Annual Report 2008

Social Insurance For All Citizens

Kingdom of Bahrain

Social Insurance Organization

البحرين
BAHRAIN

His Royal Highness Prince
Khalifa bin Salman Al Khalifa
Prime Minister

His Majesty King
Hamad bin Isa Al Khalifa
King of the Kingdom of Bahrain

His Royal Highness Prince
Salman bin Hamad Al Khalifa
Crown Prince and Deputy
Commander in Chief

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Highness Shaikh
Ahmed Bin Mohammed Al Khalifa
Minister of Finance - Chairman

Mr. Othman Mohd Sharif AlRayes
Board Member
Bahrain Chamber of Commerce & Industry

Mr. Sameer Abdulla Nass
Managing Director - Nass Group

Mr. Abdul Rahman Yusif Bin Yusif Fakhro
Chairman
Yusif Bin Yusif Fakhro B.S.C. (c) Company

Dr. Fawzi Abdullah Amin
Assistant Undersecretary for Training & Planning
Ministry of Health

Ms. Badriya Yousif Aljeeb
Assistant Undersecretary of Socil Welfare and Rehabilitation
Ministry of Social Development

Brigadier AbdulRasool H. AlOraid
Finance Director
Ministry of Defense

Mr. Hasan Mohammed Hasan
Undersecretary for Human Resources
Ministry of Education

Ms. Batool Ali Abdul A'al
Undersecretary for Electricity & Water Production & Transmission
Electricity & Water Authority

Brigadier Hasan Isa Mohammed Al-Sameem
Undersecretary for Human Resources
Interior Ministry

Mr. Maki Isa Ahmed Abbas
Procurement Manager, Batelco

Mr. Hassan A.Aziz Ahmed Al-Madhi
Batelco

Mr. Jeffar Khalil Ebrahim
Assistant Secretary - General For Information and Publishing
General Federation of Bahrain Trade Unions

Mr. Rashid Ismael Al-Meer

Mr. Saeed Al Marzoog
COO
Bahrain Real Estate Investment Company (Edamah)

Chairman's Statement

The Social Insurance Organization has always been pursuing extending its umbrella to include the biggest segments of insured citizens and their beneficiaries, as well as, having full commitment to present highly efficient, facilitated services aiming for achieving the objectives of prevailing convenient cover to all insured citizens.

Therefore, I would like to present, to those concerned, the annual report which includes the financial statements of the year 2008 and the efforts exerted to achieve success and development to implement terms and provisions of the law No. (13) of the year 1975 concerning the regulation of pensions and retirement gratuities for government employees in addition to the alteration and amendments made to them and the law No. (11) of the year 1976 concerning the regulation of pensions and retirement gratuities for Bahrain Defence Force and Public Security and law No.(24) of the year 1976 concerning social insurance.

As a result of the unlimited support of the government, the organization was able to achieve lots of ambitions and contributions as a result of adopting various plans and programs that are intended for the good of those enjoying its services. The primary focus was put on developing the insurance and retirement services. It is to be noted as a forefront positive signal that the members rights have increased from BD. 2.86 billion by the end of the year 2007 to BD. 2.98 billion by the end of the year 2008, achieving an increase of 4.2%.

In the same respect, the governmental strategy to merge both organizations; the Pension Fund Commission and the General Organization for Social Insurance in accordance to law No. (3) For the year 2008 issued by His Royal Highness the Deputy of His Majesty the King. This law will undoubtedly double the benefits for public and private implyees as well as pensioners. These efforts can be easily witnessed through the effective involvement in the study of this tendency and investigating lots of suggestions and studies aiming at compromising between both organisations and the services provided which will have direct outcomes on the overall insurance services provided for present and future generations.

It is a great honour to express our gratitude to his Majesty King Hamad Bin Isa Al Khalifa, King of the Kingdom of Bahrain and to his Royal Highness Prince Khalifa Bin Salman Al Khalifa, the Prime Minister, and to his Royal Highness Prince Salman Bin Hamad Al Khalifa the Crown Prince and Vice Supreme Commander for their unlimited support for the insurance sector and the pensioners.

I would like to command the cooperation extended by all members of the Board of Directors and the tangible efforts of the Chief Executive and all employees of this organization which shall carry a new name but with the same deep rooted history.

Ahmed Bin Mohamed Al Khalifa
Minister of Finance
Chairman of the board of directors

Chief Executive's message

The Social Insurance Organization has taken more developing paces towards the best application of the insurance rules and procedures, stimulated by the directives of the Chairman and the Members of the Board of Directors of the organization which reflects the vision of the government and the ambitions of the insured members. Updating service performance of all Directorates and Departments has been considered to be more effective to cope with the applied developments on the servicing systems and its various technicalities.

There is no doubt that modernization of the work mechanism along with the development of the organization's projects has enhanced the organization efforts to fulfill its current and future commitment towards the insured members of the public and private sectors.

Since the issue of law No. (3) for year 2008 by His Royal Highness the Deputy of His Majesty the King concerning establishing the General Social Insurance Organization and implementing the actual emerging procedures along with unifying the best benefits to all Bahraini citizens, the organization has taken series of effective steps through forming many working committees such as unifying benefits committee, information technology committee, tender and purchasing committee and emerging financial statements committee so as to unify the efforts to achieve the actual emerge.

The signing and the approval of operating timetable that concerned with exchanging experiences, administrive efficiencies and laws and regulations in the Kingdom of Bahrain, and the General Social Insurance Organization and General Association of Social Insurance in the Hashemite Kingdom of Jordan, as a result of signing an understanding memorandum has enforced mutual benefits from experiences and applied systems in both sides which, of course, will contribute positively in the insurance work.

The improvement steps taken by the Organization, had their positive reflection on work, where the results are very clear on the financial statements of the organization (GOSI) for the year 2008 which showed an increase in the number of establishments covered by the social insurance from (40.026) in the year 2007 to (42.571) in the year 2008. As well as that, the number of insured members has increased from (361.425) for the year 2007 to (426.104) for the year 2008, an increase of 17.9%.

On the other hand, the number of organizations covered under the PFC has increased from (72) for the year 2007 to (81) for the year 2008, and the number of insured persons has risen from (45.669) for the year 2007 to (50.774) for the year 2008.

It is to be noted as a forefront positive signal emitting in this context that the members' rights in (GOSI) have increased from BD. 1.327 billion for the year 2007 to BD. 1.383 billion for the year 2008 achieving an increase of 4.2%, besides the increase in the members rights in (PFC) from BD. 1.391 billion in 2007 to BD. 1.437 billion by the end of 2008 achieving an increase of 3.3% which confirms the soundness of the financial policy adopted by the Social Insurance Organization.

On the other hand and as a result of the exerted efforts by the organization work team, many objectives have been achieved on the level of the quality of retirement services and the speed of delivering such services with the required accuracy as well as the implementation of the latest technical systems in the area of information technology. It is worth of a mention that the organization has successfully executed many vital projects aiming at reinforcing the technical plans and developing the administrated information which resulted of earning ISO 27001 in safety and security of information, in addition to the archiving of the retirement files electronically, redevelopment of the organization's site on the internet and the emergency projects.

Concerning investment level, the General Association for Social Insurance has demonstrated, through the Investment Management, a feasibility study for most of their existing local and foreign investment after the U.S. mortgage crisis and the crisis of global financial markets and the impact of these crises on the association and the ways of reducing these effects. The global economy has experienced a substantial slowdown during 2008 as a result of the subprime mortgage crisis in the United States, which had been sharpened after the collapse of (Lehman Brodhurz) bank, resulting in a lack of confidence in the markets, tight liquidity and collapse of world stock markets.

As a result, the economies of many developed countries have been declined to the brink of recession, and growth rates have slowed significantly in emerging markets around the world, which led to government intervention in order to protect their economies from falling into a recession, and by reducing interest rates and programs to protect deposits and swaps currencies in addition to many other initiatives.

