

**SOCIAL INSURANCE ORGANIZATION**

**CONSOLIDATED FINANCIAL  
STATEMENTS**

**31 DECEMBER 2011**

# Social Insurance Organization

## CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2011

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**THE BOARD AND OTHER INFORMATION**

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**Board of Directors**

Aref Saleh Khamis (Chairman)  
Abdul Rahman Yousif Fakhro (Vice chairman)  
Badria Yousif Al-Jeeb  
Abdul Rasool Hameed Al Arayed  
Sameer Abdulla Nass  
Hassan Isa Mohd Alsameem  
Rashid Ismail Al-Meer  
Hassan Ali Al Naser  
Saqer Shaheen Saqer  
Hassan Saleh Sulaibeekh  
Ahmed Mohammed Bu Hajji  
Nader Abdulkareem Al-Maskati

**Acting Chief Executive Officer**

Dr. Zakaria Sultan Al Abbassi

**Offices**

Social Insurance Organization Building, Diplomatic Area, Manama  
PO Box 5250, Telephone 17529000  
Fax 17530476

**Bankers**

National Bank of Bahrain (B.S.C)  
BBK

**Auditors**

KPMG Fakhro



**KPMG Fakhro**  
**Audit**  
5th Floor  
Chamber of Commerce Building  
PO Box 710, Manama  
Kingdom of Bahrain

CR No. 6220  
Telephone +973 17 224807  
Fax +973 17 227443  
Internet www.kpmg.com.bh

**INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS**  
**The Social Insurance Organization**  
Manama, Kingdom of Bahrain

31 May 2012

**Report on the consolidated 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 2011, and the consolidated statements of changes in net assets attributable to members and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*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 financial statements in accordance with International Financial Reporting Standards, and for such internal control as the board of directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*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 about whether the consolidated financial statements are free from 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 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Emphasis of matter*

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 2011 amounted to BD 5,692,573 thousands (2010: BD 4,945,543 thousands) and the actions taken by the Organization to reduce this deficit.

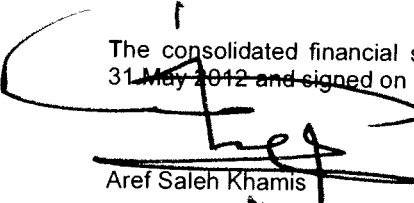
## CONSOLIDATED STATEMENT OF NET ASSETS


As at 31 December 2011

Bahraini dinars thousands

ASSETS	Note	2011	2010
Cash and bank balances	6	1,179,011	1,023,196
Social insurance contribution receivable	7	51,253	43,503
Receivables and other assets	8	28,870	24,989
Social insurance benefits			
Past and assumed service balances	9	42,971	40,660
Members' loans	10	22,253	24,117
Early extinguishment loans	11	101,760	98,376
Loans to financial institutions	12	39,585	50,895
Investment securities			
Investments carried at fair value through profit or loss	13	273,130	285,837
Available-for-sale investments	14	507,762	532,374
Held-to-maturity investments	15	335,182	326,326
Investments in associates	17	181,611	177,884
Investment properties	18	206,366	207,034
Property and equipment	19	42,633	43,042
<b>TOTAL ASSETS</b>		<b>3,012,387</b>	<b>2,878,233</b>
<b>LIABILITIES</b>			
Payables and other liabilities	20	15,944	10,077
<b>Total Liabilities</b>		<b>15,944</b>	<b>10,077</b>
<b>NET ASSETS</b>		<b>2,996,443</b>	<b>2,868,156</b>
<b>REPRESENTED BY:</b>			
Members' funds		2,907,865	2,739,062
Investment securities fair value reserve	27	77,739	118,255
Land revaluation reserves	27	10,526	10,526
Total equity attributable to the members of the Organization (page 4)		<b>2,996,130</b>	<b>2,867,843</b>
Non-Controlling Interest		313	313
<b>TOTAL NET ASSETS</b>		<b>2,996,443</b>	<b>2,868,156</b>

The consolidated financial statements consisting of pages 3 to 40 were approved by the Board of Directors on 31 May 2012 and signed on its behalf by:

  
Aref Saleh Khamis  
Chairman

  
Dr. Zakaria Sultan Al Abbasi  
Acting Chief Executive Officer

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

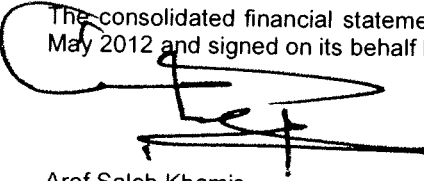
## CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO MEMBERS


For the year ended 31 December 2011

Bahraini dinars thousands

		2011	2010
<b>Contributions and benefits</b>			
Social insurance contributions	21	318,061	296,910
Past and assumed services income		16,255	23,828
Reimbursement from Ministry of Finance	22	1,149	4,022
Social allowances compensation		6,053	5,429
<b>Total contributions</b>		<b>341,518</b>	<b>330,189</b>
Total benefits	23	(229,991)	(211,082)
<b>Excess contributions over pension benefits</b>		<b>111,527</b>	<b>119,107</b>
<b>Investment income</b>			
Net investment income	24	11,734	36,616
Interest income	25	42,304	43,796
Share of associate companies' profits	17	13,863	11,323
Other income		2,686	1,092
<b>Total investment and other income</b>		<b>70,587</b>	<b>92,827</b>
<b>TOTAL INCOME</b>		<b>182,114</b>	<b>211,934</b>
<b>Expenses</b>			
Staff costs		6,084	3,941
Cost of early retirement program		497	7,690
General and administrative expenses		1,775	1,662
Depreciation of property and equipment	19	650	449
Provision for impaired social insurance contribution receivable	7	4,091	2,354
<b>TOTAL EXPENSES</b>		<b>13,097</b>	<b>16,096</b>
<b>NET INCOME FOR THE YEAR</b>		<b>169,017</b>	<b>195,838</b>
<b>Net income for the year attributable to members' fund</b>			
Net movements in the fair value of the available for sales investments reserves during the year	27	(39,339)	24,983
Share of associate companies' other reserves movement during the year		(1,393)	169
Others		2	4
<b>Increase in net assets attributable to members' fund during the year</b>		<b>128,287</b>	<b>220,994</b>
Total net assets attributable to members' fund at 1 January		2,867,843	2,646,849
<b>Total net assets attributable to members' fund at 31 December</b>		<b>2,996,130</b>	<b>2,867,843</b>

