

AHLEIA INSURANCE GROUP COMPANY, PUBLIC
SHAREHOLDING COMPANY

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

**Independent Auditors' Report to the Shareholders of
Ahleia Insurance Group Company, Public Shareholding Company**

We have audited the accompanying consolidated financial statements of Ahleia Insurance Group Company, public shareholding company (the Group), which comprise the consolidated balance sheet as at December 31, 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The consolidated financial statements of the Group as of December 31, 2007 were audited by another audit firm whose report dated February 29, 2008 expressed an unqualified opinion on those consolidated financial statements before the restatement depicted in note (25)

Management's Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Ahleia Insurance Group Company, public shareholding company as at December 31, 2008 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

March 12, 2009
Ramallah - Palestine

Ahleia Insurance Group Company, Public Shareholding Company

Consolidated Balance Sheet

As at December 31, 2008

ASSETS	Notes	2008	2007
		U.S. \$	(restated) U.S. \$
Cash at banks	3	7,425,895	8,089,499
Financial assets held for trading	4	108,514	606,512
Available-for-sale financial investments	5	999,784	1,055,068
Financial investments held-to-maturity	6	322,054	800,000
Investment in associates	7	10,657,527	8,559,210
Project in progress	8	1,793,373	-
Investment properties	9	5,327,481	7,242,063
Total investment		<u>26,634,628</u>	<u>26,352,352</u>
Cash on hand and bank balances	3	1,339,366	480,548
Checks under collection	10	1,473,953	2,558,020
Insurance receivable, net	11	7,434,455	6,561,047
Gross reinsurance contract assets	18	4,371,117	4,133,567
Other receivables and debit balances	12	3,754,872	2,439,867
Property, plant and equipment	13	1,509,633	1,515,728
		<u>19,883,396</u>	<u>17,688,777</u>
Total Assets		<u>46,518,024</u>	<u>44,041,129</u>
EQUITY AND LIABILITIES			
Shareholders Equity			
Paid-in share capital	14	8,052,728	7,596,913
Premium		75,000	75,000
Statutory reserve	15	1,268,022	1,144,114
Voluntary reserve	16	1,370,492	1,310,706
Cumulative change in fair value	5	(100,337)	84,759
Retained earnings		4,651	281,057
Proposed dividends	17	1,288,438	1,671,321
Total Equity		<u>11,958,994</u>	<u>12,163,870</u>
Liabilities			
Gross insurance contract liabilities	18	23,038,221	23,761,520
Tax provisions	19	408,380	204,037
Insurance provisions and other payable	20	9,940,095	6,888,383
Provision for employees' indemnity	21	1,172,334	1,023,319
Total Liabilities		<u>34,559,030</u>	<u>31,877,259</u>
Total Equity and Liabilities		<u>46,518,024</u>	<u>44,041,129</u>

The attached notes 1 to 33 form part of these consolidated financial statements

Ahleia Insurance Group Company, Public Shareholding Company

Consolidated Income Statement

Year ended December 31, 2008

	Notes	2008 U.S. \$	2007 (restated) U.S. \$
<u>INSURANCE CONTRACT REVENUES</u>			
Gross premium		17,973,325	13,771,729
Reinsurance share of gross premium		(1,476,390)	(1,192,671)
Coinsurance share of gross premium		(508,808)	(818,083)
Net premium		15,988,127	11,760,975
Change in unexpired risk reserve		(1,300,722)	(314,273)
Deferred premium		(420,538)	(219,015)
		14,266,867	11,227,687
Insurance commission received		365,741	300,900
Total underwriting revenues		14,632,608	11,528,587
Claims for the year		(12,514,272)	(8,020,480)
Reinsurance share of claims		1,875,792	1,604,524
Recoveries		740,493	566,721
Change in provision for outstanding claims		2,261,571	(108,702)
Net commissions paid		(922,566)	(804,223)
Direct insurance branches expenses		(1,673,523)	(1,334,866)
General and administrative expenses allocated to insurance branches	23	(2,276,049)	(1,881,654)
Net underwriting revenues		2,124,054	1,549,907
(Loss) income from investment portfolio	22	(313,533)	848,546
Provision for doubtful accounts	11	(193,248)	-
General and administrative expenses not allocated to insurance branches	23	(252,894)	(259,074)
Share of (loss) profit of associates	7	(71,683)	201,143
Gain for sale of investment properties		74,483	-
Other revenues, net	24	104,121	161,661
Total profit before taxes		1,471,300	2,502,183
Taxes expense	19	(275,574)	(99,851)
Profit for the year		1,195,726	2,402,332
Basic and diluted earning per share	26	0.037	0.075

The attached notes 1 to 33 form part of these consolidated financial statements

Ahleia Insurance Group Company, Public Shareholding Company

Consolidated Statement of Changes in Equity

Year ended December 31, 2008

	Paid-in share capital	Premium	Statutory reserve	Voluntary reserve	Cumulative change in fair value	Retained earnings	Proposed dividends	Total equity
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
2008								
Balance at January 1, 2008	7,596,913	75,000	1,144,114	1,310,706	84,759	281,057	1,671,321	12,163,870
Net loss of available-for-sale financial investments	-	-	-	-	(185,096)	-	-	(185,096)
Total income and expenses for the year recognized directly in equity	-	-	-	-	(185,096)	-	-	(185,096)
Profit for the year	-	-	-	-	-	1,195,726	-	1,195,726
Total income and expenses for the year	-	-	-	-	(185,096)	1,195,726	-	1,010,630
Transfers to statutory reserve	-	-	123,908	-	-	(123,908)	-	-
Transfers to voluntary reserve	-	-	-	59,786	-	(59,786)	-	-
Cash dividends	-	-	-	-	-	-	(1,215,506)	(1,215,506)
Stock dividends	455,815	-	-	-	-	-	(455,815)	-
Proposed dividends (note 17)	-	-	-	-	-	(1,288,438)	1,288,438	-
Balance at December 31, 2008	8,052,728	75,000	1,268,022	1,370,492	(100,337)	4,651	1,288,438	11,958,994
2007								
Balance at January 1, 2007 - before restatement	7,596,913	75,000	896,276	958,050	-	36,868	1,139,537	10,702,644
Prior years adjustments (note 25)	-	-	-	-	-	113,672	-	113,672
Balance at January 1, 2007 - after restatement	7,596,913	75,000	896,276	958,050	-	150,540	1,139,537	10,816,316
Net profit of available-for-sale financial investments	-	-	-	-	84,759	-	-	84,759
Total income and expenses for the year recognized directly in equity	-	-	-	-	84,759	-	-	84,759
Profit for the year	-	-	-	-	-	2,402,332	-	2,402,332
Total income and expenses for the year	-	-	-	-	84,759	2,402,332	-	2,487,091
Transfers to statutory reserve	-	-	247,838	-	-	(247,838)	-	-
Transfers to voluntary reserve	-	-	-	352,656	-	(352,656)	-	-
Proposed dividends (note 17)	-	-	-	-	-	(1,671,321)	1,671,321	-
Cash dividends (note 17)	-	-	-	-	-	-	(1,139,537)	(1,139,537)
Balance at December 31, 2007 (restated)	7,596,913	75,000	1,144,114	1,310,706	84,759	281,057	1,671,321	12,163,870

