SOCIAL INSURANCE ORGANIZATION

CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2009

Social Insurance Organization

CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2009

CONTENTS Page

THE BOARD, MANAGEMENT AND OTHER INFORMATION

Board of Directors
Ahmed Bin Mohammed Al Khalifa (Chairman)
Othman Mohd Sharif Al Rayes (Vice Chairman)
Fawzi Abdulla Amin
Badria Yousif Al-Jeeb
Abdul Rasool Hameed Al Arayed
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Batool Ali Abdul A’al
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INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS 11 November 2010
The Social Insurance Organization
Manama, Kingdom of Bahrain

Report on the financial statements

We have audited the accompanying consolidated financial statements of The Social Insurance Organization ("the Organization"), which comprise the consolidated statement of net assets as at 31 December 2009, and the consolidated statements of changes in net assets attributable to members and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Responsibility of the Board of Directors for the consolidated financial statements

The Board of Directors of the Organization is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the consolidated 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 principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 present fairly, in all material respects, the financial position of the Organization as at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements which indicates that the unfunded actuarial deficit at 31 December 2009 amounted to BD 5,793,944 thousands (2008: BD 5,222,210 thousands) and the actions taken by the Organization to reduce this deficit.

KPMG

CONSOLIDATED STATEMENT OF NET ASSETS

As at 31 December 2009 — Bahraini dinars thousands

ASSETS	Note	2009	2008
Cash and bank balances	6	1,138,504	1,127,412
Social insurance contribution receivable	7	36,804	28,301
Receivables and other assets	8	22,667	21,986
Social insurance benefits			
Past and assumed service balances	9	49,846	48,067
Members' loans	10	39,143	37,029
Early extinguishment loans	11	175,655	157,471
Loans to financial institutions	12	56,550	56,550
Investment securities			
Investments carried at fair value through profit or loss	13	339,336	255,657
Available-for-sale investments	14	448,144	475,319
Held-to-maturity investments	15	357,408	228,019
Investments in associates	17	484,559	457,011
Investment properties	18	264,185	261,480
Property and equipment	19	57,245	58,812
TOTAL ASSETS		**3,470,046**	3,213,114
LIABILITIES			
Payables and other liabilities	20	(9,140)	(7,771)
Employees' benefits		(1,253)	(1,153)
Borrowings	21	(151,119)	(151,163)
Total Liabilities		(161,512)	(160,087)
TOTAL NET ASSETS		**3,308,534**	3,053,027
REPRESENTED BY:			
Members' funds		3,268,232	2,977,882
Investment securities fair value reserve	29	(18,504)	23,715
Land revaluation reserves	29	10,896	10,896
TOTAL NET ASSETS ATTRIBUTABLE TO MEMBERS' FUND (page 4)		3,260,624	3,012,493
Non-controlling interest	28	47,910	40,534
		3,308,534	3,053,027

The consolidated financial statements consisting of pages 3 to 42 were approved by the Board of Directors on 11 November 2010 and signed on its behalf by:

Ahmed Bin Mohammed Al Khalifa
Chairman

Mohammed Bin Isa Al Khalifa
Chief Executive Officer

The accompanying notes 1 to 35 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO MEMBERS

For the year ended 31 December 2009 Bahraini dinars thousands

	Note	2009	2008
Contributions and benefits			
Social insurance contributions	22	330,942	300,012
Past and assumed services income		18,923	22,114
Reimbursement of privatisation cost	23	4,365	6,667
Social allowances compensation		8,840	6,333
Total contributions		**363,070**	335,126
Total benefits	24	(201,988)	(191,100)
Excess contributions over pension benefits		**161,082**	144,026
Investment income			
Net investment income / (loss)	25	33,984	(126,030)
Interest income	26	55,533	65,031
Share of associate companies' profits	17	60,131	60,100
Other income		13,370	14,874
Total investment and other income		**163,018**	13,975
TOTAL INCOME		**324,100**	158,001
Expenses			
Staff costs		8,830	9,462
General and administrative expenses		7,613	7,809
Depreciation of property and equipment	19	1,961	1,990
Interest expense		3,101	6,134
Provision for impaired social insurance contribution receivable	7	1,778	1,025
TOTAL EXPENSES		**23,283**	26,420
NET INCOME FOR THE YEAR		**300,817**	131,581
Attributable to:			
Members' fund		292,941	124,563
Non-controlling interest		7,876	7,018
		300,817	131,581
Net income for the year attributable to members' fund		**292,941**	124,563
Net movements on reserves during the year	29	(42,219)	(167,741)
Share of associate companies' other reserves movement during the year		(2,595)	(8,444)
Others		4	5
increase / (decrease) in net assets attributable to members' fund during the year		**248,131**	(51,617)
Total net assets attributable to members' fund at 1 January		3,012,493	3,064,110
Total net assets attributable to members' fund at 31 December		**3,260,624**	3,012,493

The consolidated financial statements consisting of pages 3 to 42 were approved by the Board of Directors on 11 November 2010 and signed on its behalf by:

Ahmed Bin Mohammed Al Khalifa
Chairman

Mohammed Bin Isa Al Khalifa
Chief Executive Officer

The accompanying notes 1 to 35 form an integral part of these consolidated financial statements.

Social Insurance Organization

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2009 Bahraini dinars thousands

	Note	**2009**	2008
OPERATING ACTIVITIES			
Net income for the year		300,817	131,581
Adjustments:			
Net provision for impaired social insurance contribution receivable	7	1,778	1,025
Share of associate companies' profits	17	(60,131)	(60,100)
Depreciation of property and equipment	19	1,961	1,990
Profit on sale of equipments		(7)	-
Depreciation of investment properties	25	868	778
Net loss from sales of available- for – sale investments		4,083	78
Unrealised fair value losses /(gains) on investments carried at fair value through profit or loss	25	(47,482)	100,540
Losses on shares exchange		3,261	-
Dividend income	25	(12,827)	(14,192)
Income from investment properties	25	(3,456)	(2,691)
Provision for impairment allowances	25	23,470	42,765
Interest income	26	(55,533)	(65,031)
Interest expense		3,101	6,134
Cash flows before changes in operating assets and liabilities		**159,903**	142,877
Changes in operating assets and liabilities:			
Receivables and other assets		(681)	7,986
Past and assumed services balances		(1,779)	(5,463)
Payables and other liabilities		1,369	1,783
Early extinguishment loans		(18,184)	(18,411)
Member's loans		(2,114)	(2,927)
Social insurance contribution receivable		(10,281)	(4,258)
Employees' terminal benefits		100	486
Cash flows from operating activities		**128,333**	122,073
INVESTING ACTIVITIES			
Purchases of:			
Investments carried at fair value through profit or loss	13	(37,956)	(6,193)
Available-for- sale investments		(70,808)	(83,950)
Held-to-maturity investments	15	(142,472)	(28,770)
Investment in associates and joint venture	17	(55)	(21,417)
Investment properties		(2,979)	-
Property and equipment		(985)	(2,003)
Proceeds from disposals of:			-
Investments carried at fair value through profit or loss		1,563	12,849
Available-for-sale investments		18,966	29,688
Held-to-maturity investments		12,706	48,215
Property and equipment		599	506
Dividends received from:			
Available-for-sale investments	25	12,827	14,192
Associate companies	17	37,712	31,730
Loans advanced to financial institutions		-	(37,700)

The accompanying notes 1 to 35 form an integral part of these consolidated financial statements.

Social Insurance Organization

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2009 Bahraini dinars thousands

(Continued)

	Note	**2009**	2008
Interest income received		55,533	67,313
Income received from investment properties		3,456	2,525
Other income		15	57
Cash flows (used in)/from investing activities		**(111,878)**	27,042
FINANCING ACTIVITIES			
Purchase of treasury shares by subsidiaries		(128)	-
Interest expense paid		(3,041)	(7,462)
Dividends paid by subsidiaries		(2,006)	(2,354)
Restricted bank balance of a subsidiary released		2,231	2,270
Borrowings received	21	58	376
Repayment of borrowings	21	(102)	(553)
Other payments		(144)	(291)
Cash flows used in Financing activities		**(3,132)**	(8,014)
TOTAL NET CASH FLOWS IN THE YEAR		13,323	141,101
Cash and cash equivalent at beginning of year		1,124,494	983,393
CASH AND CASH EQUIVALENTS at 31 December		**1,137,817**	1,124,494

CASH AND CASH EQUIVALENTS comprise of:		
Cash on hand and bank balances	60,877	22,901
Deposits with banks	1,077,627	1,104,511
Cash and bank balances (note 6)	1,138,504	1,127,412
Less: Restricted amount *	(687)	(2,918)
	1,137,817	1,124,494

* The restricted amount represents the minimum balance required to be maintained by a subsidiary of the Organization as of the date of statement of net assets in a debt service account that can only be utilised to fund the loan interest payments.

