

Social Insurance Organization
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDD 31 DECEMBER 2017

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INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS

Social Insurance Organization

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Diplomatic area, Kingdom of Bahrain

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of Social Insurance Organization (the "Organization") and its subsidiaries (together the "Group"), which comprise the consolidated statement of net assets as at 31 December 2017, the consolidated statements of changes in net assets, and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 *Auditors' responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group 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.

Emphasis of matter

We draw attention to note 2 to the consolidated financial statements which indicates that the unfunded actuarial deficit at 31 December 2017 amounted to BD 12,412 million (2016: BD 10,432 million), and sets out the actions taken by the Organization to reduce this deficit. Our opinion is not modified in respect of this matter.

Other matters

The consolidated financial statements of the Group as at and for the year ended 31 December 2016 were audited by another auditor who expressed an unqualified opinion on these consolidated financial statements dated 21 June 2017.

Responsibilities of the board of directors for the consolidated financial statements

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

In preparing the consolidated financial statements, the board of directors is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.



INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS (Continued)

Auditors' 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 auditors' 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- 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 Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group 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.

KPMG Fakhro
Partner registration number 83
14 June 2018

Social Insurance Organization

CONSOLIDATED STATEMENT OF NET ASSETS

At 31 December 2017

	Note	2017 BD '000	2016 BD '000
ASSETS			
Cash balances and deposits with banks	6	950,562	897,834
Social insurance contributions receivable	7	79,219	98,554
Other receivables and prepayments	8	38,332	36,674
Social insurance benefits:			
Assumed and past services receivable	9	60,010	59,988
Scheme members' loans	10	22,425	23,487
Early extinguishment loans	11	180,291	171,947
Investment securities:			
Investments carried at fair value through profit or loss	12	761,885	638,381
Available-for-sale investments	13	846,641	794,904
Held-to-maturity investments	14	397,185	473,347
Investment in associates and a joint venture	15,16	174,896	185,256
Investment properties	17	223,387	217,728
Property and equipment	18	52,316	46,266
TOTAL ASSETS		3,787,149	3,644,366
LIABILITY			
Accrued expenses and other liabilities	19	32,129	31,590
TOTAL LIABILITY		32,129	31,590
NET ASSETS		3,755,020	3,612,776
REPRESENTED BY:			
Members' funds		3,535,509	3,410,301
Investment securities fair value reserve	29	217,138	200,612
Net assets attributable to members' funds		3,752,647	3,610,913
Non-controlling interests	29	2,373	1,863
		3,755,020	3,612,776

Aref Saleh Khamis
Chairman

Eman Mustafa Al Murbati
Acting Chief Executive Officer

The notes from 1 to 36 are an integral part of these consolidated financial statements.

Social Insurance Organization

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the year ended 31 December 2017

	Note	2017 BD '000	2016 BD '000
Contributions and benefits			
Social insurance contributions	20	435,092	424,683
Compensations from Ministry of Finance	21	10,521	10,929
Total contributions		445,613	435,612
Benefits	22	(518,047)	(496,949)
Impairment charges on social insurance receivables	27	(4,514)	(4,785)
Excess of benefits over contributions	(A)	(76,948)	(66,122)
Return on investments			
Net income from investment securities	23	158,495	36,866
Net income from investment properties	24	2,406	2,632
Share of (losses) / profits of associates - net	15	(1,725)	11,667
Gain on disposal of associates		-	230
Interest income	25	64,713	53,584
Total return on investments		223,889	104,979
Impairment charges on investments	27	(5,194)	(12,582)
Net return on investments	(B)	218,695	92,397
Expenses			
Staff costs	26	(11,661)	(10,858)
General and administrative expenses		(3,654)	(3,421)
Depreciation	18	(795)	(800)
Write-off of property and equipment	18	-	(371)
Total expenses	(C)	(16,110)	(15,450)
Increase in net assets before other comprehensive income	A+B+C	125,637	10,825
Attributable to:			
Members' fund		125,139	10,631
Non-controlling interests		498	194
		125,637	10,825

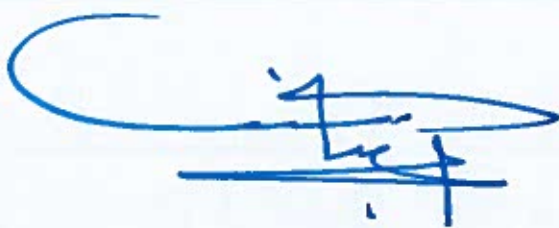
The notes from 1 to 36 are an integral part of these consolidated financial statements.