The consolidated financial statements consisting of pages 3 to 40 were approved by the Board of Directors on 31 May 2012 and signed on its behalf by:

  
Aref Saleh Khamis  
Chairman

  
Dr. Zakaria Sultan Al Abbasi  
Acting Chief Executive Officer

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

Bahraini dinars thousands

	Note	2011	2010
<b>OPERATING ACTIVITIES</b>			
Net income for the year		169,017	195,838
Adjustments:			
Net provision for impaired social insurance contribution receivable	7	4,091	2,354
Share of associate companies' profits	17	(13,863)	(11,323)
Depreciation of property and equipment	19	650	449
Premium/discount adjustment		-	849
Depreciation of investment properties	24	767	714
Unrealised fair value loss/ (gains) on investments carried at fair value through profit or loss	24	12,364	(24,022)
Gain on sale of available for sale investment	24	(3,305)	-
Income distribution from available -for-sale investments	24	(4,104)	-
Losses on shares exchange		-	(9)
Dividend income	24	(20,377)	(19,867)
Income from investment properties	24	(3,470)	(3,072)
Provision for impairment allowances	24	9,399	13,592
Interest income	25	(40,768)	(43,796)
<b>Cash flows before changes in operating assets and liabilities</b>		110,401	111,707
Changes in operating assets and liabilities:			
Receivables and other assets		(2,345)	(4,703)
Past and assumed services balances		(2,311)	(3,954)
Payables and other liabilities		5,867	3,677
Early extinguishment loans		(3,385)	(8,645)
Member's loans		1,864	772
Social insurance contribution receivable		(7,751)	(12,354)
<b>Cash flows from operating activities</b>		102,340	86,500
<b>INVESTING ACTIVITIES</b>			
Purchases of:			
Investments carried at fair value through profit or loss	13	(1,243)	(117)
Available-for- sale investments		(36,814)	(71,809)
Held-to-maturity investments	15	(75,915)	(212,952)
Investment properties		-	(50)
Property and equipment		(242)	(311)
Proceeds from disposals of:			
Investments carried at fair value through profit or loss		1,586	207
Available-for-sale investments		19,817	5,956
Held-to-maturity investments		63,184	149,131
Dividends received from:			
Available-for-sale investments	24	20,377	19,867
Associate companies	17	8,743	8,643
Loans payment received/advanced to financial institutions		11,310	(11,310)

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**For the year ended 31 December 2011**

Bahraini dinars thousands

Consolidated statement of cash flows *(Continued)*

Note	2011	2010
Interest income received	39,231	43,796
Income received from investment properties	3,470	3,072
Other (expenses) / income	(29)	5
Capital received from Non-Controlling interest	-	313
<b>Cash flows used in investing activities</b>	<b>53,475</b>	<b>(65,559)</b>
<b>TOTAL NET CASH FLOWS IN THE YEAR</b>	<b>155,815</b>	<b>20,941</b>
Cash and cash equivalent at beginning of the year	1,023,196	1,002,255
<b>CASH AND CASH EQUIVALENTS at 31 December</b>	<b>1,179,011</b>	<b>1,023,196</b>

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.



## NOTES

To the 2011 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. PFC organises the payment of retirement pensions and related benefits to civil service employees in accordance with Pension Law No. 13 of 1975. 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	<p><i>1-Bahrainis:</i></p> <p><i>Pension</i> Employee 6% Employer 15%</p> <p><i>Work injury</i> employer 3%</p> <p><i>2-Non Bahrainis:</i> Work injury 3% by employer</p>	Pension Law No.13 of 1975	<p><i>Bahrainis:</i></p> <p>Old age, disability and death</p> <p>work injury</p> <p><i>Non-Bahrainis:</i> Work injury</p>
Private Sector	<p><i>Bahrainis:</i> Employee 6% Employer 9% and Work injury 3% by the employer.</p> <p><i>Non Bahrainis:</i> Work injury 3% by employer</p>	Decree No. 24 of 1976	<p><i>Bahrainis:</i> Old age, disability, death and work injury</p> <p><i>Non-Bahrainis:</i> work injury</p>
Unemployment	<p><i>Bahrainis and Non-Bahrainis:</i> Employer 1% Employee 1% Government 1%</p>	Law No.78 for 2006	Unemployed persons
Shura members, representatives and municipality councils' members	<p><i>Pension</i> Employee 10% Employer 20%</p> <p><i>Work injury</i> Work injury 3% by employer</p>	Decree No.33 for 2009	<p>Old age, disability and death</p> <p>work injury</p>

## Social Insurance Organization

### NOTES

To the 2011 consolidated financial statements

Bahraini dinars thousands

1 Status and operations (continued)

#### Subsidiaries and Associates:

As at 31 December SIO had the following equity holdings:

