,266	11,652
Total equity		29,476	27,862
LIABILITIES			
Liabilities in respect of insurance contracts	11	26,714	17,405
Liabilities in respect of employee benefits	12	165	145
Creditors and payables	13	18,463	18,274
Total liabilities		45,342	35,824
Total equity and liabilities		74,818	63,686

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

March 31, 2014			
Date of approval of the financial statements	Boaz Hirsh Chairman of the Board of Directors	David Klein Acting CEO	Yaron Messas CFO

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2013	2012	2011
		Year ended December 31,		
		U.S. dollars in thousands (except net profit (loss) per share data)		
Gross earned premiums		9,584	8,327	7,018
Reinsurance premiums earned		8,392	7,373	6,319
Premiums earned on retention		1,192	954	699
Net investment income (loss) and finance income	14	2,777	2,595	(180)
Income from commissions	15	1,410	1,354	1,352
Total income		5,379	4,903	1,871
Payments and change in liabilities in respect of gross insurance contracts		6,618	5,302	443
Reinsurers' share in payments and change in liabilities in respect of insurance contracts		5,942	4,809	301
Payments and change in liabilities in respect of insurance contracts on retention		676	493	142
Marketing expenses	16	394	480	371
Administrative and general expenses	17	2,935	2,964 *)	2,459 *)
Total expenses		4,005	3,937	2,972
Income (loss) before taxes on income		1,374	966	(1,101)
Taxes on income (tax benefit)	18	(244)	72 *)	432
Net income (loss)		1,618	894	(1,533)
Other comprehensive income:				
Actuarial loss in respect of defined benefit plans		(6)	(40) *)	(13) *)
Tax benefit in respect of components of other comprehensive loss		2	14 *)	4 *)
Total other comprehensive income (loss)		(4)	(26)	(9)
Total comprehensive income (loss)		1,614	868	(1,542)
Net earnings (loss) per share (in U.S. dollars):				
Net earnings (loss) per share		0.67	0.37	(0.64)

*) See Note 2 (r).

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Extraordinary risk reserve	Revaluation reserve	Retained earnings	Total equity
	U.S. dollars in thousands				
Balance as at January 1, 2011	1,720	13,969	521	15,131	31,341
Net income	-	-	-	(1,533)	(1,533)
Other comprehensive income:					
Actuarial loss in respect of defined benefit plans	-	-	-	(13)	(13)
Tax benefit in respect of components of other comprehensive loss	-	-	-	4	4
Total other comprehensive income, net	-	-	-	(9)	(9)
Total comprehensive loss	-	-	-	(1,542)	(1,542)
Balance as at December 31, 2011	1,720	13,969	521	13,589	29,799
Net income	-	-	-	894	894
Other comprehensive income:					
Actuarial loss in respect of defined benefit plans	-	-	-	(40)	(40)
Tax benefit in respect of components of other comprehensive loss	-	-	-	14	14
Total other comprehensive income, net	-	-	-	(26)	(26)
Total comprehensive income	-	-	-	868	868
Dividend paid [Note 10(b)(4)]	-	-	-	(2,805)	(2,805)
Balance as at December 31, 2012	1,720	13,969	521	11,652	27,862
Net income	-	-	-	1,618	1,618
Other comprehensive income:					
Actuarial loss in respect of defined benefit plans	-	-	-	(6)	(6)
Tax benefit in respect of components of other comprehensive loss	-	-	-	2	2
Total other comprehensive loss, net	-	-	-	(4)	(4)
Total comprehensive income	-	-	-	1,614	1,614
Balance as at December 31, 2013	1,720	13,969	521	13,266	29,476

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

STATEMENTS OF CASH FLOWS

	Note	Year ended December 31, 2013	2012	2011
		U.S. dollars in thousands		
CASH FLOWS FROM CURRENT ACTIVITIES	(a)	(1,504)	(8,189)	1,455
CASH FLOWS FROM INVESTMENT ACTIVITIES				
Investment in fixed assets		(12)	(105)	(78)
Investment in leasing rights		-	(1)	(81)
Offset of leasing rights balances in respect of arrangement with the V.A.T. Authorities		40	24	20
Investment in intangible assets		(95)	(116)	(5)
Net cash used in investment activities		(67)	(198)	(144)
CASH FLOWS FROM FINANCE ACTIVITIES				
Dividend paid [Note 10(b)(4)]		-	(2,805)	-
Net cash used in finance activities		-	(2,805)	-
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(1,571)	(11,192)	1,311
BALANCE OF CASH AND CASH EQUIVALENTS AS AT THE BEGINNING OF THE YEAR		4,440	15,632	14,321
BALANCE OF CASH AND CASH EQUIVALENTS AS AT THE END OF THE YEAR		2,869	4,440	15,632

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

STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2013	2012	2011
	U.S. dollars in thousands		
(a) CASH FLOWS FROM CURRENT ACTIVITIES (1)			
Net income (loss)	1,618	894	(1,533)
Adjustment required to present cash flows from current activities:			
Adjustments to the profit and loss items:			
Net losses (gains) from financial investments:			
Quoted debt assets	(1,893)	(2,417)	136
Unquoted debt assets	(1)	-	1
Shares	(242)	-	-
Others	(314)	(13)	95
Loss from disposal of assets	2	-	-
Depreciation and amortization:			
Fixed assets and prepaid leasing fees	72	77	65
Leasing rights and prepaid leasing fees	38	33	26
Intangible assets	70	58	59
Change in liabilities in respect of insurance contracts	9,309	(868)	(3,116)
Change in reinsurance assets	(8,632)	1,360	3,254
Taxes on income (tax benefit)	(244)	72 *)	432 *)
Change in liabilities in respect of employee benefits	14	9 *)	(5) *)
Changes in other balance sheet items:			
Net acquisitions of financial investments	(2,954)	(11,725)	(3,513)
Debtors and receivables	44	26	7
Creditors and payables	189	2,831	4,493
Total adjustments required to present cash flows from current activities	(4,542)	(10,557)	1,934
Cash paid and received during the year for:			
Interest received	1,595	1,685	1,404
Dividend received	44	-	-
Taxes paid	(253)	(479)	(376)
Taxes received	34	268	26
	1,420	1,474	1,054
Net cash provided by (used in) current activities	(1,504)	(8,189)	1,455

(1) The cash flows from current activities include net acquisitions and sales of financial investments, deriving from activities in respect of insurance contracts.

*) See Note 2 (r).

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

NOTE 1:- GENERAL

a. Ashr'a - The Israel Foreign Trade Risks Insurance Corporation Ltd. (hereunder - the Company) is a Government company, as defined in the Government Companies Law, 1975 (hereunder - the Government Companies Law). The Company operates as an insurer in the general insurance field and provides credit insurance for medium and long term transactions to cover against commercial and political risks.

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

In addition, the Company is subject to the Government Companies Law, 1975 and the regulations enacted thereunder.

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

b. On May 18, 2011, 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 $ 1,750 million, subject to the terms listed in the guarantee letter. On February 26, 2012, 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 $ 225 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 $ 225 million, or in the event that the Company's equity falls below the amount of $ 10 million, this letter of guarantee will be canceled at the sole discretion of the Accountant General, provided that if this happens the State will be responsible for the payment of the Company’s policies which were already issued before the cancellation of the guarantee letter subject to its terms, after using the remaining equity of the Company for the payment of claims, all subject to the provisions of the law. The guarantee will be in force up to December 31, 2014 and it will replace the general letters of guarantee issued in the past and will cancel them.

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

On July 25, 2012 the Finance Committee of the Knesset (the Israeli parliament) approved that the Accountant General at the Ministry of Finance will increase the guarantee letter in respect of the Company’s losses from export business by the additional amount of $ 400 million.

On October 17, 2012 an addendum to the letter of guarantee dated February 26, 2012, was signed between the Company and the Accountant General at the Ministry of Finance in the total amount of $ 700 million, and the updated letter of guarantee is in the amount of $ 2,150 million. In accordance with the addendum to the letter of guarantee, part of the addition in the amount of $ 400 million will be used for guarantees for transactions in the framework of the financial protocols with China only (for policies to be approved from the date of signing this addendum to the letter of guarantee).

With regard to the implications of the guarantee letter on the Company's dividend distribution policy, see Note 10(b)(3) below.

NOTE 1:- GENERAL (Cont.)

c. Definitions:

In these financial statements:

The Company	- Ashr'a – The Israel Foreign Trade Risks Insurance Corporation Ltd.
Interested parties	- as defined in the Israeli Securities Regulations (Annual Financial Statements), 2010.
Related parties	- as defined in IAS 24.
Israeli CPI	- The Consumer Price Index in Israel as published by the General Bureau of Statistics.
Dollar	- the U.S. dollar.
The Regulator	- The Regulator of the Insurance.
The Authority	- The Government Companies Authority.
Supervision Law	- The Supervision of Financial Services (Insurance) Law, 1981.
Capital Regulations	- Supervision of Insurance Business (Capital Adequacy Requirement from an Insurer) Regulations, 1998, as amended.
Details of Account Regulations	- Supervision of Insurance Business (Details of Account) Regulations, 1998, as amended.
New Ways of Investment Regulations	- Regulations for the Supervision of Financial Services (Provident Funds) (Investment Regulations applicable to Financial Institutions), 2012 and Circular " Investment Regulations applicable to Institutional Entities" published by the Commissioner.
Insurance contracts	- Contracts in which one party (the insurer) assumes a significant insurance risk from another party (the policyholder) by consenting to compensate the policyholder if a pre-defined uncertain future event (the insurance case) adversely affects the policyholder.
Reinsurance assets	- Reinsurers' share in outstanding claims.
Premiums	- Premiums including fees.
Earned premiums	- Premiums relating to the reported period.
Liabilities in respect of insurance contracts	- Outstanding claims

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

a. Basis of presentation of the financial statements

1. Basis of Measurement

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

2. The preparation format of the financial statements

These financial statements have been prepared in accordance with International Financial Reporting Standards (hereunder – IFRS Standards).

In addition, the financial statements have been prepared in conformity with the disclosure requirements as prescribed by the Supervision Law, and in accordance with the provisions of the authority's directives.

3. Consistent accounting policies

The accounting policies adopted in the financial statements are consistent with those of all the reported periods, except if otherwise stated.

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

Judgments

In the process of applying the accounting policies of the Company, Management considered the following issues, which have the most significant effect on the amounts recognized in the financial statements:

1. Classification and designation of the financial investments

The Company’s management has made the following judgments in classifying and designating the financial investments into the following groups:

- Financial assets measured at fair value through profit and loss.
- Investments held to maturity.
- Loans and debtors.
- Available-for-sale financial assets.

