

**Social Insurance Organization**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2016**

## **INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF DIRECTORS OF SOCIAL INSURANCE ORGANIZATION**

### **Report on the Audit of the Consolidated Financial Statements**

#### *Opinion*

We have audited the consolidated financial statements of Social Insurance Organization (the "Organization"), which comprise the consolidated statement of net assets as at 31 December 2016, and the consolidated statements of changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Organization as at 31 December 2016, its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs).

#### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Organization in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Material uncertainty relating to going concern*

Without qualifying our opinion, we draw attention to note 2 of the consolidated financial statements which indicates the unfunded actuarial deficit at 31 December 2016 amounted to BD 10,432 million (2015: BD 7,505 million) and the actions taken by the Board of Directors of the Organization to reduce this deficit. Our audit report is not modified in respect of this matter.

#### *Other information included in the Organization's 2016 annual report*

Other information consists of the Chairman's report, set out on page 1 that was obtained at the date of this auditor's report. The Board of Directors is responsible for the other information. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF DIRECTORS OF SOCIAL INSURANCE ORGANIZATION (continued)**

### **Report on the Audit of the Consolidated Financial Statements (continued)**

#### *Responsibilities of the Board of Directors for the consolidated financial statements*

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs, and for such internal control as the Board of Directors determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

#### *Auditor's responsibilities for the audit of the consolidated financial statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.

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

**Report on the Audit of the Consolidated Financial Statements (continued)**

*Auditor's responsibilities for the audit of the consolidated financial statements (continued)*

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Organization to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Organization's audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Report on other regulatory matters**

We are not aware of any violation of the applicable pension laws disclosed in note 1 during the year ended 31 December 2016 that might have had a material adverse effect on the business of the Organization or on its financial position. Satisfactory explanations and information have been provided to us by the management in response to all our requests.



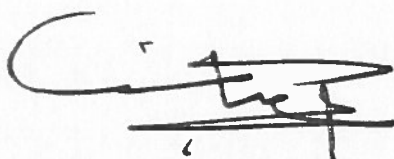
Auditor's Registration No. 45  
21 June 2017  
Manama, Kingdom of Bahrain

# Social Insurance Organization

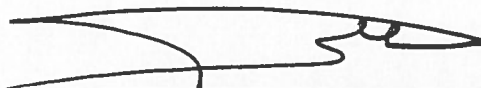
## CONSOLIDATED STATEMENT OF NET ASSETS

31 December 2016

		<b>2016</b>	<i>Restated</i>	<i>Restated</i>
	<i>Note</i>	<b>BD '000</b>	<b>2015</b>	<b>2014</b>
			<b>BD '000</b>	<b>BD '000</b>
<b>ASSETS</b>				
Cash balances and deposits with banks	8	<b>897,834</b>	949,126	1,199,425
Social insurance contributions receivable	9	<b>94,838</b>	84,994	54,792
Receivables and other assets	10	<b>42,371</b>	51,289	40,006
Social insurance benefits:				
Assumed and past services receivable	11	<b>58,007</b>	54,052	52,839
Scheme members' loans	12	<b>23,487</b>	22,787	21,713
Early extinguishment loans	13	<b>171,947</b>	152,837	132,616
Loan to a financial institution	14	<b>-</b>	11,311	11,311
Investment securities:				
Investments carried at fair value through profit or loss	15	<b>638,381</b>	640,224	605,732
Available-for-sale investments	16	<b>794,904</b>	703,840	641,651
Held-to-maturity investments	17	<b>473,347</b>	517,941	365,774
Investment in associates	18	<b>184,543</b>	194,288	196,286
Investment in a Joint venture	19	<b>713</b>	-	-
Investment properties	20	<b>217,728</b>	207,102	205,793
Property and equipment	21	<b>46,266</b>	44,376	43,873
<b>TOTAL ASSETS</b>		<b>3,644,366</b>	3,634,167	3,571,811
<b>LIABILITY</b>				
Payables and other liabilities	22	<b>31,590</b>	36,480	29,915
<b>TOTAL LIABILITY</b>		<b>31,590</b>	36,480	29,915
<b>TOTAL NET ASSETS</b>		<b>3,612,776</b>	3,597,687	3,541,896
<b>REPRESENTED BY:</b>				
Members' funds		<b>3,410,301</b>	3,399,300	3,326,394
Investment securities fair value reserve	32	<b>200,612</b>	196,667	213,754
Non-controlling interests	32	<b>1,863</b>	1,720	1,748
		<b>3,612,776</b>	3,597,687	3,541,896



Aref Saleh Khamis  
Chairman



Dr. Zakaria Sultan Al Abbasi  
Chief Executive Officer

The attached notes 1 to 37 form part of these consolidated financial statements.