	Equity ownership	
	2011	2010
<b>Subsidiaries</b>		
Marina Club SPC	100.00%	100.00%
Osool Asset Management Company	75.00%	75.00%
Property Management Company	75.00%	75.00%
<b>Associates</b>		
Hawar Holding Company	50.00%	50.00%
Gulf Diabetes Specialist Centre B.S.C (c)	42.30%	42.30%
Bahrain Car Parks Company B.S.C	25.67%	25.67%
Bahrain Tourism Company B.S.C	45.67%	45.67%
Southern Area Development Company B.S.C (c)	35.94%	35.94%
Bahrain International Golf Course Company B.S.C (c)	32.14%	32.14%
National Hotels Company B.S.C	31.87%	31.87%
Securities and Investment Company B.S.C (c)	26.48%	26.48%
BBK	25.53%	25.53%
Bahrain Commercial Facilities Company B.S.C	22.46%	22.46%

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

## NOTES

to the 2011 consolidated financial statements

Bahraini dinars thousands

## 2 ACTUARIAL POSITION

Independent actuarial valuations of the Organization were carried out as of 31 December 2011 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 2011 and 31 December 2010 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 2011 and 2010 is as follows:

## 2011

	Civil	Private	Combination adjustments	Total
Total net assets of the Organization	1,117,352	1,880,808	(1,717)	2,996,443
<b>Actuarial Liability of the fund</b>				
Vested benefits	(3,883,485)	(3,660,371)	-	(7,543,856)
Non-vested Benefits	(767,640)	(377,520)	-	(1,145,160)
<b>Total Actuarial Liability</b>	<b>(4,651,125)</b>	<b>(4,037,891)</b>	<b>-</b>	<b>(8,689,016)</b>
<b>Unfunded deficit</b>	<b>(3,533,773)</b>	<b>(2,157,083)</b>	<b>(1,717)</b>	<b>(5,692,573)</b>

## 2010

	Civil	Private	Combination adjustments	Total
Total net assets of the Organization	1,102,643	1,787,335	(21,822)	2,868,156
<b>Actuarial Liability of the fund</b>				
Vested benefits	(3,416,145)	(3,377,871)	-	(6,794,016)
Non-vested Benefits	(663,013)	(356,670)	-	(1,019,683)
<b>Total Actuarial Liability</b>	<b>(4,079,158)</b>	<b>(3,734,541)</b>	<b>-</b>	<b>(7,813,699)</b>
<b>Unfunded deficit</b>	<b>(2,976,515)</b>	<b>(1,947,206)</b>	<b>(21,822)</b>	<b>(4,945,543)</b>

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 2011. 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 2011 amounts to BD 5,692,573 (2010: BD 4,945,543). 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) Recommending increase contribution to match with the pension benefits paid

## Social Insurance Organization

### NOTES

to the 2011 consolidated financial statements

Bahraini dinars thousands

#### 2 ACTUARIAL POSITION (continued)

Reconciliation between the actuarial liability at 31 December 2011 and 2010, as provided by the actuary, Muhanna & Co (Cyprus), is set out below:

	Notes	Civil	Private	Total 2011	Total 2010
Actuarial liability at 1 January 2011		4,079,158	3,734,541	7,813,699	7,266,738
Increase in interest cost	a	246,023	230,951	476,974	438,799
Increase in service cost	b	151,069	203,438	354,507	317,530
Benefits paid	c	(108,603)	(79,494)	(188,097)	(224,188)
Others	d	283,478	(51,545)	231,933	14,820
<b>Actuarial liability at 31 December 2011</b>		<b>4,651,125</b>	<b>4,037,891</b>	<b>8,689,016</b>	<b>7,813,699</b>

The explanatory notes for the above items appearing in the reconciliation are as follows:

*a) Increase in interest cost*

This cost represents the accrued interest for one year on the actuarial liability as at 31 December 2011 calculated at the rate of 6% per annum.

*b) Increase in service cost*

This cost represents accrued additional benefits in respect of one extra year of service of the insured employees covered by the plan.

*c) Benefits paid*

This amount represents reduction in the actuarial liability due to payments made to beneficiaries during the current year.

*d) Others*

This amount represents the change in the predictions and assumptions used in calculating the actuarial deficit due to the increase in benefits, mainly from the lump sum payments and the annual increase in the beneficiaries' salaries in the private fund.

### 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, Amiri decree 24 of 1976 and Law 87 of 2006.

#### (b) Standards, amendments and interpretations effective on or after 1 January 2011

The following standards, amendments and interpretations, which became effective in 2011, are relevant to the Organization:

##### IAS 24 (Revised) 'Related party disclosures'

The revised standard was issued in November 2009. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities.

The adoption of the revised standard did not have any significant impact on the related party disclosure of the Organization.

##### IAS 32 (amendment) 'Classification of Rights Issues'

The IASB amended IAS 32 Financial Instruments: Presentation to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

The amendment to IAS 32 did not have any impact on the financial statements of the Organization.

## NOTES

to the 2011 consolidated financial statements

Bahraini dinars thousands

3 BASIS OF PREPARATION (continued)

**IFRIC 14 (amendment) – Prepayments of a Minimum Funding Requirement**

The amendment to IFRIC 14 removes unintended consequences arising from the treatment of prepayments when there is a minimum funding requirement (MFR). The amendment results in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. As required, the amendment has been applied retrospectively.

The application of IFRIC 14 has no impact on the consolidated financial statements of the Organization.

**Improvements to IFRSs (2010)**

Improvements to IFRS issued in 2010 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. There were no significant changes to the current accounting policies of the Organization as a result of these amendments.

**(c) Standard and interpretations issued but not yet effective**

The following standards and interpretations have been issued and are expected to be relevant to the Organization in future periods, with effective dates on or after 1 January 2012.