NOTES

To the 2009 consolidated financial statements Bahraini dinars thousands

1 STATUS AND OPERATIONS

The Social Insurance Organization ("SIO" or the "Organization") was formed on 1 March 2008 in accordance with the Law No. 3 of 2008. The Organization was formed by the merger of the Pension Fund Commission (PFC) and General Organisation for Social Insurance (GOSI).

PFC was formed on 1 October 1975 and is responsible for the management of funds to provide retirement pensions and other related benefits to civil service employees of the Bahrain Government, military employees of the Bahrain Defence Force and the employees of the Public Security Forces of the Government of Bahrain. PFC organises the payment of retirement pensions and related benefits to civil servants and to military and public security forces in accordance with Pension Law No. 13 of 1975 and Amiri Decree No. 11 of 1976. This plan is a defined benefit retirement pension plan.

GOSI was established by Amiri Decree (24) of 1976 with effect from 1 October 1976 and is responsible for the management of funds to provide retirement pension and other related benefits to employees, employed by the Private Sector in the Kingdom of Bahrain. It is also responsible for managing unemployment plan established in accordance to decree 78/2006. This plan is a defined benefit retirement pension plan.

Funding policy

The Organization is responsible for managing number of retirement pension plans (public and private sectors) and other related plans. Presented blow is a summary of these plans and their funding arrangement:

Plan	Funding	Applicable law	Coverage
Public Sector	*1-Bahrainis:* *Pension* Employee 6% Employer 15% Work injury Civil employer 3% Military employer 1% *2-Non Bahrainis:* *Military* Employee 7% Employer 8% and Work injury 1% by *Civil* Work injury 3% by employer	Pension Law No.13 of 1975 and Amiri Decree No. 11 of 1976.	*Bahrainis:* Old age, disability and death work injury *Non-Bahrainis:* *Military* End of service indemnity work injury *Civil* Work injury
Private Sector	*Bahrainis:* Employee 6% Employer 9% and Work injury 3% by the employer. *Non Bahrainis:* Work injury 3% by employer	Decree Law No. 24/1976	*Bahrainis:* Old age, disability, death and work injury *Non-Bahrainis:* work injury
Unemployment	*Bahrainis and Non-Bahrainis:* Employer 1% Employee 1% Government 1%	Law No.78 for 2006	Unemployed persons

1 Status and operations (continued)

Shura members, representatives and municipality councils' members fund

On 30 June 2009, His Majesty, King Hamad Bin Isa Bin Salman Al Khalifa, the king of the Kingdom of Bahrain issued decree No 33 for 2009 for establishing pension salaries and rewards fund for the shura members, representatives and municipality councils' members. The fund covers the Old age, disability, death and work injury of the members covered. Social Insurance Organization has been honoured to manage the fund.

The members of the fund contribute 10% of their total monthly income to the fund whereas the government contributes 20% and another 3% for the work injury. The decree effective from the first legislative meeting for the shura and representative members and first council meeting for each councils' members.

As at 31 December SIO had the following equity holdings:

	Equity ownership	
	2009	2008
Subsidiaries		
Marina Club SPC	100.00%	100.00%
Hawar Holding Company	66.66%	66.66%
Gulf Diabetes Specialist Centre B.S.C (c)	56.42%	56.42%
Bahrain Car Parks Company B.S.C	52.67%	52.67%
Bahrain Tourism Company B.S.C	51.26%	51.26%
Associates		
Southern Area Development Company B.S.C (c)	43.75%	43.75%
Bahrain International Golf Course Company B.S.C (c)	42.86%	42.86%
Securities and Investment Company B.S.C (c)	37.61%	37.61%
National Hotels Company B.S.C	32.15%	32.15%
Bank of Bahrain and Kuwait B.S.C	31.86%	31.86%
Bahrain Commercial Facilities Company B.S.C	30.00%	30.00%
Seef Properties Company B.S.C (c)	21.00%	21.00%
Bahrain Telecommunications Company B.S.C	20.35%	20.35%

The consolidated financial statements comprise the SIO (which includes civil, military, private sector and unemployment plan) and its subsidiaries (together referred to as the "Organization") and Organization's interest in associates.

2 ACTUARIAL POSITION

Independent actuarial valuations of the Organization were carried out as of 31 December 2009 for private sector pension plan fund and public sector pension plan fund. The valuations were made separately for private sector pension plan fund and public sector pension plan fund. The method used to calculate the actuarial reserve is the Projected Unit Method. The actuarial valuations as of 31 December 2009 and 31 December 2008 have indicated the existence of unfunded actuarial liabilities. The Government of the Kingdom of Bahrain has undertaken to meet any future unfunded liabilities of the Organization as they fall due.

The Organization's actuarial funding provision at 31 December 2009 and 2008 is as follows:

	2009	2008
Total net assets of the Organization	3,308,534	3,053,027
Actuarial present value of promised benefits	(9,102,478)	(8,275,237)
Unfunded deficit	**(5,793,944)**	(5,222,210)

The consolidated actuarial present value of promised benefits at 31 December 2009 and 2008 of private sector pension plan fund and public sector pension plan fund can be further analysed as follows:

	2009	2008
Vested benefits	7,970,928	7,366,107
Non-vested benefits	1,131,550	909,130
	9,102,478	8,275,237

The actuarial estimates have been prepared by independent actuaries which are Muhanna & Co (Cyprus). The actuary has calculated the actuarial present value of promised benefits accruing under the terms and conditions of the plan at 31 December 2009. The method used to calculate the actuarial liability, as well as the standard contribution rate, is the "Projected Unit Method" which requires the actuarial liability to be calculated based on the present value of the benefits accrued at the valuation date, taking into account the final earnings for members in service. The discount rate has been taken at 6% per annum, consistent with the long-term investment returns to the Organization.

The Organization's unfunded deficit at 31 December 2009 amounts to BD 5,299,408 (2008: BD 5,222,210). In order to reduce this unfunded deficit management of the Organization has taken number of actions including:

i) Re-organisation financial and administrative systems
ii) Finding the best means to utilise the income
iii) Developing and diversification of the investments for reasonable return to support source of funding
iv) Increase contribution to match with the pension benefits paid

3 BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') and the provisions of Pension Law No. 13 of 1975, Decree No. 11 of 1976, Amiri decree 24 of 1976 and Law 87 of 2006.

Standards, amendments and interpretations effective on or after 1 January 2009

The following standards, amendments and interpretations, which became effective in 2009 are relevant to the Organization:

Amendments to IFRS 7, 'Financial instruments: Disclosures'

The amendment to IFRS 7 requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the Organization. These additional disclosures have been presented for the current financial reporting period and in line with the transitional provisions, comparative information has not been provided (refer note 16).

Improvements to IFRS

'Improvements to IFRS' issued in May 2008 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments effective for annual periods beginning on or after 1 January 2009 have been considered by the Organization and there have been no material changes to accounting policies as a result of these amendments.

i. Standard and interpretations issued but not yet effective

The following new / amended IFRS's and interpretations have been issued which are not yet mandatory for adoption by the Company. The Organization has not early adopted such new or amended standards in 2009.

IFRS 3, 'Business combinations'

Revised IFRS 3 Business Combinations (2008) incorporates the following changes that are likely to be relevant to the Organization's operations:

- The definition of a business has been broadened, which may result in more acquisitions being treated as business combinations.
- Contingent consideration will be measured at fair value, with subsequent changes in fair value recognised in profit or loss.
- Transaction costs, other than share and debt issue costs, will be expensed as incurred.
- Any pre-existing interest in an acquiree will be measured at fair value, with the related gain or loss recognised in profit or loss.
- Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis.

The Organization will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010 and therefore there will be no impact on prior periods in the Organization's 2010 consolidated financial statements.

IAS 27 Consolidated and Separate Financial Statements (amended 2008)

The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost; any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Organization will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010. In the future, this guidance will also tend to produce higher volatility in equity and/or earnings in connection with the acquisition of interests by the Organization.