# Social Insurance Organization

## CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

Year ended 31 December 2016

		<b>2016</b>	<i>Restated</i> <b>2015</b>
	<i>Note</i>	<b>BD '000</b>	<b>BD '000</b>
<b>Contributions and benefits</b>			
Social insurance contributions	23	<b>424,683</b>	409,987
Reimbursements from Ministry of Finance	24	<b>10,929</b>	14,137
Other operating income		<b>285</b>	2,291
<b>Total contributions</b>		<b>435,897</b>	426,415
<b>Total benefits</b>	25	<b>(497,835)</b>	(409,715)
<b>Net withdrawals (contributions) from dealings with members</b>	(A)	<b>(61,938)</b>	16,700
<b>Return on investments</b>			
Net income from investment securities	26	<b>26,776</b>	16,905
Net income from investment properties	27	<b>2,632</b>	2,579
Share of profits of associates - net	18	<b>11,667</b>	24,088
Gain on disposal of associates		<b>230</b>	-
Interest income	28	<b>53,584</b>	46,988
<b>Total return on investments</b>		<b>94,889</b>	90,560
Net impairment losses on investments and receivables	30	<b>(7,562)</b>	(9,474)
Impairment loss on associates	18	<b>-</b>	(9,812)
<b>Total impairment losses</b>		<b>(7,562)</b>	(19,286)
<b>Net return on investments</b>		<b>87,327</b>	71,274
<b>Staff costs</b>	29	<b>(9,972)</b>	(9,851)
<b>General and administrative expenses</b>		<b>(3,421)</b>	(3,903)
<b>Depreciation</b>	21	<b>(800)</b>	(690)
<b>Write-off of property and equipment</b>	21	<b>(371)</b>	(305)
<b>Net return on investments after expenses</b>	(B)	<b>72,763</b>	56,525
<b>Net increase in the net assets during the year (A+B)</b>		<b>10,825</b>	73,225
<b>Attributable to:</b>			
Members' funds		<b>10,631</b>	72,950
Non-controlling interests		<b>194</b>	275
		<b>10,825</b>	73,225

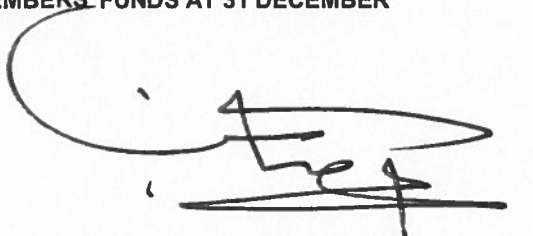
The attached notes 1 to 37 form part of these consolidated financial statements.

# Social Insurance Organization


## CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS (continued)

Year ended 31 December 2016

		2016	Restated 2015
	Note	BD '000	BD '000
<b>Net increase in the assets during the year</b>		<b>10,825</b>	<b>73,225</b>
<b>Other comprehensive income (loss):</b>			
<i>Other comprehensive income (loss) to be reclassified to the consolidated statement of changes in net assets in subsequent periods:</i>			
Net movement in investment securities fair value reserve	32	4,559	(7,717)
Net movement in the share of associates' reserves during the year	32	(638)	(9,392)
Foreign currency translation adjustment	19	(8)	-
		<b>3,913</b>	<b>(17,109)</b>
<i>Other comprehensive loss not to be reclassified to the consolidated statement of changes in net assets in subsequent periods:</i>			
Share in the defined benefit reserve of associates	18	(79)	(231)
		<b>(79)</b>	<b>(231)</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR</b>		<b>3,834</b>	<b>(17,340)</b>
<b>Net increase in net assets attributable to members' funds</b>		<b>14,659</b>	<b>55,885</b>
Others	32	(25)	(281)
Share of associates' other equity movements during the year	18	455	187
Total net assets attributable to members' funds at 1 January		<b>3,597,687</b>	<b>3,541,896</b>
<b>TOTAL NET ASSETS ATTRIBUTABLE TO MEMBERS' FUNDS AT 31 DECEMBER</b>		<b>3,612,776</b>	<b>3,597,687</b>



Aref Saleh Khamis  
Chairman



Dr. Zakaria Sultan Al Abbasi  
Chief Executive Officer

The attached notes 1 to 37 form part of these consolidated financial statements.