**IAS 1 (amendment) - Presentation of items of other comprehensive income**

The amendments to IAS 1 require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendment is effective for annual periods beginning on or after 1 July 2012 with an option of early application.

The application of this amendment has no significant impact on the consolidated financial statements of the Organization.

**IAS 19 (2011) - Employee benefits**

The amended IAS 19 includes the following requirements:

- actuarial gains and losses are recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and
- expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation.

The amended standard is effective for annual periods beginning on or after 1 January 2013 with an option of early adoption.

The Organization is yet to assess the full impact of the standard

## NOTES

to the 2011 consolidated financial statements

Bahraini dinars thousands

**IAS 28 (2011) – Investment in Associates and Joint ventures**

IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) has been amended to include:

- IFRS 5 applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and
- on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or vice versa, the entity does not re-measure the retained interest.

The standard is effective for annual periods beginning on or after 1 January 2013 and is applied retrospectively. Early adoption is permitted provided that the entire suite of consolidation standards is adopted at the same time.

The application of this amendment has no significant impact on the consolidated financial statements of the Organization

**IFRS 7 (amendment) – Disclosures: Transfer of financial assets**

The amendments to IFRS 7 introduce new disclosure requirements about transfers of financial assets including disclosures for financial assets that are not derecognised in their entirety; and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement. The amendments are effective for annual periods beginning on or after 1 July 2011, but entities are not required to provide the disclosures for any period presented that begins before the date of initial application of the amendments. Early adoption is permitted.

The application of this amendment has no significant impact on the financial statements of the Organization

**IFRS 9 - Financial Instruments**

*Standard issued November 2009*

IFRS 9 (2009) 'Financial Instruments' is the first standard issued as part of a wider project to replace IAS 39 'Financial instruments: recognition and measurement'. IFRS 9 (2009) retains and simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment and hedge accounting continues to apply. The 2009 standard did not address financial liabilities.

*Standard issued October 2010*

IFRS 9 (2010) adds the requirements related to the classification and measurement of financial liabilities, and de-recognition of financial assets and liabilities to the version issued in November 2009. It also includes those paragraphs of IAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of IFRIC 9 "reassessment of Embedded Derivatives".

The Organization is considering the implications of the standard, the impact on the Organization and timing of its adoption by the Organization.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. Prior periods need not be restated if an entity adopts the standard for reporting periods beginning before 1 January 2012. In its November 2011 meeting, the IASB tentatively decided to defer the mandatory effective date to 1 January 2015.

The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment and hedge accounting continues to apply. The 2010 standard did not address financial liabilities

**Social Insurance Organization****NOTES****to the 2011 consolidated financial statements**

Bahraini dinars thousands

**3 BASIS OF PREPARATION (continued)****IAS 24 Related Party Disclosures (revised 2011)**

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 2011)**

Improvements to IFRS issued in April 2011 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 2011 with earlier adoption permitted. No material changes to accounting policies are expected as a result of these amendments.

**(d) Early adoption of standards**

The Organization did not early adopt new or amended standards in 2010 and 2011.

**(e) 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 Organisation's Fund accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note (5).

## NOTES

to the 2011 consolidated financial statements

Bahraini dinars thousands

## 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 Organization 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 ceases. 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

Intergroup 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 expired.



**NOTES  
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4 *Significant accounting policies (continued)*

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.

**NOTES  
to the 2011 consolidated financial statements**

Bahraini dinars thousands

**4 Significant accounting policies (continued)****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. Private sector retired employees are entitled for the loan as per order No.1 for 2002. The early extinguishment loans 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.

**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.

## NOTES

to the 2011 consolidated financial statements

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## 4 Significant accounting policies (continued)

**(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.

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

## Social Insurance Organization

### NOTES

#### to the 2011 consolidated financial statements

Bahraini dinars thousands

#### 4 Significant accounting policies (continued)

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 recognized 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 24 of 1976 and Law no. 87 of 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 lesser, 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.

## NOTES

to the 2011 consolidated financial statements

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## 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:

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.

## NOTES

to the 2011 consolidated financial statements

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**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**

	2011	2010
Cash on hand	4	10
Current account balances with banks	11,465	392
Call account balances with banks	15,819	28,117
Deposits with banks	1,151,723	996,674
	<b>1,179,011</b>	<b>1,025,193</b>
Less: Provision for impairment on deposits with banks	-	(1,997)
	<b>1,179,011</b>	<b>1,023,196</b>
	<b>2011</b>	<b>2010</b>
Provision for impairment on deposits with banks		
At 1 January	1,997	4,202
Reversal for the year	(1,997)	(2,205)
At 31 December	-	<b>1,997</b>

## NOTES

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## 7 SOCIAL INSURANCE CONTRIBUTION RECEIVABLE

	2011	2010
Private sector pension plan	43,077	36,462
Public sector pension plan	5,788	2,865
Unemployment	17,077	14,774
	<b>65,942</b>	<b>54,101</b>
Less: Allowance for impairment	(14,689)	(10,598)
	<b>51,253</b>	<b>43,503</b>

## Allowance for impairment

	2011	2010
At 1 January	10,598	8,244
Charge for the year	4,091	2,354
At 31 December	<b>14,689</b>	<b>10,598</b>

The amount of net provision for impaired social insurance contribution receivable for the year of BD 4,091 (2010: BD 2,354) has been recognised in the statement of changes in net assets attributable to members.

