

Social Insurance Organization
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF THE SOCIAL INSURANCE ORGANIZATION

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 2012, and the consolidated statements of changes in net assets attributable to members and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

The Organization's Board of Directors is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 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 the auditors' judgement, 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, the auditor considers internal control relevant to the Organization'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 policies used and the reasonableness of accounting estimates made by the Organization's Board of Directors, 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.

**INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF THE
SOCIAL INSURANCE ORGANIZATION (continued)**

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Organization as at 31 December 2012, 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 your attention to note 2 to the consolidated financial statements which indicates that the unfunded actuarial deficit at 31 December 2012 amounted to BD 5,992 million (2011: BD 5,718 million) and the actions taken by the Organization to reduce this deficit.

Other matter

The consolidated financial statements of the Organization for the year ended 31 December 2011 were audited by another auditor who expressed an unqualified opinion modified with an emphasis of matter paragraph on the consolidated financial statements on 31 May 2012.



6 November 2013

Manama, Kingdom of Bahrain

Social Insurance Organization

CONSOLIDATED STATEMENT OF NET ASSETS

As at 31 December 2012

			<i>Restated as</i>	
		2012	<i>Restated</i>	<i>at 1 January</i>
	<i>Note</i>	<i>BD '000</i>	<i>2011</i>	<i>2011</i>
			<i>BD '000</i>	<i>BD '000</i>
ASSETS				
Cash balances and deposits with banks	8	1,328,955	1,179,011	1,023,196
Social insurance contribution receivable	9	60,822	51,253	43,503
Receivables and other assets	10	30,688	28,870	24,989
Social insurance benefits:				
Assumed and past services receivable	11	43,117	39,520	38,015
Scheme members' loans	12	18,809	22,253	24,117
Early extinguishment loans	13	108,218	101,760	98,376
Loans to financial institutions	14	28,275	39,585	50,895
Investment securities:				
Investments carried at fair value through profit or loss	15	302,304	273,130	285,837
Available-for-sale investments	16	499,364	507,762	532,374
Held-to-maturity investments	17	338,037	335,182	326,326
Investment in associates	18	181,176	160,415	177,884
Investment properties	19	205,700	206,366	207,034
Property and equipment	20	42,339	42,633	43,042
TOTAL ASSETS		3,187,804	2,987,740	2,875,588
LIABILITY				
Payables and other liabilities	21	17,841	16,893	11,026
TOTAL LIABILITY		17,841	16,893	11,026
TOTAL NET ASSETS		3,169,963	2,970,847	2,864,562
REPRESENTED BY:				
Members' funds		3,072,519	2,882,269	2,735,468
Investment securities fair value reserve	31	86,082	77,739	118,255
Land revaluation reserves	31	10,526	10,526	10,526
Non-controlling interest	31	836	313	313
		3,169,963	2,970,847	2,864,562

Aref Saleh Khamis
Chairman

Dr. Zakaria Sultan Al Abbasi
Chief Executive Officer

The attached notes 1 to 36 form part of these consolidated financial statements.

Social Insurance Organization

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the year ended 31 December 2012

	Note	2012 BD '000	Restated 2011 BD '000
Contributions and benefits			
Social insurance contributions	22	336,871	318,061
Assumed and past services income		19,051	16,255
Social allowances compensation		6,707	6,053
Reimbursement from Ministry of Finance	23	5,243	1,149
Total contribution		367,872	341,518
Total benefits	24	(272,806)	(229,991)
Net additions from dealing with members		95,066	111,527
Net income from investment securities	25	50,781	6,435
Net income from investment properties	26	1,895	1,746
Share of profits / (loss) of associates - net	18	19,819	(7,333)
Interest income	27	42,154	42,304
Other operating income		5,439	2,686
TOTAL INCOME		215,154	157,365
Expenses			
Staff costs	28	6,950	6,581
General and administrative expenses		1,995	2,581
Depreciation	20	555	650
Provision for impaired social insurance contribution receivable	9	7,628	4,091
Impairment losses / (write back) on investments	29	7,000	(3,553)
Total expenses		24,128	10,350
NET INCOME FOR THE YEAR		191,026	147,015
Net movement in the investment securities fair value reserve during the year	16	(151)	(39,339)
Net movement in the share of associates' reserves during the year		8,407	(1,393)
Other		(166)	2
Increase in net assets attributable to members' funds		199,116	106,285
Total net assets attributable to members' funds at 1 January		2,970,847	2,864,562
Total net assets attributable to members' funds at 31 December		3,169,963	2,970,847

Aref Saleh Khamis
Chairman

Dr. Zakaria Sultan Al Abbasi
Chief Executive Officer

The attached notes 1 to 36 form part of these consolidated financial statements.

Social Insurance Organization

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

		<i>Restated</i>
		<i>2011</i>
	<i>2012</i>	<i>2011</i>
	<i>BD '000</i>	<i>BD '000</i>
<i>Note</i>		
OPERATING ACTIVITIES		
Net income for the year	191,026	147,015
Adjustments for:		
Depreciation on property and equipment	20 555	650
Depreciation on investment properties	19 666	767
Unrealised fair value (gain) / loss on investments carried at fair value through profit or loss	15 (29,261)	12,364
Dividends	25 (20,693)	(20,377)
Interest income on assets carried at amortised cost	27 (42,154)	(42,304)
(Gain) / loss on sale of available-for-sale-investments	25 (2,796)	3,546
Share of associate companies' (profits) / losses - net	18 (19,819)	7,333
Income from investment properties	26 (3,039)	(3,470)
Provisions for impaired social insurance contribution receivable	9 7,628	4,091
Impairment losses / (write back) on investments	29 7,000	(3,553)
Assumed and past services written off	-	806
Property and equipment written off	-	14
Other movements in net assets - net	(166)	-
Operating profit before working capital changes	88,947	106,882
Working capital changes:		
Social insurance receivable	(17,197)	(11,842)
Receivables and other assets	(6)	(809)
Assumed and past services receivable	(3,597)	(2,311)
Scheme member's loans	3,444	1,864
Early extinguishment loans	(6,458)	(3,385)
Payable and other liabilities	948	5,868
Net cash flows from operating activities	66,081	96,267
INVESTING ACTIVITIES		
Loans to financial institutions	14 11,310	11,310
Purchase of investments carried at fair value through profit or loss	15 (77)	(1,243)
Purchase of available-for-sale investments	16 (21,243)	(36,814)
Purchase of held-to-maturity investments	17 (80,657)	(75,915)
Purchase of property and equipment	20 (261)	(254)
Purchase of investment properties	19 -	(99)
Proceeds from disposal of investments carried at fair value through profit or loss	15 164	1,586
Proceeds from disposal of available-for sale-investments	25,052	23,973
Proceeds from disposal of held-to-maturity investments	17 78,036	63,183
Dividends received	18 & 25 28,158	29,120
Movements in term deposits	(373,018)	105,636
Interest income received	10 & 27 40,342	39,231
Income received from investment properties	3,039	3,470
Net cash flows (used in) from investing activities	(289,155)	163,184
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(223,074)	259,451
Cash and cash equivalents at 1 January	8 1,033,653	774,202
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	8 810,579	1,033,653

The attached notes 1 to 36 form part of these financial consolidated statements.

Social Insurance Organization

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012

1 FUND INFORMATION AND ACTIVITIES

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 Organization for Social Insurance (GOSI).

The registered office of the Fund is at P.O. Box 5250, Manama, Kingdom of Bahrain.