The attached notes 1 to 33 form part of these consolidated financial statements

Ahleia Insurance Group Company, Public Shareholding Company

Consolidated Cash Flow Statement

Year ended December 31, 2008

	Notes	2008 U.S. \$	2007 (restated) U.S. \$
Operating Activities			
(Loss) profit for the year before taxes		1,471,300	2,502,183
Adjustments for:			
Depreciation		235,179	246,680
Provision for employees' indemnity		245,123	217,077
Share of loss (profit) of associates		71,683	(201,143)
Gain on disposal of property, plant and equipment		(12,367)	(13,245)
Reinsurance share of gross premium		1,476,390	1,192,671
Coinurance share of gross premium		508,808	818,083
Change in unexpired risk reserve		1,300,722	314,273
Deferred premium		420,538	219,015
Reinsurance share of claims		(1,875,792)	(1,604,524)
Net change in provision of outstanding claims		(2,261,571)	108,702
Gain from sale of investments properties		(74,483)	-
Gain from sale of financial assets		(250,000)	(755,689)
Provision for doubtful accounts		193,248	-
Impairment loss on available-for-sale financial investments		70,188	-
Changes in fair value of financial assets held for trading		47,998	(79,298)
Impairment loss on held-to-maturity investment		477,946	-
		<u>2,044,910</u>	<u>2,964,785</u>
Changes in operating assets and liabilities:			
Insurance receivable		(1,066,656)	254,305
Checks under collection		1,084,067	(1,711,886)
Other receivables and debit balances		(1,315,005)	(222,541)
Insurance provisions and other payable		3,240,958	80,265
Net (decrease) increase in insurance reserves		(960,849)	422,975
Employees' indemnity paid		(96,108)	(34,891)
Net cash from operating activities before taxes		<u>2,931,317</u>	<u>1,753,012</u>
Paid taxes		(71,231)	(46,780)
Net cash flows from operating activities		<u>2,860,086</u>	<u>1,706,232</u>
Investing Activities			
Purchase of available-for-sale financial investments		(200,000)	(184,000)
Sale of financial assets held for trading		700,000	7,002,848
Purchase of property, plant and equipment		(325,437)	(588,017)
Sale of property, plant and equipment		108,720	30,394
Project in progress		(1,793,373)	-
Investment properties		1,989,065	(1,607,453)
Investment in associates		(2,170,000)	(1,494,395)
Interest received		222,403	192,442
Dividends received		32,599	13,559
Changes in restricted cash balance		(2,900,000)	(100,000)
Net cash flows (used in) from investing activities		<u>(4,336,023)</u>	<u>3,265,378</u>
Financing Activities			
Cash dividends paid		(1,228,849)	(1,047,785)
Net cash flows used in financing activities		<u>(1,228,849)</u>	<u>(1,047,785)</u>
Net (decrease) increase in cash and cash equivalents			
		(2,704,786)	3,923,825
Cash and cash equivalents, beginning of year		8,220,047	4,296,222
Cash and cash equivalents, end of year	3	<u>5,515,261</u>	<u>8,220,047</u>

The attached notes 1 to 33 form part of these consolidated financial statements

Notes to Consolidated Financial Statements

December 31, 2008

1. Activities

Al Ahleia Insurance Group Company (the Group), public shareholding company (Previously, Gaza Ahleia Insurance Company) was established on July 10, 1994 and registered with the company's register office of the Palestine National Authority in Gaza, Palestine as a public shareholding limited company under registration no. 563200856 in accordance with the Company's Law of 1929 and its subsequent amendments.

The objectives of the Group include carrying out all types of insurance, reinsurance, guarantee and investments in assets in accordance with the law.

The general assembly of the Group agreed in its meeting held on March 30, 2008 to amend article (2) of the articles of incorporation which corresponds to article (6) of its bylaw and relocate the Group main office from Gaza to Jerusalem with a temporarily presence in Ramallah.

The Group currently operates through its branches and offices located in Palestine which were 14 branches and offices as of December 31, 2008. The Group has 43 insurance agents and employs 125 employees as at December 31, 2008.

The consolidated financial statements as at December 31, 2008 were authorized for issuance by the Group's Board of Directors on March 12, 2009.

2. Summary of Significant Accounting Policies

Basis of preparation

The accompanying financial statements of the Group and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS).

The consolidated financial statements are presented in U.S. Dollars which is the functional currency of the Group.

The financial statements have been prepared under the historical cost basis, except for financial assets held for trading and available-for-sale financial investments that have been measured at fair value at the consolidated financial statement date.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as of December 31, 2008. The Group ownership in its subsidiaries' share capital was as follows:

	Ownership		Share capital	
	%		(U.S. Dollar)	
	2008	2007	2008	
			Subscribed	Paid
Ahleia Real Estate and Investment Company	100	100	3,000,000	3,000,000
United Marketing and Services Company	100	100	100,000	100,000
ARIC for Engineering and Consultancy Company	100	100	100,000	100,000

Ahleia Real Estate and Investment Company is a private limited company registered in Palestine under registration number 563130962 which main activity is in construction contracting business.

United Marketing and Services Company is a private limited company registered in Palestine under registration number 563114941 which main activity is in the marketing, trading and services business.

ARIC for Engineering and Consultancy Company is a private limited company registered in Palestine under registration number 562496232 which main activity is in the engineering, design and consultancy business.

Subsidiaries are companies over which the Group exercises control over the financial and operational policies. The Group and its subsidiaries operate in the Palestinian National Authority Territories.

The financial statements of the subsidiaries are prepared for the same reporting year as the Group, using consistent accounting policies.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognized in assets, are eliminated in full.

Changes in accounting policies

The accounting policies adopted are consistent with those used of the previous financial year after the restatement as depicted in note (25).

The Group has adopted the following new and amended IFRS and IFRIC Interpretations during the year. Adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures.

IFRIC 11: IFRS 2 - Treasury Share Transactions

IFRIC 12: Service Concession Agreements

IFRIC 14: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The following IFRS and IFRIC Interpretations have been issued but are not yet mandatory, and have not yet been adopted by the Group:

IFRS 2: Share-based Payment (Revised)

IFRS 8: Operating Segments

IAS 23: Borrowing Costs (Revised)

IFRIC 13: Customer Loyalty Programmes

Use of estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of financial assets and liabilities and disclosure of contingent liabilities. These estimates and assumptions also affect the revenues and expenses and the resultant provisions as well as fair value changes reported in equity. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty. Therefore actual results may differ resulting in future changes in such provisions.

Details of key areas involving a higher degree of judgment or complexity are described below:

Classification of investments

Management decides on acquisition of an investment whether it should be classified as held-for-trading, available-for-sale or held-to-maturity.

Impairment of investments

The Group treats available-for-sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists.

Impairment of financial assets stated at cost

Management reviews, on a regular basis, the financial assets stated at cost to determine any impairment in value. Any impairment is recognized in the consolidated income statement.

Impairment of accounts receivable

An estimate of the collectible amount of accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision is applied according to the length of time past due, based on historical recovery rates.

Provision for outstanding claims

Considerable judgment by management is required in the estimation of amounts due to insurance contract holders and third parties arising from claims made under insurance contracts.

Claims requiring court or arbitration decisions are estimated based on legal assessment prepared by the Group's attorney according to which risk of loss is assessed. Management periodically reviews such assessment.

Estimates are made for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the balance sheet date. Management estimates IBNR based on certain statistics adopted from prior experience. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities.

Provision for income tax

The Group and its subsidiaries use certain estimates in determining the annual provision for income tax in accordance with the tax law prevailing in Palestinian Territories. The Group's management and its subsidiaries believe that the estimates and assumptions used are reasonable.

Useful lives of tangible assets

Management reviews periodically the useful lives of the tangible assets in order to assess depreciation for the year based on the assets' condition, expected useful life and future economic benefits. Impairment, if any, is recognized in the consolidated income statement.

Investments in financial assets

The financial assets within the scope of IAS 39 are classified as either financial assets held for trading, available-for-sale investment or held-to-maturity financial assets. No reclassification between financial assets other than in the certain cases defined in IFRS.

