

Social Insurance Organization
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2019

Social Insurance Organization

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS

Social Insurance Organization

Manama, 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 2019, 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 2019, 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 International Code of Ethics for Professional Accountants (including International Independence Standards) (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 describes that the unfunded actuarial deficit at 31 December 2019 amounted to BD 14,479 million (2018: BD 14,379 million), and sets out the actions taken by the Organization to reduce this deficit. Our opinion is not modified in respect of this matter.

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
8 September 2020

Social Insurance Organization
CONSOLIDATED STATEMENT OF NET ASSETS
At 31 December 2019

	Note	2019 BD '000	2018 BD '000
ASSETS			
Bank balances and deposits	11	726,214	854,861
Social insurance contributions receivable	12	193,953	201,161
Other receivables and prepayments	13	54,009	53,137
Social insurance benefits:			
Assumed and past services receivable	14	47,874	56,256
Members' loans	15	17,097	21,403
Early extinguishment loans	16	181,171	181,318
Investment securities:			
Investments carried at fair value through profit or loss	17	1,763,362	1,613,450
Investments carried at fair value through other comprehensive income	18	450,817	377,525
Debt securities at amortised cost	19	10,568	61,690
Investment in associates and a joint venture	20	222,610	176,063
Investment properties	21	274,092	259,836
Property, equipment and furniture	22	7,960	2,588
TOTAL ASSETS		3,949,727	3,859,288
LIABILITY			
Accrued expenses and other liabilities	23	38,901	30,797
TOTAL LIABILITY		38,901	30,797
NET ASSETS		3,910,826	3,828,491
REPRESENTED BY:			
Members' funds		3,853,887	3,826,887
Investment securities fair value reserve	35	53,548	(1,380)
Net assets attributable to members' funds		3,907,435	3,825,507
Non-controlling interests	35	3,391	2,984
		3,910,826	3,828,491

The consolidated financial statements were approved by the Board of Directors on 08 September 2020 and signed on its behalf by:

Mahmood Hashim AlKooheji
Chairman

Eman Mustafa Al Murbati
Chief Executive Officer

The accompanying notes from 1 to 45 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 2019

	Note	2019 BD '000	2018 BD '000
Contributions and benefits			
Social insurance contributions	24	578,931	556,818
Compensations from Government	25	8,713	13,152
Total contributions		587,644	569,970
Benefits	26	(732,595)	(568,098)
Impairment losses on social insurance contribution receivables	33	(8,637)	(5,202)
Excess of benefits over contributions		(153,588)	(3,330)
Investment income	27	421,485	91,850
Other operational expenses	31	(15,087)	(15,862)
Change in net assets before other comprehensive income		252,810	72,658
Other comprehensive income:			
<i>Other comprehensive income to be reclassified to investment income in subsequent periods:</i>			
Net movement in investment securities fair value reserve	35	45,992	572
Net movement in the share of associates' reserves during the year	35	6,786	(7,501)
Foreign currency translation adjustment	20	6	(47)
		52,784	(6,976)
<i>Other comprehensive income not to be reclassified to investment income in subsequent periods:</i>			
Share of associates fair value reserve on FVOCI equity instruments	35	2,150	1,774
Share in the defined benefit reserve of associates	20	15	134
		2,165	1,908
TOTAL OTHER COMPREHENSIVE INCOME		54,949	(5,068)
Net movement in other reserves	20, 35	4,576	(2,387)
Transfer to Government of Kingdom of Bahrain	43	(230,000)	-
NET CHANGE IN NET ASSETS		82,335	65,203
Net assets at 1 January		3,828,491	3,763,288
NET ASSETS AT 31 DECEMBER		3,910,826	3,828,491


Mahmood Hashim AlKooheji
 Chairman


Eman Mustafa Al Murbati
 Chief Executive Officer

The accompanying notes from 1 to 45 are an integral part of these consolidated financial statements.