3 Basis of preparation *(continued)*

IFRS 9 Financial instruments part 1: *Classification and measurement*

IFRS 9 was issued in November 2009 and is applicable for reporting period beginning on or after 1 January 2013. This standard replaces those parts of IAS 39 relating to the classification and measurement of financial assets and the key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (i.e. it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

The Organization is currently in the process of evaluating the potential effect of this standard. Given the nature of the Organization's operations, this standard is expected to have a pervasive impact on the Organization's financial statements.

IAS 24 Related Party Disclosures (revised 2009)

The revised standard is applicable for reporting period beginning on or after 1 January 2011. The revised IAS 24 Related Party Disclosures amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The revised standard will result in certain changes to disclosures on Related Parties.

Improvements to IFRS (issued in April 2009)

Improvements to IFRS issued in April 2009 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments effective for annual periods beginning on or after 1 January 2010 with earlier adoption permitted. No material changes to accounting policies are expected as a result of these amendments.

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except for the measurement of investments carried at fair value through profit and loss account and available-for-sale investments.

The preparation of financial statements in conformity with the IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Fund's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note (4).

4 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

i. Subsidiaries

Subsidiaries are entities controlled by the Organization. Control exists when the Organization has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. Entities in which the Company owns more than half of the voting power are considered as its subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

ii. Associates

Associates are those entities in which the Organization has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Organization holds between 20 and 50 percent of the voting power of another entity.

Associates are accounted for using the equity method and are recognized initially at cost. The consolidated financial statements include the Organization's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Organization, from the date that significant influence commences until the date that significant influence. When the Organization's share of losses exceeds its interest in equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Organization has an obligation or has made payments on behalf of the investee. For the purpose of equity accounting, the receivable from associate is treated as part of the investment in associate.

iii. Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Organization’s interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Financial assets and liabilities

i Recognition

The Organization initially recognises financial assets and financing liabilities on the date at which they are originated. All other financial assets and liabilities are recognised at the trade date i.e. the date that the Organization contracts to purchase or sell the asset, at which the Organization becomes party to the contractual provisions of the instrument.

A financial asset or liability is initially measured at fair value which is the value of the consideration given (in the case of an asset) or received (in the case of a liability), including transaction costs that are directly attributable to its acquisition or issue.

The Organization derecognises a financial asset when the rights to receive cash flows from the financial assets have expired or where the Organization has transferred substantially all risk and rewards of ownership. The Organization writes off certain financial assets when they are determined uncollectible. The Organization derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

ii Measurement principles

Financial assets are measured either at fair value, amortised cost or in certain cases carried at cost.

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Organization measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If a market for a financial instrument is not active, the Organization establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), discounted cash flow analyses and other valuation models with accepted economic methodologies for pricing financial instruments.

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate.

(c) Investment securities

i. *Classification*

Investments, excluding investments in subsidiaries and equity accounted associates, are classified as carried at fair value through profit or loss, held-to-maturity, loans and receivable or available-for-sale.

Investments carried at fair value through profit or loss are financial assets that are held for trading or which upon initial recognition are designated by the Organization as at fair value through profit or loss.

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity that the Organization has the positive intention and ability to hold to maturity, and which are not designated as carried at fair value through profit or loss or as available-for-sale.

Available-for-sale investments are financial assets that are not investments carried at fair value through profit or loss or held-to-maturity or loans and receivables. These include investments in quoted and unquoted equity securities.

ii. Recognition

Investment securities are initially recognised at fair value, plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are de-recognised when the rights to receive cash flows from the financial assets have expired or where the Organization has transferred substantially all risk and rewards of ownership.

iii. Subsequent measurement

Subsequent to initial recognition, investments at fair value through profit or loss and available-for-sale investments are re-measured to fair value. Held-to-maturity investments are measured at amortised cost less any impairment allowances. Available-for-sale investments which do not have a quoted market price or other appropriate methods from which to derive reliable fair values, are stated at cost less impairment allowances.

iv. *Gains and losses on subsequent measurement*

Gains and losses arising from a change in the fair value of investments carried at fair value through profit or loss are recognised in the statement of changes to net assets in the period in which they arise. Gains and losses arising from a change in the fair value of available-for-sale investments is recognised in investment securities fair value reserve and when the investments are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the fair value reserve is transferred to the statement of changes to net assets.

v. *Fair value measurement principles*

Fair value for quoted investments is their market bid price. For other unquoted investments, fair value is determined either by reference to the price of the most recent transactions in the shares, or based on recognised internal valuation models, or based on valuations undertaken by independent external valuers. For certain investments through fund managers, the Organization receives fair values from the fund managers that are based on proprietary models, which usually are developed from recognised valuation models for fair valuation of certain available-for-sale investments and investments in designated at fair value through the profit or loss. Some or all of the inputs into these models may not be market observable, but are estimated based on assumptions. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state the values of these investments.

(d) Financial instruments

i. Past and assumed services balances

Past and assumed services balances represent amount due from members whom elected to buy additional contributions or part services. The considerations may be paid immediately or over an agreed period not exceeding 5 or 10 years. They are stated at amortised cost using the effective interest rate method mentioned in note 4(b)(ii) less impairment allowances, if any.

ii. Members' loans

Members' loans represent loans given to members who have completed not less than five years of service as of the loan application date in accordance with the lending plan for public sector plan personnel. They are stated at amortised cost using the effective interest rate method mentioned in note 4(b)(ii) less impairment allowances, if any.

iii. Early extinguishment loans

Early extinguishment loans represent loans given to eligible members who have worked for the civil service, the military or public security forces and the in the private sector. Civil service employees with at least 25 years of service and military employees with 20 years of service are entitled for the loan in accordance with Amiri Decree No. 9 of 1986 and Amiri Decree No. 20 of 1991 respectively. Private sector retired employees are entitled for the loan as per order No.1 for 2002. They are stated at amortised cost using the effective interest rate method mentioned in note 4(b)(ii) less impairment allowances, if any.

iv. Loans to financial institutions

These are stated at amortised cost using the effective interest rate method mentioned in note 4(b)(ii) less provision for impairment, if any.

v. Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents comprise cash, balances with banks and short-term highly liquid assets, with maturities of three months or less when acquired which are subject to insignificant risk of changes in fair value and are used by the Organization in the management of its short-term commitments. Cash and cash equivalents are stated at amortised cost using the effective interest rate method mentioned in note 4(b)(ii) less impairment allowances, if any.

4 Significant accounting policies (continued)

vi. Receivables

Receivables are stated at amortised cost, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Organization will not be able to collect all amounts due according to the original terms of receivables.

(e) Impairment of financial assets

A provision for impairment is established where there is objective evidence that the Organization will not collect all amounts due, including both principal and interest, in accordance with the contractual terms of the credit facility. Objective evidence that a financial asset is impaired may include a breach of contract, such as default or delinquency in interest or principal payments, the granting of a concession that, for economic or legal reasons relating to the borrower's financial difficulties, that would not otherwise be considered, indications that it is probable that the borrower will enter bankruptcy or other financial reorganisation, the disappearance of an active market, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Organization, or economic conditions that correlate with defaults in the Organization.

For equity securities classified as available-for-sale, a significant or prolonged decline in fair value below cost is considered in determining whether a security is impaired. Where such evidence exists, the cumulative net loss that has been previously recognised directly in members' fund is removed from members' fund and recognised in the statement of changes in net assets attributable to members.

The provision for impairment is determined based on the difference between the net carrying amount and the recoverable amount of the financial asset. The recoverable amount is measured as the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at the inception of the credit facility.

Provisions for impairment are recognised in the statement of changes in net assets attributable to members and are reflected in an allowance account against loans and investments.

Financial assets are written off after all restructuring and collection activities have taken place and the possibility of further recovery is considered to be remote. Subsequent recoveries are included in other income.

With the exception of provisions for the impairment of available-for-sale equity instruments, provisions for impairment are released and transferred to the statement of changes in net assets attributable to members where a subsequent increase in the recoverable amount is related objectively to an event occurring after the provision for impairment was established. Impairment losses for available-for-sale equity instruments are only released and transferred to the statement of changes in net assets attributable to members on the redemption or sale of the instrument.

(f) Investment properties

Investment properties are those which are held by the Organization to earn rental income or for capital appreciation or both. Investment properties are stated at cost less accumulated depreciation and any impairment losses. Depreciation is calculated on cost by the straight-line method at annual rates, which are intended to write off the cost of the investment property over their estimated useful lives of 10-20 years.

(g) Provisions

Provisions are recognised when the Organization has a present obligation as a result of a past event and it is probable that the Organization will be required to settle that obligation.