There is no doubt that all the foregoing has impacted on the economies of the region and insurance in particular, affecting investments because of the economic crisis and reduced investment returns in 2008 to BD. 13.98 million, compared with BD. 458.84 million for 2007 (profit for the year 2007 included an exceptional income by BD. 222 million, the result of pricing donated land by His Majesty the King for the association). After deducting the change in fair value reserve for investment losses have been achieved by BD. 126.02 million.

Because of the association reservation concerning the distribution and diversification of investment assets, we could reduce these negative impacts so, the loss in 2008, was much lower than the losses incurred by the other pension funds (average loss of other pension funds in the world was (-20.5%) percent. The association total net assets was BD. 3,057.4 million in 2008 compared to BD. 3,099.4 million in 2007.

Also, it should be noted in this respect that during 2008, the actuarial deficit has reached (BD. 5,222,208,834) compared to (BD. 3,848,999,110) in the year 2007.

The most important reasons that lead to the continuing increase of the actuarial deficit in the association during 2008:

1. All types of early retirement, including referral to early retirement (age 55 years) and followed by additional pension benefits, such as adding five years of complementary to normal retirement age (60 years) without funding. As well as firing without the disciplinary procedure and the abolition of jobs.
2. Privatization programs and pension benefits granted to employees in the government sectors to be privatized, such as adding years of service within the service calculated in retirement and raising the salaries and other benefits that lead to higher pension expenses and insurance during the period of privatization directly.
3. The association has to grant the annual increase in pensions by 3%, which is significantly doubling annually due to the increase in the number of retirees each year on one hand, and benefits granted to retirees at the end of their service on the other.
4. The increase in salaries and wages during 2007, which emerged during the financial impact during 2008 and subsequent years, which took into account the actuarial valuation for the year 2008.

Our main objective and priority is to work with efficiency and dedication to reducing the causes of deficits to ensure the best benefits for all insured persons and beneficiaries at significantly the lowest risks and losses that affect all insurance funds.

Concerning investment aspect, the General Organization for Social Insurance and through the Investment Department has been keen on evaluating most of its current investment locally and abroad in the light of the American mortgage properties crises and the international stock market crises to realize what extend it had been influenced by both crises.

Finally, It is a great honour to express my gratitude to his Majesty King Hamad Bin Isa Al Khalifa, King of the Kingdom of Bahrain and to his Royal Highness Prince Khalifa Bin Salman Al Khalifa,the Prime Minister, and to his Royal Highness Prince Salman Bin Hamad Al Khalifa the Crown Prince and Vice Supreme Commander for their unlimited support for the insurance sector and the pensioners, hoping that this report will support our goals in publishing and explaining all information on the activities of the Organization to all those concerned and interested.

Mohamed Bin Isa Al Khalifa

Chief Executive

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2008

THE SOCIAL INSURANCE ORGANISATION

Report on the financial statements

We have audited the accompanying consolidated financial statements of The Social Insurance Organisation ("the Organisation"), which comprise the consolidated statement of net assets as at 31 December 2008, and the consolidated statements of changes in net assets attributable to members and cash flows of the year then ended, and a summary of significant accounting policies and other explanatory notes.

Responsibility of the Board of Directors for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Organisation as at 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements which indicates that the unfunded actuarial deficit at 31 December 2008 amounted to BD 5,222,208,834 (2007: BD 3,848,999,110) and actions taken by the Organisation to reduce the deficit.

KPMG

CONSOLIDATED STATEMENT OF NET ASSETS as at 31 December 2008

Bahraini Dinars

ASSETS	Note	2008	2007 Restated
Cash and bank balances	6	1,127,411,520	988,583,166
Social insurance contribution receivable	7	29,083,269	24,825,314
Receivables and other assets	8	21,985,826	29,768,252
Social insurance benefits			
Past and assumed services balances	9	48,066,630	42,603,989
Members' loans	10	37,029,635	34,103,058
Early extinguishment loans	11	157,470,965	139,060,425
Loans to financial institutions	12	56,550,000	18,850,000
Investment securities			
Investments carried at fair value through profit or loss	13	255,656,750	353,681,540
Available-for-sale investments	14	475,319,824	620,741,845
Held-to-maturity investments	15	228,018,629	255,003,397
Investments in associates	16	457,012,189	430,905,242
Investment properties	17	261,481,117	262,241,397
Property and equipment	18	58,812,085	59,097,297
TOTAL ASSETS		**3,213,898,439**	3,259,464,922
LIABILITIES			
Payables and other liabilities		(8,553,670)	(8,051,060)
Employees' terminal benefits		(1,153,253)	(667,524)
Borrowings	19	(151,163,281)	(151,340,208)
Total Liabilities		**(160,870,204)**	(160,058,792)
TOTAL NET ASSETS		**3,053,028,235**	3,099,406,130

CONSOLIDATED STATEMENT OF NET ASSETS as at 31 December 2008

Bahraini Dinars

	Note	2008	2007 Restated
REPRESENTED BY:			
Members' funds		2,977,881,206	2,861,757,798
Investment securities fair value reserve	27	23,715,243	191,456,123
Revaluation reserves	27	10,895,815	10,895,815
TOTAL NET ASSETS ATTRIBUTABLE TO MEMBERS' FUND (page 4)		**3,012,492,264**	3,064,109,736
Non-controlling interest	26	40,535,971	35,296,394
		3,053,028,235	3,099,406,130

The consolidated financial statements consisting of pages 12 to 69 were approved by the Board of Directors on 24 December 2009 and signed on their behalf by:

Ahmed Bin Mohammed Al Khalifa
Chairman

Mohammed Bin Isa Al Khalifa
Chief Executive Officer

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

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO MEMBERS for the year ended 31 December 2008

Bahraini Dinars

	Note	2008	2007 Restated
Contributions and benefits			
Social insurance contributions	20	300,011,741	213,780,874
Past and assumed services income		22,113,748	20,617,803
Reimbursement of privatisation cost	21	6,667,184	5,809,135
Social allowances compensation		6,332,816	5,681,310
Total contributions		335,125,489	245,889,122
Total benefits	22	(191,100,390)	(165,366,555)
Excess contributions over pension benefits		**144,025,099**	80,522,567
Other income			
Contribution from the government	17	-	222,146,591
Net investment (loss) / income	23	(126,029,867)	79,284,018
Interest income	24	65,030,747	74,383,089
Share of associate companies' profits	16	60,100,157	66,047,832
Other income		14,873,912	16,169,192
Total other income		13,974,949	458,030,722
TOTAL INCOME		**158,000,048**	538,553,289
Expenses			
Staff costs		7,746,891	6,795,025
General and administrative expenses		9,524,395	8,657,426
Depreciation of property and equipment	18	1,990,458	2,044,479
Interest expense		6,133,709	8,624,058
Provision for impaired social insurance contribution receivable	7	1,024,549	1,349,369
TOTAL EXPENSES		**26,420,002**	27,470,357
NET INCOME FOR THE YEAR		**131,580,046**	511,082,932
Attributable to:			
Members' fund		124,562,697	504,802,346
Non-controlling interest		7,017,349	6,280,586
		131,580,046	511,082,932

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO MEMBERS for the year ended 31 December 2008

Bahraini Dinars

	Note	2008	2007 Restated
Net income for the year attributable to members' fund		**124,562,697**	504,802,346
Net movements on reserves during the year	27	(167,740,880)	89,746,046
Share of associate companies' other reserves movement during the year		(8,444,313)	(1,731,027)
Others		5,024	6,966
(Decrease) / **increase in net assets attributable to members' fund during the year**		**(51,617,472)**	592,824,331
Total net assets attributable to members' fund at 1 January		3,064,109,736	2,471,285,405
Total net assets attributable to members' fund at 31 December		**3,012,492,264**	3,064,109,736

The consolidated financial statements consisting of pages 12 to 69 were approved by the Board of Directors on 24 December 2009 and signed on their behalf by:

Ahmed Bin Mohammed Al Khalifa
Chairman

Mohammed Bin Isa Al Khalifa
Chief Executive Officer

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

CONSOLIDATED STATEMENT OF CASH FLOWS for the year ended 31 December 2008

Bahraini Dinars

	Note	2008	2007 Restated
OPERATING ACTIVITIES			
Net income for the year		**131,580,046**	511,082,932
Adjustments:			
Net provision for impaired social insurance contribution receivable	7	1,024,549	1,349,369
Share of associate companies' profits	16	(60,100,157)	(66,047,832)
Contribution from government	17	-	(222,146,591)
Depreciation of property and equipment	18	1,990,458	2,044,479
Depreciation of investment properties	23	777,602	793,720
Net loss/(profit) from sales of available-for-sale investments	23	77,922	(18,166,188)
Unrealised fair value losses /(gains) on investments carried at fair value through profit or loss	23	100,539,982	(35,775,728)
Dividend income	23	(14,192,423)	(15,539,213)
Income from investment properties	23	(2,690,819)	(2,379,992)
Provision for impairment allowances	23	42,765,206	1,695,612
Interest income	24	(65,030,747)	(74,383,089)
Interest expense		6,133,709	8,624,058
Cash flows before changes in operating assets and liabilities		**142,875,328**	91,151,537
Changes in operating assets and liabilities:			
Receivables and other assets		7,985,627	(10,290,119)
Past and assumed services balances		(5,462,641)	(7,712,119)
Payables and other liabilities		1,783,079	1,971,159
Early extinguishment loans		(18,410,540)	(24,334,432)
Member's loans		(2,926,577)	(2,734,063)
Social insurance contribution receivable		(4,257,955)	(13,748,225)
Employees' terminal benefits		485,729	452,512
Cash flows from operating activities		**122,072,050**	34,756,250

CONSOLIDATED STATEMENT OF CASH FLOWS for the year ended 31 December 2008

Bahraini Dinars

	Note	2008	2007 Restated
INVESTING ACTIVITIES			
Purchases of:			
Investments carried at fair value through profit or loss	13	(6,193,205)	(33,786,436)
Available-for- sale investments	14	(83,950,386)	(124,117,941)
Held-to-maturity investments	15	(28,770,225)	(70,467,499)
Investment in associates	16	(21,417,463)	(207,153,014)
Property and equipment	18	(2,003,183)	(1,454,035)
Proceeds from disposals of:			
Investments carried at fair value through profit or loss		12,848,517	27,440,688
Available-for-sale investments		29,688,091	89,031,687
Held-to-maturity investments		48,214,993	36,930,372
Property and equipment		505,736	12,843
Dividends received from:			
Available-for-sale investments	23	14,192,423	15,539,213
Associate companies	16	31,729,751	34,233,649
Loans advanced to financial institutions		(37,700,000)	-
Interest income received		67,312,887	72,252,867
Income received from investment properties		2,524,514	2,229,960
Other income		57,211	65,397
Cash flows from/(used in) investing activities		**27,039,661**	(159,242,249)

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

CONSOLIDATED STATEMENT OF CASH FLOWS for the year ended 31 December 2008

Bahraini Dinars

	Note	2008	2007 Restated
FINANCING ACTIVITIES			
Interest expense paid		(7,461,503)	(6,820,113)
Dividends paid by subsidiaries		(2,353,840)	(1,789,171)
Restricted bank balance of a subsidiary		2,269,540	(5,187,520)
Borrowings received	19	376,000	150,800,000
Repayment of borrowings	19	(552,927)	(250,282)
Non-controlling interest in subsidiary's capital		-	13,574,337
Other payments		(291,087)	(183,854)
Cash flows (used in)/from investment activities		**(8,013,817)**	150,143,397
TOTAL NET CASH FLOWS IN THE YEAR		141,097,894	25,657,398
Cash and cash equivalent at beginning of year		983,395,646	957,738,248
CASH AND CASH EQUIVALENTS at 31 December		**1,124,493,540**	983,395,646
CASH AND CASH EQUIVALENTS comprise of:			
Cash on hand and bank balances		22,900,216	29,546,787
Deposits with banks		1,104,511,304	959,036,379
Cash and bank balances (note 6)		1,127,411,520	988,583,166
Less: Restricted amount *		(2,917,980)	(5,187,520)
		1,124,493,540	983,395,646

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

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

1 STATUS AND OPERATIONS

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

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

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

Social Insurance Organisation is formed by the merger of the "assets and liabilities" of GOSI and PFC with effect from 1 March 2008. The International Financial Reporting Standards (IFRS) on business combinations (IFRS 3) does not apply to business combinations effected between parties that are ultimately controlled by the same entity (in this case the Board of Directors concur that GOSI and PFC are controlled by the same entity "Government of Bahrain"), otherwise known as common control transactions. The Organisation has elected to apply "predecessor accounting" as determined by the principles generally accepted in the United States of America (refer note 3 (c)).

Predecessor accounting has the following implications:

- The transaction is recorded as if it had taken place at the beginning of the earliest period presented (similar to the recognition of a merger transaction).
- The comparative information included in the Organisation's results has thus been restated to effect this merger in the previous years.
- The assets and liabilities of the acquired business are recognised at the current book values, therefore no restatement of Organisations assets and liabilities to fair value was required;
- There is no consideration given and the members funds of the both PFC and GOSI are presented cumulatively. As a result, no goodwill is recognised on acquisition.

The acquisition method as per IFRS 3 has not been applied to this business combination. Consistent with IFRS 3, the Organisation has determined the acquirer and acquiree in order to establish the accounting policies to be followed by the Organisation. Hence these consolidated financial statements of the Organisation have been prepared adopting the accounting policies of GOSI being the acquirer.

NOTES to the 2008 consolidated financial statement

Bahraini Dinars

1 STATUS AND OPERATIONS *(continued)*

Restatement of comparative information

Persuant to the merger, the comparative information in these financial statements have been restated. Prior to the merger and for the year ended 31 December 2007, GOSI's financial statements were audited by BDO Jawad Habib and PFC's financial statements were audited by KPMG Fakhro.

The statement of net assets and the statement of changes to the net assets have been adjusted accordingly for the restatement due to the merger. The net assets of both PFC and GOSI individually are disclosed in the Appendix to these consolidated financial statements.

Funding policy

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

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

1 STATUS AND OPERATIONS *(continued)*

As at 31 December SIO had the following equity holdings:

	Equity ownership	
	2008	2007
Subsidiaries		
Marina Club SPC	100.00%	100.00%
Hawar Holding Company	66.66%	66.66%
Gulf Diabetes Specialist Centre B.S.C (c)	56.42%	56.42%
Bahrain Car Parks Company B.S.C	52.67%	52.67%
Bahrain Tourism Company B.S.C	51.26%	51.26%
Associates		
Southern Area Development Company B.S.C (c)	43.75%	43.75%
Bahrain International Golf Course Company B.S.C (c)	42.86%	42.86%
Securities and Investment Company B.S.C (c)	37.61%	37.91%
National Hotels Company B.S.C	32.15%	32.15%
Bank of Bahrain and Kuwait B.S.C	31.86%	31.86%
Bahrain Commercial Facilities Company B.S.C	30.00%	26.43%
Seef Properties Company B.S.C (c)	21.00%	21.00%
Bahrain Telecommunications Company B.S.C	20.35%	20.35%

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

2 ACTUARIAL POSITION

Independent actuarial valuations of the Organisation were carried out as of 31 December 2008 for private sector pension plan fund and public sector pension plan fund. The valuations were made separately for private sector pension plan fund and public sector pension plan fund. The method used to calculate the actuarial reserve is the Projected Unit Method. The actuarial valuations as of 31 December 2008 and 31 December 2007 have indicated the existence of unfunded actuarial liabilities. The Government of the Kingdom of Bahrain has undertaken to meet any future unfunded liabilities of the Organisation as they fall due.