Social Insurance Organization
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2019

	Note	2019 BD '000	2018 BD '000
OPERATING ACTIVITIES			
Change in net assets before other comprehensive income		252,810	72,658
Adjustments for:			
Depreciation		2,901	2,261
Net change in fair value movement on investments at FVTPL		(291,654)	7,739
Amortization of debt securities		(1,486)	(463)
Gain on disposal of an associate		-	(846)
Dividend income	28	(28,580)	(26,438)
Interest income	30	(63,695)	(65,499)
Share of profits of associates and a joint venture, net	20	(27,115)	(26,858)
Rental income from investment properties	29	(5,014)	(4,964)
Impairment charge and write off, net		8,525	31,494
Change in net assets before working capital changes		(153,308)	(10,916)
Working capital changes		20,383	(142,577)
Net cash used in operating activities		(132,925)	(153,493)
INVESTING ACTIVITIES			
Purchase of investments carried at FVTPL	17	(108,949)	(164,187)
Purchase of FVOCI investments, net	18	(52,007)	(91,356)
Purchase of debt securities amortised at cost	19	(9,071)	(58,150)
Investment in a joint venture		(253)	(8)
Additions to investment properties	21	(15,944)	(12,869)
Purchase of equipment and furniture	22	(792)	(1,304)
Proceeds from sale of investments carried at FVTPL		215,686	159,727
Proceeds from sale of FVOCI investments, net		-	92,507
Redemption of debt securities FVOCI	18	25,000	24,445
Redemption of debt securities amortised at cost, net		62,687	-
Dividends received		46,842	40,778
Net acquisition of deposits		114,318	177,187
Interest received		66,477	62,878
Income related to investment properties		4,677	5,406
Net cash from investing activities		348,671	235,054
FINANCING ACTIVITY			
Dividend paid by subsidiaries to non controlling interest	35	(75)	(75)
Transfer to Government of Kingdom of Bahrain	43	(230,000)	-
Net cash used in financing activity		(230,075)	(75)
NET CHANGE IN CASH AND CASH EQUIVALENTS		(14,329)	81,486
Cash and cash equivalents at 1 January		178,118	96,632
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	11	163,789	178,118

The accompanying notes from 1 to 45 are an integral part of these consolidated financial statements.

Social Insurance Organization
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2019

1 REPORTING ENTITY

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. The Organization is also responsible for managing the unemployment plan formed in accordance with the Law No. 78 of 2006.

Funds and Funding policy

The Organization is responsible for managing the operation of the retirement pension plans and unemployment fund. 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%	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, parliament and municipality members (until December 2018) *	<u>Pension</u> Employee 10% Employer 20% <u>Work injury</u> Employer 3%	Law No. 32 of 2009 Decree No. 45 of 2018 *	Bahrainis: Old age, disability and death Bahrainis: Work injury

* On 25 September 2018, Decree No. 45 of 2018 was issued and replaced Law No. 32 of 2009 effective from fifth legislative term of Shura, parliament and municipality members. Accordingly, the Shura, parliament and municipality members fund ceased members contributions in 2019, however the Organization continues to pay retirement benefits to members and beneficiaries eligible in accordance of Decree No. 45 of 2018.

Social Insurance Organization
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2019

1 REPORTIG ENTITY (continued)

Subsidiaries and associates

The consolidated financial statements incorporate the results of the Organization (which includes 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:

	Note	Country of incorporation	Equity Ownership %	
			2019	2018
Subsidiaries				
Bahrain Marina Development Company S.P.C.		Bahrain	100.00%	100.00%
Amlak Social Insurance Organization Development Co. S.P.C.	(a)	Bahrain	100.00%	100.00%
Osool Asset Management Company B.S.C. (c)		Bahrain	75.00%	75.00%
Qalali Real Estate Development Company W.L.L	(b)	Bahrain	75.00%	75.00%
Residence Real Estate Development Company S.P.C.		Bahrain	100.00%	100.00%
Associates				
Hawar Holding Company	(c)	Cayman Island	50.00%	50.00%
Bahrain Car Parks Company B.S.C.	(d)	Bahrain	16.41%	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.	(e)	Bahrain	26.28%	26.28%
BBK B.S.C.		Bahrain	26.40%	25.71%
Bahrain Commercial Facilities Company B.S.C.		Bahrain	23.29%	23.29%

(a) Amlak Social Insurance Organization Development Co. S.P.C.

Subsequent to the year ended 31 December 2019, the Group's Board of Directors in its meeting dated 28th January 2020 has decided to cease the Board of Amlak Social Insurance Organization Development Company SPC and transfer its management to Osool Assets Management BSC (c).

(b) Qalali Real Estate Development Company W.L.L

Subsequent to the year ended 31 December 2019, the Group's Board of Directors in its meeting dated 14 April 2020 has decided to cease the operation and liquidate Qalali Real Estate Development Company W.L.L.