PFC was formed on 1 October 1975 in accordance with the Law No. 13 of 1975 and is responsible for the management of funds to provide retirement pension salaries and other related benefits to the civil sector employees in the Kingdom of Bahrain. This plan is a defined benefit retirement pension plan and referred to in the consolidated financial statements as Public Sector.

GOSI was formed on 1 October 1976 in accordance with the Amiri Decree No. 24 of 1976 and is responsible for the management of funds to provide retirement pension salaries and other related benefits to the private sector employees in the Kingdom of Bahrain. It is also responsible for managing the unemployment plan formed in accordance with the Law No. 78 of 2006. This plan is a defined benefit retirement pension plan and referred to in the consolidated financial statements as Private Sector.

The consolidated financial statements for the year ended 31 December 2012 were authorised for issue by the Board of Directors of the Organization on 6 November 2013.

Subsidiaries and associates

The consolidated financial statements comprise SIO (which includes civil fund, private fund, unemployment fund and Shura and municipality members fund) and its subsidiaries (together referred to as the "Organization") and the Organization's interest in its associates. As at 31 December SIO had the following equity holdings:

	<i>Equity Ownership %</i>	
	<i>2012</i>	<i>2011</i>
Subsidiaries		
Marina Club S.P.C.	100.00%	100.00%
Osool Asset Management Company B.S.C. (c)	75.00%	75.00%
Property Management Company W.L.L.	75.00%	75.00%
Associates		
Hawar Holding Company B.S.C. (c) *	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 B.S.C.	25.53%	25.53%
Bahrain Commercial Facilities Company B.S.C.	22.46%	22.46%

* SIO has a significant influence i.e. the power to participate in the financial and operating policy decisions of Hawar Holding Company B.S.C. (c) and Bahrain Tourism Company B.S.C., but does not have control or joint control over these policies. Hence, these investees are deemed to be associates of the Organization.

Funding policy

The Organization is responsible for managing retirement pension plans (Public and Private Sectors) and other related plans for the members. Presented below is a summary of the plans and the funding arrangements:

Social Insurance Organization

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012

1 FUND INFORMATION AND ACTIVITIES (continued)

Plan	Funding	Applicable law	Coverage
Public Sector	Bahrainis: <u>Pension</u> Employees 6% Employers 15% <u>Work injury</u> Employer 3% Non-Bahrainis: <u>Work injury</u> Employer 3%	Pension Law No. 13 of 1975	Bahrainis: Old age, disability and death Work injury Non-Bahrainis: Work injury
Private Sector	Bahrainis: <u>Pension</u> Employees 6% Employers 9% <u>Work injury</u> Employer 3% Non-Bahrainis: <u>Work injury</u> Employer 3%	Decree No. 24 of 1976	Bahrainis: Old age, disability and death Work injury Non-Bahrainis: Work injury
Unemployment	Bahrainis and non-Bahrainis: Employee 1% Employer 1% Government 1%	Law No. 78 of 2006	Unemployed persons
Shura members, representatives and municipality councilors, members	<u>Pension</u> Employee 10% Employer 20% <u>Work injury</u> Employer 3%	Decree No. 33 of 2009	Old age, disability and death Work injury

2 ACTUARIAL POSITION

The Organization had appointed an independent actuary, ('Aon Hewitt'), to carry out a valuation of its schemes as at 31 December 2012, using the Projected Unit Method. The valuations for the years ended 31 December 2012 and 2011 indicated the existence of unfunded actuarial liabilities. The Government of the Kingdom of Bahrain has undertaken to meet any future unfunded actuarial liabilities as and when they fall due.

The method used to calculate the actuarial present value of promised benefits accruing under the terms and conditions of the plan at 31 December 2012 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 of members in service. The discount rate has been taken at 6% per annum (2011: 6% per annum), consistent with the long-term investment returns to the Organization.

The Organization's unfunded deficit at 31 December 2012 amounted to BD 5,992 million (31 December 2011: BD 5,718 million). In order to reduce this unfunded deficit the management of the Organization has taken a number of actions including:

- (i) Re-organising financial and administrative systems;
- (ii) Finding the best means to utilise the income;
- (iii) Developing and diversifying investments for reasonable return to support sources of funding; and
- (iv) Recommending to increase contributions in order to match the pension benefits paid.

Social Insurance Organization

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012

2 ACTUARIAL POSITION (continued)

The Fund's actuarial funding liability at 31 December is as follows:

	<i>Public sector BD million</i>	<i>Private sector BD million</i>	<i>Adjustments BD million</i>	<i>Total BD million</i>
2012				
Total net assets of the Organization	1,151	2,019	-	3,170
Actuarial liability of the fund:				
Vested	(4,442)	(3,814)	-	(8,256)
Non-vested	(541)	(365)	-	(906)
Total actuarial liability	(4,983)	(4,179)	-	(9,162)
Unfunded deficit	(3,832)	(2,160)	-	(5,992)
2011				
Total net assets of the Organization (restated)	1,112	1,879	(20)	2,971
Actuarial liability of the fund:				
Vested	(3,883)	(3,660)	-	(7,543)
Non-vested	(768)	(378)	-	(1,146)
Total actuarial liability	(4,651)	(4,038)	-	(8,689)
Unfunded deficit	(3,539)	(2,159)	(20)	(5,718)

The movements in the Organization's actuarial liabilities for the years 2012 and 2011 as provided by the actuary were as follows:

	<i>Ref</i>	<i>Public sector</i>	<i>Private sector</i>	<i>Total</i>
Actuarial liability at 1 January 2012		4,651	4,038	8,689
Increase in interest cost	a	275	239	514
Increase in service cost	b	160	215	375
Benefits paid	c	(140)	(112)	(252)
Others	d	37	(201)	(164)
Actuarial liability at 31 December 2012		4,983	4,179	9,162

The explanatory notes for the above items appearing in the movements of the actuarial liability are as follows:

a Increase in interest cost

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

Social Insurance Organization

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012

2 ACTUARIAL POSITION (continued)

b Increase in service cost

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

c Benefits paid

The amount represents reduction in the actuarial liability due to payments made to the 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 sector.

3 SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the provisions of the Pension Law No. 13 of 1975, Amiri decree No. 24 of 1976 and Law No. 78 of 2006.

Accounting convention

The consolidated financial statements are prepared under the historical cost convention except for the measurement of investment securities carried at fair value through profit or loss and available-for-sale investments that have been measured at fair value. The consolidated financial statements are presented in Bahraini Dinars ("BD") which is the functional currency of the Organization, and all values are rounded to the nearest thousand ("BD '000"), except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Organization and its subsidiaries as at 31 December 2012.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Organization obtained control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2012:

IFRS 7 Financial instruments: Disclosures (amendment)

The IASB issued an amendment to IFRS 7 on 7 October 2010. The amendment provides enhanced disclosures for transferred financial assets that are derecognised in their entirety and transferred assets that are not derecognised in their entirety. The effective date is for annual periods beginning on or after 1 July 2011.

The amendment has had no effect on the disclosures made by the Organization as the Organization has not issued these types of instruments.

3 SIGNIFICANT ACCOUNTING POLICIES

Changes in accounting policies (continued)

Improvements to IFRSs

Other amendments resulting from improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Organization:

- IAS 12 Income Taxes (Amendment) - Deferred Taxes: Recovery of Underlying Assets; and
- IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) - Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopter.

Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and any impairment losses, if any. All other repair and maintenance costs are recognised in the consolidated statement of changes in net assets. Land and capital work in progress are not depreciated.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	20 to 40 years
Office furniture and equipment	2 to 10 years
Computers	5 years

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

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately, is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases the future economic benefits of the related items of property and equipment. All other expenditure is recognised in the consolidated statement of changes in net assets as the expense is incurred.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of changes in net assets when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively if appropriate.

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 using the straight-line method at annual rates, which are intended to write off the cost of the investment property over their estimated useful lives ranging from 10 to 25 years.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the statement of changes in net assets in the period of derecognition.

Investment properties are tested for impairment at each reporting date using recent real estate transactions with similar characteristics and locations to those at the Organization's assets.

As at 31 December 2012

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates

The Organization's investment in its associates, entities in which the Organization has significant influence, are accounted for using the equity method.

Under the equity method, the investment in associates are initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Organization's share of net assets of the associates since the acquisition date. Goodwill relating to the associates is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of changes in net assets reflects the Organization's share of the results of operations of the associates. When there has been a change recognised directly in the equity of the associates, the Organization recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in net assets. Unrealised gains and losses resulting from transactions between the Organization and the associate are eliminated to the extent of the interest in the associate.

The Organization's share of profit from associates is shown on the face of the consolidated statement of changes in net assets and represents the profit or loss after tax and non-controlling interests in the subsidiaries of the associates.

The financial statements of the associates are prepared for the same reporting period as the Organization. When necessary, adjustments are made to bring the accounting policies in line with those of the Organization.

After application of the equity method, the Organization determines whether it is necessary to recognise an impairment loss on its investment in its associates. At each reporting date, the Organization determines whether there is objective evidence that the investment in the associates is impaired. If there is such evidence, the Organization calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss as 'Share of profits / (losses) of an associate' in the consolidated statement of changes in net assets.

Upon loss of significant influence over the associate, the Organization measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associates upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of changes in net assets under 'Investment income'.

Impairment of non-financial assets

The Organization assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Organization estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments - initial recognition and subsequent measurement

(i) Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Organization determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Organization commits to purchase or sell the asset.

The Organization's financial assets include cash balances and deposits with banks, social insurance contribution receivable, receivables and other assets, social insurance benefits and loans to financial institutions.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Financial assets at fair value through profit or loss are carried in the consolidated statement of net assets at fair value with net changes in fair value presented as fair value loss (negative net changes in fair value) or fair value gain (positive net changes in fair value) in the consolidated statement of changes in net assets.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at their initial recognition date and only if the criteria under IAS 39 are satisfied.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in interest income in the consolidated statement of changes in net assets. The losses arising from impairment are recognised in the consolidated statement of changes in net assets in other investment income.

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 loans and receivables.

Social Insurance Organization

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments - initial recognition and subsequent measurement (continued)

(i) Financial assets (continued)

The Organization has the following financial assets carried at amortised cost:

(i) *Past and assumed services balances*

Past and assumed services balances represent amounts due from members who elect to buy additional contributions or past 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 less any impairment allowances, if any.

(ii) *Scheme members' loans*

Scheme 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 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 less impairment allowances, if any.

(iv) *Loans to financial institutions*

These are stated at amortised cost using the effective interest rate method less impairment allowances, if any.

Available-for-sale financial investments

Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains and losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other investment income or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for-sale reserve to the consolidated statement of changes in net assets as an impairment loss and netted from other investment income. Interest earned whilst holding available-for-sale investments is reported as interest income using the EIR method.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Organization has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or cost that are integral part of the EIR. The EIR amortisation is included as interest income in the consolidated statement of changes in net assets. The losses arising from impairment are recognised in the consolidated statement of changes in net assets.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments - initial recognition and subsequent measurement (continued)

(i) Financial assets (continued)

Derecognition

A financial asset (or, where applicable, a part of financial asset or part of a group of a similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; and
- The Organization has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement, and either (a) the Organization has transferred substantially all the risks and rewards of the asset, or (b) the Organization has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control over the asset.

When the Organization has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Organization's continuing involvement in the asset. In that case, the Organization also recognises an associated liability. The transferred asset and associated liability are measured on a basis that reflects the rights and obligations that the Organization has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Organization could be required to repay.

(ii) Impairment of financial

The Organization assesses, at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if the objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

The Organization assesses the impairment of its financial assets as follows:

Financial assets carried at amortised cost

For financial assets at amortised cost, the Organization first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Organization determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assess the for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing a significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments - initial recognition and subsequent measurement (continued)

(ii) Impairment of financial

Financial assets carried at amortised cost (continued)

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the consolidated statement of changes in net assets. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated statement of changes in net assets. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to 'Other income' in the consolidated statement of changes in net assets.

Available-for-sale financial investments

For available-for-sale financial investments, the Organization assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the investment previously recognised in other comprehensive income - is removed from other comprehensive income and recognised as an impairment loss in the consolidated statement of changes in net assets. Impairment losses on equity investments are not reversed through the consolidated statement of changes in net assets; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on the investment previously recognised in the consolidated statement of changes in net assets.

Future interest income continues to be accrued based on the reduced carrying amount of the asset using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of changes in net assets, the impairment loss is reversed through the consolidated statement of changes in net assets.

(iii) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Organization determines the classification of its financial liabilities at initial recognition.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments - initial recognition and subsequent measurement (continued)

(iii) Financial liabilities

All financial liabilities are recognised initially at fair value, and in case of loans and borrowings, net of directly attributable transaction costs.

The Organization's financial liabilities include payables and other liabilities.

Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:

Payable and other liabilities

Liabilities for trade and other payables are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Organization.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

(iv) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of net assets if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

v) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions;
- Reference to the current fair value of another instrument that is substantially the same; and
- A discounted cash flow analysis or other valuation models.

Provisions

Provisions are recognised when the Organization has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Organization expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of changes in net assets, net of any reimbursement.

Employees' end of service benefits

For national 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 *IAS 19 Employee Benefits*, is expensed as incurred.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees' end of service benefits (continued)

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.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Organization and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment. The Organization assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The following specific recognition criteria must also be met before revenue is recognised:

Social insurance contributions

Social insurance contributions are accounted for based on the provisions of Pension Law No. 13 of 1975 for the public sector and Decree No. 24 of 1976 for the private sector. For the public sector, contributions are accrued based on salaries paid to Government employees during the year. For the private sector, contributions are accrued based on declared salaries submitted by registered employers at the beginning of each year.

Assumed and past services income

Assumed services income relates to the purchase of up to five years of service in the future, and is recognised during the year of purchase. Past services income is recognised on account of past years of service contributions made by the eligible employers in the current year.

Interest income

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

Dividend income

Revenue is recognised when the Organization's right to receive the payment is established, which is generally when shareholders approve the dividend.

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and is included in 'Other income'.

Government compensation

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 the 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.

Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash in hand, current accounts, call accounts and deposits with banks with original maturities of 90 days or less.

As at 31 December 2012

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date. All exchange differences are taken to the consolidated statement of changes in net assets.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

4 PROSPECTIVE CHANGES IN ACCOUNTING POLICIES

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of the issuance of the Organization's consolidated financial statements are disclosed below. The Organization intends to adopt these standards, if applicable, when they become effective.

IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with *IAS 32 Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Organization's financial position or performance and will become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work though the adoption date is subject to the recently issued Exposure Draft on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the Board will address impairment and hedge accounting. The Organization will quantify the effect of the adoption of the first phase of IFRS 9 in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 - Consolidated Financial Statements, IAS 27 Separate Financial Statements

The standard becomes effective for annual periods beginning on or after 1 January 2013. It replaces the requirements of *IAS 27 Consolidated and Separate Financial Statements* that address the accounting for consolidated financial statements and *SIC 12 Consolidation – Special Purpose Entities*. What remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Organization is currently assessing the impact of adopting IFRS 10.

