

Social Insurance Organization
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

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

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Social Insurance Organization (the "Organization"), which comprise the consolidated statement of net assets as at 31 December 2014, 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.

Board of Directors' responsibility for the consolidated financial statements

The Organization's Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as the Organization's 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.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Organization as at 31 December 2014, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



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

Emphasis of matter

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 2014 amounted to BD 6,913 million (2013: BD 6,393 million) and the actions taken by the Board of Directors of the Organization to reduce this deficit.

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 2014 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.

Ernst & Young

Auditor's Registration No. 45
10 August 2015
Manama, Kingdom of Bahrain

Social Insurance Organization

CONSOLIDATED STATEMENT OF NET ASSETS

31 December 2014

	Note	2014 BD '000	2013 BD '000
ASSETS			
Cash balances and deposits with banks	7	1,199,425	1,275,198
Social insurance contributions receivable	8	54,792	57,969
Receivables and other assets	9	40,006	38,072
Social insurance benefits:			
Assumed and past services receivable	10	52,839	47,404
Scheme members' loans	11	21,713	20,106
Early extinguishment loans	12	132,616	118,259
Loans to financial institutions	13	11,311	11,311
Investment securities:			
Investments carried at fair value through profit or loss	14	605,732	480,658
Available-for-sale investments	15	641,651	509,562
Held-to-maturity investments	16	365,774	424,451
Investment in associates	17	208,163	202,855
Investment properties	18	205,793	205,489
Property and equipment	19	43,873	42,423
TOTAL ASSETS		3,583,688	3,433,757
LIABILITY			
Payables and other liabilities	20	54,330	32,722
TOTAL LIABILITY		54,330	32,722
TOTAL NET ASSETS		3,529,358	3,401,035
REPRESENTED BY:			
Members' funds		3,300,627	3,208,505
Investment securities fair value reserve	30	213,754	178,302
Land revaluation reserve	30	13,229	13,146
Non-controlling interests	30	1,748	1,082
		3,529,358	3,401,035

Aref Saleh Khamis
Chairman

Dr. Zakaria Sultan Al Abbasi
Chief Executive Officer

Social Insurance Organization

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

Year ended 31 December 2014

	Note	2014 BD '000	2013 BD '000
Contributions and benefits			
Social insurance contributions	21	353,042	337,746
Assumed and past services income		26,764	25,026
Social allowances compensation		2,000	4,337
Reimbursement from Ministry of Finance	22	7,294	7,312
Total contributions		389,100	374,421
Total benefits	23	(360,160)	(318,021)
Net contributions relating to members		28,940	56,400
Net income from investment securities	24	40,742	102,329
Net income from investment properties	25	2,987	1,997
Share of profits of associates - net	17	16,540	19,624
Interest income	26	44,938	45,331
Other operating income		4,676	2,499
Total income		138,823	228,180
Expenses			
Staff costs			
General and administrative expenses	27	(9,216)	(8,252)
Depreciation		(5,641)	(2,840)
Write-off of property and equipment	19	(381)	(552)
	19	(1,047)	-
Total expenses		(16,285)	(11,644)
NET INCOME FOR THE YEAR BEFORE IMPAIRMENT LOSSES AND UNEMPLOYMENT CONTRIBUTION REFUNDABLE		122,538	216,536
Net impairment losses on investments and receivables	28	(24,859)	(5,530)
Unemployment contribution refundable to ministries		(2,846)	-
NET INCOME FOR THE YEAR		94,833	211,006
Attributable to:			
Equity holders of the parent		94,161	210,741
Non-controlling interests		672	265
		94,833	211,006
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	30	39,153	12,890
Net movement in the share of associates' reserves during the year	30	(3,682)	4,965
		35,471	17,855
<i>Other comprehensive (loss) income not to be reclassified to the consolidated statement of changes in net assets in subsequent periods:</i>			
Share in the land revaluation reserve of associates	30	83	2,620
Share in the defined benefit reserve of associates		(87)	2,477
		(4)	5,097
OTHER COMPREHENSIVE INCOME FOR THE YEAR		35,467	22,952
Net increase in net assets attributable to members' funds		130,300	233,958
Others		(20)	25
Share of associates' other equity movements during the year	17	(1,957)	(2,911)
Total net assets attributable to members' funds at 1 January		3,401,035	3,169,963
TOTAL NET ASSETS ATTRIBUTABLE TO MEMBERS' FUNDS AT 31 DECEMBER		3,529,358	3,401,035

Aref Saleh Khamis
Chairman

Dr. Zakaria Sultan Al Abbasi
Chief Executive Officer

The attached notes 1 to 35 form part of these consolidated financial statements.