When financial assets are recognized initially, they are measured at fair value, plus, in the case of available-for-sale investments, directly attributable transaction costs. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets held for trading

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on financial assets held for trading are recognized in the consolidated income statement.

Available-for-sale financial assets

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other financial assets categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains or losses being recognized directly in equity until the investment is derecognized or determined to be impaired at which time the cumulative gain or loss previously recorded in equity is recognized in the consolidated income statement.

Available-for-sale investments are stated at cost when their fair value cannot be reliably determined due to the unpredictable nature of future cash flows.

Held-to-maturity financial investments

They are financial assets with fixed or determinable payments and fixed maturities when the Group has the positive intention and ability to hold until maturity.

Held-to-maturity financial investments are initially recognized at cost plus costs of acquisition. The losses arising from impairment of such investments are recognized in the consolidated income statement.

Fair values

For investments traded in an active market, fair value is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics.

For unquoted equity investments, fair value is determined by reference to the market value of a similar investment or is based on the expected discounted cash flows.

The estimation methods aim to obtain a fair value that reflects the market anticipation taking into consideration the market factors and any expected risks or benefits. In case the fair value of an investment cannot be reliably measured, it is stated at cost or amortized cost less any impairment in value.

Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the consolidated income statement. Impairment is determined as follows:

- For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognized in the consolidated income statement;
- For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- For assets carried at amortized cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Investments in associates

The Group's investment in its associates is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in associates is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates. The consolidated income statement reflects the share of the profit or loss of the associates. Where there has been a change recognised directly in the equity of the associate, the Group recognizes its share of any changes in the statement of changes in equity. Profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the interest in the associates.

The reporting dates of the associates and the Group are identical and the associates' accounting policies confirm to those used by the Group for like transactions and events in similar circumstances. When necessary, adjustments are made to bring its accounting policies in line with the Group.

Projects in progress

Project in progress represents cost of projects which includes design cost, direct wages, material, portion of the indirect costs and finance costs.

The carrying values of projects in progress are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the projects are written down to their recoverable amount.

Investment properties

Land and buildings are considered as investment properties only when they are being held to earn rentals or capital appreciation or both.

Investment properties are stated at cost. In case of Impairment of the investment properties, a provision against the decrease is recognized in the consolidated income statement.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line basis over the estimated useful lives of the assets at the following annual rates:

	Useful lives Years
Real estates	33.3
Decoration	10
Electrical equipment	10
Furniture and fixture	10
Computers and printers	5
Advertising signs	3
Motor vehicles	10
Equipment and tools	10

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount being the higher of their fair value less costs to sell and their value in use.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalized and the carrying amount of the component that is replaced is written off. Other subsequent expenditures are capitalized only when they increase future economic benefits of the related item of property, plant and equipment. All other expenditures are recognized in the consolidated income statement as the expense is incurred.

Reinsurance

The Group limits insurance risk in the normal course of business for its businesses by entering into reinsurance arrangements. Reinsurance contract assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date when indication of impairment arises during the reporting year. Impairment occur when there is an objective evidence as a result of an event that occurred after initial recognition of the reinsurance assets that Group may not receive all outstanding amounts due under the terms of the contract and event has a reliably measurable impact on the amount that the Group will receive from the re-insurer. The impairment loss is recorded in the consolidated income statements.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance contract liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Reinsurance portion of claims is reported as part of reinsurance assets. When settled, amount is transferred as part due from reinsurance companies for paid claims.

Insurance receivable

Insurance receivable are recognized when due and measured on initial recognition at the fair value of the consideration received or receivable for issued insurance policies. The carrying value of insurance receivable is reviewed for impairment when events or circumstances indicates that the carrying value of insurance receivable may not be recoverable, with impairment loss provision recognized in the consolidated income statement in the year in which impairment arises. Bad debts are written off when there is no possibility of recovery.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash on hand, bank balances, and short-term deposits with an original maturity of three months or less, net of restricted bank deposits.

Insurance contracts liabilities

Insurance contract liabilities are recognized when contracts are entered into and premiums are charged. The reserve for unearned premiums represents the portion of premiums written relating to the unexpired period of coverage and recorded as liabilities as unearned premium and computed based on the number of days remaining in insurance coverage subsequent to date of financial statements. Claims comprise the estimated amounts payable to insurance contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries, in respect of claims reported to the Group and those not reported at the balance sheet date.

Reported claims unsettled is computed at the balance sheet date on an individual basis for each case based on independent loss adjusters and attorneys and the Group's prior experience.

Estimates of claims IBNR is recorded based on prior experience and assessment of amount required to settle unreported accidents at the balance sheet date.

Liabilities adequacy test

At each balance sheet date the Group assesses whether its recognized insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of estimated future claims flows, the entire deficiency is immediately recognized in the income statement.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and can be reliably measured.

Employees' benefits

Provision for employees' end of service benefits (employees' indemnity) is calculated in accordance with the labor law prevailing in Palestine, and the Group internal policies, based on one-month indemnity for each year of employment. Provision for vacation is based on outstanding vacation balance of each employee.

Employees' benefits includes saving fund scheme which includes contributions from the Group and employees at defined rates in accordance with internal policies of the Group. The Group commitment to the saving fund scheme is limited to its share in the fund which is recorded as expenses when incurred. Contributions are transferred to the fund. The Group accounts for the fund in a special set of accounting records separately from the Group's accounts.

Accounts payable and accruals

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet only when there is a legally enforceable right to offset the recognized amounts and the Group intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

Revenue recognition

Insurance Contracts

Premiums are taken into income over the terms of the policies to which they relate on a pro-rata basis. The change in the provision for unearned premiums is taken to the consolidated income statement.

Construction contract revenues

Revenue from the contracts is recognized using the percentage of completion and is measured by reference percentage of completion to total prices of the contract including any variation orders.

Interest income

Revenue is recognized as interest accrues using the effective interest method, under which the rate used exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Dividends revenue

Dividends revenue from investment is recognized when the shareholders right to receive the dividends is established.

Expenses recognition

All commissions and other costs related to issuing or renewing insurance policies are charged to income statement in the year in which they occur. Other expenses are recognized when incurred based on the accrual basis of accounting.

Claims

Claims consist of amounts paid to insurance contract holders and the change in outstanding claims reserves.

Claims include amounts paid during the year whether related to claims of this years or prior year. Gross outstanding claims comprise the highest gross estimated cost of claims incurred but not settled at the balance sheet date, whether reported or not. Provisions for reported claims not paid as at the balance sheet date are made on the basis of latest information available at balance sheet closing date.

General and administrative expenses

General and administrative expenses are allocated to the different insurance branches based on estimated rates by management.

Segments information

A business segment consists of assets and operations providing products or services that are exposed to risks and returns different from those of other business segments.

A geographic segment provides products or services within an economic environment exposed to risks and returns different from those of other segments working in other economic environments.

Taxes

The Group and its subsidiaries provide for income tax in accordance with income tax law in the areas in which they operate and IAS 12 which requires recognizing the temporary differences, at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, as deferred tax assets. However, management elected not to recognize such deferred taxes due to uncertainty of benefiting from future outcomes.

Income tax expense is calculated on the basis of taxable income of the Group and its subsidiaries. Taxable income differs from the accounting income declared in the financial statements because the accounting income includes non-taxable revenues, non-deductible expenses in the current year but might be taxable \ deductible in subsequent years, or accumulated losses acceptable by the income tax law.