See paragraph f below.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

2. Classification of lease

In order to examine whether to classify a lease as financing or operational, the Company examines whether the lease essentially transfers all risks and rewards associated with the ownership of the property. The Company also examines, among others, whether there is an option for acquisition at a special price, the leasing period in relation to the economic life span of the asset and the present value of the minimum leasing payments in relation to the fair value of the asset.

Estimates and assumptions

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

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

1. Liabilities in respect of insurance contracts

Liabilities in respect of insurance contracts are based on a specific per claim evaluation based on opinions obtained from the Company's experts that handle the claims. See additional information in paragraph e and in Note 11 below.

2. Pensions and other post-employment benefits

The liability in respect of a post-employment defined benefit plan is determined using actuarial techniques. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases and employee turnover rates. Due to the long-term nature of these plans, such estimates are subject to uncertainty. See additional information in paragraph l and in Note 12 below.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

Estimates and assumptions (Cont.)

3. Deferred tax assets

Deferred tax assets are recognized in respect of unused carry forward tax losses and temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Management's estimate is required to determine the amount of deferred tax assets that can be recognized, based upon the timing and amount of anticipated taxable income. Further information is provided in paragraph n' and in Note 18 below.

c. Functional and foreign currencies

1. Functional currency and presentation currency

The financial statements presentation currency is in U.S. Dollar, which is the Company's functional currency and this in accordance with IAS 21, "The Effects of Changes in Foreign Exchange Rates".

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

2. Index-linked monetary items

Monetary assets and liabilities linked to the changes in the Israeli CPI are adjusted at the relevant index at each reporting date according to the terms of the agreement and at each reporting date they are translated to the functional currency based on the representative exchange rate on that date. Linkage differences arising from the adjustment, as mentioned, are allocated to the statement of comprehensive income.

3. The translation of these financial statements into New Israeli Shekels (“NIS”) is reported in the appendix to the financial statements.

d. Current reporting format

The statements of financial position, which include the assets and liabilities of the Company, were reported by order of liquidity without separating between current and non-current assets and liabilities. This manner of presentation which provides more reliable and relevant data, is compatible with IFRS 1 “Presentation of Financial Statements”.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Insurance contracts

IFRS 4 which deals with insurance contracts allows the insurer to continue with the accounting policies that were utilized before the transition date to IFRS regarding insurance contracts that were issued as well as reinsurance contracts acquired. Hereunder is a summary of the accounting principles relating to insurance contracts:

1. Revenue recognition

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

   Income from reinsurers' commissions is allocated on the date of eligibility to receive the commissions, in accordance with agreements with reinsurers and concurrently with the registration of the premiums for the reinsurers.

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

3. Liabilities in respect of insurance contracts

   These liabilities which are comprised of outstanding claims as described in 4 below, and the State of Israel and reinsurers' share therein, and were included in accordance with the Supervision of Financial Services Regulations (Insurance) (Calculation of Insurance Reserves in General Insurance), 2013, (hereunder – Calculation of Insurance Reserves Regulations).

4. Outstanding claims

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Insurance contracts (Cont.)

4. Outstanding claims (Cont.)

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

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

In January 2013 the Supervision of Financial Services Regulations (Insurance) (Calculation of Insurance Reserves in General Insurance) 2013 (hereunder – the regulations), were signed and they deal with the update of the existing law provisions regarding the calculation of insurance reserves in general insurance. The regulations prescribe that the provisions for calculating the reserves that are applicable to the Company will remain unchanged.

f. Financial Instruments

1. Non-derivative financial instruments

Non-derivative financial instruments include financial assets and financial liabilities. Financial assets include financial investments (quoted debt assets, unquoted debt assets, shares and others) and other financial assets such as: other debtors and cash and cash equivalents. In addition, financial instruments include financial liabilities such as suppliers' credit and other creditors.

Initial recognition of non-derivative financial instruments is at fair value and regarding instruments not reported at fair value through profit and loss, with the addition of all direct transaction costs attributable, after initial recognition, non-derivative financial instruments are measured as detail below.

A financial asset is recognized as an asset or a liability on the date of receipt of the contractual terms by the Company (transaction date).

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Financial Instruments (Cont.)

1. Non-derivative financial instruments (Cont.)

Cash and cash equivalents

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

Financial assets measured at fair value through profit and loss

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

Financial instruments are classified as held for trade if they were acquired mainly for the purpose of sale or repurchase in the near future and constitute part of the identifiable financial instruments' portfolio managed together, in order to obtain short term profits. Profits or losses from investments held for trade are allocated when incurred, to the statement of comprehensive income.

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

Loans and debtors

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

Income from interest in respect of investments in debt instruments are recognized in the statement of comprehensive income according to the effective interest method. Dividends received in respect of investments in equity instruments are allocated to the statement of comprehensive income on the date of entitlement to the dividend.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Financial Instruments (Cont.)

2. The Company decided to designate the assets as follows:

- Quoted financial instruments –

  classified to the group of fair value through profit and loss.

- Non-quoted financial assets –

  assets that meet the criteria of a group of loans and receivables were classified to this group and measured at amortized cost using the effective interest method.

3. Determination of fair value

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

4. De-recognition of financial instruments

Financial assets

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

5. Regarding impairment of financial assets, see paragraph k below.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Fixed assets

1. Recognition and measurement:

Items of fixed assets are measured at cost net of accumulated depreciation.

Cost includes costs that are directly attributable to the purchase of the asset. Cost of purchased software that forms an integral part of the operation of the relevant hardware is capitalized as part of the cost of the hardware.

2. Depreciation:

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

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

	%
Office buildings *)	2 - 4
Computers	25 - 33
Office furniture and equipment	6 - 15
Vehicles	15

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Leasing rights

Leasing rights are property (land or a building or both) held by the owners (under operating lease) or a lessee under a financial lease, to earn rentals or for capital appreciation or both rather than for use in the production or supply of goods or services or for administrative purposes; or sale in the ordinary course of business.

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

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

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

i. Leases

The tests for classifying leases as finance or operating leases are based on the nature of the agreements and they are examined at the date of engagement according to the provisions of IAS 17 as follows:

Operating leases

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

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

j. Intangible assets

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Intangible assets (Cont.)

1. Software

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

2. Amortization

Software is amortized on a straight line basis over 3 years. The amortization is allocated to the statement of comprehensive income using the straight line method from the date on which the assets are available for sale.

The estimates regarding the amortization method and the useful life are examined at least every end of the reporting period.

k. Impairment

The Company examines at each reporting date whether the financial asset or group of financial assets is impaired as follows:

1. Financial investments

Financial assets presented at amortized cost:

There is objective evidence in respect of debt instruments, loans and debtors that are reported at amortized cost, when one or more events adversely effected the estimate of the asset's future cash flows after the date of recognition. Evidence for impairment include indications that the debtor has financial difficulties, including liquidity difficulties and inability to comply with the payments of the principal and interest. The amount of the loss that is allocated to the statement of comprehensive income is measured as the difference between the asset's balance in the financial statements and the present value of the estimated future cash flows (excluding future credit losses that have not yet been incurred) capitalized at the financial asset's original effective interest rate (the effective interest rate computed at initial recognition). If the financial asset has a variable interest rate, the discount rate is the current effective interest rate. The balance of the asset in the financial statements is reduced by recording a provision. In a subsequent periods, the impairment loss is reversed if the recovery of the asset's value can be attributed objectively to an event that occurred after the loss was recognized. This reversal is allocated to profit and loss up to the amount of the recognized loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Impairment (Cont.)

2. Reinsurance

The reinsurers' liabilities towards the Company do not release the Company from its obligations towards the policyholders according to the insurance policies.

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

3. Non-financial assets

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

l. Liabilities for employee benefits

The Company has several types of employee benefit plans:

1. Short-term benefits

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

2. Post-employment benefits

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

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

Actuarial gains and losses are recognized in profit or loss when incurred.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. Investment income, net and finance income

Net investment income (losses) and finance income, include interest income and linkage differences in respect of amounts invested, changes in the fair value of financial assets reported at fair value through profit and loss, income (losses) from foreign currency (which is not the functional currency) in respect of financial assets and income from leasing fees of leasing rights.

Income (losses) from realization of investments are calculated as the difference between the sale consideration, net and the initial cost or amortized cost and are recognized at the time of the sale event.

Interest income is recognized upon accruals, using the effective interest method.

Profits and losses from exchange rate differences and changes in the fair value of investments are reported on a net basis.

n. Taxes on income

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

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

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

o. Earnings per share

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

p. Operating segments

An operating segment is a component of the Company that meets the following three criteria:

1. Is engaged in business activities from which it may earn income and in which expenses may incur.

2. Its operating results are regularly reviewed by the Company’s chief operating decision maker, in order to make decisions about resources to be allocated to the segment and evaluate its performance; and

3. For which separate financial information is available.

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

q. Presentation of statement of profit or loss and other comprehensive income

The Company elected to record a single statement of profit or loss and other comprehensive income, which includes the details of the statements of profit and loss and the details of the statement of other comprehensive income.

r. Changes in accounting policies

IAS 19 (Revised) - Employee Benefits

As a result of the application of IAS 19R, the Company has retroactively applied the following amendments:

- Actuarial gains and losses are recognized in other comprehensive income when incurred and not carried to profit or loss.
- The "corridor" approach which allowed the deferral of actuarial gains or losses is eliminated.
- Return on plan assets is recognized in profit or loss based on the discount rate used to measure the employee benefit liabilities regardless of the actual result of the investment portfolio.
- The distinction between short-term employee benefits and long-term employee benefits is based on the expected settlement date and not on the date on which the employee first becomes entitled to the benefits.
- Past service cost arising from changes in the plan is recognized immediately.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

r. Changes in accounting policies (Cont.)

IAS 19 (Revised) - Employee Benefits (Cont.)

Hereunder is the effect of the change in accounting policies resulting from the initial implementation of the revised IAS 19 on the financial statements of the Company:

In the statements of financial position - had no effect.