(h) Revenue recognition

Contributions of public plan are accrued based on salaries paid to government employees during the year.

Contributions of private plan are accrued in based on declared salary submitted by registered employers at the beginning of each year.

4 Significant accounting policies (continued)

Interest income is recognised in the statement of changes in net assets attributable to members using the effective interest method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or liability. The application of the effective interest rate method has the effect of recognising interest income evenly in proportion to the amount outstanding for financial instruments over the period to maturity or repayment. In calculating the effective interest rate, cash flows are estimated taking into consideration all contractual terms of the financial asset or liability but excluding future credit losses.

Past and assumed services income is recognised in the year of purchase of services pertaining to prior year by the members.

Dividend income is recognised when the right to receive the dividends is established.

Property rental income is recognised in the income statement on a straight-line basis over the lease term.

Government compensation is recognised as income when the right to receive the compensation is established. Government compensation towards additional actuarial cost incurred by the Organization as result of Government privatisation program is recognised based on allocated budget by Government for each year. Government compensation towards social allowance is recognised as income when the social allowance benefit is paid to the beneficiaries by the Organization.

(i) Benefits

Pension and other benefits are accrued when the member becomes entitled to receive the benefits in accordance with Pension Law No. 13 of 1975, Amiri Decree No. 11 of 1976, Amiri Decree 24 of 1976 and Law no. 87of 2006, as amended.

(j) Leases

A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset. Finance leases also include properties constructed and transferred to customers on a lease to own basis. Assets given under a finance lease are recognised as a receivable at an amount equal to the net investment in the lease. The sales revenue (contract income) is recorded at the commencement of a finance lease at the fair value of the asset, or, if lower, the present value of the minimum lease payments accruing to the lessor, computed at a commercial rate of interest or at the rate implicit in the lease. Minimum lease payment receivables on finance leases are apportioned between the finance income and the reduction in the outstanding receivable. The finance income is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining net investment in the finance lease.

An operating lease is a lease other than a finance lease. Rental income from operating leases is recognised on a straight line basis over the lease term.

(k) Property and equipment

i. Recognition

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, if any. The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each statement of net assets date. An asset's carrying amount is written down immediately to its residual amount if the carrying amount of the asset is greater than its estimated recoverable amount.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of net assets date. When an item of property and equipment is sold or discarded, the respective cost and accumulated depreciation relating thereto are eliminated from the statement of net assets, the resulting gain or loss being recognized in the statement of changes in net assets attributable to members.

4 Significant accounting policies (continued)

ii. Subsequent cost

The Organization recognises in the carrying amount of an item of property and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Organization and the cost of the item can be measured reliably. All other costs are recognised in the statement of changes in net assets attributable to members as an expense as incurred.

iii. Depreciation

Freehold land and capital work-in-progress are not depreciated. Depreciation on other properties and equipments is provided on a straight -line basis at annual rates which are intended to write-off the cost of the assets, less estimated realisable value at the end of the useful life of the item, over the useful life of the assets. The useful lives of different categories of property and equipment are as under:

Hotels and buildings	20 - 40 years
Equipment, furniture and fixtures	2 -10 years
Computers	5 years

All depreciation is charged to the statement of changes in net assets attributable to members. When an asset is sold or otherwise retired, the cost and related accumulated depreciation are removed and any resultant gain or loss is taken to the statement of changes in net assets attributable to members.

(l) Employee benefits

i. Bahraini employees

Pensions and other social benefits for Bahraini employees are covered by the Social Insurance Organization plan to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Organization's contribution to this plan, which represents a defined contribution plan under International Accounting Standard 19 – Employee Benefits, is expensed as incurred.

ii. Expatriate employees

Expatriate employees are entitled to leaving indemnities payable under the Civil Service Law or Labour Law for non-Bahraini employees, based on length of service and final remuneration. Provision is made for amounts payable on the employees accumulated periods of service since the previous settlement dates and latest entitlements to salaries and allowances at the statement of net assets date.

(m) Foreign currency transactions

i. Functional and presentation currency

Items included in the consolidated financial statements of the Organization are measured using the currency of the primary economic environment in which the Organization operates (the "functional currency"). The consolidated financial statements are presented in Bahraini Dinar, which is the Organization's functional and presentation currency.

ii. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of changes in net assets attributable to members. Translation differences on non-monetary items carried at their fair value, such as certain available-for-sale equity securities, are included in investments fair value reserve.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Organization makes estimates and assumptions that effect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

i. Classification of investments

In the process of applying the Organization's accounting policies, management decides on acquisition of an investment whether it should be classified as investments designated at fair value through profit or loss, held-to-maturity or available-for-sale investment securities. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification (refer note 4 (c)).

ii. Impairment on available-for-sale investments

The Organization determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment and is assessed for each investment separately. In case of quoted equity securities, the Organization considers a decline of more than 30% in the fair value below cost to be significant and considers a decline below cost which persists for more than 6 months as prolonged.

Where fair values are not readily available and the investments are carried at cost, the recoverable amount of such investment is estimated to test for impairment. In making a judgment of impairment, the Organization evaluates among other factors, evidence of deterioration in the financial health of the project, impacts of delays in execution, industry and sector performance, changes in technology, and operational and financing cash flows. It is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of the investments within the next financial year due to significant changes in the assumptions underlying such assessments.

iii. Impairment of loans and other receivable

A provision for impairment of receivables is made when there is objective evidence that the Organization will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The receivables recoverable amount is estimated based on past experience and estimated cash flows.

6 CASH AND BANK BALANCES

	2009	2008
Cash on hand	4	4
Current account balances with banks	24,024	9,802
Call account balances with banks	36,848	13,095
Deposits with banks	1,081,830	1,109,442
	1,142,706	1,132,343
Less: Provision for impairment on deposits with banks	(4,202)	(4,931)
	1,138,504	1,127,412

The provision for impairment relates to deposits with Bahrain Middle East Bank B.S.C.

6 Cash and bank balances (continued)

Provision for impairment on deposits with banks	**2009**	2008
At 1 January	4,931	3,205
(Reversal) /Charge for the year	(729)	1,726
At 31 December	**4,202**	4,931

7 SOCIAL INSURANCE CONTRIBUTION RECEIVABLE

	2009	2008
Private sector pension plan	31,314	23,447
Public sector pension plan	5,505	5,642
Unemployment	8,229	5,678
	45,048	34,767
Less: Allowance for impairment	(8,244)	(6,466)
	36,804	28,301

Allowance for impairment	**2009**	2008
At 1 January	6,466	5,441
Charge for the year	1,778	1,025
At 31 December	**8,244**	6,466

The amount of net provision for impaired social insurance contribution receivable for the year of BD 1,778 (2008: BD 1,025) has been recognised in the statement of changes in net assets attributable to members.

8 RECEIVABLES AND OTHER ASSETS

	2009	2008
Interest receivable	9,634	11,136
Ministry of Finance – receivable (note 23)	1,175	2,007
Receivables on sales of investment securities	1,535	2,465
Social allowance contribution receivable	307	332
Staff loans	195	126
Advance for investment purchase	4,045	-
Other balances	6,142	6,359
	23,033	22,425
Less: Allowance for impairment	(366)	(439)
	22,667	21,986

Allowance for impairment	**2009**	2008
At 1 January	439	418
(Reversal)/Charge for the year	(73)	21
At 31 December	**366**	439

9 PAST AND ASSUMED SERVICE BALANCES

	2009	2008
Past services	10,380	11,735
Assumed services	39,466	36,332
At 31 December	**49,846**	48,067

10 MEMBERS' LOANS

	2009	2008
Members' loans	39,337	37,223
Less: Allowance for impairment	(194)	(194)
	39,143	37,029

Members' loans are granted to members, covered by Law No. (13) of 1975, Amiri Decree No.(11) of 1976 and Amiri Decree (24) of 1976, who have completed not less than five years service as of the loan application date. These loans are repayable within 4 years. During the year, loans amounting to BD 59(2008: BD 30) were written off due to borrowers' deaths (note 24).

Allowance for impairment	**2009**	2008
At 1 January	194	194
Charge for the year	-	-
At 31 December	**194**	194

11 EARLY EXTINGUISHMENT LOANS

	2009	2008
Early extinguishment loans	176,278	158,094
Less: Allowance for impairment	(623)	(623)
	175,655	157,471

Early extinguishment loans are granted to eligible members, who have completed the required period of service to be entitled to pension salaries, assuming their services were terminated by resignation at the date of submission of the application for early extinguishment loans. The loans are repayable on 5, 10 or 15 years in equal monthly instalments. These loans are secured by members' pension contributions. During the year, loans amounting to BD 332 (2008: BD 202) were written off due to borrowers' deaths (note 24).