IFRS 11 - Joint Arrangements

The standard becomes effective for annual periods beginning on or after 1 January 2013. It replaces *IAS 31 Interests in Joint Ventures* and *SIC 13 Jointly Controlled Entities – Non-monetary Contributions by Venturers*. Because IFRS 11 uses the principle of control in IFRS 10 to define control, the determination of whether joint control exists may change. The adoption of IFRS 11 is not expected to have a significant impact on the accounting treatment of investments currently held by the Organization.

4 PROSPECTIVE CHANGES IN ACCOUNTING POLICIES (continued)

IFRS 12 - Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but has no impact on the Organization's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 - Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Organization is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IAS 1 Presentation of Items of Other Comprehensive Income - Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gains on hedges of net investments, exchange differences on translation of foreign operations, net movements on cash flow hedges and net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans). The amendment affects presentation only and has no impact on the Organization's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements. The Organization does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 Joint Arrangements and *IFRS 12 Disclosure of Interests in Other Entities*, *IAS 28 Investments in Associates*, has been renamed *IAS 28 Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2013.

IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Organization's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

Annual Improvements - May 2012

The following improvements, which are effective for annual periods beginning on or after 1 January 2013, are not expected to have any impact on the Organization:

IAS 1 Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

As at 31 December 2012

4 PROSPECTIVE CHANGES IN ACCOUNTING POLICIES (continued)

IAS 16 Property Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 34 Interim Financial Reporting

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Judgements

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 "fair value through profit or loss", "available-for-sale" or "held-to-maturity" 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 .

Estimates

The key assumptions considering the future and other key sources of estimation uncertainty at the statement of net assets date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Organization based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Organization. Such changes are reflected in the assumptions as they occur.

Impairment of available-for-sale investments

Where fair values are not readily available and the investments are carried at cost, the recoverable amount of such investment is estimated to assess impairment. In making a judgement 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.

Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the consolidated statement of net assets cannot be derived from active markets, their fair value is determined using valuation techniques, including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Impairment of assets carried at amortised cost

An estimate of the non-collectible amount of assets carried at amortised cost is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are overdue, are assessed collectively and a provision applied according to the age of the debt, based on historical recovery rates.

Social Insurance Organization

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates (continued)

Impairment of assets carried at amortised cost (continued)

At the consolidated statement of nets assets date, gross assets carried at amortised costs were BD 1,643,636 thousand (31 December 2011: BD 1,479,305 thousand) and provision for doubtful debts was BD 24,752 thousand (31 December 2011: BD 17,121 thousand).

Impairment of investment properties

The fair value of investment properties is determined by independent real estate valuation experts based on recent real estate transactions with similar characteristics and location to those of the Organization's assets. The estimated fair values are based on local market conditions existing at the reporting date.

Actuarial valuation

The actuarial liability is determined by an independent actuarial valuation expert using the Projected Unit Method at each reporting date. The determination of the actuarial liability requires the use of significant estimates such as annual increment in the pension salaries, retirement age, mortality rate, rate of return on the investments and the discount rate. Actual outcome could differ from the estimated liability if the increases in the actual salaries of the scheme members in the preceding year exceeded the estimated current service cost by the actuary for that year.

6 RESTATEMENT OF COMPARATIVE FIGURES

During the year the Organization discovered and rectified certain prior period errors, which are summarised below:

- (i) The Organization has an investment in Hawar Holding Company B.S.C. (c) ("the Associate") which is accounted for using the equity method. The Associate has a 20% interest in the listed share of Bahrain Telecommunications Company B.S.C. ("Batelco"). The Associate carries out an impairment assessment on Batelco on an annual basis, using the value in use method, in accordance with IAS 36. The final impairment assessment carried out by the Associate in 2011 resulted in an impairment loss of BD 42,370 thousand, which was included in the results of the Associate for the year ended 31 December 2011. However, this was finalized subsequent to the issuance of the Organization's audited consolidated financial statements for the year ended 31 December 2011. Consequently, the comparative figures for the year ended 31 December 2011 have been restated to accommodate this effect decreasing the investment in associates as at 31 December 2011 and increasing the loss from associates by BD 21,196 thousand for that period.
- (ii) The Organization received compensation from the Ministry of Finance towards the actuarial loss for the year 2007 and fully recognised it in its audited consolidated financial statements for the year ended 31 December 2008. After the split of MPF and SIO in 2010, reconciliation of intercompany between SIO and MPF indicated that the MPF was entitled for a part of the compensation and it was not accounted for as a liability. The reconciliation also resulted in identifying other amounts due from the MPF by BD 4,027 thousand not accounted for earlier. This has been restated and resulted in increasing the payables and other liabilities and decreasing members' funds as at 1 January 2011 by a net amount of BD 446 thousand.
- (iii) In prior years, assumed and past services receivables were not adjusted for deductions made from the end of service compensations paid to members when they retire. This has resulted in discrepancies between the sub ledger and the general ledger of "Assumed and past services receivables". Amounts were discovered during the reconciliations made during the year and were approved to be written off. The rectification of this error had the effect of increasing general and administrative expenses and decreasing the assumed and past services receivables for the year ended 31 December 2011 by BD 806 thousand and decreasing the assumed and past services receivables and decreasing members' funds as at 1 January 2011 by BD 2,645 thousand.

Social Insurance Organization
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

6 RESTATEMENT OF COMPARATIVE FIGURES (continued)

- (iv) During the year, the Organization settled end of service compensations paid to scheme members who retired in 2010 but no accrual was made for this compensation as at 31 December 2010. The error has been rectified by increasing the payables and other liabilities and decreasing members' funds as at 1 January 2011 by BD 503 thousand.

The Organization restated the consolidated financial statements for the previous years to rectify these errors which had no effect in the current year.

The details of the errors and restatement are:

- a) Consolidated statement of changes in net assets:

2011	Ref.	2011 as previously reported BD '000	Adjustment (i) for 2011 BD '000	2011 restated BD '000
Share of loss of associates (note 18)	(i)	13,863	(21,196)	(7,333)
General and administrative expenses	(iii)	1,775	806	2,581
Net income for the year	(i)	169,017	(22,002)	147,015

- b) Consolidated statement of net assets

31 December 2011	Ref.	2011 as previously reported BD '000	Adjustment (i) for 2011 BD '000	Adjustment (iii) for 2011 BD '000	Adjustments (ii) & (iv) for 2011 BD '000	2011 Restated BD '000
Investment in associates (note 18)	(i)	181,611	(21,196)	-	-	160,415
Assumed and past services (note 11)	(iii)	42,971	-	(3,451)	-	39,520
Payables and other liabilities (note 21)	(ii) & (iv)	15,944	-	-	949	16,893
Members' funds	(i), (ii) & (iii)	2,907,865	(21,196)	(3,451)	(949)	2,882,269

1 January 2011	Ref.	1 January 2011 as previously reported BD '000	Adjustment (ii) 2010 BD '000	Adjustment (iii) 2010 BD '000	Adjustment (iv) 2010 BD '000	1 January 2011 Restated BD '000
Payables and other liabilities (note 21)	(ii) & (iv)	10,077	446	-	503	11,026
Assumed and past services (note 11)	(iii)	40,660	-	(2,645)	-	38,015
Members' funds	(ii) & (iii)	2,739,062	(446)	(2,645)	(503)	2,735,468