Foreign currencies

Transactions denominated in currencies other than U.S. Dollar (U.S. \$), occurring during the year, are translated to U.S. \$ using the exchange rate at the date of the transaction. Monetary assets and liabilities, which are denominated in foreign currencies are translated into U.S. \$ using the rate of exchange at the balance sheet date. Gains or losses arising from exchange differences are reflected in the consolidated income statement.

Earnings per share

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the profit attributable to ordinary equity holders of the Group (after deducting interest and any related expenses on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

3. Cash and Cash Equivalents

	<u>2008</u>	<u>2007</u>
	U.S. \$	U.S. \$
Cash on hand and bank balances	1,339,366	480,548
Deposits at banks in U.S. Dollar	7,425,895	8,089,499
	<u>8,765,261</u>	<u>8,570,047</u>

Deposits at banks represent deposits with local commercial banks with an original maturity of one to three months. The average interest rate on these deposits was 2.76% and 3.42% for the years ended December 31, 2008 and 2007, respectively.

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise:

	<u>2008</u>	<u>2007</u>
	U.S. \$	U.S. \$
Cash on hand and bank balances	1,339,366	480,548
Deposits at banks in U.S. Dollar	7,425,895	8,089,499
Restricted bank balance in U.S. Dollar *	(3,250,000)	(350,000)
	<u>5,515,261</u>	<u>8,220,047</u>

* Restricted cash balance includes an amount of U.S. \$ 2,900,000 which represents a deposit with a local bank that was impounded in response to Ramallah's Preliminary Court order issued on October 12, 2008 related to a claim filed by Palestine Road Accidents Victims Compensation Fund claiming ILS 12,124,733 from the Group at the time the law suite was raised. In response, the Group contested the law suite in a petition requesting the Fund to settle amounts of claims paid by the Group and claims which Fund is liable to compensate for. At of the date of these consolidated financial statements, no final decision has been reached in this case.

In addition, restricted bank balance as of December 31, 2008 and 2007 includes an amount of U.S. \$ 350,000 which represents a statutory deposit held to the order of Palestinian Capital Market Authority in accordance with the legal requirements.

4. Financial Assets Held for Trading

Financial assets held for trading represent investments in companies' shares listed in Palestine Securities and Exchange.

5. Available-for-sale Financial Investments

Available for sale financial investments represents un-quoted investments. Management used prices from out of the market and analytics to reach the fair values of such investments.

Following is the movement on the cumulative change in fair value:

	2008	2007
	U.S. \$	U.S. \$
Balance, beginning of the year	84,759	-
Change in fair value	(185,096)	84,759
Balance, end of the year	<u>(100,337)</u>	<u>84,759</u>

6. Held-to-maturity Investments

	2008	2007
	U.S. \$	U.S. \$
Balance, beginning of the year	800,000	800,000
Impairment	(477,946)	-
Balance, end of the year	<u>322,054</u>	<u>800,000</u>

7. Investment in Associates

Details of investments in associates are as follows:

	Country of incorporation	Ownership %		Book value	
		2008	2007	2008	2007
				U.S. \$	U.S. \$
Union Construction and Investment Company	Palestine	25.91	25.91	10,509,979	8,559,210
MENA Geothermal and Investment Company Ltd.	Palestine	34.00	-	147,548	-
				<u>10,657,527</u>	<u>8,559,210</u>

Union Construction and Investment Company, public shareholding company is in the business of constructing shopping malls and centers, housing, hotels and all kind of tourist complexes in addition to design and plan and execute and operate tourist and industrial compounds.

MENA Geothermal and Investment Company Ltd work in the business of providing a low-emission services and providing technical consultancies related to reduced energy costs.

The following table illustrates information of the Group's investments in associates:

	2008	2007
	U.S. \$	U.S. \$
Current assets	4,421,994	4,565,448
Non-current assets	6,962,952	4,126,483
Current liabilities	(711,434)	(125,011)
Non-current liabilities	(15,985)	(7,710)
	<u>10,657,527</u>	<u>8,559,210</u>
Share of Group in the associates' revenues and (loss) net income:		
Revenues	<u>305,880</u>	<u>248,510</u>
Net (loss) income	<u>(71,683)</u>	<u>201,143</u>

8. Project in Progress

The Group together with an associate are executing a project in joint venture arrangement. The Group's share of the costs of the construction work and the land on which the project is being constructed amounted to U.S. \$ 1,793,373. Estimated cost to complete the project is expected to be U.S. \$ 101,310.

9. Investment Properties

	<u>2008</u>	<u>2007</u>
	U.S. \$	U.S. \$
Balance, beginning of the year	7,242,063	5,634,610
Additions	95,141	1,607,453
Sale of investment properties	<u>(2,009,723)</u>	-
Balance, end of the year	<u>5,327,481</u>	<u>7,242,063</u>

Fair value of these investment as of December 31, 2008 based on appraisals made by real estates specialists amounted to U.S. \$ 10,185,139.

The Group together with a government owned company, from which the Group previously purchased a piece of land at U.S.\$ 1,610,990 in Al Biereh City and classified it as an investment property, are defendants to a law suite for a legal claim filed in Ramallah Preliminary Court by the Palestinian Authority's president, Counsel of Ministers and Minister of Finance to revoke the Group right to use and benefit from the land and cancel land titles registered in the name of the Group. During 2007, the Group contested the claim and filed a petition in response. During 2008, the court rejected the contest petition and brought the law suite back into the ordinary judicial proceedings. As of the date of these consolidated financial statements, the case is still in judicial proceedings. The Group's legal advisor believes that the law suite claim has no legal ground.

10. Checks under Collection

	<u>2008</u>	<u>2007</u>
	U.S. \$	U.S. \$
Checks under collection due within three months	748,684	1,323,079
Checks under collection due after three months	<u>725,269</u>	<u>1,234,941</u>
	<u>1,473,953</u>	<u>2,558,020</u>

11. Insurance Receivable, net

	<u>2008</u>	<u>2007</u>
	U.S. \$	U.S. \$
Policy holders receivables	8,695,244	8,081,429
Insurance agents receivables	151,977	112,984
Re-insurers receivables	404,880	126,455
Insurance companies receivables	<u>166,857</u>	<u>31,434</u>
	9,418,958	8,352,302
Provision for doubtful accounts	<u>(1,984,503)</u>	<u>(1,791,255)</u>
	<u>7,434,455</u>	<u>6,561,047</u>

Insurance are stated net of impairment and are short term in nature.

Total value of doubtful insurance receivable amounted to U.S. \$ 5,003,397 as at December 31, 2008, where it amounted to U.S. \$ 3,285,200 as at December 31, 2007. Following is a summary of the movement on the provision for doubtful accounts during the year:

	2008	2007
	U.S. \$	U.S. \$
Balance, beginning of the year	1,791,255	1,791,255
Additions during the year	193,248	-
Balance, end of the year	<u>1,984,503</u>	<u>1,791,255</u>

As at December 31, 2008 and 2007, the aging analysis of the unimpaired insurance receivables is as follows:

	Neither past due nor impaired	Past due but not impaired				Total
		Less than 30 days	30-60 days	61-90 days	More than 90 days	
		U.S.\$	U.S.\$	U.S.\$	U.S.\$	
2008	-	872,096	449,125	487,098	2,607,242	4,415,561
2007	-	416,053	108,374	78,747	4,463,928	5,067,102

Management expects that unimpaired receivables are to be fully recoverable.