In the statements of profit or loss and other comprehensive income:

	As reported in the past	Effect of IAS 19 revised	As reported in these financial statements
	U.S. dollars in thousands (except for earnings per share data)		
For the year ending as at December 31, 2012			
Administrative and general expenses	3,004	(40)	2,964
Taxes on income	58	14	72
Net income	868	26	894
Other comprehensive loss in respect of defined benefit plans	-	(40)	(40)
Total other comprehensive loss, net	-	(26)	(26)
Total comprehensive income	868	-	868
Net earnings per share (dollar)	0.36	0.01	0.37
For the year ending as at December 31, 2011			
Administrative and general expenses	2,472	(13)	2,459
Taxes on income	428	4	432
Loss	(1,542)	9	(1,533)
Other comprehensive loss in respect of defined benefit plans	-	(13)	(13)
Total other comprehensive loss, net	-	(9)	(9)
Total comprehensive loss	(1,542)	-	(1,542)
Net loss per share (dollar)	(0.64)	-	(0.64)

s. As a result of the implementation of IFRS 13, the Company included the required disclosures of the fair value of assets and liabilities.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

IAS 32, Financial Instruments: Presentation regarding Offsetting Financial Assets and Financial Liabilities (Amendments)

The IASB published amendments to IAS 32 (hereunder – the amendments to IAS 32) regarding the offsetting of financial assets and financial liabilities. The amendments to IAS 32 clarify, among others, the meaning of "currently has a legally enforceable right of set-off" ("the right of set-off"). Among others, the amendments to IAS 32 prescribe that the right of set-off must be legally enforceable not only during the ordinary course of business of the parties to the contract but also in the event of bankruptcy or insolvency of one of the parties. The amendments to IAS 32 also state that in order for the right of set-off to be currently available, it must not be contingent on a future event, there may not be periods during which the right is not available, or there may not be any events that will cause the right to expire.

The amendments to IAS 32 are to be applied retrospectively from the financial statements for annual periods beginning on January 1, 2014 or thereafter. Earlier application is permitted.

The Company believes that the amendments to IAS 32 are not expected to have a material impact on the financial statements.

IFRS 9 - Financial Instruments

a. The IASB published the first part of the first stage (Phase 1) of IFRS 9, Financial Instruments, as part of the project to replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 (hereunder - the Standard) focuses mainly on the classification and measurement of financial assets and it applies to all financial assets within the scope of IAS 39.

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

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

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

   Notwithstanding the aforesaid, upon initial recognition, the Company may designate a debt instrument that meets both of the abovementioned conditions as measured at fair value through profit or loss if this designation eliminates or significantly reduces a measurement or recognition inconsistency ("accounting mismatch") that would have otherwise arisen.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

IFRS 9 - Financial Instruments (Cont.)

a. (Cont.)

Subsequent measurement of all other debt instruments and financial assets should be at fair value. When a company changes its business model for managing financial assets, it shall reclassify all affected financial assets. In all other circumstances, reclassification of financial instruments is not permitted.

Financial assets that are equity instruments should be measured in subsequent periods at fair value and the changes recognized in profit or loss or in other comprehensive income (loss), in accordance with the election by the Company on an instrument-by-instrument basis (amounts recognized in other comprehensive income cannot be subsequently reclassified to profit or loss). If equity instruments are held for trading, they should be measured at fair value through profit or loss.

The IASB did not set a mandatory effective date for IFRS 9. Early application is permitted. Upon initial application, IFRS 9 should be applied retrospectively by providing the required disclosure or restating comparative figures, subject to the reliefs set out in the Standard.

b. Amendments to the Standard regarding derecognition and financial liabilities were published. According to those amendments, the provisions of IAS 39 will continue to apply to derecognition and to financial liabilities for which the fair value option has not been elected (designated as measured at fair value through profit or loss); that is, the classification and measurement provisions of IAS 39 will continue to apply to financial liabilities held for trading and financial liabilities measured at amortized cost.

According to the amendments, the amount of change in fair value of the liability - which is attributed to changes in credit risk – will be allocated to other comprehensive income. All other changes in fair value allocated to profit or loss. If presenting the fair value adjustment of the liability arising from changes in credit risk in other comprehensive income creates an accounting mismatch in profit or loss, then that adjustment should also be presented in profit or loss rather than in other comprehensive income.

The IASB did not set a mandatory effective date for IFRS 9. Early application is permitted provided that the Company also adopts the provisions of IFRS 9 regarding the classification and measurement of financial assets (the first part of Phase 1). Upon initial application, the amendments are to be applied retrospectively by providing the required disclosure or restating comparative figures, except as specified in the amendments.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

IFRS 9 - Financial Instruments (Cont.)

c. In November 2013, the IASB issued Phase 3 of IFRS 9 (hereunder - Phase 3 of IFRS 9) as part of the complete version of IFRS 9. Phase 3 of IFRS 9 includes the new hedge accounting requirements and related amendments to IFRS 9, IFRS 7 and IAS 39.

Hereunder are the significant principles of hedge accounting under IFRS 9 (2013):

- Hedge accounting can be applied to the risk components of financial hedged items and non-financial hedged items provided that risk component is separately identifiable and can be reliably measured.

- The hedge effectiveness test is to be made only on a qualitative basis and the quantitative effectiveness test of the 80%-125% range is eliminated. The test focuses on achieving the hedge objectives and the economic relationship between the hedged item and the hedging instrument and the effect of credit risk on that relationship.

- Adjustments of interaction between hedging instrument and hedged item can be made also after inception of the hedge if changes in hedging are required as part of risk management objective. In such case, no re-designation of the hedge is required.

- The time value of an option, the forward element of a forward and foreign currency basis spread can be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging transaction. This means that, instead of affecting profit or loss like a trading instrument (speculative) these amounts are carried as transaction costs in other comprehensive income and amortized to profit or loss over the hedge period.

The IASB did not set a mandatory effective date for Phase 3 of IFRS 9. Entities may apply Phase 3 of IFRS 9 early provided that they also adopt the other provisions of IFRS 9.

As part of the amendments included in Phase 3 of IFRS 9, the provisions of Phase 2 regarding measurement of liabilities at fair value and presenting fair value changes in own credit risk in other comprehensive income can be applied before applying any other requirements in IFRS 9.

The Company believes that the Standard (including all its phases) is not expected to have a material impact on the financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

IAS 19 (Amendment) regarding the accounting for contributions linked to service

The IASB published an amendment to the existing requirements of IAS 19 regarding contributions made by employees or third parties that are linked to service.

According to the amendment, if the amount of the contributions is independent of the number of years of service (such as in cases where contributions are computed as a fixed percentage of employee's salary, the contributions are in fixed amount over the service period, the contributions are determined by the employee's age), contributions may be recognized as a reduction in the service cost in the period in which the related service is rendered instead of attributing them to periods of service.

If contributions depend on the number of years during which service is rendered, these contributions should be attributed to periods of service by applying the same method of attribution in accordance with IAS 19. regarding attribution of benefit to periods of service.

The amendments to IAS 19 are to be applied retrospectively from the financial statements for annual periods beginning on July 1, 2014 or thereafter. Earlier application is permitted.

The Company is evaluating the possible impact of the amendments to IAS 19 but is presently unable to assess their effect, if any, on the financial statements.

u. Updated guidelines regarding the structure of the disclosure in the financial statements of insurance companies

In January 2014 , the Supervisor published a circular regarding guidelines of the structure of the required disclosure in financial statements of insurance companies. The circular includes , among other things, disclosure requirements regarding operating segments, investments, liabilities for insurance contracts included in the general insurance segment and financial liabilities. In addition the circular also includes guidelines regarding various items in the financial statements and directives related to the signing of the financial statements. Also, the circular applies to insurance companies the provisions of Chapter F to the Securities Regulations (Annual Financial Statements), 2010, regarding the disclosure of transactions with interested parties and with controlling shareholders.

The commencement of the circular's directives apply from the financial statements beginning from the year 2014 , but an insurance company is entitled to apply the directives beginning from the financial statements for the year 2013 . Appropriate disclosures will be included in the financial statements of the Company beginning from the year 2014 .

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

v. Details of the rate of change of the Israeli CPI and the representative exchange rates of the U.S. dollar

	Consumer Price Index		Increase (decrease) in the representative exchange rate of
	Index for	Known index	the USD
	%	%	%
Year ended December 31, 2013	1.8	1.9	(7.0)
Year ended December 31, 2012	1.6	1.4	(2.3)
Year ended December 31, 2011	2.2	2.6	7.7

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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 assets and financial investments held against the Company's equity.

a. Results according to operating segment

	Year ended December 31, 2013		
	Foreign trade risk insurance	Other	Total
	U.S. dollars in thousands		
Gross earned premiums	9,584	-	9,584
Premiums earned by reinsurers	8,392	-	8,392
Premiums earned on retention	1,192	-	1,192
Investment income, net and finance income	1,239	1,538	2,777
Income from commissions	1,410	-	1,410
Total income	3,841	1,538	5,379
Payments and change in liabilities in respect of gross insurance contracts	6,618	-	6,618
Reinsurers' share in payments and change in liabilities in respect of insurance contracts	5,942	-	5,942
Payments and change in liabilities in respect of insurance contracts on retention	676	-	676
Marketing expenses	394	-	394
Administrative and general expenses	2,935	-	2,935
Total expenses	4,005	-	4,005
Profit (loss) before taxes on income	(164)	1,538	1,374
Other comprehensive income (loss) before taxes on income	(6)	-	(6)
Comprehensive income (loss) before taxes on income	(170)	1,538	1,368
Liabilities in respect of insurance contracts as at December 31, 2013			
Gross	26,714	-	26,714
Less - reinsurance	23,208	-	23,208
	3,506	-	3,506

NOTE 3:- OPERATING SEGMENTS (Cont.)

a. Results according to operating segment (Cont.)

	Year ended December 31, 2012		
	Foreign trade risk insurance	Other	Total
	U.S. dollars in thousands		
Gross earned premiums	8,327	-	8,327
Premiums earned by reinsurers	7,373	-	7,373
Premiums earned on retention	954	-	954
Investment income, net and finance income	1,042	1,553	2,595
Income from commissions	1,354	-	1,354
Total income	3,350	1,553	4,903
Payments and change in liabilities in respect of gross insurance contracts	5,302	-	5,302
Reinsurers' share in payments and change in liabilities in respect of insurance contracts	4,809	-	4,809
Payments and change in liabilities in respect of insurance contracts on retention	493	-	493
Marketing expenses	480	-	480
Administrative and general expenses	2,964	-	2,964
Total expenses	3,937	-	3,937
Income (loss) before taxes on income	(587)	1,553	966
Other comprehensive loss before taxes on income	(40)	-	(40)
Comprehensive income (loss) before taxes on income	(627)	1,553	926
Liabilities in respect of insurance contracts as at December 31, 2012			
Gross	17,405	-	17,405
Less - reinsurance	14,576	-	14,576
	2,829	-	2,829

NOTE 3:- OPERATING SEGMENTS (Cont.)

a. Results according to operating segment (Cont.)