## 8 RECEIVABLES AND OTHER ASSETS

	2011	2010
Interest receivable	11,210	9,673
Ministry of Finance – receivable	11,021	7,110
Receivables on sales of investment securities	18	18
Social allowance contribution receivable	795	280
Staff loans	120	140
Receivable from military fund	-	4,103
Other balances	5,691	3,720
Prepaid health insurance expense	68	-
	<b>28,923</b>	<b>25,044</b>
Less: Allowance for impairment	(53)	(55)
	<b>28,870</b>	<b>24,989</b>

## Allowance for impairment

	2011	2010
At 1 January	55	51
(Release)/charge for the year	(2)	4
At 31 December	<b>53</b>	<b>55</b>

## NOTES

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## 9 PAST AND ASSUMED SERVICE BALANCES

	2011	2010
Past services	9,402	8,981
Assumed services	33,569	31,679
At 31 December	<b>42,971</b>	<b>40,660</b>

## 10 MEMBERS' LOANS

	2011	2010
Members' loans	22,395	24,259
Less: Allowance for impairment	(142)	(142)
	<b>22,253</b>	<b>24,117</b>

Members' loans are granted to members, covered by Law No. (13) of 1975, 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 78 (2010: BD 83) were written off due to borrowers' deaths (note 23).

## Allowance for impairment

	2011	2010
At 1 January	142	142
Charge for the year	-	-
At 31 December	<b>142</b>	<b>142</b>

## 11 EARLY EXTINGUISHMENT LOANS

	2011	2010
Early extinguishment loans	102,112	98,728
Less: Allowance for impairment	(352)	(352)
	<b>101,760</b>	<b>98,376</b>

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 BD305 (2010: BD 259) were written off due to borrowers' deaths (note 23).

## 12 LOANS TO FINANCIAL INSTITUTIONS

	2011	2010
Loans to financial institutions	41,470	52,780
Less: Allowance for impairment	(1,885)	(1,885)
	<b>39,585</b>	<b>50,895</b>

The loans to financial institutions have maturities ranging from 2012 - 2013.



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Allowance for impairment		
	<b>2011</b>	2010
At 1 January	1,885	1,885
Charge for the year	-	-
At 31 December	<b>1,885</b>	1,885
<b>13</b>	<b>INVESTMENTS CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS</b>	
	<b>2011</b>	2010
At 1 January	285,837	261,896
Purchases	1,243	117
Disposals	(1,586)	(207)
Unrealized fair value gain included in the statement of changes in net assets attributable to members (note 24)	(12,364)	24,022
Gain /(loss) from foreign currency movement	-	9
	<b>273,130</b>	285,837
<b>14</b>	<b>AVAILABLE-FOR-SALE INVESTMENTS</b>	
	<b>2011</b>	2010
At 1 January	591,340	501,718
Purchases	36,814	71,809
Disposals	(27,519)	(5,956)
Write-off	-	(1,214)
Fair value changes during the year (note 27)	(39,339)	24,983
	561,296	591,340
Less: Accumulated Impairment	(53,534)	(58,966)
<b>At 31 December</b>	<b>507,762</b>	532,374
	<b>2011</b>	2010
Quoted investments at fair value	244,256	270,338
Unquoted investments at fair value	169,719	124,320
Unquoted investments at cost	93,787	137,716
	<b>507,762</b>	532,374
Provision for impairment allowance	<b>2011</b>	2010
At 1 January	58,966	46,588
Charge for the year	5,575	13,592
Released on disposals	(11,007)	-
Write-off	-	(1,214)
<b>At 31 December</b>	<b>53,534</b>	58,966

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## 15 HELD-TO-MATURITY INVESTMENTS

	2011	2010
At 1 January	331,604	268,632
Purchases	75,915	212,952
Redemptions of matured investments	(63,183)	(149,131)
Premium/discount adjustment		(849)
	344,336	331,604
Less: Allowance for impairment	(9,154)	(5,278)
<b>At 31 December</b>	<b>335,182</b>	<b>326,326</b>

The held to maturity investments comprise of:

	2011	2010
Bonds	177,057	164,311
Sukuks	158,125	162,015
	<b>335,182</b>	<b>326,326</b>

Allowance for impairment

	2011	2010
At 1 January	5,278	5,278
Charge for the year	3,876	-
<b>At 31 December</b>	<b>9,154</b>	<b>5,278</b>

## 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.

**NOTES**  
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## 16 fair value hierarchy (continued)

2011	Level 1	Level 2	Level 3	Total
Investments carried at fair value through profit or loss	-	273,130	-	273,130
Available-for-sale investments	244,256	90,190	79,529	413,975
	<b>244,256</b>	<b>363,320</b>	<b>79,529</b>	<b>687,105</b>

2010	Level 1	Level 2	Level 3	Total
investments carried at fair value through profit or loss	-	285,837	-	285,837
Available-for-sale investments	270,338	34,847	89,473	394,658
	<b>270,338</b>	<b>320,684</b>	<b>89,473</b>	<b>680,495</b>

## 17 INVESTMENTS IN ASSOCIATES

	2011	2010
At 1 January	177,884	175,035
Share of profits	13,863	11,323
Share of investments fair value reserve	(876)	571
Share of other reserves	(517)	(402)
Dividends received	(8,743)	(8,643)
At 31 December	<b>181,611</b>	<b>177,884</b>

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

	2011	2010
Total assets	3,354,427	3,071,448
Total liabilities	2,777,855	2,491,400
Total revenues	241,693	263,061
Total net profits	56,091	56,134

## 18 INVESTMENT PROPERTIES

	2011	2010
<b>Cost</b>		
At 1 January	219,477	219,328
Purchases	-	50
<b>At 31 December</b>	<b>219,477</b>	<b>219,378</b>
<b>Depreciation</b>		
At 1 January	12,344	11,630
Charges for the year	767	714
<b>At 31 December</b>	<b>13,111</b>	<b>12,344</b>
<b>Net carrying value</b>	<b>206,366</b>	<b>207,034</b>
Fair value	500,266	683,774

Investment properties were valued as at 31 December 2011 by an independent and professional property surveyor based on open market prices.