12. Other Receivables and Debit Balances

	2008	2007
	U.S. \$	U.S. \$
Accrued revenues	1,622,468	894,120
Unbilled construction contract revenues	421,765	-
Accounts and balances receivable *	511,237	270,298
Prepaid expenses	158,536	154,787
Employees' loans and advances	197,065	166,150
Recoveries due	51,268	144,476
Construction contract retention	403,888	260,113
Due from an associate	-	131,713
Due from employees' saving fund	272,365	280,825
Others	116,280	137,385
	<u>3,754,872</u>	<u>2,439,867</u>

* This item includes an amount of U.S. \$ 500,000 resulted from a sale of investment property the settlement of which is guaranteed by a contract to transfer ownership of a piece of land to the Group

13. Property, Plant and Equipment

	Real estates	Decoration	Electrical equipment	Furniture and fixture	Computers and printers	Advertising signs	Motor vehicles	Equipment and tools	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
2008									
Cost									
At January 1, 2008	604,210	396,039	222,196	481,842	1,061,338	224,024	456,114	182,564	3,628,327
Additions	-	2,301	25,773	102,727	114,147	1,235	78,009	1,245	325,437
Disposal	-	(2,550)	(11,233)	(42,936)	(7,275)	-	(69,457)	(45,185)	(178,636)
At December 31, 2008	604,210	395,790	236,736	541,633	1,168,210	225,259	464,666	138,624	3,775,128
Accumulated Depreciation									
At January 1, 2008	50,047	353,504	141,661	335,844	835,361	201,743	168,971	25,468	2,112,599
Depreciation charge for the year	18,144	6,991	11,683	21,660	95,909	11,111	38,935	30,746	235,179
Disposal	-	(728)	(3,253)	(19,139)	(2,370)	-	(42,498)	(14,295)	(82,283)
At December 31, 2008	68,191	359,767	150,091	338,365	928,900	212,854	165,408	41,919	2,265,495
Net carrying amount									
At December 31, 2008	536,019	36,023	86,645	203,268	239,310	12405	299,258	96,705	1,509,633
2007									
Cost									
At January 1, 2007	396,207	391,218	189,507	464,389	1,021,311	214,967	431,148	37,991	3,146,738
Additions	208,003	4,821	32,689	17,453	40,426	9,057	130,995	144,573	588,017
Disposal	-	-	-	-	(399)	-	(106,029)	-	(106,428)
At December 31, 2007	604,210	396,039	222,196	481,842	1,061,338	224,024	456,114	182,564	3,628,327
Accumulated Depreciation									
At January 1, 2007	33,804	335,843	131,697	310,599	752,097	164,873	222,749	3,536	1,955,198
Depreciation charge for the year	16,243	17,661	9,964	25,245	83,419	36,870	35,346	21,932	246,680
Disposal	-	-	-	-	(155)	-	(89,124)	-	(89,279)
At December 31, 2007	50,047	353,504	141,661	335,844	835,361	201,743	168,971	25,468	2,112,599
Net carrying amount									
At December 31, 2007	554,163	42,535	80,535	145,998	225,977	22,281	287,143	157,096	1,515,728

Property, plant and equipment includes U.S. \$ 1,457,730 and U.S.\$ 1,308,623 of fully depreciated assets as of December 31, 2008 and 2007, respectively, which are still used in the Group's operations. Depreciation expense is allocated to the different insurance branches, the general and administrative expenses and subsidiaries' operating expenses.

Subsequent to the date of these consolidated financial statements and based on estimates made by the Group, net book value losses of one of the subsidiaries resulted from Israeli incursion to Gaza during January 2009 and the destruction of property, plant and equipment amounted U.S.\$ 254,210.

14. Share Capital

	<u>2008</u>	<u>2007</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>
Authorized share capital	<u>8,052,728</u>	<u>7,596,913</u>
Subscribed share capital	<u>8,052,728</u>	<u>7,596,913</u>
Paid in share capital	<u>8,052,728</u>	<u>7,596,913</u>

The share capital of the Group comprises 32,210,912 shares after share capital was increased as a result of stock dividends on the basis of 6 additional shares for each 100 subscribed shares. (Par value amounts to U.S. \$ 0.25 per share)

15. Statutory Reserve

The amount represents cumulative transfers of 10% of profits to statutory reserve in accordance with the Group's bylaw and the Companies' Law.

16. Voluntary Reserve

The amount represents what was transferred from profits to voluntary reserve in accordance with the Group's bylaw.

17. Proposed Dividends

The Board of Directors of the Group will propose to the General Assembly in its annual meeting proposed to be held on March 27, 2009 cash dividend of 12% of share capital (equivalent to U.S.\$ 966,328) and 4% of stock dividends (4 additional shares for each 100 subscribed shares). This proposed dividends is subject to the General Assembly approval.

In its meeting held on March 29, 2006, the Group's General Assembly approved proposed dividends on the basis of cash dividend of 16% of share capital (equivalent to U.S.\$ 1,215,506) and 6% of stock dividends (6 additional shares for each 100 subscribed shares) from 2007 profits.

During 2007, the Group declared and paid cash dividends being 15% for each share (amounted to U.S.\$ 1,139,537) related to 2006 profits.

18. Insurance Contract Liabilities and Reinsurance Contract Assets

	2008	2007
	U.S. \$	U.S. \$
Gross		
<u>Insurance contract liabilities</u>		
Claims reported unsettled	17,137,452	19,284,377
Claims incurred but not reported	882,233	901,625
Unearned premium	5,018,536	3,575,518
Total insurance contract liabilities	<u>23,038,221</u>	<u>23,761,520</u>
<u>Reinsurance contract assets</u>		
Claims reported unsettled	4,005,594	3,910,340
Unearned premium	365,523	223,227
Total reinsurance contract assets	<u>4,371,117</u>	<u>4,133,567</u>
<u>Net</u>		
Claims reported unsettled	13,131,858	15,374,037
Claims incurred but not reported	882,233	901,625
Unearned premium	4,653,013	3,352,291
Net	<u>18,667,104</u>	<u>19,627,953</u>

19. Tax provisions

Movement on the tax provision during the year is as follows:

	2008	2007
	U.S. \$	U.S. \$
Balance, beginning of year	204,037	150,966
Taxes for the year	275,574	99,851
Payments during the year	(71,231)	(46,780)
Balance, end of year	<u>408,380</u>	<u>204,037</u>

The reconciliation between accounting income and taxable income is as follows:

	2008	2007
	U.S. \$	U.S. \$
Accounting profit before tax	1,471,300	2,502,183
Income subject to Value Added Tax (VAT) *	1,135,447	446,550
Less: VAT	143,790	56,550
VAT on payroll	113,101	101,325
Income subject to income tax	878,556	288,675
Income tax	131,784	43,301
Total income taxes and VAT for the year	<u>275,574</u>	<u>99,851</u>
Effective income tax rate	<u>18.7%</u>	<u>4%</u>

* This item represents the taxable income of branches operating in northern governorates (West Bank) on the basis of the presidential decree issued on June 26, 2007 exempting all tax payers of southern governorates (Gaza Strip) from income tax and VAT. Allocation of revenues and expenses on the Group's branches is made based on certain estimated criteria established by management.

As of the date of these consolidated financial statements, the Group has not reached a settlement with the income tax and VAT authorities since 2005.

20. Insurance Provisions and Other Payable

	<u>2008</u>	<u>2007</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>
Palestine Road Accident Victims Compensation Fund	2,262,828	1,893,016
Due to re-insurers *	876,407	861,142
Due to associates	1,103,059	-
Accrued expense	1,867,678	1,198,096
Ministry of Health claims	459,143	447,987
Due to insurance companies	185,721	243,855
Due to shareholders	155,890	96,617
Accounts payable	859,412	477,993
Post dated checks	239,727	491,565
Contractors retentions	141,264	161,887
VAT payable	981,170	424,022
Taxes due on payroll, deduction at sources and stamp fees	242,207	243,552
Deferred premium	420,538	219,015
Provision for employees vacation	117,463	94,700
Others	27,588	34,936
	<u>9,940,095</u>	<u>6,888,383</u>

This item includes deposits of reinsurance companies held by the Group under reinsurance agreements in the amount of U.S. \$ 362,108 and U.S. \$ 264,775 as of December 31, 2008 and 2007, respectively. Interest accrues on these deposits at an annual rate of 2.5% for the year 2008 and 2007.