Social Insurance Organization

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

7 CLASSIFICATION OF FINANCIAL INSTRUMENTS

The Organization's financial instruments have been classified for the purpose of measurement under IAS 39: *Financial Instruments: Recognition and Measurement* as follows:

At 31 December 2012	<i>Fair value through profit or loss BD '000</i>	<i>Available- for-sale BD '000</i>	<i>Held-to- maturity BD '000</i>	<i>Amortised cost BD '000</i>	<i>Total BD '000</i>
ASSETS					
Cash balances and deposits with banks	-	-	-	1,328,955	1,328,955
Social insurance contribution receivable	-	-	-	60,822	60,822
Receivables and other assets	-	-	-	30,688	30,688
Social insurance benefits:					
Assumed and past services receivable	-	-	-	43,117	43,117
Scheme members' loans	-	-	-	18,809	18,809
Early extinguishment loans	-	-	-	108,218	108,218
Loans to financial institutions	-	-	-	28,275	28,275
Investment securities:					
Investments carried at fair value through profit or loss	302,304	-	-	-	302,304
Available-for-sale investments	-	499,364	-	-	499,364
Held-to-maturity investments	-	-	338,037	-	338,037
TOTAL FINANCIAL ASSETS	302,304	499,364	338,037	1,618,884	2,758,589
At 31 December 2011	<i>Fair value through profit or loss BD '000</i>	<i>Available- for-sale BD '000</i>	<i>Held-to- maturity BD '000</i>	<i>Amortised cost BD '000</i>	<i>Total BD '000</i>
ASSETS					
Cash balances and deposits with banks	-	-	-	1,179,011	1,179,011
Social insurance contribution receivable	-	-	-	51,253	51,253
Receivables and other assets	-	-	-	28,802	28,802
Social insurance benefits:					
Assumed and past services receivable	-	-	-	39,520	39,520
Scheme members' loans	-	-	-	22,253	22,253
Early extinguishment loans	-	-	-	101,760	101,760
Loans to financial institutions	-	-	-	39,585	39,585
Investment securities:					
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	-	-	335,182	-	335,182
TOTAL FINANCIAL ASSETS	273,130	507,762	335,182	1,462,184	2,578,258

Social Insurance Organization
NOTES TO THE FINANCIAL STATEMENTS

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8 CASH BALANCES AND DEPOSITS WITH BANKS

	<i>2012</i> <i>BD '000</i>	<i>2011</i> <i>BD '000</i>
Cash on hand	3	4
Current accounts	4,968	11,465
Call accounts	24,083	15,819
Deposits with banks	<u>1,299,901</u>	<u>1,151,723</u>
	1,328,955	1,179,011
Term deposits with an original maturity of more than three months	<u>(518,376)</u>	<u>(145,358)</u>
Cash and cash equivalents as per the consolidated statement of cash flows	<u>810,579</u>	<u>1,033,653</u>

Call accounts earn interest at floating rates based on daily bank deposit rates. Deposits with banks are made for varying periods between one day and six months (refer note 32), depending on the immediate cash requirements of the Organization.

Deposits with banks carry interest rates ranging between 0.1% to 2.9% (2011: between 0.2% to 2.5%).

9 SOCIAL INSURANCE CONTRIBUTION RECEIVABLE

	<i>2012</i> <i>BD '000</i>	<i>2011</i> <i>BD '000</i>
Private sector pension plan	50,412	43,077
Public sector pension plan	9,418	5,788
Unemployment plan	<u>23,309</u>	<u>17,077</u>
	83,139	65,942
Less: Allowance for impairment	<u>(22,317)</u>	<u>(14,689)</u>
	<u>60,822</u>	<u>51,253</u>

The movement in the allowance for impairment was as follows:

	<i>2012</i> <i>BD '000</i>	<i>2011</i> <i>BD '000</i>
At 1 January	14,689	10,598
Charge for the year	<u>7,628</u>	<u>4,091</u>
At 31 December	<u>22,317</u>	<u>14,689</u>

Social Insurance Organization
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10 RECEIVABLES AND OTHER ASSETS

	2012 BD '000	2011 BD '000
Interest receivable	13,022	11,210
Receivable from the Ministry of Finance	7,209	11,021
Staff loans	716	656
Social allowance contribution receivable	2,665	795
Prepayments and other receivables	7,132	5,241
Provision for impairment	(56)	(53)
	30,688	28,870

The movement in the allowance for impairment was as follows:

	2012 BD '000	2011 BD '000
At 1 January	53	55
Charge / (release) for the year	3	(2)
At 31 December	56	53

11 ASSUMED AND PAST SERVICES RECEIVABLE

	2012 BD '000	<i>Restated as</i> <i>Restated at 1 January</i> 2011 BD '000	<i>Restated as</i> <i>Restated at 1 January</i> 2011 BD '000
Assumed services	34,941	31,493	7,380
Past services	8,176	8,027	30,635
	43,117	39,520	38,015

Assumed and past services balances represent amounts due from members who elected to buy additional assumed or joint past services for up to five years. The considerations may be paid immediately or over an agreed period not exceeding 10 years. They are stated at amortised cost using the effective interest rate method less impairment allowances, if any. During the year assumed and past services receivables of BD 99 thousand were written off due to borrowers' deaths (2011: BD 42 thousand) (refer note 24).

12 SCHEME MEMBERS' LOANS

	2012 BD '000	2011 BD '000
Members' loans	18,951	22,395
Provision for doubtful loan balances	(142)	(142)
	18,809	22,253

Members' loans are granted to members, covered by Law No. (13) of 1975, who have completed not less than five years of service as of the loan application date. These loans are repayable within 4 years. During 2011 BD 36 thousand were written off due to borrowers' deaths (2012: nil) (refer note 24).

Social Insurance Organization
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

13 EARLY EXTINGUISHMENT LOANS

	2012 BD '000	2011 BD '000
Early extinguishment loans	108,570	102,112
Provision for doubtful loan balances	(352)	(352)
	108,218	101,760

Early extinguishment loans are granted to eligible members, who have completed the required period of service to be entitled to retirement pensions. The loans are repayable within 5, 10 or 15 years in equal monthly installments. These loans are secured by members' pension contributions. During the year, loans amounting to BD 356 thousand (2011: BD 306 thousand) were written off due to borrowers' deaths (refer note 24).

14 LOANS TO FINANCIAL INSTITUTIONS

	2012 BD '000	2011 BD '000
Loans to financial institutions	30,160	41,470
Provision for doubtful loan balances	(1,885)	(1,885)
	28,275	39,585

Loans to financial institutions are repayable within one to three years. The interest rate charged on such loans is 1.55% above LIBOR (2011: 1.55% and 2.70% above LIBOR). There is one loan on which a fixed rate of interest of 3% per annum is charged (2011: 3% per annum).

15 INVESTMENTS CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS

The movements in investments carried at fair value through profit or loss were as follows:

	2012 BD '000	2011 BD '000
At 1 January	273,130	285,837
Purchases	77	1,243
Disposals	(164)	(1,586)
Unrealised fair value gain / (loss) (note 25)	29,261	(12,364)
	302,304	273,130

16 AVAILABLE-FOR-SALE INVESTMENTS

	2012 BD '000	2011 BD '000
Quoted investments	242,713	252,339
Unquoted investments		
- carried at cost	135,724	133,347
- carried at fair value	120,927	122,076
	256,651	255,423
Total available-for-sale investments	499,364	507,762

Social Insurance Organization
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

16 AVAILABLE-FOR-SALE INVESTMENTS (continued)

Quoted investments

The fair values of the quoted ordinary shares are determined by reference to published price quotations in an active market.