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## 19 PROPERTY AND EQUIPMENT

	2011					2010	
	Freehold land	Buildings	Furniture, equipment & fixtures	Computers & programmes	Capital work-in-progress	Total 2011	Total
<b>Cost</b>							
At 1 January	40,610	9,268	4,070	313	567	54,828	54,517
Purchases	-	47	108	99	-	254	311
Transfers	-	-	-	553	(553)	-	-
Disposals	-	-	-	-	(14)	(14)	-
<b>At 31 December</b>	<b>40,610</b>	<b>9,315</b>	<b>4,178</b>	<b>965</b>	<b>-</b>	<b>55,068</b>	<b>54,828</b>
<b>Depreciation</b>							
At 1 January	-	8,134	3,418	233	-	11,785	11,337
Charge of the year	-	238	190	222	-	650	449
<b>At 31 December</b>	<b>-</b>	<b>8,372</b>	<b>3,608</b>	<b>455</b>	<b>-</b>	<b>12,435</b>	<b>11,786</b>
Net carrying value:							
<b>At 31 December</b>	<b>40,610</b>	<b>943</b>	<b>570</b>	<b>510</b>	<b>-</b>	<b>42,633</b>	<b>43,042</b>
At 31 December 2010	40,610	1,133	652	80	567	43,042	

## 20 PAYABLES AND OTHER LIABILITIES

	2011	2010
Accrued pension expenses	8,581	7,181
Staff benefits payables	962	514
Others	6,401	2,382
	<b>15,944</b>	<b>10,077</b>

## 21 SOCIAL INSURANCE CONTRIBUTIONS

	2011	2010
Basic salary	199,361	177,370
Social allowance	6,580	5,960
Work injury	47,763	50,849
Unemployment	61,487	59,810
Penalties and others	2,775	2,822
Transfer from other Pension Funds	95	99
	<b>318,061</b>	<b>296,910</b>

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Bahraini dinars thousand

## 21 SOCIAL INSURANCE CONTRIBUTIONS (continued)

	2011	2010
Employers' contribution	187,614	175,138
Employees' contribution	130,447	121,772
	<b>318,061</b>	<b>296,910</b>

## 22 REIMBURSEMENT FROM MINISTRY OF FINANCE

The amount represents additional cost incurred by the Organization as the result of early retirement of staff under a privatisation of some governmental entities and for the previous years contribution for Shura members, representatives and municipality councils' members. 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.

## 23 BENEFITS

	2011	2010
Retirement pensions	191,680	163,481
Lump-sum compensation	18,483	29,156
Social allowance paid	6,130	5,472
Previous years' retirement pensions	1,600	2,344
Death grants	1,144	1,198
Work injury payments	3,701	3,311
Loan instalments written off due to death:		
Past and assumed services balances	42	16
Members' loans (note 10)	36	67
Early extinguishment loans (note 11)	306	259
Unemployment compensation	6,866	5,774
Others	3	4
	<b>229,991</b>	<b>211,082</b>

## 24 NET INVESTMENT INCOME

	2011	2010
Investment securities:		
Dividend income	20,377	19,867
Net profit from sales of available-for-sale investments	3,305	269
Net foreign exchange gain	535	(591)
Unrealised fair value (loss)/ gain on investments carried at fair value through profit or loss (note 13)	(12,364)	24,022
Income distribution from available -for-sale investments	4,104	2,664
Investment properties:		
Income from investment properties	3,470	3,072
Investment properties maintenance costs	(957)	(913)
Depreciation of investment properties	(767)	(714)
Other income	625	(90)
Income distribution from financial assets through profit or loss	808	417
Allowance for impairment	(7,402)	(11,387)
	<b>11,734</b>	<b>36,616</b>

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## 24 Net investment income (continued)

	2011	2010
Allowance for impairment		
Impairment write back on deposit	1,997	2,205
Provision for impairment of available-for-sale investments (note 14)	(5,575)	(13,592)
Release on disposals of available-for-sale investments debt instrument	52	-
Provision for impairment of held-to-maturity investments (note 15)	(3,876)	-
	<b>(7,402)</b>	<b>(11,387)</b>

## 25 INTEREST INCOME

	2011	2010
<b>Investments</b>		
Deposits with banks	18,353	25,532
Held-to-maturity investments	15,610	10,315
	<b>33,963</b>	<b>35,847</b>
<b>Loans</b>		
Loans to financial institutions	1,642	1,399
Early extinguishment loans	5,538	5,246
Members' loans	1,161	1,304
	<b>8,341</b>	<b>7,949</b>
	<b>42,304</b>	<b>43,796</b>

## 26 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 Deputy Chief Executive Officer for Operational Affairs and certain directors of departments.

Their compensation is as follows:

	2011	2010
Short term employment benefits	563	392
Fees paid for board representation in subsidiaries, associates and investee companies	420	404
Board of directors remuneration	289	-

## NOTES

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## 27 NET MOVEMENTS ON INVESTMENT SECURITIES FAIR VALUE RESERVE AND LAND REVALUATION RESERVE

	Attributable to members			Total
	Investment securities fair value reserve	Land revaluation reserve	Non-Controlling Interest	
2011				
Balance at 1 January	118,255	10,526	313	129,094
Net fair value changes on available-for-sale investments during the year	(39,339)	-	-	(39,339)
Non-Controlling interest Share in the fair value reserve of associates	-	-	-	-
	(1,177)	-	-	(1,177)
Net movements on reserves during the year	(40,516)	-	-	(40,516)
<b>Balance at 31 December</b>	<b>77,739</b>	<b>10,526</b>	<b>313</b>	<b>88,578</b>