21. Provision for Employees' Indemnity

Movement on the provision for employees' indemnity during the year is as follows::

	<u>2008</u>	<u>2007</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>
Balance, beginning of year	1,023,319	841,133
Provided during the year	245,123	217,077
Payments	(96,108)	(34,891)
Balance, end of year	<u>1,172,334</u>	<u>1,023,319</u>

22. (Loss) Income from Investment Portfolio

The item includes (loss) income from financial assets held for trading, available-for-sale investment and held-to-maturity investment as follows:

	<u>2008</u>	<u>2007</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>
Income from sales of financial assets	250,000	755,689
Change in fair value of trading investments	(47,998)	79,298
Impairment of held-to-maturity investment	(477,946)	-
Impairment loss on available-for-sale financial assets	(70,188)	-
Dividends income	32,599	13,559
	<u>(313,533)</u>	<u>848,546</u>

23. General and Administrative Expenses

	<u>2008</u>	<u>2007</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>
Salaries and related expenses	1,397,935	1,029,568
Board of Directors remuneration	50,000	50,000
Advertisements and promotion	31,151	69,418
Travel and transportation	181,018	146,412
Rent	135,597	151,981
Professional fees	66,274	65,431
Telephone and postage	99,925	87,324
Hospitality	57,503	53,390
Maintenance	66,345	68,517
Utilities	80,987	54,102
Fees and licenses	52,944	42,453
Depreciation	177,336	196,157
Stationery and printings	26,716	24,500
Office supplies	42,931	36,313
Others	62,281	65,162
Total general and administrative expenses	<u>2,528,943</u>	<u>2,140,728</u>
General and administrative expenses allocated to insurance branches	<u>(2,276,049)</u>	<u>(1,881,654)</u>
General and administrative expenses not allocated to insurance branches	<u>252,894</u>	<u>259,074</u>

24. Other Revenues, net

The item represents other revenues and (expenses) as follows:

	<u>2008</u>	<u>2007</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>
Construction contract revenues	2,914,033	4,577,468
Design and engineering consulting revenues	231,495	329,416
Construction contract costs	(2,600,368)	(4,360,460)
Operating expenses of subsidiaries	(474,103)	(484,260)
General and administrative expenses of subsidiaries	(102,685)	(104,885)
Interest revenues	222,403	192,442
Foreign exchange differences	(84,270)	448
Gain on disposal of property, plant and equipment	12,367	13,245
Others	(14,751)	(1,753)
	<u>104,121</u>	<u>161,661</u>

25. Prior Years Adjustments

The following are the details of adjustments of prior years.

- In prior years, the Group classified its investment in an associate as financial assets subject to International Accounting Standards (39) as available-for-sale financial assets. Retroactive restatement was made to account for the investment in associate in accordance with the equity method.

- During 2007, the Group included Board of Directors remuneration as an appropriation of profit in the consolidated statement of changes of equity. Retroactive restatement was made to account for such remuneration as an expense in the consolidated income statement.
- During 2007, the Group did not compute and provide for taxes on its taxable income of its branches operating in northern governorates (West Bank). Retroactive restatement was made and the Group provided for 2007 taxes in the amount of U.S.\$ 99,851.
- Effect of restatements on retained earnings as of January 1, 2007

	<u>2007</u> U.S. \$
Retained earning as of January 1, 2007 - before restatement	36,868
Groups share of associate's results for 2006	<u>113,672</u>
Retained earning as of January 1, 2007 - after restatement	<u>150,540</u>

- Effect of restatements on the consolidated financial statements as of December 31, 2007

	<u>Before</u> <u>restatement</u> U.S. \$	<u>Restatements</u> U.S. \$	<u>After</u> <u>restatement</u> U.S. \$
Assets	<u>8,486,454</u>	<u>1,127,824</u>	<u>9,614,278</u>
Liabilities	<u>730,527</u>	<u>149,851</u>	<u>880,378</u>
Equity	<u>2,203,278</u>	<u>977,973</u>	<u>3,181,251</u>
Profit for the year	<u>2,351,040</u>	<u>51,292</u>	<u>2,402,332</u>
Basic and diluted earning per share	<u>0.077</u>	<u>(0.002)</u>	<u>0.075</u>

26. Basic and Diluted Earning Per Share

	<u>2008</u> U.S. \$	<u>2007</u> U.S. \$
Profit for the year	<u>1,195,726</u>	<u>2,402,332</u>
Weighted average number of subscribed shares	<u>32,210,912</u>	<u>32,210,912</u>
Basic and diluted earning per share	<u>0.037</u>	<u>0.075</u>

27. Segment Information

– Business Segments Information

For management purposes, the Group is organized into four business segments, motor, general and engineering accidents, fire and theft and marine. These segments are the basis on which the Group reports its segment information.

Other operations of the Group comprise investment and cash management for the Group's own account and its subsidiaries. There are no transactions between segments. The data with respect to segment information summarizes insurance contracts assets and liabilities and the segments' revenues and results of operation.

	2008				
	Motor	General and engineering accidents	Fire and theft	Marine	Total
	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$
Insurance contract assets	1,952,477	977,011	1,389,995	51,634	4,371,117
Insurance contract liabilities	16,879,764	4,383,758	1,698,516	76,183	23,038,221
Insurance Contract Revenues					
Gross premium	9,543,346	6,902,298	1,353,082	174,599	17,973,325
Reinsurance share of gross premium	(194,110)	(470,758)	(735,917)	(75,605)	(1,476,390)
Coinsurance share of gross premium	(27,121)	(384,247)	(95,777)	(1,663)	(508,808)
Net premium	9,322,115	6,047,293	521,388	97,331	15,988,127
Change in unexpired risk reserve	(3,617)	(1,284,775)	(8,889)	(3,441)	(1,300,722)
Deferred premium	(334,114)	(58,020)	(20,618)	(7,786)	(420,538)
Deferred premium	8,984,384	4,704,498	491,881	86,104	14,266,867
Deferred premium	5,575	131,775	193,884	34,507	365,741
Total underwriting revenues	8,989,959	4,836,273	685,765	120,611	14,632,608
Claims for the year	(7,021,668)	(4,477,409)	(1,002,385)	(12,810)	(12,514,272)
Reinsurance share of claims	393,779	524,684	946,851	10,478	1,875,792
Recoveries	468,373	90,814	180,306	1,000	740,493
Change in outstanding claims reserves	2,129,320	98,739	30,511	3,001	2,261,571
Net commissions paid	(850,835)	(45,706)	(22,162)	(3,863)	(922,566)
Direct insurance branches expenses	(1,057,210)	(426,129)	(165,713)	(24,471)	(1,673,523)
General and administrative expenses allocated to insurance branches	(1,559,132)	(508,586)	(183,476)	(24,855)	(2,276,049)
Net business segment revenues	1,492,586	92,680	469,697	69,091	2,124,054
Unallocated other revenues					178,604
Unallocated other expenses					(831,358)
Net income before taxes					1,471,300