(c) Hawar Holding Company

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 associate of the Organization.

(d) Bahrain Car Parks Company B.S.C.

During the year, SIO's share in Bahrain Car Parks Company B.S.C has been diluted to 16.41% (2018: 25.74%) and accordingly the investment has been transferred to investments carried at FVTPL. Refer to note 20.

(e) Securities and Investment Company B.S.C.

Subsequent to the year ended 31 December 2019 and on 11 March 2020, SIO's shareholding in Securities and Investment Company BSC has increased to 35.63% through its acquisition of other shareholders shareholding in the company.

The consolidated financial statements for the year ended 31 December 2019 were authorized for issue by the Board of Directors of the Organization on 8 September 2020.

Social Insurance Organization
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2019

2 ACTUARIAL POSITION

The Organization has appointed an independent actuary, to carry out a valuation of its schemes as at 31 December 2019 using the Projected Unit Method. The valuations for the years ended 31 December 2019 and 31 December 2018 indicated the existence of net 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 (2018: 6% per annum), consistent with the expected long-term investment returns to the Organization.

The Organization's net unfunded deficit at 31 December 2019 amounted to BD 14,479 million (2018: BD 14,379 million). In order to reduce the net 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 and net position as at 31 December is as follows:

	Public Fund <i>BD million</i>	Private Fund <i>BD million</i>	Shura, parliament & municipality members Fund <i>BD million</i>	Total <i>BD million</i>
2019				
Net assets of the funds	1,116	1,977	121	3,214
Actuarial liability of the fund:				
Vested	(8,681)	(8,005)	(122)	(16,808)
Non-vested	(449)	(436)	-	(885)
Total actuarial liability	(9,130)	(8,441)	(122)	(17,693)
Unfunded liabilities	(8,014)	(6,464)	(1)	(14,479)
2018				
Net assets of the funds	1,075	1,855	126	3,056
Actuarial liability of the fund:				
Vested	(8,669)	(7,292)	(116)	(16,077)
Non-vested	(532)	(826)	-	(1,358)
Total actuarial liability	(9,201)	(8,118)	(116)	(17,435)
(Unfunded) / funded liabilities	(8,126)	(6,263)	10	(14,379)

The movement in the Organization's actuarial liability for the years 2019 and 2018 was as follows:

	Public Fund <i>BD million</i>	Private Fund <i>BD million</i>	Shura, parliament & municipality members Fund <i>BD million</i>	Total <i>BD million</i>
2019				
Actuarial liability at 1 January	9,201	8,118	116	17,435
Increase in interest cost	a 538	479	7	1,024
Increase in service cost	b 125	247	-	372
Benefits paid	c (460)	(252)	(6)	(718)
Actuarial adjustment	d (274)	(151)	5	(420)
Actuarial liability at 31 December	9,130	8,441	122	17,693

Social Insurance Organization

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 ACTUARIAL POSITION (continued)

		Public Fund <i>BD million</i>	Private Fund <i>BD million</i>	Shura, parliament & municipality members Fund <i>BD million</i>	Total <i>BD million</i>
2018	<i>Ref.</i>				
Actuarial liability at 1 January		8,165	7,282	-	15,447
Increase in interest cost	a	480	429	-	909
Increase in service cost	b	206	248	-	454
Benefits paid	c	(311)	(245)	-	(556)
Actuarial adjustment	d	661	404	116	1,181
Actuarial liability at 31 December		<u>9,201</u>	<u>8,118</u>	<u>116</u>	<u>17,435</u>

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 2019 calculated at the rate of 6% per annum (2018: 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 adjustment

Actuarial adjustment relates to the change in the defined benefit obligations due to changes in the law, profile of the scheme members including the average salary growth, age on retirement, number of dependents, life expectancy rate and other assumptions.

3 BASIS OF ACCOUNTING AND MEASUREMENT

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 in conformity with the provisions of the Pension Law No. 13 of 1975, Amiri Decree No. 24 of 1976, Law No. 78 of 2006, Law No. 32 of 2009 and Decree No. 45 of 2018.

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 at fair value through other comprehensive income that have been measured at fair value.

3.2 Basis of consolidation

a) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in the consolidated statement of changes in net assets immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in the consolidated statement of changes in net assets.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, other contingent consideration is re-measured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in the consolidated statement of changes in net assets.