	Year ended December 31, 2011		
	Foreign trade risk insurance	Other	Total
	U.S. dollars in thousands		
Gross earned premiums	7,018	-	7,018
Premiums earned by reinsurers	6,319	-	6,319
Premiums earned on retention	699	-	699
Investment losses, net and finance income	(78)	(102)	(180)
Income from commissions	1,352	-	1,352
Total income (losses)	1,973	(102)	1,871
Payments and change in liabilities in respect of gross insurance contracts	443	-	443
Reinsurers' share in payments and change in liabilities in respect of insurance contracts	301	-	301
Payments and change in liabilities in respect of insurance contracts on retention	142	-	142
Marketing expenses	371	-	371
Administrative and general expenses	2,459	-	2,459
Total expenses	2,972	-	2,972
Loss before taxes on income	(999)	(102)	(1,101)
Other comprehensive income (loss) before taxes on income	(13)	-	(13)
Comprehensive loss before taxes on income	(1,012)	(102)	(1,114)
Liabilities in respect of insurance contracts as at December 31, 2011			
Gross	18,273	-	18,273
Less - reinsurance	15,936	-	15,936
	2,337	-	2,337

NOTE 3:- OPERATING SEGMENTS (Cont.)

b. Composition of assets and liabilities by operating segments

	December 31, 2013		
	Foreign trade risk insurance	Other	Total
	U.S. dollars in thousands		
ASSETS			
Intangible assets	-	145	145
Financial investments	20,025	25,868	45,893
Reinsurance assets	23,208	-	23,208
Other assets	1,435	4,137	5,572
Total assets	44,668	30,150	74,818
LIABILITIES			
Liabilities in respect of insurance contracts	26,714	-	26,714
Other liabilities	17,954	674	18,628
Total liabilities	44,668	674	45,342

	December 31, 2012		
	Foreign trade risk insurance	Other	Total
	U.S. dollars in thousands		
ASSETS			
Intangible assets	-	122	122
Financial investments	18,180	23,948	42,128
Reinsurance assets	14,576	-	14,576
Other assets	2,220	4,640	6,860
Total assets	34,976	28,710	63,686
LIABILITIES			
Liabilities in respect of insurance contracts	17,405	-	17,405
Other liabilities	17,571	848	18,419
Total liabilities	34,976	848	35,824

NOTE 4:- INTANGIBLE ASSETS

Movement hereunder:

	Computer software
	U.S. dollars in thousands
COST	
Balance as at January 1, 2012	432
Additions	116
Balance as at December 31, 2012	548
Additions	95
Disposals	(34)
Balance as at December 31, 2013	609
ACCUMULATED AMORTIZATION	
Balance as at January 1, 2012	368
Amortization recognized during the year	58
Balance as at December 31, 2012	426
Amortization recognized during the year	70
Disposals	(32)
Balance as at December 31, 2013	464
NET BALANCE	
As at December 31, 2013	145
As at December 31, 2012	122

NOTE 5:- FIXED ASSETS, NET

a. Composition and movement

In 2013

	Office buildings	Computers	Office furniture and equipment	Vehicles	Total
	U.S. dollars in thousands				
Cost					
Balance as at January 1, 2013	821	236	297	54	1,408
Acquisitions	5	6	1	-	12
Disposals	-	(90)	(136)	-	(226)
Balance as at December 31, 2013	826	152	162	54	1,194
Accumulated depreciation					
Balance at January 1, 2013	301	187	244	16	748
Depreciation	26	21	9	8	64
Disposals	-	(90)	(136)	-	(226)
Balance as at December 31, 2013	327	118	117	24	586
Balance of amortized cost as at December 31, 2013	499	34	45	30	608

In 2012

	Office buildings *)	Computers	Office furniture and equipment	Vehicles	Total
	U.S. dollars in thousands				
Cost					
Balance as at January 1, 2012	765	194	290	54	1,303
Acquisitions	56	42	7	-	105
Balance as at December 31, 2012	821	236	297	54	1,408
Accumulated depreciation					
Balance at January 1, 2012	271	166	234	8	679
Depreciation	30	21	10	8	69
Balance as at December 31, 2012	301	187	244	16	748
Balance of amortized cost as at December 31, 2012	520	49	53	38	660

NOTE 5:- FIXED ASSETS, NET (Cont.)

*) 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 $ 498 thousand ends in 2032 and for the office buildings with depreciated of $ 1 thousand the leasing period ends in 2028.

   A total amount of $ 153 thousand in respect of leased office buildings is presented in prepaid lease fees under debtors and receivables, see above Note 2(i).

2. The fair value of office buildings as at December 31, 2013 in accordance with the Company's valuation based on rent transactions of similar assets is $ 922 thousand (as at December 31, 2012 - $ 852 thousand).

NOTE 6:- LEASING RIGHTS

a. Movement

	December 31	
	2013	2012
	U.S. dollars in thousands	
COST		
Balance at January 1	1,568	1,591
Acquisitions	-	1
Disposals *)	(39)	(24)
Balance as at December 31	1,529	1,568
ACCUMULATED DEPRECIATION		
Balance at January 1	944	932
Depreciation	17	12
Balance at December 31	961	944
Balance of depreciated cost as at December 31	568	624

*) In accordance with the agreement with the Tax Authorities from April 2010, the Company was allowed to offset the VAT receipts from the leasing rights cost in respect of leasing fees it collects from its tenants up to the amount of NIS 650 thousand (about $ 170 thousand). From the year 2010 up to December 31, 2013 the amount of $ 109 thousand was offset.

NOTE 6:- LEASING RIGHTS (Cont.)

b. Rights in real estate

	December 31, 2013	December 31, 2012
	U.S. dollars in thousands	
Under ownership	1	2
Under leasehold rights from Tel-Aviv-Jaffa Municipality ending in 2032	567	622
	568	624

c. Fair value of leasing rights

	December 31, 2013		December 31, 2012	
	Depreciated cost	Fair value	Depreciated cost	Fair value
	U.S. dollars in thousands			
Included in:				
Leasing rights above	568	1,723	624	1,485
Prepaid leasing fees (Note 7)	375	861	396	743
	943	2,584	1,020	2,228

The fair value at December 31, 2013 and 2012 was determined based on an internal calculation of estimated expected future cash flows to derive from the asset. In estimating the cash flows, the Company took into consideration their inherent risk. In calculating the fair value, the Company used a capitalization rate of 12.5% (in the year 2012 – 13.25%).

Significant assumptions used in the valuations are presented below:

	December 31, 2013
Average rent per square meter per month (in USD)	16.3
Yield on the asset (in %)	11.7
Expected rent per meter per month (in USD	16.8
Available space for lease (in %)	-

NOTE 7:- DEBTORS AND RECEIVABLES

Composition:

	December 31, 2013	December 31, 2012
	U.S. dollars in thousands	
Prepaid lease expenses *)	528	558
Prepaid expenses	36	59
Others	11	32
	575	649

*) 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

	Note	December 31, 2013 Reported at fair value through profit and loss	Loans and debtors	Total
		U.S. dollars in thousands		
Quoted debt assets	(b)	37,970	-	37,970
Unquoted debt assets	(c)	-	14	14
Shares	(d)	2,884	-	2,884
Others	(e)	5,025	-	5,025
Total		45,879	14	45,893

	Note	December 31, 2012 Reported at fair value through profit and loss	Loans and debtors	Total
		U.S. dollars in thousands		
Quoted debt assets	(b)	40,434	-	40,434
Unquoted debt assets	(c)	-	13	13
Others	(e)	1,681	-	1,681
Total		42,115	13	42,128

NOTE 8:- FINANCIAL INVESTMENTS (Cont.)

b. Quoted debt assets

Composition:

	December 31, 2013	December 31, 2012
	U.S. dollars in thousands	
Reported at fair value through profit and loss and designated upon initial recognition:		
Government bonds	18,230	23,683
Other non-convertible debt assets	19,740	16,751
Total quoted debt assets	37,970	40,434

c. Unquoted debt assets

	December 31, 2013	December 31, 2012
	U.S. dollars in thousands	
Reported as loans and debtors:		
Deposits with banking institutions	14	13

Comment: the fair value of unquoted debt assets does not materially differ from their carrying amount.

d. Shares

	December 31, 2013	December 31, 2012
	U.S. dollars in thousands	
Quoted -		
Reported at fair value through profit and loss	2,884	-

e. Other financial investments

	Carrying amount	Cost
	U.S. dollars in thousands	
As at December 31, 2013		
Quoted:		
Reported at fair value through profit and loss	5,025	4,711
As at December 31, 2012		
Quoted:		
Reported at fair value through profit and loss	1,681	1,644

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

NOTE 8:- FINANCIAL INVESTMENTS (Cont.)

f. Classification of financial instruments by fair value hierarchy

The table below represents an analysis of financial instruments reported at fair value. The various levels were defined in the following manner:

Level 1 - Fair value that is measured by using quoted prices (unadjusted) in active markets for identical instruments.

Level 2 - Fair value that is measured by using anticipated data, directly or indirectly, that is not included in Level 1 above.

Level 3 - Fair value that is measured by using data that is not based on anticipated market data.

The balance in the financial statements of cash, debtors and receivables and current tax assets, matches or almost matches their fair value.

	As at December 31, 2013			
	Level 1	Level 2	Level 3	total
	NIS in thousands			
Quoted debt assets	37,970	-	-	37,970
Shares	2,884	-	-	2,884
Others	5,025	-	-	5,025
Total	45,879	-	-	45,879

	As at December 31, 2012			
	Level 1	Level 2	Level 3	total
	NIS in thousands			
Quoted debt assets	40,434	-	-	40,434
Others	1,681	-	-	1,681
Total	42,115	-	-	42,115

NOTE 9:- CASH AND CASH EQUIVALENTS

	December 31,	
	2013	2012
	U.S. dollars in thousands	
Cash and deposits for immediate withdrawal	2,869	1,750
Short-term deposits	-	2,690
	2,869	4,440

Short term deposits deposited in banking institutions are for periods of between one week to three months. The deposits bear the interest rate of 0.5% per annum as at December 31, 2012.