12 LOANS TO FINANCIAL INSTITUTIONS

	2009	2008
Loans to financial institutions	60,320	60,320
Less: Allowance for impairment	(3,770)	(3,770)
	56,550	56,550

The provision for impairment allowance relates to a loan advanced to Bahrain Middle East Bank B.S.C. The loans to financial institutions have maturities ranging from 2011 - 2013.

Allowance for impairment	**2009**	2008
At 1 January	3,770	3,770
Charge for the year	-	-
At 31 December	3,770	3,770

13 INVESTMENTS CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2009	2008
At 1 January	255,657	353,682
Purchases	37,956	6,193
Disposals	(1,521)	(6,372)
Unrealized fair value gain / (loss) included in the statement of changes in net assets attributable to members (note 25)	47,482	(100,540)
(loss)/gain from foreign currency movement	(238)	2,694
	339,336	255,657

14 AVAILABLE-FOR-SALE INVESTMENTS

	2009	2008
At 1 January	515,260	627,183
Purchases	69,209	83,950
Disposals	(24,711)	(44,509)
Fair value changes during the year (page 29)	(48,229)	(151,364)
	511,529	515,260
Less: Allowance for impairment	(63,385)	(39,941)
At 31 December	**448,144**	475,319

	2009	2008
Quoted investments at fair value	144,935	214,312
Investments at fair values	61,463	81,443
Unquoted investments	241,746	179,564
	448,144	475,319

14 Available-for-sale investments (continued)

Provision for impairment allowance	**2009**	2008
At 1 January	39,941	6,442
Charge for the year	23,444	33,499
At 31 December	**63,385**	39,941

15 HELD-TO-MATURITY INVESTMENTS

	2009	2008
At 1 January	235,559	255,004
Purchases	142,472	28,770
Redemptions of matured investments	(12,329)	(48,215)
	365,702	235,559
Less: Allowance for impairment	(8,294)	(7,540)
At 31 December	**357,408**	228,019

	2009	2008
Bonds	196,736	106,134
Sukuks	160,672	121,885
	357,408	228,019

Allowance for impairment	**2009**	2008
At 1 January	7,540	-
Charge for the year	754	7,540
At 31 December	**8,294**	7,540

16 Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Organization’s market assumptions. These two types of inputs have created the following fair value hierarchy:

- ***Level 1*** – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities on exchanges.
- ***Level 2*** – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- ***Level 3*** – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Organization considers relevant and observable market prices in its valuations where possible.

16 fair value hierarchy (continued)

2009	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments carried at fair value through profit or loss	-	335,167	-	335,167
Available-for-sale investments	169,329	39,625	242,631	451,585
	169,329	**374,792**	**242,631**	**786,752**

2008	Level 1	Level 2	Level 3	Total
investments carried at fair value through profit or loss	-	250,549	-	250,549
Available-for-sale investments	214,312	81,443	179,255	475,010
	214,312	331,992	179,255	725,559

17 INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

	2009	2008
At 1 January	457,011	430,905
Purchases	55	21,417
Share of profits	60,131	60,100
Share of investments fair value reserve	7,798	(14,948)
Share of land revaluation reserve	192	-
Share of other reserves	(2,916)	(8,733)
Dividends received	(37,712)	(31,730)
At 31 December	**484,559**	457,011

The summarised financial information of associates, based on audited financial statements, as at and for the year ended 31 December 2009 is as follows:

	2009	2008
Total assets	3,405,120	3,374,441
Total liabilities	2,378,956	2,419,622
Total revenues	482,089	492,786
Total net profits	166,955	169,467

NOTES
to the 2009 consolidated financial statements Bahraini dinars thousands

18 INVESTMENT PROPERTIES

	2009	2008
At 1 January	273,915	273,898
Purchases	2,991	17
Transfer from fixed assets	582	-
Gross	**277,488**	273,915
Accumulated depreciation	(13,303)	(12,435)
At 31 December	**264,185**	261,480
Fair value	**854,070**	848,278

Investment properties were valued as at 31 December 2009 by an independent and professional property valuer based on open market prices.

19 PROPERTY AND EQUIPMENT

	2009						2008
	Freehold land	**Hotels and buildings**	**Furniture, equipment & fixtures**	**Computers**	**Capital work-in-progress**	**Total 2009**	Total
Cost							
At beginning of year	41,602	38,942	13,209	539	2,513	96,805	95,149
Purchases	-	1,453	626	11	697	2,787	2,317
Disposals/transfers	-	(582)	(17)	-	(1,801)	(2,400)	(661)
At 31 December	**41,602**	**39,813**	**13,818**	**550**	**1,409**	**97,192**	96,805
Depreciation							
At beginning of year	-	26,193	11,364	436	-	37,993	36,052
Charge of the year	-	1,419	507	35	-	1,961	1,990
Disposals/transfers	-	11	(18)	-	-	(6)	(49)
At 31 December	**-**	**27,623**	**11,853**	**471**	**-**	**39,947**	37,993
Net carrying value:							
At 31 December	**41,602**	**12,190**	**1,965**	**79**	**1,409**	**57,245**	58,812
At 31 December 08	41,602	12,658	1,936	103	2,513		- 58,812

20 PAYABLES AND OTHER LIABILITIES

	2009	2008
Accrued pension expenses	4,498	2,994
Trade payables	934	1,026
Expired cheques	841	499
Others	2,867	3,252
	9,140	7,771

21 BORROWINGS

	2009	2008
At 1 January	151,163	151,340
Additions	58	376
Repayments	(102)	(553)
At 31 December	**151,119**	151,163

	2009	2008
Repayable within 1 year	98	87
Repayable between 1 – 5 years	151,021	151,076
	151,119	151,163

The current borrowings represent loans taken by the subsidiaries of the Organization as follows:

i) Loan of BD 150,800 taken by Hawar Holding Company ("HHC") in 2007 from commercial banks and carries interest rate of LIBOR plus 0.375% margin and is repayable on or before 16 January 2010. The Effective interest rate as at 31 December 2009 was 1.01% (2008: 2.69%).

The loan has been pledged by Amber Holding Limited's, a subsidiary of HHC, 20% interest in the issued share capital of the Bahrain Telecommunications Company B.S.C., an associate company to the Organization, as security in favour of the lenders.

ii) Loan of BD 58 taken by Gulf Diabetes Specialist Centre BSC (c) ("GDSC") in 2008. The loan bears a floating interest of 1.25% per annum above bank base rate and repayable over 60 monthly instalments. The loan is secured by the assignment of an insurance policy over GDSC's building for the amount of the loan and undertaking that all rentals relating to the building occupied by tenants on 4th. floor of the building will be transferred to the lender.

22 SOCIAL INSURANCE CONTRIBUTIONS

	2009	2008
Basic salary	221,819	204,906
Social allowance	9,200	8,867
Work injury	40,660	35,153
Unemployment	56,355	47,399
Penalties and others	2,908	3,687

	2009	2008
	330,942	300,012

NOTES
to the 2009 consolidated financial statements Bahraini dinars thousands

22 Social Insurance Contribution (continued)

	2009	2008
Employers' contribution	240,278	218,861
Employees' contribution	90,664	81,151
	330,942	300,012

23 REIMBURSEMENT OF PRIVATISATION COST

The amount represents additional cost incurred by the Organization as the result of early retirement of staff under a privatisation of three governmental entities. The additional contribution is recoverable from the Ministry of Finance according to the decision number (1-1859) of council of ministers dated 30 October 2005.