Social Insurance Organization

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS (continued)

For the year ended 31 December 2017

		2017	2016
	Note	BD '000	BD '000
Increase in net assets before other comprehensive income		125,637	10,825
Other comprehensive income:			
<i>Other comprehensive income to be reclassified to the consolidated statement of changes in net assets in subsequent periods:</i>			
Net movement in investment securities fair value reserve	29	13,898	4,559
Net movement in the share of associates' reserves during the year	29	2,663	(638)
Foreign currency translation adjustment	16	59	(8)
		16,620	3,913
<i>Other comprehensive income 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	15	(26)	(79)
		(26)	(79)
OTHER COMPREHENSIVE INCOME FOR THE YEAR		16,594	3,834
Increase in net assets		142,231	14,659
Dividends paid by subsidiaries to non-controlling interests	29	(38)	(25)
Share of associates' other equity movements during the year	15	51	455
Net assets at 1 January		3,612,776	3,597,687
NET ASSETS AT 31 DECEMBER		3,755,020	3,612,776



Aref Saleh Khamis
Chairman



Eman Mustafa Al Murbati
Acting Chief Executive Officer

The notes from 1 to 36 are an integral part of these consolidated financial statements.

Social Insurance Organization
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2017

	Note	2017 BD '000	2016 BD '000
OPERATING ACTIVITIES			
Increase in net assets		125,637	10,825
Adjustments for:			
Depreciation on property and equipment	18	795	800
Depreciation on investment properties	17	1,371	1,062
Unrealized fair value gain on investments carried at fair value through profit or loss	12	(124,027)	(10,150)
Gain from sale of available-for-sale investments	23	(6,835)	(8,035)
Gain from sale of investments carried at fair value through profit or loss	23	(231)	(5,388)
Amortization of discount on held-to-maturity investments	23	(685)	(1,117)
Loss on sale of held-to-maturity investments	23	374	7,573
Gain on disposal of an associate		-	(230)
Dividend income	23	(25,006)	(21,933)
Interest income on assets carried at amortized cost	25	(64,713)	(53,584)
Share of losses / (profits) of associates - net	15	1,725	(11,667)
Share of loss from a joint venture	16	291	95
Rental income from investment properties	24	(4,776)	(4,629)
Impairment charge / (write back) on rent receivable	8	146	(18)
Impairment charge on social insurance contribution receivable	7	4,514	4,785
Impairment charge on investments	27	5,194	12,582
Social insurance benefits receivable written off	22	459	651
Property and equipment written off	18	-	371
Investment properties written off	17	-	(431)
Other adjustments in net assets		-	(212)
Operating loss before working capital changes		(85,767)	(78,650)
Working capital changes:			
Social insurance contributions receivable		14,821	(18,345)
Other receivables and prepayments		1,681	13,372
Assumed and past services receivable		(117)	(6,174)
Scheme members' loans		1,035	(746)
Early extinguishment loans		(8,681)	(19,477)
Accrued expenses and other liabilities		539	(4,890)
Net cash used in operating activities		(76,489)	(114,910)

The notes from 1 to 36 are an integral part of these consolidated financial statements.

Social Insurance Organization

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the year ended 31 December 2017

	Note	2017 BD '000	2016 BD '000
INVESTING ACTIVITIES			
Loan to a financial institution received		-	11,311
Purchase of investments carried at fair value through profit or loss	12	-	(49,037)
Purchase of available-for-sale investments, net	13	(67,274)	(208,369)
Purchase of held-to-maturity investments	14	(61,103)	(200,690)
Investment in a joint venture	16	(5)	(816)
Additions to investment properties	17	(7,030)	(11,257)
Purchase of property and equipment	18	(6,846)	(2,850)
Proceeds from sale of investments carried at fair value through profit or loss		754	94,693
Proceeds from sale of available-for-sale investments, net		30,142	128,267
Redemption of held-to-maturity investments, net		138,079	210,607
Dividends received		36,242	32,310
Movements in term deposits		(80,492)	93,682
Interest income received		63,579	56,605
Income received from investment properties		2,717	2,869
Net cash from investing activities		48,763	157,325
FINANCING ACTIVITY			
Dividend paid by subsidiaries to non controlling interest	29	(38)	(25)
Net cash used in financing activity		(38)	(25)
NET CHANGE IN CASH AND CASH EQUIVALENTS		(27,764)	42,390
Cash and cash equivalents at 1 January		124,396	82,006
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	6	96,632	124,396

Non-cash items:

- 1 Movements in accrued interest receivable not yet collected amounting to BD 1,134 thousand have been excluded as a non-cash item from the movements in receivables and other assets (2016: BD (3,021) thousand).
- 2 Movements in rent receivables collected amounting to BD (2,059) thousand has been excluded as a non-cash item from the movements in receivables and other assets (2016: BD 1,760 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 nil (2016: BD 9,601).

The notes from 1 to 36 are an integral part of these consolidated financial statements.

Social Insurance Organization

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1 ORGANIZATION INFORMATION AND ACTIVITIES

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

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

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

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

The consolidated financial statements for the year ended 31 December 2017 were authorised for issue by the Board of Directors of the Organization on 14 June 2018.