NOTE 10:- EQUITY AND CAPITAL REQUIREMENTS

a. Composition of share capital

	December 31, 2013 and 2012	
	Authorized	Issued and paid-up
	Number of shares	
Foundation shares of NIS 1 nominal value each	1	1
Ordinary shares of NIS 1 nominal value each	2,999,999	2,411,289

b. Management and capital requirements:

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

2. Hereunder is data regarding the Company's required and existing capital in accordance with the Supervision of Insurance Business Regulations (Minimum Solvency Margin Required from an Insurer) (Amendment), 1998, as amended, (hereunder – the capital amendment) and the Regulator's directives:

	As at December 31	
	2013	2012
	U.S. dollars in thousands	
Minimum shareholders' equity:		
Amount required as per the regulations and the Regulator's directives	4,335	3,962
Amount calculated as per regulations	29,476	27,862
Surplus *)	25,141	23,900

*) Apart from the general requirements in the Companies Law and the provisions of the Companies' Authority, the distribution of dividends out of excess capital in insurance companies is also subject to liquidity requirements and compliance with the principles of investment regulations and is subject to the Authority and the Regulator's guidelines as mentioned in paragraphs 4 and 7 below and as mentioned in paragraph 3 below.

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

b. Management and capital requirements: (Cont.)

3. In accordance with the State's guarantee letter issued to the Company in February 2012 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 distributing dividends out of retained earnings. In addition, the Company has also undertaken not to distribute dividends out of amounts accrued in the extraordinary risk reserve. The guarantee is valid up to December 31, 2014.

   The Company's shareholders' equity as at the reporting date amounts to $ 29,476 thousand.

4. Designation of income and dividends

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

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

   b) Dividends from accumulated profits will be determined for each company individually while considering several relevant data and factors.

   On November 26, 2012 the Company's Board of Directors approved a dividend distribution from the profits for the years 2008 to 2010 in the amount of $ 2,805 thousand constituting 50% of the Company's profits in these years.

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

b. Management and capital requirements: (Cont.)

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

   The proposed Directive is based on three levels: quantitative requirements, qualitative requirements and disclosure requirements. The Company began preparing for the implementation of the proposed directive according to the schedule prescribed.

   In September 2012, the Capital Market, Insurance and Savings at the Ministry of Finance (hereunder - the Department) published a letter regarding the solvency governance in Israel (hereunder – the letter). In accordance with the letter the Department intends to develop a risk-based solvency governance in the spirit of Solvency II, due to the uncertainty regarding the timetable for implementing the Directive in Europe.

   The letter states the list of reports the insurance companies will be required to submit to the Department in the years 2012 to 2014 following which the Commissioner will examine the adequacy of capital required from each insurance company and if necessary he will make a decision, during the year 2015 and after the finalization of his authorities, regarding additional capital requirements (capital addition).
   The Commissioner's decisions regarding the additional capital will be based on the companies' reports and the quality of corporate governance and risk management of the Company.

6. Following the Company's appeal to the Regulator in October 2008, with the request to receive a relief or exemption from the obligation to implement the proposed Directive, the Regulator approved, in April 2009, that the Company will be from Section 1.3 of Circular 2008-1-5 regarding the performance of a quantitative valuation survey which constitutes the main issue of the first level.

   The Company approached the Regulator once again in October 2009, requesting him for a full exemption from the application of the proposed Directive, among others, in light of the fact that companies around the world that are equivalent to the Company, received this exempt. On February 1, 2010, the Regulator informed the Company that he does not think that he should grant a full exemption from applying the Directive. However, he will not refuse to examine individual requests for mitigations regarding the application of directives that are irrelevant to the Company's activities or due to lack of significance or lack of likelihood it will be relevant to do so.

   Beginning from the first quarter of the year 2011, the Company is holding additional discussions with the Regulator regarding the implementation of the directive in light of the Company's unique nature. As at the date of publication of these financial statements, the Company did not yet receive the Regulator's directives regarding the manner of implementation of the directive in respect of the Company.

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

b. Management and capital requirements: (Cont.)

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

According to the letter the insurance company will be entitled to submit a request for obtaining the Regulator's approval for distributing dividends, commencing from the date of publication of the periodic financial statements for the year 2009, subject to the compliance with the shareholders' equity as detailed in the letter, as well as submitting an annual profit forecast for the years 2010 and 2011, an operative action plan to raise capital approved by the Board of Directors of the insurance company and the minutes of the discussion in the insurance company's Board of Directors in which the dividend distribution was approved.

Nevertheless, it was mentioned in the letter that any company whose shareholders' equity, after the distribution of dividends, will be higher than 110% of the amount required in the letter, will be entitled to distribute dividends without the prior approval of the Regulator, on condition that it notified the Regulator about the dividend distribution and provided him with the necessary documents before the distribution of the dividends.

In December 2011, the Regulator published a letter (hereunder – "the second clarification") which includes the criteria mentioned in the letter with an additional requirement for an approval of a debt service plan also by the insurance company's Board of Director, as well as a requirement according to which after the Regulator's approval the minimum ratio between the existing shareholders' equity after the dividend distribution and the required amount will be at the rate of 105%. Regarding the dividend distribution without advanced approval by the Regulator, the ratio between the existing shareholders' equity after dividend distribution and the required amount in the second clarification was updated to the rate of 115% (instead of 110%).

NOTE 11:- LIABILITIES IN RESPECT OF INSURANCE CONTRACTS

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

	December 31,					
	2013	2012	2013	2012	2013	2012
	Gross		Reinsurance		On retention	
	U.S. dollars in thousands					
Excess of income over expenses(accruals)	23,283	12,687	19,777	9,858	3,506	2,829
Outstanding claims	3,431	4,718	3,431	4,718	-	-
Total liabilities in respect of insurance contracts included in general insurance segment	26,714	17,405	23,208	14,576	3,506	2,829

NOTE 11:- LIABILITIES IN RESPECT OF INSURANCE CONTRACTS (Cont.)

b. Movement in liabilities in respect of insurance contracts included in the foreign trade risk insurance segment

	December 31,						
	2013	2012		2013	2012	2013	2012
	Gross			Reinsurance		On retention	
	U.S. dollars in thousands						
Balance as at the beginning of the year	17,405	18,273		14,576	15,936	2,829	2,337
Cumulative cost of claims in respect of current underwriting year	3,001	6,685	*)	3,001	6,685	-	-
Change in estimated cumulative cost of claims in respect of previous underwriting years	(6,979)	(362)		(6,978)	(364)	(1)	2
Total change in cumulative cost of claims	(3,978)	6,323		(3,977)	6,321	(1)	2
Payments for settling claims during the year, net claims recovery:							
In respect of current underwriting year	(4)	(3,876)		(4)	(3,876)	-	-
In respect of previous underwriting year	2,695	(2,294)		2,694	(2,292)	1	(2)
Total claims recoveries(payments) for the year	2,691	(6,170)		2,690	(6,168)	1	(2)
Accumulation for in respect of the current underwriting year	4,711	667		3,981	-	730	667
Accumulation allocated to income in respect of the underwriting year released	(1,910)	(2,389)		(1,448)	(1,870)	(462)	(519)
Balance of change in accumulation	7,795	701		7,386	357	409	344
Total change in accumulation for the year	10,596	(1,021)		9,919	(1,513)	676	492
Balance as at the end of the year	26,714	17,405		23,208	14,576	3,506	2,829

1. Opening and closing balances include: outstanding claims and excess of income over expenses.
2. Accumulative cost of claims includes: balance of outstanding claims (not including accruals) with the addition of total claims payments including direct and indirect expenditures for settling claims.

*) After the balance sheet date, in February 2013, the Company received claims recoveries in respect of a claim paid in the year 2012 in the amount of $ 3,857 thousand. The balance of the claim's cost in the amount of $ 2,808 thousand was paid to the policyholder through a third party. The affect on retention is zero.

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

Employee benefits consist of short-term benefits and post-employment benefits.

Post-employment benefits

Labor laws and the Severance Pay Law in Israel require the Company to pay compensation to an employee upon termination or retirement, or make regular deposits in defined deposit plan under Section 14 to the Severance Pay Law as described below. The Company's liabilities is handled as benefits after termination of employment.
Calculating the Company's liability for employee benefits is performed in accordance with a valid employment agreement and based on the employee's salary and period of employment which create the right to receive the compensation.

The post-employment employee benefits are normally financed by deposits classified as defined benefit plans or as defined deposit plans as detailed below:

Defined deposit plans

The provisions of Section 14 to the Severance Pay Law, 1963, apply to a portion of the severance pay. According to these provisions, the Company's current deposits in insurance companies' policies and/or in pension funds, are exempt from any additional liability to employees, in respect of who amounts were depositing, as mentioned above. These deposits and deposits in respect of benefits, constitute a defined deposit plan. In the year 2013 the expenses in respect of the defined deposit plan amounted to USD 102 thousand, and in the years 2012 and 2011 in the amount of USD 81 thousand and USD 81 thousand, respectively and were included under administrative and general expenses.

Defined benefit plan

The portion of severance pay that is not covered by deposits in defined deposit plans, is handled by the Company as a defined benefit plan according to which a liability is recognized in respect of employee benefits and for which the Company deposits amounts in the relevant insurance policies and in central severance pay funds.