24 BENEFITS

	2009	2008
Retirement pensions	161,390	145,240
Lump-sum compensation	19,904	22,041
Social allowance paid	6,937	6,330
Previous years' retirement pensions	3,512	4,480
Death grants	1,583	1,339
Work injury payments	3,432	2,988
Loan instalments written off due to death:		
Past and assumed services balances	35	13
Members' loans (note 10)	59	30
Early extinguishment loans (note 11)	332	202
Unemployment compensation	4,799	8,432
Others	5	5
	201,988	191,100

25 NET INVESTMENT INCOME / (LOSS)

	2009	2008
Investment securities:		
Dividend income	12,827	14,192
Net loss from sales of available-for-sale investments	(4,083)	(78)
Net foreign exchange gains	(1,276)	1,391
Unrealised fair value gain / (losses)on investments carried at fair value through profit or loss (note 13)	47,482	(100,540)
Income distribution from available –for-sale investments	709	618
Investment properties:		
Income from investment properties	3,456	2,691
Investment properties maintenance costs	(1,191)	(1,388)
Depreciation of investment properties	(868)	(778)
Other income	398	627
	57,454	(83,265)
Less: Allowance for impairment	(23,470)	(42,765)
	33,984	(126,030)

NOTES
to the 2009 consolidated financial statements Bahraini dinars thousands

25 Net investment income /(loss) (continued)

Allowance for impairment	**2009**	2008
Impairment write back on deposit/ (provision for impairment)	728	(1,726)
Provision for impairment of available-for-sale investments (note 14)	(23,444)	(33,499)
Provision for impairment of held-to-maturity investments (note 15)	(754)	(7,540)
	(23,470)	(42,765)

26 INTEREST INCOME

	2009	2008
Investments		
Deposits with banks	31,622	42,553
Held-to-maturity investments	11,781	12,441
	43,403	54,994
Loans		
Loans to financial institutions	1,969	1,453
Early extinguishment loans	8,145	6,714
Members' loans	2,016	1,870
	12,130	10,037
	55,533	65,031

27 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Organization. The key management personnel comprise members of the Board of Directors and key executive management personnel represented by Chief Executive Officer, the Assistant Director General for Pension Affairs, the Assistant Director General for Financial & Administration Affairs and certain directors of departments.

Their compensation is as follows:

	2009	2008
Short term employment benefits	727	642
Fees paid for board representation in subsidiaries, associates and investee companies	362	364

NOTES
to the 2009 consolidated financial statements Bahraini dinars thousands

28 NON-CONTROLLING INTEREST

	2009	2008
At 1 January	40,534	35,296
Net income for the year attributable to Non-controlling interest (page 4)	7,876	7,018
Share of investment securities fair value reserve and Revaluation reserve movement during the year (page 29)	594	(332)
Share of other reserves movement during the year	(1,094)	(1,448)
At 31 December	**47,910**	40,534

29 NET MOVEMENTS ON INVESTMENT SECURITIES FAIR VALUE RESERVE AND LAND REVALUATION RESERVE

	Attributable to members				
2009	**Investment securities fair value reserve**	**Land revaluation reserve**	**Sub-total**	**Non-controlling Interest**	**Total**
Balance at 1 January	23,715	10,896	34,611	1,177	35,788
Net fair value changes on available-for-sale investments during the year	(48,046)	-	(48,046)	(183)	(48,229)
Transfers to statement of changes in net assets attributable to members on sales of available-for-sale investments	-	-	-	60	60
Share in the fair value reserve of associates	5,827	-	5,827	717	6,544
Net movements on reserves during the year	(42,219)	-	(42,219)	594	(41,625)
Balance at 31 December	**(18,504)**	**10,896**	**(7,608)**	**1,771**	**(5,837)**

	Attributable to members				
2008	Investment securities fair value reserve	Land revaluation reserve	Sub-total	Non-controlling Interest	Total
Balance at 1 January	191,456	10,896	202,352	1,509	203,861
Net fair value changes on available-for-sale investments during the year	(151,182)	-	(151,182)	(182)	(151,364)
Transfers to statement of changes in net assets attributable to members on sales of available-for-sale investments	(1,798)		(1,798)	37	(1,761)
Share in the fair value reserve of associates	(14,761)		(14,761)	(187)	(14,948)
Net movements on reserves during the year	(167,741)	-	(167,741)	(332)	(168,073)
Balance at 31 December	23,715	10,896	34,611	1,177	35,788

NOTES
to the 2009 consolidated financial statements

Bahraini dinars thousands

30 MATURITY PROFILE

Gross undiscounted cash flows of the financial assets and liabilities was as follows:

2009	Up to 1 month	1 to 3 months	4 to 6 months	7 months to 12 months	1 to 3 years	Over 3 years	Undated	Total
Assets								
Cash and bank balances	244,991	584,967	253,310	32,695	-	-	22,541	1,138,504
Social insurance contribution receivable	15,265	21,539	-	-	-	-	-	36,804
Receivables and other assets	20,413	1,673	366	-	-	-	215	22,667
Past and assumed services balances	817	1,634	2,451	4,902	19,607	15,251	5,184	49,846
Members' loans	1,545	3,090	4,634	9,269	20,605	-	-	39,143
Early extinguishment loans	2,038	4,076	6,114	12,227	49,548	101,652	-	175,655
Loans to financial institutions	-	-	-	-	37,700	18,850	-	56,550
Investments carried at fair value through profit or loss	-	-	-	-	-	-	339,336	339,336
Available-for-sale investments	-	-	-	-	-	-	448,144	448,144
Held-to-maturity investments	3,000	54,638	13,662	17,667	134,479	133,962	-	357,408
	288,069	**671,617**	**280,537**	**76,760**	**261,939**	**269,715**	**815,420**	**2,664,057**
Liabilities								
Payables and other liabilities	(5,881)	(721)	(1,396)	(374)	(82)	(610)	(76)	(9,140)
Employees' terminal benefits	-	-	-	-	-	-	(1,253)	(1,253)
Borrowings	-	-	-	(98)	(150,800)	-	(221)	(151,119)
	(5,881)	**(721)**	**(1,396)**	**(472)**	**(150,882)**	**(610)**	**(1,550)**	**(161,512)**

NOTES
to the 2009 consolidated financial statements

Bahraini dinars thousands

30 Maturity profile (continued)

2008	Up to 1 month	1 to 3 months	4 to 6 months	7 months to 12 months	1 to 3 years	Over 3 years	Undated	Total
Assets								
Cash and bank balances	181,805	319,428	399,703	173,473	41,870	-	11,133	1,127,412
Social insurance contribution receivable	14,637	13,664	-	-	-	-	-	28,301
Receivables and other assets	12,455	2,045	1,825	5,537	-	-	124	21,986
Past and assumed services balances	655	1,309	1,964	3,928	15,712	24,499	-	48,067
Members' loans	1,512	3,023	4,535	9,069	18,890	-	-	37,029
Early extinguishment loans	986	1,972	2,959	5,917	29,746	115,891	-	
Loans to financial institutions	-	-	-	-	18,850	37,700	-	
Investments carried at fair value through profit or loss	-	-	-	-	-	-	255,657	255,657
Available -for- sale investments	-	-	-	-	-	-	475,319	475,319
Held-to-maturity investments	2,227	-	-	-	64,938	160,854	-	228,019
	214,277	341,441	410,986	197,924	190,006	338,944	742,233	2,435,811
Liabilities								
Payables and other liabilities	(585)	(323)	(5,193)	(1,309)	(95)	(199)	(67)	(7,771)
Employees' terminal benefit	-	-	-	-	-	-	(1,153)	(1,153)
Borrowings	-	-	-	(88)	(150,965)	(110)	-	(151,163)
	(585)	(323)	(5,193)	(1,397)	(151,060)	(309)	(1,220)	(160,087)

31 FINANCIAL INSTRUMENTS CLASSIFICATION

2009	Held-for-trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other at amortised cost	Total carrying value
Assets						
Cash and bank balances	-	-	1,138,504	-	-	1,138,504
Social insurance contribution receivable	-	-	36,804	-	-	36,804
Receivables and other assets	-	-	22,667	-	-	22,667
Past and assumed services balances	-	-	49,846	-	-	49,846
Member's loans	-	-	39,143	-	-	39,143
Early extinguishment loans	-	-	175,655	-	-	175,655
Loans to financial institutions	-	-	56,550	-	-	56,550
Investments carried at fair value through profit or loss	339,336	-	-	-	-	339,336
Available-for-sale investments	-	-	-	448,144	-	448,144
Held-to-maturity investments	-	357,408	-	-	-	357,408
Total financial assets	**339,336**	**357,408**	**1,519,169**	**448,144**	**-**	**2,664,057**
Liabilities						
Payables and other liabilities	-	-	-	-	(9,140)	(9,140)
Employees' terminal benefits	-	-	-	-	(1,253)	(1,253)
Borrowings	-	-	-	-	(151,119)	(151,119)
Total financial liabilities	**-**	**-**	**-**	**-**	**(161,512)**	**(161,152)**