# Social Insurance Organization

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

		<b>2016</b>	<i>Restated</i>
	<i>Note</i>	<b>BD '000</b>	<b>2015</b>
			<b>BD '000</b>
<b>OPERATING ACTIVITIES</b>			
Net income for the year		<b>10,825</b>	73,225
Adjustments for:			
Depreciation on property and equipment	21	<b>800</b>	690
Depreciation on investment properties	20	<b>1,062</b>	612
Unrealized fair value (loss) gain on investments carried at fair value through profit or loss	15	<b>(10,150)</b>	9,554
Gain from sale of available-for-sale investments	26	<b>1,770</b>	(1,836)
Gain from sale of investments carried at fair value through profit or loss	26	<b>(5,388)</b>	(2,829)
Discount on held-to-maturity investments	17	<b>(1,117)</b>	(642)
Loss on sale of held-to-maturity investments	24	<b>7,573</b>	75
Gain on disposal of an associate		<b>(230)</b>	-
Dividend income	26	<b>(21,933)</b>	(20,475)
Interest income on assets carried at amortized cost	28	<b>(53,584)</b>	(46,988)
Share of profits of associates - net	18	<b>(11,667)</b>	(24,088)
Share of loss from a joint venture	19	<b>95</b>	-
Rental income from investment properties	27	<b>(4,629)</b>	(3,507)
Write back on rent receivable	10	<b>(18)</b>	(101)
Impairment loss on social insurance contribution receivable	9	<b>4,785</b>	4,316
Impairment loss on investments	30	<b>2,795</b>	5,259
Impairment loss on associates	18	<b>-</b>	9,812
Social insurance benefits receivable written off	25	<b>651</b>	1,303
Property and equipment written off	21	<b>371</b>	305
Investment properties written off	20	<b>(431)</b>	573
Other adjustments in net assets		<b>(212)</b>	(1,323)
Operating (loss) income before working capital changes		<b>(78,632)</b>	3,935
Working capital changes:			
Social insurance contributions receivable		<b>(14,629)</b>	(34,518)
Receivables and other assets		<b>7,675</b>	(14,753)
Assumed and past services receivable		<b>(4,193)</b>	(1,924)
Scheme members' loans		<b>(746)</b>	(1,089)
Early extinguishment loans		<b>(19,477)</b>	(20,798)
Payables and other liabilities		<b>(4,890)</b>	6,565
Net cash flows used in operating activities		<b>(114,892)</b>	(62,582)

The attached notes 1 to 37 form part of these consolidated financial statements.



# Social Insurance Organization

## CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2016

		<b>2016</b>	<i>Restated</i>
	<i>Note</i>	<b>BD '000</b>	<b>2015</b>
			<b>BD '000</b>
<b>INVESTING ACTIVITIES</b>			
Loan to a financial institution received		<b>11,311</b>	-
Purchase of investments carried			
at fair value through profit or loss	15	<b>(49,037)</b>	(106,085)
Purchase of available-for-sale investments	16	<b>(208,369)</b>	(121,365)
Purchase of held-to-maturity investments	17	<b>(200,690)</b>	(225,396)
Purchase of investment in associates	18	-	(1,886)
Investment in a joint venture	19	<b>(816)</b>	-
Additions to investment properties	20	<b>(11,257)</b>	(521)
Purchase of property and equipment	21	<b>(2,850)</b>	(2,148)
Proceeds from sale of investments carried at fair value			
through profit or loss		<b>94,693</b>	64,868
Proceeds from sale of available-for-sale investments		<b>128,249</b>	47,528
Redemption of held-to-maturity investments	17	<b>210,607</b>	74,304
Dividends received	17 and 24	<b>32,310</b>	29,199
Movements in term deposits		<b>93,682</b>	203,496
Interest income received		<b>56,605</b>	49,617
Income received from investment properties		<b>2,869</b>	4,449
Net cash flows from investing activities		<b>157,307</b>	16,060
<b>FINANCING ACTIVITY</b>			
Dividend paid to non-controlling interest	32	<b>(25)</b>	(25)
Paid on acquisition of non-controlling interest		-	(256)
Net cash flows used in financing activity		<b>(25)</b>	(281)
<b>INCREASE\ (DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
		<b>42,390</b>	(46,803)
Cash and cash equivalents at 1 January		<b>82,006</b>	128,809
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	<b>8</b>	<b>124,396</b>	82,006

### Non-cash items:

- 1 Movements in accrued interest receivable not yet collected amounting to BD (3,021) thousand have been excluded as a non-cash item from the movements in receivables and other assets (2015: BD 2,629 thousand).
- 2 Movements in rent receivables not yet collected amounting to BD 1,760 thousand has been excluded as a non-cash item from the movements in receivables and other assets (2015: BD 942 thousand).
- 3 Purchase of available-for-sale investments excludes the effect of a new investment acquired as a consideration for disposal of an associate in a share swap agreement at BD 9,601 thousand (2015:nil).

The attached notes 1 to 37 form part of these consolidated financial statements.