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

a) Changes in the liabilities for defined benefit and other long term benefits and fair value of plan assets

		Expenses allocated in profit or loss				Gain (loss) from remeasurement in other comprehensive income					
	Balance as at January 1	Current service cost	Net interest expenses	Total expenses allocated to profit or loss for the period	Payments from the plan	Return on plan assets (excluding amounts recognized in net interest expenses)	Actuarial gain (loss) arising from changes in financial assumptions	Actuarial gain (loss) arising from experience adjustments	Total effect on other comprehensive income for the period	Deposits made by employer	Balance as at December 31
Year 2013											
Liabilities for defined benefit	869	42	102	144	(93)	-	25	85	110	-	1,030
Fair value of assets plan	724	-	89	89	(93)	104	-	-	104	41	865
Liabilities for employee benefits, net	145	42	13	55	-	(104)	25	85	6	(41)	165
Year 2012											
Liabilities for defined benefit	689	53	58	111	-	-	54	15	69	-	869
Fair value of assets plan	593	-	51	51	-	29	-	-	29	51	724
Liabilities for employee benefits, net	96	53	7	60	-	(29)	54	15	40	(51)	145

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

b. Information regarding defined benefit plans

1. Plan assets

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

2. The principal actuarial assumptions used in determining the obligation for the defined benefit plan

	2013	2012	2011
		%	
Capitalization rate (in real terms)	0.26	0.67	1.8
Expected rate of return on plan assets (in real terms)	0.67	1.86	1.4
Expected future salary increase rate	1.5	1.5	1.5

NOTE 13:- CREDITORS AND PAYABLES

	December 31,	
	2013	2012
	U.S. dollars in thousands	
Prepaid premiums	17,641	16,897
Accountant general at the Ministry of Finance and other reinsurers - current accounts	293	656
Employees and other liabilities for payroll and salaries	279	549
Expenses payable	141	78
Suppliers and service providers	89	76
Policyholders	20	18
	18,463	18,274

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

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

	Year ended December 31,		
	2013	2012	2011
	U.S. dollars in thousands		
Income (loss) from financial investments, including interest and dividend except for exchange rate differences in respect of assets reported at fair value through profit and loss	2,450	2,430	(232)
Current income in respect of leasing rights *)	255	161	173
Interest income (expenses) from taxes on income	2	21	(19)
Exchange rate differences	158	94	(36)
Bank commissions	(88)	(111)	(66)
Total net investment income (loss) and finance income	2,777	2,595	(180)
*) Reported net of depreciation in the sum of (see Note 17 below)	29	40	20

NOTE 15:- INCOME FROM COMMISSIONS

	Year ended December 31,		
	2013	2012	2011
	U.S. dollars in thousands		
Commission fees from the State of Israel in respect of reinsurance	1,410	1,354	1,352

NOTE 16:- MARKETING EXPENSES

	Year ended December 31,		
	2013	2012	2011
	U.S. dollars in thousands		
Salaries and related expenses	303	309	263
Other marketing expenses	91	171	108
Total marketing expenses	394	480	371

NOTE 17:- ADMINISTRATIVE AND GENERAL EXPENSES

	Year ended December 31,		
	2013	2012	2011
	U.S. dollars in thousands		
Salaries and related expenses	2,066	2,213	1,784
Professional services	308	260	162
Office maintenance and communications	217	203	198
Depreciation and amortization	181	168	150
IT	173	135	91
Vehicle maintenance	134	134	131
Marketing and advertising	91	171	108
Travel abroad	72	87	132
Literature and professional information	53	53	38
Membership fees in the Berne Union	33	30	26
Refreshments and meals	22	18	21
Others	8	12	9
Total	3,358	3,484	2,850
Less:			
Depreciation and amortization reclassified to net investment income and finance income	(29)	(40)	(20)
Amounts classified to marketing expenses (Note 16 above)	(394)	(480)	(371)
Administrative and general expenses	2,935	2,964	2,459

NOTE 18:- TAXES ON INCOME

a. Tax laws applicable to the Company

1. General

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

2. Income Tax (Inflationary Adjustments) Law, 1985 (hereunder – the law)

Pursuant to the law, up to the end of the year 2007, the results for tax purposes in Israel are measured when they are adjusted to the changes in the CPI.

In February 2008, an amendment to the law was passed by the “Knesset” (Israeli parliament) which prescribed that the Adjustment Law will end from the tax year 2007. From the year 2008 this law will not be applied, except for the transitional provisions which are intended to prevent the distortions in the tax calculations. From the year 2008, the results for tax purposes are measured in nominal values, except for certain adjustments in respect of changes in the CPI in the period up to December 31, 2007. Adjustments relating to capital gains, such as realization of real estate (betterment) and securities, continue to be applicable up to the date of realization. The amendment to the law includes, among others, the cancellation of the adjustment to the addition and the deduction for inflation and the additional deduction due to depreciation beginning from the year 2008.

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

1. The statutory tax rate applicable to financial institutions is comprised of corporate tax and profit tax.

2. The profit tax rate applicable to financial institutions in 2011 was 16%.

In August 2012 the Value Added Tax Order (tax rate for non-profit organizations and financial institutions) (Amendment), 2012 was published and it prescribes that the income tax rate applicable to financial institutions will be 17% from the profit generated. The directive regarding the profit tax in the tax year 2012 will be applicable regarding one third of the profit this year. The said order cancels the said temporary order.

In June 2013 an VAT Ordinance was issued (tax rate for non-profit organizations and financial institutions) (Amendment),2013 which prescribes that the rate of salary tax rate applicable to financial institutions will be 18% of wages paid for work in June and onwards and the tax profit will be 18% profit issued. The directive regarding income tax in the tax year 2013 shall apply to the relative share of profit this year.

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

NOTE 18:- TAXES ON INCOME (Cont.)

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

3. (Cont.)

On July 30, 2013, the "Knesset", on second and third reading, approved the Economic Plan for the years 2013 – 2014, (the Budget Law), which includes, among others, fiscal changes whose main goal is to enhance the collection of taxes in those years.

These changes include, among others, increasing the corporate tax rate from 25% to 26.5% effective from January 1, 2014.

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

Year	Corporate tax rate	Profit tax rate	Overall tax rate in financial institutions
		%	
2011	24.0	16.00	34.48
2012	25.0	16.33 *)	35.53
2013	25.0	17.58 *)	36.22 **)
2014 and thereafter	26.5	18.00	37.71

*) Weighted tax rate.
**) Compared with a tax rate of 35.90% on the eve of publication of the amendment.

c. The deferred tax balances included in the financial statements as of December 31, 2013 are calculated according to the new tax rates that were substantially enacted as of the reporting date and, therefore, comply with the above changes, as applicable to the Company. The change on the profit tax has no significant affect on the Company’s comprehensive income in the year 2013.

d. Tax assessments

The Company's tax assessments are considered as final up to and including the tax year 2009.

NOTE 18:- TAXES ON INCOME (Cont.)

e. Losses carried forward for tax purposes and other temporary differences

The Company has business losses for tax purposes carried forward to coming years which amount to about USD 582 thousand (about NIS 2 million). In respect of these losses deferred taxes in the amount of USD 219 thousand were reported.

The Company also has capital losses for tax purposes amounting to USD 657 thousand (NIS 2,281 thousand) as at December 31, 2013. Deferred tax assets were not recognized in respect of capital losses carried since they were not expected to be utilized in the foreseeable future.

The sum of USD 148 thousand was recorded in the financial statements in respect of other deductible temporary differences.

f1. Taxes on income (tax benefit) included in the statements of profit and loss

	Year ended December 31,		
	2013	2012	2011
	U.S. dollars in thousands		
Current taxes	-	139	362
Deferred taxes – also see paragraph f' below	(226)	(7)	12
Taxes in respect of previous years	-	(46)	50
Adjustment of deferred tax balances following change in the tax rate	(18)	(14)	8
	(244)	72	432

f2. Taxes on income relating to other comprehensive income items

	Year ended December 31,		
	2013	2012	2011
	U.S. dollars in thousands		
Deferred taxes in respect of actuarial income (loss) in respect of defined benefit plans	(2)	14	(4)

NOTE 18:- TAXES ON INCOME (Cont.)

g. Deferred taxes

Composition:

	Employee benefits *)	Fixed assets and leasing rights	Losses for tax purposes	Total
	U.S. dollars in thousands			
Balance as at January 1, 2012	75	11	-	86
Effect of change in the tax rate	12	2	-	14
Changes allocated to profit and loss	19	2	-	21
Balance at December 31, 2012	106	15	-	121
Effect of change in the tax rate	6	1	11	18
Changes allocated to profit and loss	7	13	208	228
Balance at December 31, 2013	119	29	219	367

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

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

	December 31, 2013	December 31, 2012
	U.S. dollars in thousands	
Deferred tax assets	367	121

NOTE 18:- TAXES ON INCOME (Cont.)

i. Theoretical tax

A reconciliation between the theoretical tax assuming that all income and expenses and profits and losses in the statement of comprehensive income were taxed at the statutory tax rate and taxes on income as allocated in the statement of the comprehensive income:

	Year ended December 31,		
	2013	2012	2011
	U.S. dollars in thousands		
Income (loss) before taxes on income	1,374	966	(1,101)
Comprehensive statutory tax rate applicable to financial institutions (see b' above)	36.22%	35.53%	34.48%
Tax (tax benefit) computed at the comprehensive statutory tax rate	498	343	(380)
Increase (decrease) in taxes on income resulting from the following factors:			
Unallowable expenses for tax purposes	5	19	10
Taxes in respect of previous years	-	(46)	50
Differences in the measurement basis (nominal NIS for tax purposes and foreign currency in the financial statements) *)	(763)	(253)	757
Update of the deferred tax balances in respect of changes in the tax rates	(18)	(14)	8
Differences in measurement of assets and liabilities for tax purposes and for financial statement purposes and other influences, net	34	23	(13)
Taxes on income (tax benefit)	(244)	72	432
Average effective tax rate	-	7.5%	-

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

NOTE 19:- RISK MANAGEMENT

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

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

a. Description of risk management procedures and methods

1. In the year 2010 the Company began the process of building an overall risk management array including the performance of a comprehensive risk survey and writing a risk management policy. This array is expected to reduce and/or cut down the level of risk the Company is exposed to. The risk management array operates continuously, as an integral part of all the Company’s processes and all risks are reported and discussed in the framework of the risk management report included in the quarterly report to the Board of Directors.

2. The primary objective of the risk management process is to maximize the likelihood of achieving the company's strategic goals. The company will carry out the risk management objectives by combining the risk management domain with the long-term strategic plan and the annual business planning, and the introduction of company risk management discipline. The fulfillment of the risk management objectives is the combined responsibility of the Management and the various entities of the Company, including the risk manager and the Board of Directors.

3. The risk management policy is intended to outline a clear framework, which defines the entire risks the Company is exposed to, how to measure and manage them, and how to control them. The policy defines the Company's risk tolerance, its risk "appetite" in various areas, and the limits of the risks and exposure. The policy stipulates the functions and the various organs which take part in the process of creating risks, their management and monitoring, their interactions, and the reporting channels. The risk management policy document was approved by the Board of Directors in the year 2012.

4. The Company's risk manger is responsible for the infrastructure, collection and reporting of information, control and guidance of the relevant entities in the Company, follow up and reporting regarding risks control management in the Company on an ongoing basis, according to the decision of the Board of Directors and also prior to the entrance or change in the fields of activities and/or products and/or significant services. Beginning from the year 2012, the risk manager updates the Company’s Board of Directors and Management once every quarter regarding the risk management at a broader outlook, within the context of the risk management report.