NOTES
to the 2009 consolidated financial statements

Bahraini dinars thousands

31 *Financial instruments classification (continued)*

2008	Held-for-trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other at amortised cost	Total carrying value
Assets						
Cash and bank balances	-	-	1,127,412	-	-	1,127,412
Social insurance contribution receivable	-	-	28,301	-	-	28,301
Receivables and other assets	-	-	21,986	-	-	21,986
Past and assumed services balances	-	-	48,067	-	-	48,067
Members' loans	-	-	37,029	-	-	37,029
Early extinguishment loans	-	-	157,471	-	-	157,471
Loans to financial institutions	-	-	56,550	-	-	56,550
Investments carried at fair value through profit or loss	255,657	-	-	-	-	255,657
Available-for-sale investments	-	-	-	475,319	-	475,319
Held-to-maturity investments	-	228,019	-	-	-	228,019
Total financial assets	255,657	228,019	1,476,816	475,319	-	2,435,811
Liabilities						
Payables and other liabilities	-	-	-	-	(7,771)	(7,771)
Employees' terminal benefits	-	-	-	-	(1,153)	(1,153)
Borrowings	-	-	-	-	(151,163)	(151,163)
Total financial liabilities	-	-	-	-	(160,087)	(160,087)

32 FINANCIAL RISK MANAGEMENT

Risk management framework

The Board of Directors has overall responsibility for establishing the risk culture and ensuring that an effective risk management framework is in place. The Board of Directors approves and periodically reviews the risk management policies and strategies. The Audit Committee is responsible for implementing risk management policies, guidelines and limits and ensuring that monitoring processes are in place. The Audit Committee is assisted by the Internal Audit Directorate, which undertakes regular reviews of risk management controls and procedures, the results of which are reported to the Audit committee.

The Internal audit directorate provide independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board of Directors.

As described in Note 1 the Organization was formed by merger of PFC and GOSI since 1 March 2008. The risk management policies of both PFC and GOSI prior to merger were similar as both PFC and GOSI were controlled by the Government.

Post merger the Organization has adopted same risk management policies of GOSI, which is monitored on an overall basis. The Organization has separate Directorates for both PFC and GOSI with respect to Investments, contributions and benefits. However the operations of the directorates are reviewed and approved by the CEO who is involved in the day to day operations of both PFC and GOSI.

The Investment Directorate submits quarterly investment review reports to the investment committee. The reports describe the status of Organization’s investments and main issues arising during each quarter. The reports also give updated valuation and impairment assessment for certain investments that require investment committee attention.

Financial instruments consist of financial assets and financial liabilities. Financial assets of the Organization include cash and cash equivalents, loans, members’ loans, past and assumed services benefits receivable, early extinguishment loans, investment securities, receivables and other assets. Financial liabilities of the Organization include bank credit balances and borrowings. Accounting policies for financial instruments are set out in note 4.

The Organization has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risks
- operational risks

This note presents information about the Organization’s exposure to each of the above risks, the Organization’s objectives, policies and processes for measuring and managing risk, and the Organization’s management of members’ Organization.

a) Credit risk

Investments
Investment credit risk is the risk of financial loss to the Organization if a member or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Organization’s investment securities, cash and bank, held-to-maturity securities and other receivables. For risk management reporting purposes, the Organization considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Management of investment credit risk
The BOD has developed the Investment Policy Document (“IPD”) with the coordination of Investment Committee. The Organization monitors its credit risk with respect to investment in accordance with defined in IPD. Credit risk in respect of investments is managed by the Organization by monitoring credit exposures and continually assessing the creditworthiness of counterparties.

32 Financial risk management (continued)

Management of investment credit risk (continued)

The Organization is relying on diversification of its investment portfolio to minimise the risk and balancing the maturity of investments to meet its commitments. The authority to make a new investment or to renew investments is restricted by rules and authorities approved by the Organization's Board of Directors or appointed alternates. This is to control higher risk investments such as overseas investments, which are approved by the Chairman of the Organization or his deputy. Investment in local quoted and unquoted shares is restricted by rules stating the authority of each management level and the maximum limit to enter into new investments in local shares.

The credit management process involves monitoring of concentration by asset type and geography and the regular appraisal of the counterparty credit quality through the analysis of qualitative and quantitative information. For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure. Given these stringent investment policies & procedures, management does not expect any counterparty to fail to meet its obligations.

Cash is largely placed with national and international banks. Held-to-maturity securities are investments in bonds and sukuks issued by banks or financial institutions with high credit ratings. Other receivables are mainly due from government entities and do not have credit risk.

Management of member's loan credit risk
The Organization monitors credit risk on loan to members by ensuring the compliance to the law, policies and procedures for loan disbursement. The loan is given only to those members who have service period of specified number of years, as per the policy (five years in case of normal loans and twenty five years in case of early extinguishment loans). This also ensures that the Organization has sufficient deposits of contributions from members against loans. The Organization also monitors collection of the instalments in timely manner. All the deductions on loans are from the salary of the member hence credit risk is minimal.

Impaired receivables and investments
Impaired receivables and investments are those for which the Organization determines that it is probable that it will be unable to collect all payments due according to the contractual terms of the receivables / investment agreement(s). These exposures are graded "Impaired" in the Organization's internal credit risk grading system.

Allowances for impairment
The Organization establishes an allowance for impairment losses that represents its estimate of incurred losses in its member loans, held-to-maturity investments and available-for-sale investment securities portfolio. The allowance for held-to-maturity investments and available-for-sale investment securities is a specific loss component that relates to individually significant exposures based on individual assessment for impairment.

Write-off policy
Based on the pension law, the loan balance is considered uncollectible and to be written off only on death of the member.

32 Financial risk management (continued)

The Organization's maximum exposure to credit risk is as follows:

2009	**Gross amount**	**Allowance for impairment**	**Net carrying value**
Assets			
Cash and bank balances	1,142,706	(4,202)	1,138,504
Social insurance contribution receivable	45,048	(8,244)	36,804
Receivables and other assets	23,033	(366)	22,667
Past and assumed services balances	49,846	-	49,846
Members' loans	39,337	(194)	39,143
Early extinguishment loans	176,278	(623)	175,655
Loans to financial institutions	60,320	(3,770)	56,550
Investments carried at fair value through profit or loss	339,336	-	339,336
Available-for-sale investments - managed funds	86,549	(24,709)	61,840
Held-to-maturity investments	365,702	(8,294)	357,408
Total	**2,328,155**	**(50,402)**	**2,277,753**

2008	Gross amount	Allowance for impairment	Net carrying value
Assets			
Cash and bank balances	1,132,343	(4,931)	1,127,412
Social insurance contribution receivable	34,767	(6,466)	28,301
Receivables and other assets	22,425	(439)	21,986
Past and assumed services balances	48,067	-	48,067
Members' loans	37,223	(194)	37,029
Early extinguishment loans	158,094	(623)	157,471
Loans to financial institutions	60,320	(3,770)	56,550
Investments carried at fair value through profit or loss	255,657	-	255,657
Available-for-sale investments - managed funds	89,227	(7,785)	81,442
Held-to-maturity investments	235,559	(7,540)	228,019
Total	2,073,682	(31,748)	2,041,934

32 *Financial risk management (continued)*

Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar economic activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Organization seeks to manage its concentration risk by establishing and constantly monitoring geographic and industry wise concentration limits.

Following are the sector wise credit concentration exposure of the Organization:

Industry sector

	2009		2008	
	Net Assets	**Members' Fund**	Net Assets	Members' Fund
Trading and industry	198,795	-	84,163	-
Insurance, services and hotels	260,382	84,059	226,744	81,558
Banks and financial institutions	1,656,603	-	1,643,728	-
Construction and real estate	365,019	-	343,999	-
Government	135,517	-	63,732	-
Other	853,730	3,385,987	850,748	3,131,556
	3,470,046	**3,470,046**	3,213,114	3,213,114

32 Financial risk management (continued)

Following are the geographical credit concentration exposure of the Organization:

	2009		2008	
	Net Assets	**Members' Fund**	Net Assets	Members' Fund
Bahrain	2,901,684	3,470,046	2,742,126	3,213,114
GCC	127,219	-	94,672	-
Other Middle East Countries	4,656	-	54	-
USA and Europe	307,571	-	262,478	-
Other Countries	128,916	-	113,784	-
	3,470,046	**3,470,046**	3,213,114	3,213,114

32 Financial risk management (continued)

b) Liquidity risk
Liquidity risk is defined as the risk that the Organization will not have funds available to meet its financial liabilities as they fall due. The Organization's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Organization's reputation.