Unquoted investments

The fair values of unquoted investments have been estimated using indicative NAVs provided by the fund administrators. For the real estate funds, there are no readily observable market prices available and hence, these funds are carried at cost.

The movements in available-for-sale investments were as follows:

	<i>2012</i> <i>BD '000</i>	<i>2011</i> <i>BD '000</i>
At 1 January	561,296	591,340
Purchases	21,243	36,814
Disposals	(22,256)	(27,519)
Fair value changes during the year (note 31)	(151)	(39,339)
	<u>560,132</u>	<u>561,296</u>
Less: Allowance for impairment	(60,768)	(53,534)
At 31 December	<u>499,364</u>	<u>507,762</u>

For the fair value hierarchy of the available-for-sale investments (refer note 34).

The movements of provision on available-for-sale investments were as follows:

	<i>2012</i> <i>BD '000</i>	<i>2011</i> <i>BD '000</i>
Allowance for impairment:		
At 1 January	53,534	58,966
Charge for the year (note 29)	10,625	5,575
Released on disposals (note 29)	(3,391)	(11,007)
At 31 December	<u>60,768</u>	<u>53,534</u>

17 HELD-TO-MATURITY INVESTMENTS

	<i>2012</i> <i>BD '000</i>	<i>2011</i> <i>BD '000</i>
Bonds	194,108	177,057
Sukuk	143,929	158,125
	<u>338,037</u>	<u>335,182</u>

Social Insurance Organization
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

17 HELD-TO-MATURITY INVESTMENTS (continued)

The movements in held-to-maturity investments were as follows:

	2012	2011
	BD '000	BD '000
At 1 January	344,336	331,604
Purchases	80,657	75,915
Redemptions of matured investments	(78,036)	(63,183)
	346,957	344,336
Less: Allowance for impairment	(8,920)	(9,154)
At 31 December	338,037	335,182

The movements of provision on held-to-maturity investments was as follows:

	2012	2011
	BD '000	BD '000
At 1 January	9,154	5,278
(Write back) / charge for the year (note 29)	(234)	3,876
At 31 December	8,920	9,154

18 INVESTMENT IN ASSOCIATES

	2012	<i>Restated</i> 2011
	BD '000	BD '000
At 1 January	160,415	177,884
Share of profits/(losses) - restated (note 6)	19,819	(7,333)
Share of changes in fair value reserve of associates (note 31)	8,363	-
Share of investments fair value reserve (note 31)	131	(876)
Share of other reserves	(87)	(517)
Dividends received	(7,465)	(8,743)
At 31 December	181,176	160,415

* The financial statements of Hawar Holding Company B.S.C. (c) ('the associate') for the year ended 31 December 2011 were issued subsequent to the issuance of the Organization's approved financial statements for the same year and included an impairment loss on the associate's available-for-sale investment. The Organization accounted for this adjustment in 2012.

The summarised financial information of the Organization's share in its associates, based on audited financial statements, as at and for the year ended 31 December is as follows:

	2012	2011
	BD '000	BD '000
Total assets	990,921	889,119
Total liabilities	813,639	735,625
Total revenues	70,805	66,112
Total net profits	19,819	(7,333)

The fair value of quoted investments in associates was BD 120,815 thousand at 31 December 2012 (31 December 2011: BD 96,764 thousand).

Social Insurance Organization

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As at 31 December 2012

19 INVESTMENT PROPERTIES

	2012	2011
	BD '000	BD '000
Cost		
At 1 January and at 31 December	219,477	219,378
Additions	-	99
	219,477	219,477
Depreciation		
At 1 January	13,111	12,344
Charge for the year	666	767
At 31 December	13,777	13,111
Net carrying value	205,700	206,366
Fair value	612,464	618,256

Investment properties were valued as at 31 December 2012 by independent and professional property surveyors based on open market prices.

Social Insurance Organization
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

20 PROPERTY AND EQUIPMENT

	<i>Freehold land BD '000</i>	<i>Buildings BD '000</i>	<i>Office furniture and equipment BD '000</i>	<i>Computers BD '000</i>	<i>Total BD '000</i>	
2012						
Cost:						
At 1 January 2012	40,610	9,315	4,178	965	55,068	
Additions	-	63	144	54	261	
	<u>40,610</u>	<u>9,378</u>	<u>4,322</u>	<u>1,019</u>	<u>55,329</u>	
Depreciation:						
At 1 January 2012	-	8,372	3,608	455	12,435	
Charged during the year	-	218	107	230	555	
At 31 December 2012	-	<u>8,590</u>	<u>3,715</u>	<u>685</u>	<u>12,990</u>	
Net carrying amount:						
At 31 December 2012	<u>40,610</u>	<u>788</u>	<u>607</u>	<u>334</u>	<u>42,339</u>	
	<i>Freehold land BD '000</i>	<i>Buildings BD '000</i>	<i>Office furniture and equipment BD '000</i>	<i>Computers BD '000</i>	<i>Capital work-in- progress BD '000</i>	<i>Total BD '000</i>
2011						
Cost:						
At 1 January 2010	40,610	9,268	4,070	313	567	54,828
Additions	-	47	108	99	-	254
Transfers	-	-	-	553	(553)	-
Disposals	-	-	-	-	(14)	(14)
	<u>40,610</u>	<u>9,315</u>	<u>4,178</u>	<u>965</u>	<u>-</u>	<u>55,068</u>
Depreciation:						
At 1 January 2011	-	8,134	3,418	233	-	11,785
Charged during the year	-	238	190	222	-	650
At 31 December 2011	-	<u>8,372</u>	<u>3,608</u>	<u>455</u>	<u>-</u>	<u>12,435</u>
Net carrying amount:						
At 31 December 2011	<u>40,610</u>	<u>943</u>	<u>570</u>	<u>510</u>	<u>-</u>	<u>42,633</u>

Social Insurance Organization
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

21 PAYABLES AND OTHER LIABILITIES

	2012	2011	1 January
	BD '000	BD '000	2011
			BD '000
			(restated)
Accrued pension expenses	9,727	9,084	7,684
Accrued staff benefits	1,040	962	514
Due to Military Pension Fund	-	446	446
Others	7,074	6,401	2,382
At 31 December	17,841	16,893	11,026

22 SOCIAL INSURANCE CONTRIBUTIONS

	2012	2011
	BD '000	BD '000
Contributions from members:		
Basic salary	214,871	199,361
Social allowance	7,539	6,580
Work injuries	46,375	47,763
Unemployment	64,813	61,487
Penalties and others	3,122	2,775
Transfer from other pension funds	151	95
	336,871	318,061

23 REIMBURSEMENT FROM MINISTRY OF FINANCE

	2012	2011
	BD '000	BD '000
Compensation for retirement packages given upon privatization	3,263	-
Compensation for pension salaries paid to retired members of Parliament	1,980	1,149
	5,243	1,149

24 BENEFITS

	2012	2011
	BD '000	BD '000
Retirement pensions	223,252	191,680
Lump-sum compensation	20,898	18,483
Social allowance paid	6,755	6,130
Prior period adjustments	3,077	-
Death grants	1,811	1,144
Work injury payments	3,469	3,701
Unemployment compensation	9,529	6,866
Loan installments written off due to death:		
Assumed and past services (note 11)	99	42
Members' loans (note 12)	-	36
Early extinguishment loans (note 13)	356	306
Others	3,560	1,603
	272,806	229,991