NOTE 19:- RISK MANAGEMENT (Cont.)

b. Regulatory requirements

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

c. Market risks

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

1. Sensitivity tests relating to market risks

Following is a sensitivity analysis relating to the effect of the change in these variables, on the income (loss) for the period. The sensitivity analysis is in relation to the financial assets, and liabilities in respect of insurance contracts in respect of the relevant risk variable as at each reporting date, under the assumption that all the other parameters are fixed. Thus, for instance the change in interest is under the assumption that the other parameters did not change. In addition, it was assumed that the aforementioned changes do not reflect a permanent impairment of the assets that are reported at an amortized cost.

The sensitivity tests only disclose direct effects and not minor ones.

It should be noted that the sensitivities are not linear so that larger or smaller changes in relation to the changes described below are not necessarily a simple extrapolation of the effect of those changes.

December 31, 2013

	Rate of change in Israeli CPI		**Rate of change in U.S. dollar exchange rate over the balances in NIS**	
	+1%	**-1%**	**+1%**	**-1%**
	U.S. dollars in thousands			
Comprehensive income (loss)/ equity	38	(38)	(83)	83

December 31, 2012

	Rate of change in Israeli CPI		**Rate of change in U.S. dollar exchange rate over the balances in NIS**	
	+1%	**-1%**	**+1%**	**-1%**
	U.S. dollars in thousands			
Net profit (loss)/ equity	49	(49)	(73)	73

NOTE 19:- RISK MANAGEMENT (Cont.)

c. Market risks (Cont.)

2. Direct interest risk

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

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

	December 31,	
	2013	2012
	U.S. dollars in thousands	
Assets with direct interest risk:		
Quoted debt assets	37,970	40,434
Unquoted debt assets	14	13
Other financial investments	5,025	1,681
Cash and cash equivalents	2,869	4,440
Reinsurance assets	23,208	14,576
Total assets with direct interest risk	69,086	61,144
Assets with no direct interest risk	5,732	2,542
Total assets	74,818	63,686
Liabilities with direct interest risk:		
Liabilities in respect of insurance contracts	26,714	17,405
Liabilities for employee benefits	165	145
Total liabilities with interest risk	26,879	17,550
Liabilities with no direct interest risk:		
Other liabilities	18,463	18,274
Equity	29,476	27,862
Total equity and liabilities	74,818	63,686
Total assets net of liabilities	29,476	27,862

NOTE 19:- RISK MANAGEMENT (Cont.)

c. Market risks (Cont.)

3. Details of the assets and liabilities by linkage basis

a. As at December 31, 2013

	In unlinked NIS	In NIS, linked to CPI	In foreign currency or linked thereto	Non-financial and other items	Total
	U.S. dollars in thousands				
Intangible assets	-	-	-	145	145
Deferred tax assets	-	-	-	367	367
Fixed assets, net	-	-	-	608	608
Leasing rights	-	-	-	568	568
Reinsurance assets	-	-	23,208	-	23,208
Current tax assets	-	585	-	-	585
Debtors and receivables	9	-	-	566	575
Financial investments:					
Quoted debt assets	5,207	5,379	27,384	-	37,970
Unquoted debt assets	14	-	-	-	14
Shares	1,684	-	1,200	-	2,884
Others	461	82	4,482	-	5,025
Cash and cash equivalents	487	-	2,382	-	2,869
Total assets	7,862	6,046	58,656	2,254	74,818
Total equity	-	-	-	29,476	29,476
Liabilities in respect of insurance contracts	-	-	26,714	-	26,714
Liabilities in respect of employee benefits	165	-	-	-	165
Creditors and payables	509	-	17,954	-	18,463
Total liabilities	674	-	44,668	-	45,342
Total equity and liabilities	674	-	44,668	29,476	74,818
Excess of assets over liabilities (liabilities over assets)	7,188	6,046	13,988	(27,222)	-

NOTE 19:- RISK MANAGEMENT (Cont.)

c. Market risks (Cont.)

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

b. As at December 31, 2012

	In unlinked NIS	In NIS, linked to CPI	In foreign currency or linked thereto	Non-financial and other items	Total
	U.S. dollars in thousands				
Intangible assets	-	-	-	122	122
Deferred tax assets	-	-	-	121	121
Fixed assets, net	-	-	-	660	660
Leasing rights	-	-	-	624	624
Reinsurance assets	-	-	14,576	-	14,576
Current tax assets	-	366	-	-	366
Debtors and receivables	32	-	-	617	649
Financial investments:					
Quoted debt assets	3,827	7,200	29,407	-	40,434
Unquoted debt assets	13	-	-	-	13
Others	-	76	1,605	-	1,681
Cash and cash equivalents	594	-	3,846	-	4,440
Total assets	4,466	7,642	49,434	2,144	63,686
Total equity	-	-	-	27,862	27,862
Liabilities in respect of insurance contracts	-	-	17,405	-	17,405
Liabilities in respect of employee benefits	145	-	-	-	145
Creditors and payables	703	-	17,571	-	18,274
Total liabilities	848	-	34,976	-	35,824
Total equity and liabilities	848	-	34,976	27,862	63,686
Excess of assets over liabilities (liabilities over assets)	3,618	7,642	14,458	(25,718)	-

NOTE 19:- RISK MANAGEMENT (Cont.)

d. Liquidity risks

Liquidity risk is the risk that the Company will be required to dispose of its assets at an inferior price in order to meet its obligations.

According to Note 1b above, the Company is acting within the context of a guarantee letter provided to the Company by the Accountant General at the Ministry of Finance. According to the abovementioned, the Company is backed by reinsurance for its activity by the State of Israel and accordingly, the liquidity risk to which it is exposed is very small.

According to the new Investment Regulations the Company is required to hold liquid assets (as defined in the aforementioned regulations) in the amount of not less than 30% of the required capital net of the required capital in respect of assets for which the Company should provide additional equity according to the new regulations.

Management of assets and liabilities

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

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

Liabilities in respect of insurance contracts - gross

	Up to one year	Over one year and up to3 years	No defined repayment date	Total
As at December 31, 2013	434	2,997	23,283	26,714
As at December 31, 2012	4,284	434	12,687	17,405

e. Summary of risks resulting from insurance - business activities

Hereunder are the types of risks to which the Company is exposed in the framework of the insurance – business activities:

1. Operational risks

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

NOTE 19:- RISK MANAGEMENT (Cont.)

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

1. Operational risks (Cont.)

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

a) Type of debtor.

b) Rating of debtor.

c) Duration and profile of insurance exposure.

d) Premium maturity date.

e) Premium financing.

f) Type of policy.

g) Percentage of coverage.

2. Financial risks

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

- “Reinsurer risk” is also included in the framework the credit risks – the exposure to the risk that the reinsurer will not repay its liabilities to the Company when required.

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

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

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

3. Legal risks in the Company’s business activities

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

4. Strategic business risks:

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

NOTE 19:- RISK MANAGEMENT (Cont.)

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

5. Goodwill risks.

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

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

b. Acquisitions of reinsurance from strong reinsurers.

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

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

e. Legal and operational controls in the underwriting processes.

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

g. Implementing a risk management convention together with a continuous improvement and integration of appropriate controls in the relevant processes.

NOTE 19:- RISK MANAGEMENT (Cont.)

f. Information regarding credit risks

1. Distribution of financial debt assets according to their location

	December 31, 2013		
	Quoted	Unquoted	Total
	U.S. dollars in thousands		
In Israel	10,744	14	10,758
Abroad	27,226	-	27,226
Total debt assets	37,970	14	37,984

	December 31, 2012		
	Quoted	Unquoted	Total
	U.S. dollars in thousands		
In Israel	12,143	13	12,156
Abroad	28,291	-	28,291
Total debt assets	40,434	13	40,447

2. Details of assets dividend into ratings

a) Debt financial assets in Israel

	Local rating *)			
	December 31, 2013			
	AA and above	BBB to A	Lower than BBB	Total
	U.S. dollars in thousands			
Quoted debt assets -				
Government bonds	4,854	-	-	4,854
Corporate bonds	4,043	1,833	14	5,890
Total quoted debt assets in Israel	8,897	1,833	14	10,744
Unquoted debt assets -				
Deposits with banks	-	-	14	14
Total debt assets in Israel	8,897	1,833	28	10,758

NOTE 19:- RISK MANAGEMENT (Cont.)

f. Information regarding credit risks (Cont.)

2. Details of assets dividend into ratings

a) Debt financial assets in Israel (Cont.)

	Local rating *)		
	December 31, 2012		
	AA and above	BBB to A	Total
	U.S. dollars in thousands		
Quoted debt assets -			
Government bonds	3,201	-	3,201
Corporate bonds	7,424	1,518	8,942
Total quoted debt assets in Israel	10,625	1,518	12,143
Unquoted debt assets -			
Deposits with banks	-	13	13
Total debt assets in Israel	10,625	1,531	12,156

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

b) Debt financial assets abroad

	International rating *)			
	December 31, 2013			
	A and above	BBB to A	Lower than BBB	Total
	U.S. dollars in thousands			
Debt assets abroad				
Quoted debt assets -				
Government bonds	13,376	-	-	13,376
Corporate bonds	11,578	214	2,058	13,850
Total debt assets abroad	24,954	214	2,058	27,226

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

NOTE 19:- RISK MANAGEMENT (Cont.)

f. Information regarding credit risks (Cont.)

2. Details of assets dividend into ratings (Cont.)

b. Debt financial assets abroad (Cont.)

	International rating *)		
	December 31, 2012		
	A and above	Lower than BBB	Total
	U.S. dollars in thousands		
Debt assets abroad			
Quoted debt assets -			
Government bonds	20,482	-	20,482
Corporate bonds	5,295	2,514	7,809
Total debt assets abroad	25,777	2,514	28,291

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

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

	Local rating	
	December 31, 2013	
	Unrated	Total
	U.S. dollars in thousands	
Debtors and receivables	9	9
Cash and cash equivalents	2,869	2,869

	Local rating	
	December 31, 2012	
	Unrated	Total
	U.S. dollars in thousands	
Debtors and receivables	32	32
Cash and cash equivalents	4,440	4,440

NOTE 19:- RISK MANAGEMENT (Cont.)