	Attributable to members			Total
	Investment securities fair value reserve	Land revaluation reserve	Non-Controlling Interest	
2010				
Balance at 1 January	93,014	10,526	-	103,540
Net fair value changes on available-for-sale investments during the year	24,983	-	-	24,983
Non-Controlling interest Share in the fair value reserve of associates	-	-	313	313
	258	-	-	258
Net movements on reserves during the year	25,241	-	313	25,554
<b>Balance at 1 January</b>	<b>118,255</b>	<b>10,526</b>	<b>313</b>	<b>129,094</b>

NOTES  
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Bahraini dinars thousands

**28 MATURITY PROFILE**

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

2011	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
<b>Assets</b>								
Cash and bank balances	318,606	715,047	145,358	-	-	-	-	1,179,011
Social insurance contribution receivable	12,436	24,871	8,174	-	-	-	5,772	51,253
Receivables and other assets	16,440	10,974	1,127	-	-	-	329	28,870
Past and assumed services balances	428	855	1,283	2,565	10,261	15,391	12,188	42,971
Members' loans	1,057	2,114	3,171	6,342	9,569	-	-	22,253
Early extinguishment loans	1,179	2,357	3,536	7,072	28,290	33,700	25,626	101,760
Loans to financial institutions	-	-	-	-	28,275	11,310	-	39,585
Investments carried at fair value through profit or loss	-	-	-	-	-	-	273,130	273,130
Available-for-sale investments	-	-	-	-	-	-	507,762	507,762
Held-to-maturity investments	-	4,506	13,297	14,795	68,943	115,414	118,227	335,182
	<b>350,146</b>	<b>760,724</b>	<b>175,946</b>	<b>30,774</b>	<b>145,338</b>	<b>175,815</b>	<b>943,034</b>	<b>2,581,777</b>
<b>Liabilities</b>								
Payables and other liabilities	(11,632)	(796)	(1,194)	(1,954)	-	-	(368)	(15,944)
	<b>338,514</b>	<b>759,928</b>	<b>174,752</b>	<b>28,820</b>	<b>145,338</b>	<b>175,815</b>	<b>942,666</b>	<b>2,565,833</b>



## NOTES

## to the 2011 consolidated financial statements

Bahraini dinars thousands

## 28 Maturity profile (continued)

2010	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	490,631	282,321	248,336	-	-	1,908	-	1,023,196
Social insurance contribution receivable	10,281	21,800	8,557	-	-	2,865	-	43,503
Receivables and other assets	20,286	-	-	-	-	4,703	-	24,989
Past and assumed services balances	428	855	1,283	2,565	1,026	34,503	-	40,660
Members' loans	1,057	2,114	3,171	6,342	11,433	62,232	-	24,117
Early extinguishment loans	943	1,893	3,028	6,056	24,224	11,310	-	98,376
Loans to financial institutions	-	-	11,310	-	28,275	-	-	50,895
Investments carried at fair value through profit or loss	-	-	-	-	-	-	285,837	285,837
Available-for-sale investments	-	-	-	-	-	-	532,374	532,374
Held-to-maturity investments	1,970	8,277	17,090	29,087	72,911	196,991	-	326,326
Liabilities								
Payables and other liabilities	525,596	317,260	292,775	44,050	137,869	314,512	818,211	2,450,273
	(8,514)	(914)	-	-	-	-	(649)	(10,077)
	517,082	316,346	292,775	44,050	137,869	314,512	817,562	2,440,196

## NOTES

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## 29 FINANCIAL INSTRUMENTS CLASSIFICATION

2011

**Assets**

Cash and bank balances  
 Social insurance contribution receivable  
 Receivables and other assets  
 Past and assumed services balances  
 Member's loans  
 Early extinguishment loans  
 Loans to financial institutions  
 Investments carried at fair value  
 through profit or loss  
 Available-for-sale investments  
 Held-to-maturity investments

Held-for-trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other at amortised cost	Total carrying value
-	-	1,179,011	-	-	1,179,011
-	-	51,253	-	-	51,253
-	-	28,870	-	-	28,870
-	-	42,971	-	-	42,971
-	-	22,253	-	-	22,253
-	-	101,760	-	-	101,760
-	-	39,585	-	-	39,585
273,130	-	-	-	-	273,130
-	335,182	-	507,762	-	507,762
273,130	335,182	1,465,703	507,762	-	2,581,777
<b>Liabilities</b>					
-	-	-	-	(15,944)	(15,944)
-	-	-	-	(15,944)	(15,944)
<b>Total financial liabilities</b>					

## NOTES

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Bahraini dinars thousands

## 29 Financial instruments classification (continued)

2010

	Held-for-trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other at amortised cost	Total carrying value
<b>Assets</b>						
Cash and bank balances	-	-	1,023,196	-	-	1,023,196
Social insurance contribution receivable	-	-	43,503	-	-	43,503
Receivables and other assets	-	-	24,989	-	-	24,989
Past and assumed services balances	-	-	40,660	-	-	40,660
Members' loans	-	-	24,117	-	-	24,117
Early extinguishment loans	-	-	98,376	-	-	98,376
Loans to financial institutions	-	-	50,895	-	-	50,895
Investments carried at fair value through profit or loss	285,837	-	-	-	-	285,837
Available-for-sale investments	-	326,326	-	532,374	-	532,374
Held-to-maturity investments	-	-	-	-	-	326,326
<b>Total financial assets</b>	<b>285,837</b>	<b>326,326</b>	<b>1,305,736</b>	<b>532,374</b>	<b>-</b>	<b>2,450,273</b>
<b>Liabilities</b>						
Payables and other liabilities	-	-	-	-	(10,077)	(10,077)
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(10,077)</b>	<b>(10,077)</b>

## NOTES

to the 2011 consolidated financial statements

Bahraini dinars thousands

**30 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.

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).