Social Insurance Organization
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

25 NET INCOME FROM INVESTMENT SECURITIES

	2012	2011
	BD '000	BD '000
Dividend income	20,693	20,377
Gain / (loss) from sale of available-for-investments	2,796	(3,546)
Unrealised fair value gain (loss) on investment carried at fair value through profit or loss (note 15)	29,261	(12,364)
Net foreign exchange (loss) / gain	(4)	535
Income distribution from investments carried at fair value through profit or loss	-	808
Income distribution from available-for-sale investments	260	-
Other (expenses) / income	(2,225)	625
	50,781	6,435

26 INCOME FROM INVESTMENT PROPERTIES

	2012	2011
	BD '000	BD '000
Investment properties:		
Income from investment properties	3,039	3,470
Depreciation on investment property (note 19)	(666)	(767)
Investment properties maintenance costs	(478)	(957)
	1,895	1,746

27 INTEREST INCOME

	2012	2011
	BD '000	BD '000
Investments:		
Term deposits	17,961	18,353
Held-to-maturity investments	15,901	15,610
Loans:		
Early extinguishment loans	6,221	5,538
Loans to financial institutions	948	1,642
Members' loans	1,123	1,161
	42,154	42,304

28 STAFF COSTS

	2012	2011
	BD '000	BD '000
Salaries and other staff benefits	5,215	4,526
Social insurance contribution	816	601
Allowances	758	818
Provision for employees' end of service benefits	61	299
Other employee costs-retirement	100	337
	6,950	6,581

Social Insurance Organization

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

29 IMPAIRMENT LOSSES / (WRITE BACK) ON INVESTMENTS

	2012 BD '000	2011 BD '000
Provision for impairment in deposits written back	-	1,997
Impairment charge on available-for-sale investments – net (note 16)	(7,234)	5,432
Write back / (charge) on held-to-maturity investment (note 17)	234	(3,876)
	<u>(7,000)</u>	<u>3,553</u>

30 RELATED PARTY TRANSACTIONS

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2012 BD' 000	2011 BD' 000
Directors' remuneration	41	289
Directors' sitting fees	370	420
Short-term benefits to other key management personnel	369	563
	<u>780</u>	<u>1,272</u>

31 NET MOVEMENTS IN RESERVES

	<i>Investment securities fair value reserve BD' 000</i>	<i>Land revaluation reserves BD' 000</i>	<i>Non- controlling interest BD' 000</i>	<i>Total BD' 000</i>
2012				
Balance at 1 January	77,739	10,526	313	88,578
Net fair value changes on available-for-sale investments during the year (note 16)	(151)	-	523	372
Share in the fair value reserve of associates - net (note 18)	8,494	-	-	8,494
Net movements on reserves during the year	<u>8,343</u>	<u>-</u>	<u>523</u>	<u>8,866</u>
Balance as at 31 December	<u><u>86,082</u></u>	<u><u>10,526</u></u>	<u><u>836</u></u>	<u><u>97,444</u></u>

	<i>Investment securities fair value reserve BD' 000</i>	<i>Land revaluation reserves BD' 000</i>	<i>Non- controlling interest BD' 000</i>	<i>Total BD' 000</i>
2011				
Balance at 1 January	118,255	10,526	313	129,094
Net fair value changes on available-for-sale investments during the year (note 16)	(39,339)	-	-	(39,339)
Share in the fair value reserve of associates - net (note 18)	(1,177)	-	-	(1,177)
Net movements on reserves during the year	<u>(40,516)</u>	<u>-</u>	<u>-</u>	<u>(40,516)</u>
Balance as at 31 December	<u><u>77,739</u></u>	<u><u>10,526</u></u>	<u><u>313</u></u>	<u><u>88,578</u></u>

Social Insurance Organization
NOTES TO THE FINANCIAL STATEMENTS
As at 31 December 2012

32 MATURITY PROFILE

	No fixed maturity BD '000	Up to 3 months BD '000	3 to 6 months BD '000	6 months to 1 year BD '000	Total up to 1 year BD '000	1 to 3 years BD '000	Over 3 years BD '000	Total BD '000
31 December 2012								
Assets								
Cash balances and deposits with banks	-	810,579	510,376	8,000	1,328,955	-	-	1,328,955
Social insurance contribution receivable	-	60,822	-	-	60,822	-	-	60,822
Receivables and other assets	-	30,688	-	-	30,688	-	-	30,688
Loans to financial institutions	-	-	-	16,965	16,965	-	11,310	28,275
Social insurance benefits:								
Assumed and past services receivable	-	1,414	1,415	2,830	5,659	11,318	26,140	43,117
Members' loans	-	232	233	466	931	1,862	16,016	18,809
Early extinguishment loans	-	1,271	1,813	3,626	6,710	13,420	88,088	108,218
Investment securities:								
Investments carried at fair value through profit or loss	302,304	-	-	-	-	-	-	302,304
Available-for-sale investments	499,364	-	-	-	-	-	-	499,364
Held-to-maturity investments	-	29,007	1,527	16,770	47,304	109,279	181,454	338,037
	801,668	934,013	515,364	48,657	1,498,034	135,879	323,008	2,758,589
Liabilities								
Payables and other liabilities	-	17,841	-	-	17,841	-	-	17,841
	-	17,841	-	-	17,841	-	-	17,841
Net liquidity gap	801,668	916,172	515,364	48,657	1,480,193	135,879	323,008	2,740,748
Cumulative liquidity gap	801,668	1,717,840	2,233,204	2,281,861		2,417,740	2,740,748	

Social Insurance Organization
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

32 MATURITY PROFILE (continued)

	No fixed maturity BD '000	Up to 3 months BD '000	3 to 6 months BD '000	6 months to 1 year BD '000	Total up to 1 year BD '000	1 to 3 years BD '000	Over 3 years BD '000	Total BD '000
<i>31 December 2011</i>								
Assets								
Cash balances and deposits with banks	-	1,033,653	145,358	-	1,179,011	-	-	1,179,011
Social insurance contribution receivable	-	37,307	8,174	-	45,481	-	5,772	51,253
Receivables and other assets	329	27,414	1,127	-	28,541	-	-	28,870
Loans to financial institutions						28,275	11,310	39,585
Social insurance benefits:								
Assumed and past services receivable	-	1,283	1,283	2,566	5,132	10,264	24,124	39,520
Members' loans	-	3,171	3,171	6,342	12,684	9,569	-	22,253
Early extinguishment loans	-	3,536	3,536	7,072	14,144	28,290	59,326	101,760
Investment securities:								
Investments carried at fair value through profit or loss	273,130	-	-	-	-	-	-	273,130
Available for sale	507,762	-	-	-	-	-	-	507,762
Held-to-maturity	118,227	4,506	13,297	14,795	32,598	68,943	115,414	335,182
	899,448	1,110,870	175,946	30,775	1,317,591	145,341	215,946	2,578,326
Liabilities								
Payables and other liabilities	369	13,376	1,194	1,954	16,524	-	-	16,893
	369	13,376	1,194	1,954	16,524	-	-	16,893
Net liquidity gap	899,079	1,097,494	174,752	28,821	1,301,067	145,341	215,946	2,561,433
Cumulative liquidity gap	899,079	1,996,573	2,171,325	2,200,146		2,345,487	2,561,433	

33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Introduction

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 risks 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 the 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 3.