Subsidiaries and associates

The consolidated financial statements incorporate the results of the Organization (which include Public Fund, Private Fund, Unemployment Fund and Shura, Parliament and Municipality Members Fund) and its subsidiaries and associates (together referred to as "the Group"). As at 31 December, SIO had the following equity holdings:

	<u>Country of Incorporation</u>	<u>Equity Ownership %</u>	
		2017	2016
Subsidiaries			
Bahrain Marina Development Company S.P.C.	Bahrain	100.00%	100.00%
Amlak Social Insurance Organization Development Co. S.P.C.	Bahrain	100.00%	100.00%
Osool Asset Management Company B.S.C. (c)	Bahrain	75.00%	75.00%
Associates			
Hawar Holding Company *	Cayman Island	50.00%	50.00%
Gulf Diabetes Specialist Centre B.S.C. (c)	Bahrain	42.30%	42.30%
Bahrain Car Parks Company B.S.C.	Bahrain	25.74%	25.74%
Bahrain International Golf Course Company B.S.C. (c)	Bahrain	32.14%	32.14%
National Hotels Company B.S.C.	Bahrain	31.87%	31.87%
Securities and Investment Company B.S.C.	Bahrain	26.28%	26.28%
BBK B.S.C.	Bahrain	25.71%	25.71%
Bahrain Commercial Facilities Company B.S.C.	Bahrain	23.29%	23.29%

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

Social Insurance Organization

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1 ORGANIZATION INFORMATION AND ACTIVITIES (continued)

Funding policy

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

Plan	Funding	Applicable law	Coverage
Public Sector	Bahrainis: <u>Pension</u> Employees 6% Employers 15% <u>Work injury</u> Employer 3% Non-Bahrainis: <u>Work injury</u> Employer 3%	Pension Law No. 13 of 1975	Bahrainis: Old age, disability and death Work injury Non-Bahrainis: Work injury
Private Sector	Bahrainis: <u>Pension</u> Employees 6% Employers 9% <u>Work injury</u> Employer 3% Non-Bahrainis: <u>Work injury</u> Employer 3%	Decree No. 24 of 1976	Bahrainis: Old age, disability and death Work injury Non-Bahrainis: Work injury
Unemployment	Bahrainis and non-Bahrainis: Employee 1% Employer 1% Government 1%	Law No. 78 of 2006	Bahrainis: Unemployed persons
Shura members, parliament members, representatives and municipality councillors, members	<u>Pension</u> Employee 10% Employer 20% <u>Work injury</u> Employer 3%	Decree No. 33 of 2009	Bahrainis: Old age, disability and death Bahrainis: 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 2017 using the Projected Unit Method. The valuations for the years ended 31 December 2017 and 31 December 2016 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 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 (2016: 6% per annum), consistent with the expected long-term investment returns to the Organization.

Social Insurance Organization

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 ACTUARIAL POSITION (continued)

The Organization's unfunded deficit at 31 December 2017 amounted to BD 12,412 million (2016: BD 10,432 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.

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

	<i>Public Fund BD million</i>	<i>Private Fund BD million</i>	<i>Total BD million</i>
2017			
Net assets of the funds*	1,158	1,877	3,035
Actuarial liability of the fund:			
Vested	(7,704)	(6,509)	(14,213)
Non-vested	(461)	(773)	(1,234)
Total actuarial liability	(8,165)	(7,282)	(15,447)
Unfunded deficit	(7,007)	(5,405)	(12,412)
2016			
Net assets of the funds*	1,186	2,427	3,613
Actuarial liability of the fund:			
Vested	(7,173)	(5,854)	(13,027)
Non-vested	(433)	(585)	(1,018)
Total actuarial liability	(7,606)	(6,439)	(14,045)
Unfunded deficit	(6,420)	(4,012)	(10,432)

The movements in the Organization's actuarial liability for the years 2017 and 2016 as provided by the actuary were as follows:

	<i>Ref.</i>	<i>Public Fund BD million</i>	<i>Private Fund BD million</i>	<i>Total BD million</i>
2017				
Actuarial liability at 1 January		7,606	6,439	14,045
Increase in interest cost	a	447	379	826
Increase in service cost	b	205	238	443
Benefits paid	c	(285)	(222)	(507)
Actuarial loss	d	192	448	640
Actuarial liability at 31 December		8,165	7,282	15,447
2016				
Actuarial liability at 1 January	Ref.	5,857	5,246	11,103
Increase in interest cost	a	343	309	652
Increase in service cost	b	195	225	420
Benefits paid	c	(277)	(210)	(487)
Actuarial loss	d	1,488	869	2,357
Actuarial liability at 31 December		7,606	6,439	14,045

* In 2016, Private Fund's net assets include Unemployment fund's assets which have been excluded from the current year assets.

Social Insurance Organization

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 ACTUARIAL POSITION (continued)

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

a) Increase in interest cost

This cost represents the accrued interest for one year of the actuarial liability as at 31 December 2017 calculated at the rate of 6% per annum (2016: 6% per annum).

b) Increase in service cost

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

c) Benefits paid

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

d) Actuarial loss

Actuarial loss relates to the increase in the defined benefit obligations due to changes in the profile of the scheme members including the average salary growth, age on retirement, number of dependants and life expectancy rate.

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

Statement of compliance

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

Accounting convention

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Organization and its subsidiaries at 31 December. Control is achieved when the Organization is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Organization controls an investee if and only if the Organization has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Organization has less than a majority of the voting or similar rights of an investee, the Organization considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Organization's voting rights and potential voting rights.