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

As at December 31, 2013

	Balance sheet credit risk	
	Amount	% of total
	U.S. dollars in thousands	
Economical branch:		
Banks	7,116	18.73
Electricity and Electronics	2,439	6.42
Industry	2,586	6.81
Insurance	961	2.53
Communications	1,030	2.71
Technology	927	2.44
Real estate	919	2.42
Medicine	524	1.38
Commerce	668	1.76
Investments and Holdings	545	1.43
Energy and petrol	725	1.91
Metal	683	1.8
Financial services	617	1.62
Other	14	0.04
	19,754	52.00
State bonds	18,230	48.00
Total	37,984	100.00

As at December 31, 2012

	Balance sheet credit risk	
	Amount	% of total
	U.S. dollars in thousands	
Economical branch:		
Banks	6,466	15.99
Electricity and Electronics	4,208	10.40
Industry	2,177	5.38
Insurance	909	2.25
Communications	791	1.96
Real estate	606	1.50
Medicine	525	1.30
Commerce	427	1.06
Investments and Holdings	331	0.82
Petrol	208	0.51
Food	102	0.25
Other	14	0.03
	16,764	41.45
State bonds	23,683	58.55
Total	40,447	100

NOTE 19:- RISK MANAGEMENT (Cont.)

h. Reinsurance

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

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

In the following table:

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

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

3. There are no other reinsurers apart from those detailed above that the exposure the exposure in their respect is over 10% of the total exposure of reinsurers or the premiums in their respect is over 10% of the total reinsurance premiums for the year 2013.

As at December 31, 2013:

				Reinsurance assets	
	Rating	Total reinsurers premiums from year to year	Net credit balances	In foreign trade risk insurance	Total exposure
Rating group:		U.S. dollars in thousands			
State of Israel *)		5,865	(293)	17,966	17,673
A and above -					
Zurich American Insurance	AA-	1,895	-	3,532	3,532
Euler HERMES	AAA	395	-	1,027	1,027
Lancahire Insurance Company	A-	101	-	389	389
Sovereign	AA-	65	-	157	157
Catlin	A	49	-	53	53
Liberty	A+	22	-	84	84
Total		8,392	(293)	23,208	22,915

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

NOTE 19:- RISK MANAGEMENT (Cont.)

h. Reinsurance (Cont.)

As at December 31, 2012:

	Rating	Total reinsurers premiums from year to year	Net debit (credit) balances	Reinsurance assets: In foreign trade risk insurance	Total exposure
Rating group:		U.S. dollars in thousands			
State of Israel *)		5,452	(644)	11,043	10,399
A and above -					
Zurich American Insurance	AA-	1,489	(12)	2,593	2,581
Euler HERMES	AAA	395	-	795	795
Sovereign	AA-	35	-	92	92
Catlin	A	1	-	20	20
Liberty	A+	1	-	33	33
Total		7,373	(656)	14,576	13,920

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

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

a. Since the Company is a Government company which is held by the State of Israel at the rate of 100%, the State of Israel is defined as an interested party. All transactions in the financial statements with the State of Israel and/or the Accountant General at the Ministry of Finance are therefore transactions with an interested party.

b. Regarding the balance of the Accountant General's share in insurance transactions, no balance confirmations were received.

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

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

	December 31, 2013	December 31, 2012
	U.S. dollars in thousands	
Under reinsurance assets:		
State of Israel's share in outstanding claims	17,966	11,043
Under creditors and payables:		
State of Israel's share in insurance transactions	293	644

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

d. Benefits to related and interested parties

	Year ended December 31,		
	2013	2012	2011
	U.S. dollars in thousands		
Salaries and related expenses to the Company's CEO	242 *)	199	192
Wages and related expenses to the Board's members	54	51	2 **)
Guarantee fee expenses to the State of Israel (reinsurance)	5,865	5,452	4,762
Less - commission from the State of Israel	(1,410)	(1,354)	(1,352)
State of Israel's share in claim recoveries received, less claims paid, net	2,648	(6,216)	(3,582)
*) Including to the former CEO	242	-	-

**) Relates to part of the year.

Number of people to which the wages and benefits relate:			
Related and interested parties employed by or on behalf of the Company	1	1	1
Directors not employed by the Company	9	9	8

e. Indemnification and insurance of directors and officeholders

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

	Year ended December 31,		
	2013	2012	2011
	U.S. dollars in thousands		
Amount of expenses for indemnification and insurance of directors and officeholders	16	19	17

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

f. Disclosure regarding benefits

The disclosure in this section is given in accordance with Article 89 to the Accounting and Finance Circular – Financial Statements (2011-5-1) of the Government Companies Authority from December 11, 2012. Hereunder are the benefits given, in the reporting year, as recognized in the financial statements for the reporting year:

The five receivers of highest benefits in the Company:

Officeholder	Scope of employment	Rate of holding in Company's equity	Benefits for salary in U.S.$ in thousands *)
Officeholder 1	100%	-	242
Officeholder 2	100%	-	209
Officeholder 3	100%	-	188
Officeholder 4	100%	-	164
Officeholder 5	100%	-	164

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

NOTE 21:- CONTINGENT LIABILITIES AND COMMITMENTS

a. Contingent liability

On December 9, 2013, a former employee of the Company submitted a claim in the amount of NIS 1,630 thousand (about USD 470 thousand) in respect of salary differences resulting from gender based discrimination. The Company submitted a statement of defense on March 18, 2014. The Company's managements estimate, based on valuation of its legal advisors, it is likely that the claim against the Company in its current form will be rejected. The Company did not include a provision in its financial statements for this claim.

b. Commitments

1. The Company's vehicle fleet

The Company has a framework agreement regarding an operating lease commitment for its vehicle fleet. The volume of the monthly commitment at December 31, 2013 is about USD 6 thousand per month for the remaining average period of about three year.

NOTE 21:- CONTINGENT LIABILITIES AND COMMITMENTS

b. Commitments (Cont.)

2. Leasing rights

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

Translation of the Financial Statements into New Israeli Shekels

Functional and foreign currencies

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

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

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

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

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

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

5. The translation differences resulting from the above treatment are recognized directly to equity under translation differences.

   a. Statements of financial position:

	December 31,	
ASSETS	**2013**	**2012**
	NIS in thousands	
Intangible assets	503	455
Deferred tax assets	1,274	452
Fixed assets, net	2,111	2,464
Leasing rights	1,971	2,329
Reinsurance assets	80,555	54,412
Current tax assets	2,031	1,366
Debtors and receivables	1,995	2,423
Financial investments:		
Quoted debt assets	131,794	150,940
Unquoted debt assets	49	49
Shares	10,012	-
Other	17,440	6,274
Cash and cash equivalents	9,958	16,575
Total assets	259,693	237,739

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

a. Statements of financial position (Cont.)

	December 31, 2013	December 31, 2012
	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	(21,371)	(16,574)
Retained profits	52,710	49,610
Total equity	102,311	104,008
LIABILITIES		
Liabilities in respect of insurance contracts	92,724	64,973
Liabilities in respect of employee benefits, net	573	541
Creditors and payables	64,085	68,217
Total liabilities	157,382	133,731
Total equity and liabilities	259,693	237,739

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

b. Statements of profit or loss and other comprehensive income

	Year ended December 31,		
	2013	2012	2011
	NIS in thousands (except for net earnings (loss) per share data)		
Gross earned premiums	34,598	32,109	25,112
Reinsurance premiums earned	30,295	28,430	22,611
Premiums earned on retention	4,303	3,679	2,501
Net investment income (loss) and finance income	10,020	10,005	(644)
Income from commissions	5,090	5,221	4,838
Total income	19,413	18,905	6,695
Payments and change in liabilities in respect of insurance contracts	23,891	20,445	1,585
Reinsurers' share in payments and in change in liabilities in respect of insurance contracts	21,451	18,544	1,077
Payments and change in liabilities in respect of insurance contracts on retention	2,440	1,901	508
Marketing expenses	1,423	1,849	1,326
Administrative and general expenses	10,593	11,430	8,802
Total expenses	14,456	15,180	10,636
Income (loss) before taxes on income	4,957	3,725	(3,941)
Taxes on income (tax benefit)	1,843	1,250	(1,264)
Net income (loss)	3,114	2,475	(2,677)
Other comprehensive income:			
Actuarial loss in respect of defined benefit plans	(22)	(154)	(45)
Differences resulting from the translation of financial statements (net of the applicable tax)	(4,797)	(1,761)	5,340
Tax benefit in respect of components of other comprehensive loss	8	55	16
Total other comprehensive income (loss)	(4,811)	(1,860)	5,311
Total comprehensive income (loss)	(1,697)	615	2,634
Net earnings (losses) per share:			
Net earnings (loss) per share (in NIS)	1.3	1.0	(1.1)

APPENDIX TO THE FINANCIAL STATEMENTS

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

c. Statements of changes in equity

	Share capital	Extraordinary risks reserve	Revaluation reserve	Translation differences	Retained earnings	Total
			NIS in thousands			
Balance as of January 1, 2011	7,531	61,170	2,271	(20,153)	60,411	111,230
Loss	-	-	-	-	(2,677)	(2,677)
Other comprehensive income (loss):						
Actuarial loss in respect of defined benefit plans	-	-	-	-	(45)	(45)
Tax benefit in respect of components of other comprehensive loss	-	-	-	-	16	16
Adjustment resulting from the translation of the financial statement into NIS	-	-	-	5,340	-	5,340
Total other comprehensive income (loss)	-	-	-	5,340	(29)	5,311
Total comprehensive income (loss)	-	-	-	5,340	(2,706)	2,634
Balance as of December 31, 2011	7,531	61,170	2,271	(14,813)	57,705	113,864
Net profit	-	-	-	-	2,475	2,475
Other comprehensive loss:						
Actuarial loss in respect of defined benefit plans	-	-	-	-	(154)	(154)
Tax benefit in respect of components of other comprehensive loss	-	-	-	-	55	55
Adjustment resulting from the translation of the financial statement into NIS	-	-	-	(1,761)	-	(1,761)
Total other comprehensive loss	-	-	-	(1,761)	(99)	(1,860)
Total comprehensive income (loss)	-	-	-	(1,761)	2,376	615
Dividend paid	-	-	-	-	(10,471)	(10,471)
Balance as of December 31, 2012	7,531	61,170	2,271	(16,574)	49,610	104,008
Net income	-	-	-	-	3,114	3,114
Other comprehensive loss:						
Actuarial loss in respect of defined benefit plans	-	-	-	-	(22)	(22)
Tax benefit in respect of components of other comprehensive loss	-	-	-	-	8	8
Adjustment resulting from the translation of the financial statement into NIS	-	-	-	(4,797)	-	(4,797)
Total other comprehensive loss	-	-	-	(4,797)	(14)	(4,811)
Total comprehensive income (loss)	-	-	-	(4,797)	3,100	(1,697)
Balance as of December 31, 2013	7,531	61,170	2,271	(21,371)	52,710	102,311

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