The Organisation's actuarial funding provision at 31 December 2008 and 2007 is as follows:

	2008	2007 Restated
Total net assets of the Organisation	3,053,028,235	3,099,406,130
Actuarial present value of promised benefits	(8,275,237,069)	(6,948,405,240)
Unfunded deficit	**(5,222,208,834)**	(3,848,999,110)

The consolidated actuarial present value of promised benefits at 31 December 2008 and 2007

of private sector pension plan fund and public sector pension plan fund can be further analysed as follows:

	2008	2007 Restated
Vested benefits	7,366,107,291	6,224,813,631
Non-vested benefits	909,129,778	723,591,609
	8,275,237,069	6,948,405,240

The actuarial estimates have been prepared by independent actuaries which are Hewitt Associates SA for private sector plan and Mercer (Hungary) Ltd for public sector plan. The actuary has calculated the actuarial present value of promised benefits accruing under the terms and conditions of the plan at 31 December 2008. The method used to calculate the actuarial liability, as well as the standard contribution rate, is the "Projected Unit Method" which requires the actuarial liability to be calculated based on the present value of the benefits accrued at the valuation date, taking into account the final earnings for members in service. The discount rate has been taken at 6% per annum, consistent with the long-term investment returns to the Organisation.

The Organisation's unfunded deficit at 31 December 2008 amounts to BD 5,222,208,834 (2007: BD 3,848,999,110).

2 ACTUARIAL POSITION *(continued)*

In order to reduce this unfunded deficit management of the Organisation has taken number of actions including :

i) Re-organisation financial and administrative systems

ii) Finding the best means to utilise the income

iii) Developing and diversification of the investments for reasonable return to support source of funding

iv) Increase contribution to match with the pension benefits paid

Reconciliation between the actuarial liability at 31 December 2008 and 2007,
as provided by the actuary, Hewitt Associates SA and Mercer (Hungary) Ltd., is set out below:

	Notes	
Actuarial liability at 31 December 2007		6,948,405,240
Increase in interest cost	a	462,298,714
Increase in service cost	b	279,661,401
Benefits paid	c	(180,536,109)
Salary increase higher than expected	d	643,065,000
Miscellaneous		122,342,823
Actuarial liability at 31 December 2008		**8,275,237,069**

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

a) *Increase in interest cost*
This cost represents the accrued interest for one year on the actuarial liability as at 31 December 2008 calculated at the rate of 6% per annum.

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

c) *Benefits paid*
This amount represents reduction in the actuarial liability due to payments made to beneficiaries during the current year.

d) *Salary increases higher than expected*
This represents the actuarial liability arising due to the difference between the actual increase in salaries during the year 2008 compared to the level of increase assumed in the actuarial projections previously.

3 BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') and the provisions of Pension Law No. 13 of 1975, Decree No. 11 of 1976, Amiri decree 24 of 1976 and Law 87 of 2006. Refer to note 3 (c) for the basis of preparation of the consolidated financial statements pursuant to a merger of entities under common control.

(b) Basis of measurement

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

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

(c) Accounting for the merger of the interest in entities under common control

This accounting policy applies when the Organisation's controlling interest in subsidiaries and businesses held by the Government ("Ultimate Controller") was acquired through a transaction under common control, as defined in IFRS 3 Business Combinations. The directors note that transactions under common control are outside the scope of IFRS 3, and that there is no guidance elsewhere in IFRS covering such transactions. IFRS contain specific guidance to be followed where a transaction falls outside the scope of IFRS. This guidance is included in paragraphs 10 to 12 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. This requires, inter alia, that where IFRS does not include guidance for a particular issue, the directors should also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards. In this regard, it is noted that the United States Financial Accounting Standards Board (FASB) has issued an accounting standard covering business combinations (FAS 141) that is similar in a number of respects to IFRS 3.

In contrast to IFRS 3, FAS 141 does include, as an Appendix, limited accounting guidance for transactions under common control. The guidance contained in FAS 141 indicates that a form of accounting that is similar to pooling of interests accounting, which was previously set out in Accounting Principles Board (APB) Opinion 16, may be used when accounting for transactions under common control. Having considered the requirements of IAS 8, and the guidance included in FAS 141, it is considered appropriate to use a form of accounting which is similar to pooling of interests when dealing with the transaction in which the Organisation acquired its controlling interest in its subsidiaries.

3 BASIS OF PREPARATION *(continued)*

In consequence, the result of operations for the year is presented as though the acquisition of its controlling interest through a transaction under common control had occurred in the earliest year presented. The effects of the intercompany transactions are eliminated in determining the results of operations for the period prior to the acquisition of the controlling interest, meaning that those results are on substantially the same basis as the results of operations for the period after the acquisition of the controlling interest. Similarly, the consolidated balance sheets with related notes have been presented as though the assets and liabilities of the combining entities had been transferred at the earliest reporting period.

Financial statements and financial information presented for prior years were restated to furnish comparative information.

4 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

i. Subsidiaries

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

ii. Associates

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

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

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Basis of consolidation

iii. Transactions eliminated on consolidation

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

(b) Financial assets and liabilities

i Recognition

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

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

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

ii Measurement principles

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

Fair value measurement

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

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

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

ii Measurement principles *(continued)*

Amortised cost measurement

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

(c) Investment securities

i. Classification

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

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

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

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

ii. Recognition

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

iii. Subsequent measurement

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

NOTES to the 2008 consolidated financial statement Bahraini Dinars

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Investment securities *(continued)*

iv. Gains and losses on subsequent measurement

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

v. Fair value measurement principles

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

(d) Financial instruments

i. Past and assumed services balances

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

ii. Members' loans

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

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Financial instruments *(continued)*

iii. Early extinguishment loans *(continued)*

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

iv. Loans to financial institutions

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

v. Cash and cash equivalents

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

vi. Receivables

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

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Impairment of financial assets

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

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

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

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

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

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

(f) Investment properties

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

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Provisions

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

(h) Revenue recognition

Contributions of public plan are accrued in accordance with Pension Law No. 13 of 1975 and Amiri Decree No. 11 of 1976, as amended, based on salaries paid to government employees during the year.

Contributions of private plan are accrued in accordance with Amiri Decree No. 24 of 1976 and law No. 87 of 2006, based on declared salary submitted by registered employers at the beginning of each year.

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

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

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

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

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

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

(i) Benefits

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

NOTES to the 2008 consolidated financial statement Bahraini Dinars

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Leases

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

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

(k) Property and equipment

i. Recognition

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

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

ii. Subsequent cost

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

iii. Depreciation

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

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Property and equipment *(continued)*

iii. Depreciation *(continued)*

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

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

(l) Employee benefits

i. Bahraini employees

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

ii. Expatriate employees

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

(m) Foreign currency transactions

i. Functional and presentation currency

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

ii. Transactions and balances

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

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

i. Classification of investments

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

ii. Impairment on available-for-sale investments

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

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

iii. Impairment of loans and other receivable

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

6 CASH AND BANK BALANCES

	2008	2007 Restated
Cash on hand	4,264	3,853
Current account balances with banks	9,802,212	9,523,273
Call account balances with banks	13,093,740	20,019,661
Deposits with banks	1,109,441,824	962,240,879
	1,132,342,040	991,787,666
Less: Provision for impairment on deposits with banks	(4,930,520)	(3,204,500)
	1,127,411,520	988,583,166

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

Provision for impairment on deposits with banks	2008	2007 Restated
At 1 January	3,204,500	5,209,097
Additional impairment / (provision written back)	1,726,020	(2,004,597)
At 31 December	**4,930,520**	3,204,500

7 SOCIAL INSURANCE CONTRIBUTION RECEIVABLE

	2008	2007 Restated
Private sector pension plan	23,446,627	19,731,426
Public sector pension plan	5,641,588	5,684,580
Unemployment	6,461,487	4,851,192
	35,549,702	30,267,198
Less: Provision for impairment allowance	(6,466,433)	(5,441,884)
	29,083,269	24,825,314

The amount of net provision for impaired social insurance contribution receivable for the year of BD 1,024,549 (2007: BD 1,349,369) has been recognised in the statement of changes in net assets attributable to members.