	2007				
	Motor	General and engineering accidents	Fire and theft	Marine	Total
	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$
Insurance contract assets	<u>1,691,443</u>	<u>729,162</u>	<u>1,641,671</u>	<u>71,291</u>	<u>4,133,567</u>
Insurance contract liabilities	<u>18,696,395</u>	<u>2,997,911</u>	<u>1,971,812</u>	<u>95,402</u>	<u>23,761,520</u>
Insurance Contract Revenues					
Gross premium	8,554,562	3,863,371	1,163,815	189,981	13,771,729
Reinsurance share of gross premium	(228,720)	(465,928)	(402,237)	(95,786)	(1,192,671)
Coinsurance share of gross premium	<u>(67,430)</u>	<u>(331,470)</u>	<u>(419,183)</u>	-	<u>(818,083)</u>
Net premium	8,258,412	3,065,973	342,395	94,195	11,760,975
Change in unexpired risk reserve	(283,497)	(23,994)	(5,302)	(1,480)	(314,273)
Deferred premium	<u>(185,326)</u>	<u>(33,689)</u>	-	-	<u>(219,015)</u>
	7,789,589	3,008,290	337,093	92,715	11,227,687
Deferred premium	<u>11,062</u>	<u>124,917</u>	<u>123,580</u>	<u>41,341</u>	<u>300,900</u>
Total underwriting revenues	7,800,651	3,133,207	460,673	134,056	11,528,587
Claims for the year	(4,210,891)	(2,566,602)	(1,239,879)	(3,108)	(8,020,480)
Reinsurance share of claims	53,514	359,396	1,188,948	2,666	1,604,524
Recoveries	309,632	73,643	182,966	480	566,721
Change in outstanding claims reserves	181,403	(250,671)	(32,960)	(6,474)	(108,702)
Net commissions paid	(744,952)	(46,229)	(11,644)	(1,328)	(804,223)
Direct insurance branches expenses	(935,924)	(287,159)	(88,854)	(22,929)	(1,334,866)
General and administrative expenses allocated to insurance branches	<u>(1,209,726)</u>	<u>(522,913)</u>	<u>(118,130)</u>	<u>(30,885)</u>	<u>(1,881,654)</u>
Net business segment revenues	<u>1,243,707</u>	<u>(107,398)</u>	<u>341,120</u>	<u>72,478</u>	1,549,907
Unallocated other revenues					1,211,350
Unallocated other expenses					<u>(259,074)</u>
Net income before taxes					<u>2,502,183</u>

– Geographic Segment Information

The Group operates only in the Palestinian Authority Area, consequently no secondary segment information are presented.

28. Related Party Transactions

Related parties represent associated companies, major shareholders, directors and key management personnel of Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

Balances with related parties included in the consolidated balance sheet are as follows:

	<u>2008</u>	<u>2007</u>
	<u>U.S.\$</u>	<u>U.S.\$</u>
Due from an associate	-	<u>131,713</u>
Due to associates	<u>1,103,059</u>	<u>-</u>
Accrued Board of Directors remuneration	<u>50,000</u>	<u>50,000</u>

Transactions with related parties included in the consolidated income statement are as follows:

	<u>2008</u>	<u>2007</u>
	<u>U.S.\$</u>	<u>U.S.\$</u>
Construction contracts revenues from associate	<u>2,914,033</u>	<u>3,142,952</u>
Design and engineering consulting revenues from associate	<u>231,495</u>	<u>253,115</u>
Key management personnel and Board of Directors compensations:		
Short-term benefits	<u>765,031</u>	<u>630,336</u>
Employees' indemnity	<u>41,894</u>	<u>33,576</u>

29. Commitments and Contingent Liabilities

As of the financial statements date, the Group has outstanding contractual commitments resulting from outstanding letter of guarantees, unpaid portion of investment and uncompleted portion of construction contracts. Following is a summary of the outstanding commitments, which are due during the following years:

	<u>2008</u>	<u>2007</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>
Letters of guarantees	733,051	941,540
Unpaid portion of investments	200,000	2,600,000
Uncompleted portion of construction contracts	<u>87,838</u>	<u>614,083</u>
	<u>1,020,889</u>	<u>4,155,623</u>

30. Legal claims

In addition to what is disclosed in note (3) and (9), The Group, in common with the significant majority of insurers, is subject to litigation in the normal course of its business. The Group, based on its legal advisor, does not believe that the amounts expected to be settled and outcome of these court cases will have a material impact on the Group's income or financial position.

31. Fair value of Financial Instruments

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of cash and cash equivalents, trading investments, available for sale investment, held-to-maturity investments and insurance receivable and some other receivable and debit balances. Financial liabilities consist of insurance contract liabilities and some other payable.

Fair value of financial instruments is not materially different from their book value.

32. Risk management

The Group manages risks by following comprehensive strategies set to deal with and mitigate risks through the Group's key management members, investment committee evolved from the Group's Board of Directors and the Group's reporting system. Risks are reviewed and appropriate procedures are undertaken to mitigate risks. In addition, all operating centers of the Group are responsible for identifying related risks and put in place appropriate controls procedures and monitor their continuous effectiveness.

Risk management process

The Board of Directors is responsible for setting and monitoring risks. In addition, other parties within the Group are responsible for managing Group's risks.

Risk measurement and reporting system

Managing risks is established by monitoring limits for each type of risks. These limits reflect the Group strategy and the market environment.

Information are gathered from various departments and analyzed to identify expected risks that may arise. Information are presented to the Board of Directors.

The Group is exposed to insurance risks and financial risks. Financial risk comprises market risk, credit risk and liquidity risk.

The risks faced by the Group and the way these risks are mitigated by management are summarized below.

Insurance risk

The principal risk the Group faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

Frequency and amounts of claims

The frequency and amounts of claims can be affected by several factors. The Group underwrites mainly motors, general and engineering accidents, fire and theft, and marine risks. These are regarded as short-term insurance contracts as claims are normally advised and settled within one year of the insured event taking place. This helps to mitigate insurance risk.

Concentration of insurance risk

The following schedule and information shows the concentration of insurance risks according with type and geographic location. Insurance contracts liabilities are distributed as follows:

	2008		2007	
	Gross U.S. \$	Net U.S. \$	Gross U.S. \$	Net U.S. \$
Motors	16,879,764	14,927,287	18,696,395	17,004,952
General and engineering accidents	4,383,758	3,406,747	2,997,911	2,268,749
Fire and theft	1,698,516	308,521	1,971,812	330,141
Marine	76,183	24,549	95,402	24,111
	<u>23,038,221</u>	<u>18,667,104</u>	<u>23,761,520</u>	<u>19,627,953</u>

The Group carries out its activities in Palestine. The political and economical destabilization in the area increases the risk of carrying out business and could adversely affect performance and the recoverability of its assets.

The following table shows the concentration of insurance receivable according to the receivable type:

	2008	2007
	U.S. \$	U.S. \$
Public sector	2,795,742	2,880,140
Individual, companies and establishments	5,899,502	5,201,289
	<u>8,695,244</u>	<u>8,081,429</u>

Reinsurance risk

In order to minimize financial exposure arising from large claims, the Group, in the normal course of business, enters into agreements with other parties for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is effected under treaty, facultative and excess-of-loss reinsurance contracts.

To minimize its exposure to significant losses from re-insurer insolvencies, the Group evaluates the financial condition of its re-insurers and monitors concentrations of credit risk.

Reinsurance ceded contracts do not relieve the Group from its obligations to policyholders and as a result the Company remains liable for the portion of outstanding claims reinsured to the extent that the re-insurer fails to meet the obligations under the reinsurance agreements

The sensitivity of insurance risk

The following table demonstrates the sensitivity of the Group's profit before tax to reasonably possible changes in premiums, with all other variables held constant.

<u>Type of insurance</u>	2008		
	Rate of change %	Effect on premium U.S. \$	Effect on profit before tax U.S. \$
Motors	10+	10,497,681	898,996
General and engineering accidents	10+	7,592,528	483,627
Fire and theft	10+	1,488,390	68,577
Marine	10+	192,059	12,061
		<u>19,770,658</u>	<u>1,463,261</u>

The effect of decreases is expected to be equal and opposite to the effect of the increases shown.