## NOTES

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30 *Financial risk management (continued)***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.

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 sukuk 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.

## NOTES

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Bahraini dinars thousands

30 Financial risk management (continued)

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

2011	Gross amount	Allowance for impairment	Net carrying value
<b>Assets</b>			
Cash and bank balances	1,179,011	-	1,179,011
Social insurance contribution receivable	65,942	(14,689)	51,253
Receivables and other assets	28,923	(53)	28,870
Past and assumed services balances	42,971	-	42,971
Members' loans	22,395	(142)	22,253
Early extinguishment loans	102,112	(352)	101,760
Loans to financial institutions	41,470	(1,885)	39,585
Available-for-sale investments - managed funds	56,483	(21,075)	35,408
Held-to-maturity investments	344,336	(9,154)	335,182
<b>Total</b>	<b>1,883,643</b>	<b>(47,350)</b>	<b>1,836,293</b>

2010	Gross amount	Allowance for impairment	Net carrying value
<b>Assets</b>			
Cash and bank balances	1,025,193	(1,997)	1,023,196
Social insurance contribution receivable	54,101	(10,598)	43,503
Receivables and other assets	25,044	(55)	24,989
Past and assumed services balances	40,660	-	40,660
Members' loans	24,259	(142)	24,117
Early extinguishment loans	98,728	(352)	98,376
Loans to financial institutions	52,780	(1,885)	50,895
Available-for-sale investments - managed funds	64,584	(19,482)	45,102
Held-to-maturity investments	331,604	(5,278)	326,326
<b>Total</b>	<b>1,716,953</b>	<b>(39,789)</b>	<b>1,677,164</b>

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## to the 2011 consolidated financial statements

Bahraini dinars thousands

## 30 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**

	2011		2010	
	Net Assets	Members' Fund	Net Assets	Members' Fund
Trading and industry	61,351	-	82,445	-
Insurance, services and hotels	207,973	41,808	399,763	41,717
Banks and financial institutions	1,476,296	-	1,175,866	-
Construction and real estate	521,742	-	534,330	-
Government	232,685	-	187,801	-
Other	496,396	2,954,635	487,951	2,826,439
	<b>2,996,443</b>	<b>2,996,443</b>	<b>2,868,156</b>	<b>2,868,156</b>

Trading and industry  
Insurance, services and hotels  
Banks and financial institutions  
Construction and real estate  
Government  
Other

## NOTES

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Bahraini dinars thousands

30 Financial risk management (continued)

Following are the geographical credit concentration exposure of the Organization:

	2011		2010	
	Net Assets	Members' Fund	Net Assets	Members' Fund
Bahrain	2,431,683	2,996,443	2,429,007	2,868,156
GCC	187,246	-	73,251	-
Other Middle East Countries	2,578	-	2,753	-
USA and Europe	311,979	-	291,651	-
Other Countries	62,957	-	71,494	-
	<b>2,996,443</b>	<b>2,996,443</b>	<b>2,868,156</b>	<b>2,868,156</b>



## NOTES

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30 *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.

**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.

**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.

## NOTES

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30 Financial risk management (continued)

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

	2011	2010
<b>Financial assets</b>		
Deposits with banks	1,151,723	996,674
Members' loans	22,253	24,117
Early extinguishment loans	101,760	98,376
Loans to financial institutions	39,585	50,895
Held-to-maturity investments	335,182	326,326

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 15,920 thousands (2010: +/- BD 14,964 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 15,920 thousands (2010: +/- BD 14,964 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:

	2011 BD Equivalent	2010 BD Equivalent
United State Dollar	887,717	939,402
Euro	32,012	82,395
Great Britain Pound	10,405	11,832
Kuwaiti Dinar	5,688	6,637
Japanese Yen	8,419	9,603
Other GCC currencies	5,870	2,745
	<b>950,111</b>	<b>1,052,614</b>

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.

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30 Financial risk management (continued)

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:

	2011 BD Equivalent		2010 BD Equivalent	
	Income	Members' Fund	Income	Members' Fund
Euro	+/- 59	+/- 3,142	+/- 5,301	+/- 2,938
Great Britain Pound	+/- 315	+/- 726	+/- 341	+/- 841
Kuwaiti Dinar	+/- 569		+/- 663	-
Japanese Yen	+/- 842		+/- 960	-
Other GCC currencies	+/- 587		+/- 274	-

**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 48,945 thousands (2010: +/- BD 55,617 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 2011 and 2010.

**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.

## NOTES

to the 2011 consolidated financial statements

Bahraini dinars thousands

**31 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.

**32 COMMITMENTS**

- (i) The Organization has made a commitment to invest an amount of BD 12.21 million (2010: BD 17.70 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 associates, Hawar Holding Company ("HHC"). 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 2011, the required security value for the borrowing was USD 360 (2010: USD 444 million (equivalent to BD 135.72 (2010: 167.39 million))). The Organization maximum exposure to this commitment, represented by its shareholding in HHC, is 50% of the required security value which is USD 222 million (equivalent to BD 83.69 million). As of that date, since the market value of Batelco shares fall below 120%, the Organization and the other shareholders of HHC have provided additional collateral amounting to USD 56.11 million (equivalent to BHD 21.15 million) comprising of debt service reserve account and deposits in order to fulfil the financial covenants of the borrowing.

**33 COMPARATIVES**

Certain corresponding figures have been regrouped where necessary to conform with the current year's presentation. The regrouping has not affected previously reported net income for the year or members' fund.