**1 ORGANIZATION INFORMATION AND ACTIVITIES (continued)**

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

**2 ACTUARIAL POSITION**

The Organization has appointed an independent actuary ('Milliman LLC'), to carry out a valuation of its schemes as at 31 December 2016 using the Projected Unit Method. The valuations for the years ended 31 December 2016 and 31 December 2015 indicated the existence of unfunded actuarial liabilities. The Government of the Kingdom of Bahrain has undertaken to meet any future unfunded actuarial liabilities as and when they fall due.

The method used to calculate the actuarial present value of promised benefits accruing under the terms and conditions of the plan at 31 December 2016 requires the actuarial liability to be calculated based on the present value of the benefits accrued at the valuation date, taking into account the final earnings of members in service. The discount rate has been taken at 6% per annum (2015: 6% per annum), consistent with the expected long-term investment returns to the Organization.

The Organization's unfunded deficit at 31 December 2016 amounted to BD 10,432 million (2015: BD 7,505 million). In order to reduce this unfunded deficit, the Board of Directors of the Organization has taken a number of actions including:

- (i) Developing and diversifying investments for reasonable return to support sources of funding;
- (ii) Recommending to increase contributions in order to match the pension benefits paid; and
- (iii) Recommending major reforms to the social insurance and pension schemes including increase in contributions, years of service and minimum retirement age in order to have sustainable funds.

# Social Insurance Organization

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

### 2 ACTUARIAL POSITION (continued)

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

	<i>Civil Fund BD million</i>	<i>Private Fund BD million</i>	<i>Total BD million</i>
<b>2016</b>			
<b>Total net assets of the Organization</b>	<b>1,186</b>	<b>2,427</b>	<b>3,613</b>
<b>Actuarial liability of the fund:</b>			
<b>Vested</b>	<b>(7,173)</b>	<b>(5,854)</b>	<b>(13,027)</b>
<b>Non-vested</b>	<b>(433)</b>	<b>(585)</b>	<b>(1,018)</b>
<b>Total actuarial liability</b>	<b>(7,606)</b>	<b>(6,439)</b>	<b>(14,045)</b>
<b>Unfunded deficit</b>	<b>(6,420)</b>	<b>(4,012)</b>	<b>(10,432)</b>
	<i>Civil Fund BD million</i>	<i>Private Fund BD million</i>	<i>Total BD million</i>
<b>2015</b>			
<b>Total net assets of the Organization</b>	<b>1,241</b>	<b>2,357</b>	<b>3,598</b>
<b>Actuarial liability of the fund:</b>			
<b>Vested</b>	<b>(5,221)</b>	<b>(4,788)</b>	<b>(10,009)</b>
<b>Non-vested</b>	<b>(636)</b>	<b>(458)</b>	<b>(1,094)</b>
<b>Total actuarial liability</b>	<b>(5,857)</b>	<b>(5,246)</b>	<b>(11,103)</b>
<b>Unfunded deficit</b>	<b>(4,616)</b>	<b>(2,889)</b>	<b>(7,505)</b>

The movements in the Organization's actuarial liability for the years 2016 and 2015 as provided by the actuary were as follows:

	<i>Ref.</i>	<i>Civil Fund BD million</i>	<i>Private Fund BD million</i>	<i>Total BD million</i>
<b>2016</b>				
<b>Actuarial liability at 1 January</b>		<b>5,857</b>	<b>5,246</b>	<b>11,103</b>
<b>Increase in interest cost</b>	<b>a</b>	<b>343</b>	<b>309</b>	<b>652</b>
<b>Increase in service cost</b>	<b>b</b>	<b>195</b>	<b>225</b>	<b>420</b>
<b>Benefits paid</b>	<b>c</b>	<b>(277)</b>	<b>(210)</b>	<b>(487)</b>
<b>Actuarial loss</b>	<b>d</b>	<b>1,488</b>	<b>869</b>	<b>2,357</b>
<b>Actuarial liability at 31 December</b>		<b>7,606</b>	<b>6,439</b>	<b>14,045</b>
	<i>Ref.</i>	<i>Civil Fund BD million</i>	<i>Private Fund BD million</i>	<i>Total BD million</i>
<b>2015</b>				
<b>Actuarial liability at 1 January</b>		<b>5,567</b>	<b>4,875</b>	<b>10,442</b>
<b>Increase in interest cost</b>	<b>a</b>	<b>327</b>	<b>287</b>	<b>614</b>
<b>Increase in service cost</b>	<b>b</b>	<b>191</b>	<b>257</b>	<b>448</b>
<b>Benefits paid</b>	<b>c</b>	<b>(228)</b>	<b>(173)</b>	<b>(401)</b>
<b>Actuarial liability at 31 December</b>		<b>5,857</b>	<b>5,246</b>	<b>11,103</b>