The following table demonstrates the sensitivity of the Group's profit before tax to reasonably possible changes in claims, with all other variables held constant.

<u>Type of insurance</u>	2008		
	Rate of change	Effect on claims	Effect on profit before tax
	%	U.S. \$	U.S. \$
Motors	10+	(7,723,835)	(403,020)
General and engineering accidents	10+	(4,925,150)	(376,317)
Fire and theft	10+	(1,102,624)	15,528
Marine	10+	(14,091)	167
		<u>(13,765,700)</u>	<u>(763,642)</u>

The effect of decreases is expected to be equal and opposite to the effect of the increases shown.

Claims development table

The following tables show the estimate cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each balance sheet date, together with cumulative payments to date.

<u>Accident year</u>	2004 and before	2005	2006	2007	2008	Total
	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$
As of the year end	25,638,916	3,362,739	3,201,176	3,161,853	2,230,706	
One year later	25,779,976	3,458,294	3,318,527	3,459,804	-	
Two years later	26,142,324	3,646,236	3,482,892	-	-	
Three years later	26,482,629	3,874,160	-	-	-	
Four years later	26,631,836	-	-	-	-	
Current estimate of cumulative claims incurred	26,631,836	3,874,160	3,482,892	3,459,804	2,230,706	39,679,398
Payments	(20,340,499)	(2,669,036)	(1,741,490)	(1,796,515)	-	(26,547,540)
Total net liabilities per the balance sheet	<u>6,291,337</u>	<u>1,205,124</u>	<u>1,741,402</u>	<u>1,663,289</u>	<u>2,230,706</u>	<u>13,131,858</u>

Capital management

Capital requirements are set and regulated by the Palestinian Capital Market Authority. These requirements are put in place to ensure sufficient solvency margins. Further objectives are set by the Group to maintain a strong credit rating and healthy capital ratios in order to support its business objectives and maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in business conditions. The Group increased its share capital as part of the stock dividends distributed to shareholders. Capital comprises paid in share capital, reserves and retained earnings, and is measured at U.S. \$ 11,958,994 and U.S. \$ 12,163,870 as at December 31, 2008 and 2007, respectively.

Regulatory framework risk

Regulators are primarily interested in protecting the rights of the policyholders and monitor these rights closely to ensure that the Group is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that the Group maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters.

The operations of the Group are also subject to regulatory requirements within the jurisdictions where it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimize the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise

Financial risks

The Group follows financial policies in managing risks as a part of certain strategies. Management manages and controls risks and ensures strategic and optimal allocation of assets and liabilities. These risks include market risk (interest rate risk, equity price risk and foreign currency risk) and liquidity risk and credit risk.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk results from exposure to interest rate, currencies rate and equity investment prices. The Group monitors these risks in accordance with certain policies and procedures established by the Group.

The Group measures and monitors market risk by sensitivity analysis.

Interest rate risk

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the Group's profit for one year, based on the floating rate of financial assets and financial liabilities at December 31, 2008. There is no direct impact on the Group's equity.

The following table demonstrates the sensitivity of the income statement to reasonably possible changes in interest rates, with all other variables held constant.

	<u>Increase/ decrease in interest rates</u>	<u>Effect on profit before tax for the year</u>
	<u>Basis point</u>	<u>U.S.\$</u>
<u>2008</u>		
U. S. Dollar	20+	14,852
U. S. Dollar	50-	(37,130)
<u>2007</u>		
U. S. Dollar	20+	16,179
U. S. Dollar	50-	(40,448)

Equity price risk

The following table demonstrates the sensitivity of the consolidated income statement and cumulative changes in fair value to reasonably possible changes in equity prices, with all other variables held constant. The effect of decreases in equity prices is expected to be equal and opposite to the effect of the increases shown:

		U.S.\$	
	(%)	The effect on profit before tax	The effect on equity
2008			
<u>Index</u>			
Palestinian Securities and Exchange	10+	10,851	-
2007			
<u>Index</u>			
Palestinian Securities and Exchange	10+	15,651	-

Foreign currency risk

The following table demonstrates the sensitivity to a reasonably possible change in the U.S. Dollar exchange rate to Jordanian Dinar and other currencies, with all other variables held constant, of the Group's profits before tax.

	Increase / decrease in Israeli shekel (ILS) to U.S. \$	Effect on profit before tax	Increase / decrease in United Arab Emirates dirham (AED) rate	Effect on profit before tax
2008				
U. S. Dollar	5%+	316,499	5%+	(20,543)
U. S. Dollar	5%-	(316,499)	5%-	20,543
2007				
U. S. Dollar	5%+	312,876	5%+	(20,543)
U. S. Dollar	5%-	(312,876)	5%-	20,543

The Jordanian Dinar is linked to U.S. \$ therefore, no effect, resulting from the fluctuations in U.S. \$ rate, is expected on the consolidated income statement.

The following show net foreign currencies position of the Group:

	U.S. \$ equivalent		
	ILS	AED	Total
<u>December 31, 2008</u>			
Total assets	9,943,872	410,855	10,354,727
Total liabilities	(16,273,852)	-	(16,273,852)
In balance sheet concentration	<u>(6,329,980)</u>	<u>410,855</u>	<u>(5,919,125)</u>
	U.S. \$ equivalent		
	ILS	AED	Total
<u>December 31, 2007</u>			
Total assets	10,696,325	410,855	11,107,180
Total liabilities	(16,953,840)	-	(16,953,840)
In balance sheet concentration	<u>(6,257,515)</u>	<u>410,855</u>	<u>(5,846,660)</u>

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its commitments associated with financial liabilities when they fall due. To limit this risk, management has arranged diversified funding sources and manages assets and liabilities and their maturities and keep sufficient cash and cash equivalents.

Liquidity requirements are monitored on monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

The majority of time deposits held by the Group at the balance sheet date had original maturity periods not exceeding three months.

The table below summarizes the allocation of liabilities (not discounted) on the basis of the remaining contractual entitlement as of the financial statements date.

	Subject to liquidity risk			Total
	Less than one year	More than one year	No term	
	U.S.S	U.S.S	U.S.S	
December 31, 2008				
Total insurance contract liabilities	13,765,699	9,272,522	-	23,038,221
Insurance provision and other payable	<u>8,556,382</u>	<u>845,712</u>	<u>538,001</u>	<u>9,940,095</u>
	<u>22,322,081</u>	<u>10,118,234</u>	<u>538,001</u>	<u>32,978,316</u>
	Subject to liquidity risk			Total
	Less than one year	More than one year	No term	
	U.S.S	U.S.S	U.S.S	
December 31, 2007				
Total insurance contract liabilities	8,822,528	14,938,992	-	23,761,520
Insurance provision and other payable	<u>5,875,859</u>	<u>698,809</u>	<u>313,715</u>	<u>6,888,383</u>
	<u>14,698,387</u>	<u>15,637,801</u>	<u>313,715</u>	<u>30,649,903</u>

Credit risks

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. For all classes of financial assets held by the Group, the maximum credit risk exposure to the Group is the carrying value as disclosed in the balance sheet.

The Group seeks to limit its credit risk with respect to customers by monitoring outstanding receivables. Premiums and receivables relates to a large number of customers mainly within the Palestinian Authority Territories. In addition, the Group maintains its banks balances with leading financial institutions.

33. Comparative Amounts

The corresponding figures for 2007 have been reclassified in order to conform with the presentation for the current year. Such reclassifications do not affect previously reported results and equity.