Liquidity requirements are monitored on a daily basis and the management ensures that sufficient funds including unutilized bank facilities are available to meet any future commitments. The Organization does not normally resort to borrowings but, given its gearing, has the ability to raise funds from banks at short notice. Mainly the Organization has obligations to pay the social benefits to members as they fall due and to meet such obligations, Organization maintains high balances of cash in short term bank deposits.

Residual contractual maturities of financial liabilities

2009	**Carrying value**	**Gross nominal outflow**	**1 – 3 months**	**3 months to 1 year**	**1 - 5 years**
Borrowings	151,119	151,408	150,906	96	406

2008	Carrying value	Gross nominal outflow	1 – 3 months	3 months to 1 year	1 - 5 years
Borrowings	151,163	155,841	3,891	119	151,831

The borrowings represent bank loans utilised by the subsidiary companies of the Organization.

c) Market risk
Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Organization's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Other market rate risk is the risk that the fair value or future cash flows of the financial instrument will fluctuate due to changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factor specific to the individual financial instruments or its issuers, or factors affecting all similar financial instrument traded in the market.

The Organization is exposed to market risk with respect to its investments carried at fair value through the income statement, available-for-sale investments, held-to-maturity investments, short term deposits, borrowings. The Organization monitors the investment portfolio based on market indices.

Management of market risks
The Organization regularly assesses these risks and has established policies and business practices to protect against the adverse effects of market movement and other potential exposures. The Organizations monitors global markets on a daily basis and assesses the extent of exposure of differing market conditions. As a matter of general policy, the Organization shall not assume trading positions on its assets and liabilities, and hence the entire statement of net assets is a non-trading portfolio rather these are investments carried at fair value based on the market prices. The Organization seeks to manage currency risk by continually monitoring exchange rates. Overall authority for market risk is vested in the Investment Directorate. Investment Directorate is responsible for the development of detailed risk management policies and for the day-to-day review of their implementation.

32 Financial risk management (continued)

Interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. The Organizations' short-term deposits are at fixed interest rates and mature within one year. Investment in bonds consists of both fixed and floating rate instruments carried as held-to-maturity investments.

In accordance to the IPD the Organization invests after assessing the best offer rate by Banks. Majority of the investments are held in highly liquid short term roll over deposits in banks with high credit ratings in the region.

The summary of the Organization's interest rate exposure on non-trading portfolios is as follows:

	2009	2008
Financial assets		
Deposits with banks	1,077,628	1,104,511
Members' loans	39,143	37,029
Early extinguishment loans	175,655	157,471
Loans to financial institutions	56,550	56,550
Held-to-maturity investments	357,408	228,019
Financial liabilities		
Borrowings	151,119	151,163

The management of interest rate risk against interest rate exposure is supplemented by monitoring the sensitivity of the Organization's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis points (bps) parallel fall or rise in all yield curves worldwide.

A change of 100 bps in interest rates on financial assets would have increased/(decreased) the net assets of the Organization by approximately +/- BD 1,694 thousands (2008: +/- BD 1,468 thousands). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

A change of 100 bps in interest rates on financial liabilities would have increased/(decreased) the net assets of the Organization by approximately +/- BD 1,512 thousands (2008: +/- BD 1,512 thousands). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Organization has deposits and investments in currencies other than Bahraini dinars and United States dollars. The dinar is effectively pegged to the United States dollar; thus, currency risk is expected to occur only in respect of other currencies.

The net exposures are as follows:

	2009 **BD Equivalent**	2008 BD Equivalent
United State Dollar	991,647	1,282,106
Euro	61,447	29,513
Great Britain Pound	11,917	13,249
Kuwaiti Dinar	3,859	9,720
Japanese Yen	8,446	7,680
Other GCC currencies	25,837	19,821
	1,103,153	1,362,089

32 Financial risk management (continued)

Currency risk (continued)

The management of foreign exchange risk against net exposure limits is supplemented by monitoring the sensitivity of the Organization's financial assets and liabilities to various foreign exchange scenarios. Standard scenarios that are considered on a monthly basis include a 10% increase/(decrease) in exchange rates, other than GCC pegged currencies.

The Bahraini Dinar is pegged against US dollar and therefore the Organization is not exposed to any significant currency risk for its financial instruments denominated in US dollar. An analysis of the Organization's sensitivity on other foreign currencies to a 10% increase/(decrease) in foreign exchange rates (assuming all other variables, primarily profit rates, remain constant) on the major currencies is as follows:

	2009 BD Equivalent		2008 BD Equivalent	
	Income	**Members' Fund**	Income	Members' Fund
Euro	**+/- 4,578,283**	**+/- 1,566,395**	+/- 871,251	+/- 2,950,550
Great Britain Pound	**+/- 365,074**	**+/- 826,604**	+/- 781,009	+/- 1,324,522
Kuwaiti Dinar	**+/- 385,857**		+/- 971,996	-
Japanese Yen	**+/- 844,648**		+/- 768,032	-
Other GCC currencies	**+/- 79,451**		+/- 1,921,932	+/- 75,400

Exposure to other market risks

The Organization's securities carried at fair value through profit or loss and quoted available-for-sales investments are exposed to risk of changes in equity values. Refer to note 4 for accounting policies on fair valuation of investments and note 5 for significant estimates and judgements in relation to impairment assessment of available-for-sale investments. The Organization manages exposure to other price risks by actively monitoring the performance of the equity securities. The performance assessment is performed on a quarterly basis and is reported to the Investment Committee.

Equity price risk of the securities carried at fair value through profit or loss and quoted available-for-sales investments is subject to regular monitoring by Organization, and a 10% increase/(decrease) in the price of the carried at fair value through profit or loss and quoted available-for-sales investments will increase/(decrease) the net assets of the Organization by approximately +/- BD 78,748 thousands (2008: +/- BD 46,997 thousands).

Fair values of financial instruments

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Differences can, therefore, arise between the carrying values under the historical cost method and fair value estimates.

Underlying the definition of fair value is a presumption that an enterprise is a going concern without any need or intention to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

Other than the securities carried at fair value through profit or loss and the quoted available-for-sale investments that are carried at their fair values, the estimated fair value of the Organization's other financial instruments that are carried at cost is not significantly different from their book value as at 31 December 2009 and 2008.

d) Operational risk

Operational risk is the risk of loss arising from systems and control failures, fraud and human errors, which can result in financial and reputation loss, and legal and regulatory consequences. The Organization manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, including internal audit and compliance. In addition the Organization is committed to recruitment in addition to training of staff. The internal audit function is in charge of identifying, monitoring and managing operational risk in the Organization.

33 MEMBER’S FUND MANAGEMENT

The Board’s policy is to maintain a strong members’ fund base to sustain future development of the Fund. The Board seeks to maintain a balance between the higher returns and protection of members’ fund. The Board of Directors monitors the return on members’ funds and strives for the growth in returns. The Organization's objectives for managing members; Fund are:

- to safeguard the Organization's ability to continue as a going concern, so that it can continue to provide returns for members and benefits for other stakeholders,
- to protect the members contributions in order to pay back in future for their benefits as they come due, and
- to provide an adequate return to members by managing the return on the investments and the payment of members benefits.

34 COMMITMENTS

(i) The Organization has made a commitment to invest an amount of BD 46.46 million (2008: BD 26.91 Million). The commitment is expected to be funded within one to five years.

(ii) The Organization has a commitment for the loan taken by its subsidiary, Hawar Holding Company (“HHC”), as described in note 20(i). As stipulated in the loan agreement, the shareholders of HHC need to ensure that the market value of Batelco shares, which is the collateral for the loan, is at all times at least 120% of the loan outstanding taken by HHC. If the market value of Batelco shares fall below 120% of the loan outstanding amount, the shareholders of HHC are required to provide additional collateral equal to the percentage of such market value shortfall.

As at 31 December 2009, the required security value for the borrowing was USD 480 million (equivalent to BD 180.96 million). The Organization maximum exposure to this commitment, represented by its shareholding in HHC, is 66.66% of the required security value which is USD 319.97 million (equivalent to BD 120,63 million). As of that date, since the market value of Batelco shares fall below 120%, the Organization and the minority shareholder of HHC have provided additional collateral amounting to USD 60.4 million (equivalent to BHD 22.78 million) comprising of debt service reserve account and deposits in order to fulfil the financial covenants of the borrowing.

35 COMPARATIVES

Certain corresponding figures of 2008 have been reclassified where necessary to conform to the current year’s presentation.