Provision for impairment allowance	2008	2007 Restated
At 1 January	5,441,884	4,092,515
Charge for the year	1,024,549	1,349,369
At 31 December	**6,466,433**	5,441,884

8 RECEIVABLES AND OTHER ASSETS

	2008	2007 Restated
Interest receivable	11,135,756	13,995,398
Ministry of Finance – receivable (note 21)	2,006,803	6,939,278
Receivables on sales of investment securities	2,465,036	-
Social allowance contribution receivable	331,692	374,963
Staff loans	125,741	185,484
Other balances	6,359,374	8,691,123
	22,424,402	30,186,246
Less: Provision for impairment allowance	(438,576)	(417,994)
	21,985,826	29,768,252

Provision for impairment allowance	2008	2007 Restated
At 1 January	417,994	405,386
Charge for the year	20,582	12,608
At 31 December	**438,576**	417,994

9 PAST AND ASSUMED SERVICES BALANCES

	2008	2007 Restated
Past services	11,734,663	7,841,580
Assumed services	36,331,967	34,762,409
At 31 December	**48,066,630**	42,603,989

NOTES to the 2008 consolidated financial statement Bahraini Dinars

10 MEMBERS' LOANS

	2008	2007 Restated
Members' loans	37,223,417	34,296,840
Less: Provision for impairment allowance	(193,782)	(193,782)
	37,029,635	34,103,058

Members' loans are granted to members, covered by Law No. (13) of 1975, Amiri Decree No.(11) of 1976 and Amiri Decree (24) of 1976, who have completed not less than five years service as of the loan application date. These loans are repayable within 4 years. During the year, loans amounting to BD 30,179 (2007: BD 67,781) were written off due to borrowers' deaths (note 22).

Provision for impairment allowance	2008	2007 Restated
At 1 January	193,782	193,782
Charge for the year	-	-
At 31 December	**193,782**	193,782

Bahraini Dinars

11 EARLY EXTINGUISHMENT LOANS

	2008	2007 Restated
Early extinguishment loans	158,093,700	139,683,160
Less: Provision for impairment allowance	(622,735)	(622,735)
	157,470,965	139,060,425

Early extinguishment loans are granted to eligible members, who have completed the required period of service to be entitled to pension salaries, assuming their services were terminated by resignation at the date of submission of the application for early extinguishment loans. The loans are repayable on 5, 10 or 15 years in equal monthly instalments. These loans are secured by members' pension contributions. During the year, loans amounting to BD 202,284 (2007: BD 126,932) were written off due to borrowers' deaths (note 22).

NOTES to the 2008 consolidated financial statement Bahraini Dinars

12 LOANS TO FINANCIAL INSTITUTIONS

	2008	2007 Restated
Loans to financial institutions	60,320,000	22,620,000
Less: Provision for impairment allowance	(3,770,000)	(3,770,000)
	56,550,000	18,850,000

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

Provision for impairment allowance	2008	2007 Restated
At 1 January	3,770,000	3,770,000
Charge for the year	-	-
At 31 December	**3,770,000**	3,770,000

13 INVESTMENTS CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2008	2007 Restated
At 1 January	353,681,540	293,665,265
Purchases	6,193,205	33,786,436
Disposals	(6,372,208)	(10,376,909)
Unrealized fair value (loss) / gain included in the statement of changes in net assets attributable to members (note 23)	(100,539,982)	35,775,728
Gain from foreign currency movement	2,694,195	831,020
	255,656,750	353,681,540

14 AVAILABLE-FOR-SALE INVESTMENTS

	2008	2007 Restated
At 1 January	627,183,229	465,576,570
Purchases	83,950,386	124,117,941
Disposals	(44,509,033)	(49,938,784)
Fair value changes during the year (page 28)	(151,364,188)	87,427,502
	515,260,394	627,183,229
Less: Provision for impairment allowance	(39,940,570)	(6,441,384)
At 31 December	**475,319,824**	620,741,845

	2008	2007
Quoted investments	214,311,560	363,297,891
Unquoted investments	261,008,264	257,443,954
	475,319,824	620,741,845

Provision for impairment allowance	**2008**	2007 Restated
At 1 January	6,441,384	2,741,175
Charge for the year	33,499,186	3,700,209
At 31 December	**39,940,570**	6,441,384

NOTES to the 2008 consolidated financial statement

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15 HELD-TO-MATURITY INVESTMENTS

	2008	2007 Restated
At 1 January	255,003,397	221,466,270
Purchases	28,770,225	70,467,499
Redemptions of matured investments	(48,214,993)	(36,930,372)
	235,558,629	255,003,397
Less: Provision for impairment allowance	(7,540,000)	-
At 31 December	**228,018,629**	255,003,397

	2008	2007
Bonds	106,133,138	85,729,335
Sukuks	121,885,491	169,274,062
	228,018,629	255,003,397

Provision for impairment allowance	2008	2007 Restated
At 1 January	-	-
Charge for the year	7,540,000	-
At 31 December	**7,540,000**	-

16 INVESTMENTS IN ASSOCIATES

	2008	2007 Restated
At 1 January	430,905,242	189,223,660
Purchases	21,417,463	207,153,014
Share of profits	60,100,157	66,047,832
Share of investments fair value reserve	(14,948,205)	(298,365)
Share of land revaluation reserve	-	4,654,805
Share of other reserves	(8,732,717)	(1,642,055)
Dividends received	(31,729,751)	(34,233,649)
At 31 December	**457,012,189**	**430,905,242**

The summarised financial information of associates, based on audited financial statements, as at and for the year ended 31 December 2008 is as follows:

	2008	2007
Total assets	3,374,441,455	3,274,022,935
Total liabilities	2,419,621,605	2,380,285,655
Total revenues	492,786,209	433,789,482
Total net profits	169,467,285	186,006,466

NOTES to the 2008 consolidated financial statement Bahraini Dinars

17 INVESTMENT PROPERTIES

	2008	2007 Restated
At 1 January	273,898,315	51,751,724
Purchases	17,322	-
Contribution from the government	-	222,146,591
Accumulated depreciation	(12,434,520)	(11,656,918)
At 31 December	**261,481,117**	262,241,397
Fair value	**848,277,901**	371,351,420

Investment properties were valued as at 31 December 2008 by an independent and professional property valuer based on open market prices.

During the year 2007, His Majesty, King Hamad Bin Isa Bin Salman Al Khalifa, the King of the Kingdom of Bahrain has granted land to the Organisation with no conditions attached. The fair value of the land was BD 222,146,591 and has been recognised as income in 2007.

 Bahraini Dinars

18 PROPERTY AND EQUIPMENT

	2008					
	Freehold land	**Hotels and buildings**	**Furniture, equipment & fixtures**	**Computers**	**Capital work-in-progress**	**Total**
Cost						
At beginning of year	41,601,540	38,168,125	12,755,709	486,586	2,137,600	95,149,560
Purchases	-	463,411	603,847	53,394	882,531	2,003,183
Revaluation gain	-	313,715	-	-	-	313,715
Disposals/transfers	-	-	(2,991)	(498)	(506,965)	(510,454)
Adjustment on revaluation	-	(150,883)	-	-	-	(150,883)
At 31 December	**41,601,540**	**38,794,368**	**13,356,565**	**539,482**	**2,513,166**	**96,805,121**
Depreciation						
At beginning of year	-	24,927,854	10,723,524	400,885	-	36,052,263
Charge of the year	-	1,359,011	595,371	36,076	-	1,990,458
Disposals/transfers	-	-	101,696	(498)	-	101,198
Adjustment on revaluation	-	(150,883)	-	-	-	(150,883)
At 31 December	**-**	**26,135,982**	**11,420,591**	**436,463**	**-**	**37,993,036**
Net carrying value:						
At 31 December 08	**41,601,540**	**12,658,386**	**1,935,974**	**103,019**	**2,513,166**	**58,812,085**

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18 PROPERTY AND EQUIPMENT *(continued)*