The Organization manages its risks through a process of ongoing identification and monitoring of the risks it faces. The Organization is exposed to interest rate, liquidity, credit, currency and operational risk.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Executive committee

The executive committee is responsible for evaluating and approving business and risk strategies, plans and policies of the Organization.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Organization's 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 with the Investment Policy Document ("IPD") the Organization invests after assessing the best offer rate by Banks. Majority of the investments are held in highly liquid short term roll over deposits in banks with high credit ratings in the region.

The Organization is exposed to interest rate risk on its floating interest rate bearing assets. The following table demonstrates the sensitivity to a reasonably possible change in interest rates with all other variables held constant:

Social Insurance Organization

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

	<i>Increase/ decrease in basis points</i>	<i>Effect on net assets for the year BD '000</i>
2012	+ / - 100	17,932
2011	+ / - 100	16,498

Liquidity risk

Liquidity risk is the risk that the Organization will encounter difficulty in meeting its commitments.

The Organization limits its liquidity risk by ensuring 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, therefore the Organization maintains high balances of cash in short term bank deposits.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Organization is exposed to credit risk from its operating activities (primarily for receivables) and from its financing activities, including deposits with banks and financial institutions.

Management of investment credit risk

The Board of Directors has developed the IPD with the coordination of the Investment Committee. The Organization monitors its credit risk with respect to investments in accordance with its 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 risk and balance 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 approved by the Chairman of the Organization or his deputy. Investment in local quoted and unquoted shares is restricted by rules governing 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 and procedures, management does not expect any counterparty to fail to meet its obligations.

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

Social Insurance Organization

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

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

	2012 BD '000	2011 BD '000
Receivables and other assets	30,688	28,870
Assumed and past services receivable	43,117	39,520
Scheme members' loans	18,809	22,253
Early extinguishment loans	108,218	101,760
Loans to financial institutions	28,275	39,585
	229,107	231,988

Currency risk

The table below indicates the Organization's foreign currency exposure as at 31 December, as a result of its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the Bahraini Dinar currency rates against the below listed currencies (except the USD) with all other variables held constant, on the changes in net assets and member's funds (due to the fair value of currency sensitive monetary assets and liabilities).

	2012 BD '000 Equivalent	2011 BD '000 Equivalent
United States Dollar	878,798	887,717
Euro	31,765	32,012
Great Britain Pound	73,926	10,405
Kuwaiti Dinar	3,461	5,688
Japanese Yen	8,911	8,419
Other GCC currencies	2,568	5,870
	999,429	950,111

The Bahraini Dinar is pegged against the 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 interest rates, remain constant) on the major currencies is as follows:

	2012 BD '000 Equivalent		2011 BD '000 Equivalent	
	Income	s' funds	Income	funds
Euro	+/- 85	+/- 309	+/- 59	+/- 3,142
Great Britain Pound	+/- 6,746	+/- 646	+/- 315	+/- 726
Kuwaiti Dinar	+/- 331	+/- 15	+/- 569	-
Japanese Yen	+/- 891	-	+/- 842	-
Other GCC currencies	+/- 256	-	+/- 587	-

33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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.

Capital management

The primary objective of the Organization's capital management is to ensure that it maintains a healthy capital ratio in order to support its operation and maximise members' value.

The Organization manages its capital structure and makes adjustments to it through the payment of benefits in light of changes in business conditions. No changes were made in the objectives, policies or processes during the years ended 31 December 2012 and 31 December 2011. Capital comprises members' funds, investment securities fair value reserve, land revaluation reserve and non-controlling interest and is measured at BD 3,169,963 thousand as at 31 December 2012 (2011: BD 2,970,847 thousand).

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33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (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 Organizations seek 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.

	2012		2011	
	Net assets BD '000	Members' funds BD '000	Net assets BD '000	Members' funds BD '000
Industry Sector				
Trading and industry	69,845	-	61,351	-
Insurance, services and hotels	239,634	42,148	186,777	20,612
Banks and financial institutions	2,275,984	-	1,471,896	-
Construction and real estate	288,404	-	521,742	-
Government	93,887	-	232,685	-
Other	202,209	3,127,815	496,396	2,950,235
	3,169,963	3,169,963	2,970,847	2,970,847
Geographic sector				
Bahrain	2,709,097	3,169,963	2,406,087	2,970,847
GCC	66,439	-	187,246	-
Other Middle East Countries	53,451	-	2,578	-
USA and Europe	247,835	-	311,979	-
Other Countries	93,141	-	62,957	-
	3,169,963	3,169,963	2,970,847	2,970,847

Social Insurance Organization

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34 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities and derivatives.

Financial assets consist of cash and bank balances, social insurance contribution receivable, social insurance benefits, receivables and other assets and loans to financial institutions. Financial liabilities consist of trade and other payables.

The fair values of financial instruments are not materially different from their carrying values at the date of statement of net assets.

Fair value hierarchy

With the exception of certain unquoted available-for-sale-investments which are carried at cost and details of which are disclosed in note 16, the fair values of financial assets and financial liabilities are not materially different from their carrying values at the statement of net assets date.

The Organization uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

31 December 2012	<i>Level 1 BD '000</i>	<i>Level 2 BD '000</i>	<i>Level 3 BD '000</i>	<i>Total BD '000</i>
Investments carried at fair value through profit or loss	-	302,304	-	302,304
Available-for-sale investments	242,713	6,028	114,900	363,641
	<u>242,713</u>	<u>308,332</u>	<u>114,900</u>	<u>665,945</u>
<i>31 December 2011</i>	<i>Level 1 BD '000</i>	<i>Level 2 BD '000</i>	<i>Level 3 BD '000</i>	<i>Total BD '000</i>
Investments carried at fair value through profit or loss	-	273,130	-	273,130
Available-for-sale investments	252,339	7,384	114,691	374,414
	<u>252,339</u>	<u>280,514</u>	<u>114,691</u>	<u>647,544</u>

Social Insurance Organization

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

34 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

During the years 2012 and 2011 there have been no transfers between Level 1 and Level 2 and no transfers into and out of Level 3. Unquoted investments carried at cost are not included in the above hierarchy.

For level 3 measurements, changing inputs to reasonably possible alternative assumptions will not result in significant change in fair values.

The movements in level 3 financial instruments measured at fair value are as follows:

	2012 BD '000	2011 BD '000
At beginning of the year	114,691	108,382
Sale during the year	(10,118)	(10,689)
Additions during the year	7,501	14,845
Fair value changes	2,788	2,556
Impairment loss	(770)	(403)
Instruments transferred from cost to fair value	808	-
At 31 December	114,900	114,691

35 COMMITMENTS

- (i) The Organization has made a commitment to invest an amount of BD 2.49 million (2011: BD 12.21 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 associate, Hawar Holding Company B.S.C. (c) ("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.
- (iii) As at 31 December 2012, the required security value for the borrowing was USD 360 million (2011: USD 360 million) equivalent to BD 135.72 million (2011: BD 135.72 million). The Organization's maximum exposure to this commitment, represented by its shareholding in HHC, is 50% of the required security value which is USD 180 million (2011: USD 180 million) equivalent to BD 67.86 million (2011: BD 67.86 million). As of that date, since the market value of Batelco shares fell below 120%, the Organization and the other shareholders of HHC have provided additional collateral amounting to USD 87.673 million (2011: USD 56.11 million) equivalent to BD 33 million (2011: BD 21.15 million) comprising of debt service reserve account and deposits in order to fulfill the financial covenants of the borrowing.

36 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.