	2007 (Restated)					
	Freehold land	Hotel and buildings	Furniture, equipment & fixtures	Computers	Capital work-in-progress	Total
Cost						
At beginning of year	41,601,540	36,714,970	13,634,615	455,953	2,790,349	95,197,427
Purchases	-	15,772	681,473	34,000	722,790	1,454,035
Disposals/transfers	-	1,437,383	(93,084)	(3,367)	(1,375,539)	(34,607)
Write-off	-	-	(1,467,295)	-	-	(1,467,295)
At 31 December	41,601,540	38,168,125	12,755,709	486,586	2,137,600	95,149,560
Depreciation						
At beginning of year	-	23,521,865	11,613,176	361,798	-	35,496,839
Charge of the year	-	1,393,977	608,048	42,454	-	2,044,479
Disposals/transfers	-	12,012	(30,405)	(3,367)	-	(21,760)
Write-off	-	-	(1,467,295)	-	-	(1,467,295)
At 31 December	-	24,927,854	10,723,524	400,885	-	36,052,263
Net carrying value:						
At 31 December 07	41,601,540	13,240,271	2,032,185	85,701	2,137,600	59,097,297

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19 BORROWINGS

	2008	2007 Restated
At 1 January	151,340,208	790,490
Additions	376,000	150,800,000
Repayments	(552,927)	(250,282)
At 31 December	**151,163,281**	151,340,208

	2008	2007
Repayable within 1 year	87,715	255,272
Repayable between 1 – 5 years	151,075,566	151,084,936
	151,163,281	151,340,208

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

i) Loan of BD 150,800,000 taken by Hawar Holding Company ("HHC") in 2007 from commercial banks and carries interest rate of LIBOR plus 0.375% margin and is repayable on or before 16 January 2010. The effective interest rate as at 31 December 2008 was 2.69% (2007: 5.59%).

The loan has been pledged by Amber Holding Limited's, a subsidiary of HHC, 20% interest in the issued share capital of the Bahrain Telecommunications Company B.S.C., an associate company to the Organisation, as security in favour of the lenders. In addition, as at 31 December 2008 the Organisation and minority shareholder of HHC have also provided additional collateral amounting to USD 24,291,000 or equivalent to BHD 9,157,000 comprising of guarantees and deposits in order to fulfil the financial covenants of the borrowing.

ii) Loan of BD 376,000 taken by Gulf Diabetes Specialist Center BSC (c) ("GDSC") in 2008. The loan bears a floating interest of 1.25% per annum above bank base rate and repayable over 60 monthly instalments. The loan is secured by the assignment of an insurance policy over GDSC's building for the amount of the loan and undertaking that all rentals relating to the building occupied by tenants on 4th. floor of the building will be transferred to the lender.

NOTES to the 2008 consolidated financial statement Bahraini Dinars

20 SOCIAL INSURANCE CONTRIBUTIONS

	2008	2007 Restated
Basic salary	204,905,980	154,653,297
Social allowance	8,867,392	6,874,560
Work injury	35,152,506	28,795,172
Unemployment	47,398,521	21,800,374
Penalties and others	3,687,342	1,657,471
	300,011,741	213,780,874

	2008	2007
Employers' contribution	218,861,067	149,744,883
Employees' contribution	81,150,674	64,035,991
	300,011,741	213,780,874

21 REIMBURSEMENT OF PRIVATISATION COST

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

22 BENEFITS

	2008	2007 Restated
Retirement pensions	145,239,928	126,399,341
Lump-sum compensation	22,040,892	23,881,750
Social allowance paid	6,329,519	5,686,700
Previous years' retirement pensions	4,480,443	4,667,412
Death grants	1,339,389	977,961
Work injury payments	2,988,482	2,728,656
Loan instalments written off due to death:		
Past and assumed services balances	12,631	-
Members' loans (note 10)	30,179	67,781
Early extinguishment loans (note 11)	202,284	126,932
Unemployment compensation	8,431,619	823,055
Others	5,024	6,967
	191,100,390	165,366,555

NOTES to the 2008 consolidated financial statement Bahraini Dinars

23 NET INVESTMENT (LOSS) / INCOME

	2008	2007 Restated
Investment securities:		
Dividend income	14,192,423	15,539,213
Net (loss)/profit from sales of available-for-sale investments	(77,922)	18,166,188
Net foreign exchange gains	1,391,316	5,461,492
Unrealised fair value gains/(losses) on investments carried at fair value through profit or loss (note 13)	(100,539,982)	35,775,728
Income distribution from available-for-sale investments	617,523	3,431,191
Investment properties:		
Income from investment properties	2,690,819	2,379,992
Investment properties maintenance costs	(1,387,901)	(805,635)
Depreciation of investment properties	(777,602)	(793,720)
Other income	626,665	1,825,181
	(83,264,661)	80,979,630
Less: Provision for impairment allowance	(42,765,206)	(1,695,612)
	(126,029,867)	79,284,018

Provision for impairment allowance	2008	2007 Restated
(Provision for impairment) / impairment write back on deposits	(1,726,020)	2,004,597
Provision for impairment of available-for-sale investments (note 14)	(33,499,186)	(3,700,209)
Provision for impairment of held-to-maturity investments (note 15)	(7,540,000)	-
	(42,765,206)	(1,695,612)

 Bahraini Dinars

24 INTEREST INCOME

	2008	2007 Restated
Investments		
Deposits with banks	42,544,843	53,084,211
Held-to-maturity investments	12,441,192	12,048,565
Other income	8,138	35,004
	54,994,173	65,167,780
Loans		
Loans to financial institutions	1,453,009	1,575,181
Early extinguishment loans	6,713,865	6,100,853
Members' loans	1,869,700	1,539,275
	10,036,574	9,215,309
	65,030,747	74,383,089

NOTES to the 2008 consolidated financial statement Bahraini Dinars

25 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

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

Their compensation is as follows:

	2008	2007 Restated
Short term employment benefits	642,034	584,445
Board and committees attendance fees	-	22,100
Fees paid for board representation in subsidiaries, associates and investee companies	**364,211**	353,867

26 NON-CONTROLLING INTEREST

	2008	2007
At 1 January	35,296,394	16,489,612
Net income for the year attributable to non-controlling interest (page 4)	7,017,349	6,280,586
Share of investment securities fair value reserve and revaluation reserve movement during the year (page 28)	(332,590)	139,505
Share of other reserves movement during the year	(1,445,971)	12,386,691
At 31 December	**40,535,971**	35,296,394

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

	Attributable to members				
2008	**Investment securities fair value reserve**	**Revaluation reserve**	**Sub-total**	**Non-controlling interest**	**Total**
Balance at 1 January	191,456,123	10,895,815	202,351,938	1,509,309	203,861,247
Fair value changes on available-for-sale investments during the year	(151,182,427)	-	(151,182,427)	(181,761)	(151,364,188)
Transfers to statement of changes in net assets attributable to members on sales of available-for-sale investments	(1,797,594)	-	(1,797,594)	36,517	(1,761,077)
Share in the fair value reserve of associates	(14,760,859)	-	(14,760,859)	(187,346)	(14,948,205)
Net movements on reserves during the year	(167,740,880)	-	(167,740,880)	(332,590)	(168,073,470)
Balance at 31 December	**23,715,243**	**10,895,815**	**34,611,058**	**1,176,719**	**35,787,777**

	Attributable to members				
2007	Investment securities fair value reserve	Revaluation reserve	Sub-total	Non-controlling interest	Total
Balance at 1 January	106,364,882	6,241,010	112,605,892	1,369,804	113,975,696
Fair value changes on available-for-sale investments during the year	87,390,480	-	87,390,480	37,022	87,427,502
Transfers to statement of changes in net assets attributable to members on sales of available-for-sale investments	(1,894,539)	-	(1,894,539)	(3,852)	(1,898,391)
Share in the fair value reserve of associates	(404,700)	-	(404,700)	106,335	(298,365)
Share of revaluation reserve of associates	-	4,654,805	4,654,805	-	4,654,805
Net movements on reserves during the year	85,091,241	4,654,805	89,746,046	139,505	89,885,551
Balance at 31 December	191,456,123	10,895,815	202,351,938	1,509,309	203,861,247

NOTES to the 2008 consolidated financial statement Bahraini Dinars

28 MATURITY PROFILE

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

2008	Up to 1 month	1 to 3 months	4 to 6 months	7 months to 12 months	1 to 3 years	Over 3 years	Undated	Total
Assets								
Cash and bank balances	181,805,369	319,427,985	399,702,597	173,473,308	41,869,993	-	11,132,268	1,127,411,520
Social insurance contribution receivable	15,420,389	13,662,880	-	-	-	-	-	29,083,269
Receivables and other assets	12,454,553	2,044,972	1,825,080	5,536,834	-	-	124,387	21,985,826
Past and assumed services balances	654,671	1,309,342	1,964,013	3,928,026	15,712,104	24,498,474	-	48,066,630
Members' loans	1,511,565	3,023,130	4,534,695	9,069,390	18,890,855	-	-	37,029,635
Early extinguishment loans	986,221	1,972,442	2,958,663	5,917,326	29,745,564	115,890,749	-	157,470,965
Loans to financial institutions	-	-	-	-	18,850,000	37,700,000	-	56,550,000
Investments carried at fair value through profit or loss	-	-	-	-	-	-	255,656,750	255,656,750
Available-for-sale investments	-	-	-	-	-	-	475,319,824	475,319,824
Held-to-maturity investments	2,227,320	-	-	-	64,937,538	160,853,771	-	228,018,629
	215,060,088	**341,440,751**	**410,985,048**	**197,924,884**	**190,006,054**	**338,942,994**	**742,233,229**	**2,436,593,048**
Liabilities								
Payables and other liabilities	(1,368,057)	(322,560)	(5,192,961)	(1,308,751)	(95,364)	(199,032)	(66,957)	(8,553,682)
Employees' terminal benefits	-	-	-	-	-	-	(1,153,253)	(1,153,253)
Borrowings	-	-	-	(87,715)	(150,965,312)	(110,254)	-	(151,163,281)
	(1,368,057)	**(322,560)**	**(5,192,961)**	**(1,396,466)**	**(151,060,676)**	**(309,286)**	**(1,220,210)**	**(160,870,216)**

28 MATURITY PROFILE *(continued)*

2007 (Restated)	Up to 1 month	1 to 3 months	4 to 6 months	7 months to 12 months	1 to 3 years	Over 3 years	Undated	Total
Assets								
Cash and bank balances	49,125,865	324,223,191	369,335,820	238,721,581	-	-	7,176,709	988,583,166
Social insurance contribution receivable	12,250,578	12,574,736	-	-	-	-	-	24,825,314
Receivables and other assets	8,206,191	2,259,875	6,181,973	1,133,112	2,609,822	9,337,663	39,616	29,768,252
Past and assumed services balances	731,077	1,462,154	2,193,231	4,386,463	17,545,850	16,285,214		42,603,989
Members' loans	1,404,726	2,809,452	4,214,178	8,428,356	17,246,346	-	-	34,103,058
Early extinguishment loans	1,456,042	2,912,084	4,368,127	8,736,253	34,419,903	87,168,016	-	139,060,425
Loans to financial institutions	-	-	-	-	-	18,850,000	-	18,850,000
Investments carried at fair value through profit or loss	-	-	-	-	-	-	353,681,540	353,681,540
Available -for- sale investments	-	-	-	-	-	-	620,741,845	620,741,845
Held-to-maturity investments	-	-	23,198,420	7,849,968	57,100,663	146,330,546	20,523,800	255,003,397
	73,174,479	346,241,492	409,491,749	269,255,733	128,922,584	277,971,439	1,002,163,510	2,507,220,986
Liabilities								
Payables and other liabilities	(2,609,480)	(1,629,057)	(3,050,015)	(403,625)	(67,559)	(230,927)	(60,397)	(8,051,060)
Employees' terminal benefit	-	-	-	-	-	-	(667,524)	(667,524)
Borrowings	-	-	(253,962)	(1,310)	(150,970,964)	(113,972)	-	(151,340,208)
	(2,609,480)	(1,629,057)	(3,303,977)	(404,935)	(151,038,523)	(344,899)	(727,921)	(160,058,792)

NOTES to the 2008 consolidated financial statement Bahraini Dinars

29 FINANCIAL INSTRUMENTS

The categorisation of the financial assets and liabilities of the Organisation is as given below:

2008	Held-for-trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other at amortised cost	Total carrying value
Assets						
Cash and bank balances	-	-	1,127,411,520	-	-	1,127,411,520
Social insurance contribution receivable	-	-	29,083,269	-	-	29,083,269
Receivables and other assets	-	-	21,985,826	-	-	21,985,826
Past and assumed services balances	-	-	48,066,630	-	-	48,066,630
Members' loans	-	-	37,029,635	-	-	37,029,635
Early extinguishment loans	-	-	157,470,965	-	-	157,470,965
Loans to financial institutions	-	-	56,550,000	-	-	56,550,000
Investments carried at fair value through profit or loss	255,656,750	-	-	-	-	255,656,750
Available-for-sale investments	-	-	-	475,319,824	-	475,319,824
Held-to-maturity investments	-	228,018,629	-	-	-	228,018,629
Total financial assets	**255,656,750**	**228,018,629**	**1,477,597,845**	**475,319,824**	**-**	**2,436,593,048**
Liabilities						
Payables and other liabilities	-	-	-	-	(8,553,682)	(8,553,682)
Employees' terminal benefits	-	-	-	-	(1,153,253)	(1,153,253)
Borrowings	-	-	-	-	(151,163,281)	(151,163,281)
Total financial liabilities	**-**	**-**	**-**	**-**	**(160,870,216)**	**(160,870,216)**

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29 FINANCIAL INSTRUMENTS *(continued)*

2007 (Restated)	Held-for-trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other at amortised cost	Total carrying value
Assets						
Cash and bank balances	-	-	988,583,166	-	-	988,583,166
Social insurance contribution receivable	-	-	24,825,314	-	-	24,825,314
Receivables and other assets	-	-	29,768,252	-	-	29,768,252
Past and assumed services balances	-	-	42,603,989	-	-	42,603,989
Members' loans	-	-	34,103,058	-	-	34,103,058
Early extinguishment loans	-	-	139,060,425	-	-	139,060,425
Loans to financial institutions	-	-	18,850,000	-	-	18,850,000
Investments carried at fair value through profit or loss	353,681,540	-	-	-	-	353,681,540
Available-for-sale investments	-	-	-	620,741,845	-	620,741,845
Held-to-maturity investments	-	255,003,397	-	-	-	255,003,397
Total financial assets	353,681,540	255,003,397	1,277,794,204	620,741,845	-	2,507,220,986
Liabilities						
Payables and other liabilities	-	-	-	-	(8,051,060)	(8,051,060)
Employees' terminal benefits	-	-	-	-	(667,524)	(667,524)
Borrowings	-	-	-	-	(151,340,208)	(151,340,208)
Total financial liabilities	-	-	-	-	(160,058,792)	(160,058,792)

30 FINANCIAL RISK MANAGEMENT

Risk management framework

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

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

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

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

The Investment Directorate submits quarterly investment review reports to the investment committee. The reports describe the status of Organisation'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 Organisation 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 Organisation include bank credit balances and borrowings. Accounting policies for financial instruments are set out in note 4.

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

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

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

30 FINANCIAL RISK MANAGEMENT *(continued)*

a) Credit risk

Investments

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

Management of investment credit risk

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

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

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

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

Management of member's loan credit risk

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

NOTES to the 2008 consolidated financial statement Bahraini Dinars

30 FINANCIAL RISK MANAGEMENT *(continued)*

Management of member's loan credit risk *(continued)*

Impaired receivables and investments

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

Allowances for impairment

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

Write-off policy

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

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

2008	**Gross amount**	**Allowance for impairment**	**Net carrying value**
Assets			
Cash and bank balances	1,132,342,040	(4,930,520)	1,127,411,520
Social insurance contribution receivable	35,549,702	(6,466,433)	29,083,269
Receivables and other assets	22,424,402	(438,576)	21,985,826
Past and assumed services balances	48,066,630	-	48,066,630
Members' loans	37,223,417	(193,782)	37,029,635
Early extinguishment loans	158,093,700	(622,735)	157,470,965
Loans to financial institutions	60,320,000	(3,770,000)	56,550,000
Investments carried at fair value through profit or loss	255,656,750	-	255,656,750
Available-for-sale investments - managed funds	89,227,090	(7,784,532)	81,442,558
Held-to-maturity investments	235,558,629	(7,540,000)	228,018,629
Total	**2,074,462,360**	**31,746,578**	**2,042,715,782**

30 FINANCIAL RISK MANAGEMENT *(continued)*

2007 (Restated)	Gross amount	Allowance for impairment	Net carrying value
Assets			
Cash and bank balances	991,787,666	(3,204,500)	988,583,166
Social insurance contribution receivable	30,267,198	(5,441,884)	24,825,314
Receivables and other assets	30,186,246	(417,994)	29,768,252
Past and assumed services balances	42,603,989	-	42,603,989
Members' loans	34,296,840	(193,782)	34,103,058
Early extinguishment loans	139,683,160	(622,735)	139,060,425
Loans to financial institutions	22,620,000	(3,770,000)	18,850,000
Investments carried at fair value through profit or loss	353,681,540	-	353,681,540
Available-for-sale investments - managed funds	90,913,601	-	90,913,601
Held-to-maturity investments	255,003,397	-	255,003,397
Total	1,991,043,637	(13,650,895)	1,977,392,742

30 FINANCIAL RISK MANAGEMENT *(continued)*

Concentration risk

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

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

Industry sector

	2008		2007	
	Net Assets	**Members' Fund**	Net Assets	Members' Fund
Trading and industry	84,162,537	-	50,562,215	-
Insurance, services and hotels	226,744,233	81,557,822	430,854,194	79,575,117
Banks and financial institutions	1,643,728,103	-	1,636,683,733	-
Construction and real estate	343,998,879	-	216,741,536	-
Retail / members	-	-	211,901,818	-
Government	63,732,454	-	164,515,377	-
Other	695,035,029	2,975,843,413	388,147,257	3,019,831,013
	3,057,401,235	**3,057,401,235**	3,099,406,130	3,099,406,130

	2008		2007	
	Net Assets	**Members' Fund**	Net Assets	Members' Fund
Bahrain	2,585,629,883	3,057,401,235	2,513,196,054	3,099,406,130
GCC	94,672,130	-	104,212,467	-
Other Middle East Countries	54,012	-	50,997	-
Far East	-	-	-	-
USA and Europe	262,477,899	-	456,000,002	-
Other Countries	114,567,311	-	25,946,610	-
	3,057,401,235	**3,057,401,235**	3,099,406,130	3,099,406,130

30 FINANCIAL RISK MANAGEMENT *(continued)*

b) Liquidity risk

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

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

Residual contractual maturities of financial liabilities

2008	**Carrying value**	**Gross nominal outflow**	**1 – 3 months**	**3 months to 1 year**	**1 - 5 years**
Borrowings	151,163,281	155,841,049	3,890,640	119,223	151,831,186

2007 (Restated)	Carrying value	Gross nominal outflow	1 – 3 months	3 months to 1 year	1 - 5 years
Borrowings	151,340,208	170,440,575	-	6,905,017	163,535,558

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

30 FINANCIAL RISK MANAGEMENT *(continued)*

c) Market risk

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

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

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

Management of market risks

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

Interest rate risk

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

In accordance to the IPD the Organisation 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.

30 FINANCIAL RISK MANAGEMENT *(continued)*

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

Financial assets	**2008**	2007
Deposits with banks	1,104,511,304	959,036,379
Members' loans	37,029,635	34,103,058
Early extinguishment loans	157,470,965	139,060,425
Loans to financial institutions	56,550,000	18,850,000
Held-to-maturity investments	228,018,629	255,003,397
Financial liabilities		
Borrowings	**151,163,281**	151,340,208

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

A change of 100 bps in interest rates on financial assets would have increased/(decreased) the net assets of the Organisation by approximately +/- BD 1,468 thousands (2007: +/- BD 1,265 thousands). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

A change of 100 bps in interest rates on financial liabilities would have increased/(decreased) the net assets of the Organisation by approximately +/- BD 1,512 thousands (2007: +/- BD 1,513 thousands). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

30 FINANCIAL RISK MANAGEMENT *(continued)*

Currency risk

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

The net exposures are as follows:

	2008 BD Equivalent	2007 BD Equivalent
United State Dollar	1,282,105,813	1,398,164,704
Euro	29,513,083	28,924,846
Great Britain Pound	13,249,282	17,459,407
Kuwaiti Dinar	9,719,958	9,639,355
Japanese Yen	7,680,318	11,590,027
Other GCC currencies	19,820,950	19,063,580
	1,362,089,404	1,484,841,919

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

30 FINANCIAL RISK MANAGEMENT *(continued)*

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

	2008 BD Equivalent		2007 BD Equivalent	
	Income	**Members' Fund**	Income	Members' Fund
Euro	+/- 871,251	+/- 2,950,550	+/- 766,026	+/- 2,892,485
Great Britain Pound	+/- 781,009	+/- 1,324,522	+/- 596,169	+/- 1,745,937
Kuwaiti Dinar	+/- 971,996	-	+/- 963,936	-
Japanese Yen	+/- 768,032	-	+/- 1,159,003	-
Other GCC currencies	+/- 1,921,932	+/- 75,400	+/- 1,921,443	-

Exposure to other market risks

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

Equity price risk of the securities carried at fair value through profit or loss and quoted available-for-sales investments is subject to regular monitoring by Organisation, and a 10% increase/(decrease) in the price of the carried at fair value through profit or loss and quoted available-for-sales investments will increase/(decrease) the net assets of the Organisation by approximately +/- BD 46,997 thousands (2007: +/- BD 71,698 thousands).

NOTES to the 2008 consolidated financial statement

Bahraini Dinars

30 FINANCIAL RISK MANAGEMENT *(continued)*

Fair values of financial instruments

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

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

Other than the securities carried at fair value through profit or loss and the quoted available-for-sale investments that are carried at their fair values, the estimated fair value of the Organisation's other financial instruments that are carried at cost is not significantly different from their book value as at 31 December 2008 and 2007.

(d) Operational risk

Operational risk is the risk of loss arising from systems and control failures, fraud and human errors, which can result in financial and reputation loss, and legal and regulatory consequences. The Organisation manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, including internal audit and compliance. In addition the Organisation 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 Organisation.

31 MEMBERS' FUND MANAGEMENT

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

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

32 COMMITMENTS

(i) The Organisation has made a commitment to invest an amount of BD 26,905,261 (2007: BD 49,803,121). The commitment is expected to be funded within one to five years.

(ii) The Organisation has a commitment for the loan taken by its subsidiary, Hawar Holding Company ("HHC"), as described in note 19(i). As stipulated in the loan agreement, the shareholders of HHC need to ensure that the market value of Batelco shares, which is the collateral for the loan, is at all times at least 120% of the loan outstanding taken by HHC. If the market value of Batelco shares fall below 120% of the loan outstanding amount, the shareholders of HHC are required to provide additional collateral equal to the percentage of such market value shortfall.

As at 31 December 2008, the required security value for the borrowing was USD 480 million (equivalent to BD 180.96 million). The Organisation maximum exposure to this commitment, represented by its shareholding in HHC, is 66.66% of the required security value which is USD 319,968,000 (equivalent to BD 120,627,936). As of that date, since the market value of Batelco shares fall below 120%, the Organisation and the minority shareholder of HHC have provided additional collateral amounting to USD 24,291,000 (equivalent to BHD 9,157,000) comprising of guarantees and deposits in order to fulfil the financial covenants of the borrowing.

33 NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

During the year, the following new/ amended IFRS's standards and interpretations relevant to the activities of the Organisation have been issued which are not yet mandatory for adoption by the Organisation:

- IAS 1 - Presentation of Financial Statements (effective for annual period beginning on or after 1 January 2009);
- Amended IAS 27 - Consolidated and separate financial statements (effective for financial periods beginning on or after 1 July 2009)
- The IASB made certain amendments to existing standards as part of its financial improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Organisation's 2009 consolidated financial statements.

The adoption of these standards and interpretations are not expected to have a material impact on the consolidated financial statements.