Social Insurance Organization
CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014

	Note	2014 BD '000	2013 BD '000
OPERATING ACTIVITIES			
Net income for the year		94,833	211,006
Adjustments for:			
Depreciation on property and equipment	19	381	552
Depreciation on investment properties	18	447	672
Unrealized fair value gain on investments carried at fair value through profit or loss	14	(13,409)	(69,288)
Gain from sale of available-for-sale investments	24	(2,256)	(10,755)
Gain from sale of investments carried at fair value through profit or loss	24	(3,328)	(5,181)
Dividend income	24	(21,126)	(16,790)
Interest income on assets carried at amortized cost	26	(44,938)	(45,331)
Share of profits of associates - net	17	(16,540)	(19,624)
Rental income from investment properties	25	(3,436)	(2,911)
Write back of allowance for impairment on loans from financial institutions	28	(942)	(943)
Impairment losses on rent receivable	9	1,485	126
Unemployment contribution receivable from ministries written off	8	9,165	-
Impairment loss on social insurance contribution receivable	8	6,829	4,063
(Write back) / impairment loss on investments	28	8,322	2,284
Social insurance benefits receivable written off	23	1,040	656
Property and equipment written off		1,047	-
Other movements in net assets		5	(6)
Operating profit before working capital changes		17,579	48,530
Working capital changes:			
Social insurance contributions receivable		(12,817)	(1,210)
Receivables and other assets		(3,290)	(6,950)
Assumed and past services receivable		(5,460)	(4,370)
Scheme members' loans		(1,651)	(1,351)
Early extinguishment loans		(15,328)	(10,560)
Payables and other liabilities		21,608	14,881
Net cash flows from operating activities		641	38,970
INVESTING ACTIVITIES			
Loans to financial institutions received		942	17,907
Purchase of investments carried at fair value through profit or loss	14	(136,457)	(204,633)
Purchase of available-for-sale investments	15	(155,668)	(43,113)
Purchase of held-to-maturity investments	16	(31,941)	(137,360)
Additions to investment properties	18	(751)	-
Purchase of property and equipment	19	(2,878)	(636)
Proceeds from sale of investments carried at fair value through profit or loss		28,120	100,748
Proceeds from sale of available-for-sale investments		56,389	54,219
Redemption of held-to-maturity investments	16	90,895	51,002
Dividends received	17 and 24	26,715	21,886
Movements in term deposits		(19,303)	(532,937)
Interest income received		45,808	44,928
Income received from investment properties		2,437	2,350
Net cash flows used in investing activities		(95,692)	(625,639)
FINANCING ACTIVITY			
Dividend paid to non-controlling interest	30	(25)	(25)
Net cash flows used in financing activity		(25)	(25)
DECREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at 1 January		223,885	810,579
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	7	128,809	223,885

The attached notes 1 to 35 form part of these consolidated financial statements.

Social Insurance Organization

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2014

Non-cash items:

- 1 In 2013 the Organization received two properties with a carrying amount of BD 461 thousand as a settlement in kind against rent receivable from a tenant which has been adjusted as a non cash item in receivables and other assets (2014: nil).
- 2 Movements in accrued interest receivable not yet collected amounting to BD 871 thousand have been excluded as a non-cash item from the movements in receivables and other assets (2013: BD 403 thousand).
- 3 Movements in rent receivables not yet collected amounting to BD 313 thousand has been excluded as a non-cash item from the movements in receivables and other assets (2013: BD 561 thousand).

Social Insurance Organization

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

1 ORGANIZATION INFORMATION AND ACTIVITIES (continued)

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

2 ACTUARIAL POSITION

The Organization has appointed an independent actuary ('Aon Hewitt'), to carry out a valuation of its schemes as at 31 December 2014 using the Projected Unit Method. The valuations for the years ended 31 December 2014 and 31 December 2013 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 2014 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 (2013: 6% per annum), consistent with the expected long-term investment returns to the Organization.

The Organization's unfunded deficit at 31 December 2014 amounted to BD 6,913 million (2013: BD 6,393 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; and
- (ii) Recommending to increase contributions in order to match the pension benefits paid.
- (iii) Recommending major reforms to the social insurance and pension schemes including contribution increase in order to have sustainable funds.

Social Insurance Organization

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

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>
2014			
Total net assets of the Organization	1,256	2,273	3,529
Actuarial liability of the fund:			
Vested	(4,962)	(4,449)	(9,411)
Non-vested	(605)	(426)	(1,031)
Total actuarial liability	(5,567)	(4,875)	(10,442)
Unfunded deficit	(4,311)	(2,602)	(6,913)
2013			
Total net assets of the Organization	1,216	2,185	3,401
Actuarial liability of the fund:			
Vested	(4,700)	(4,126)	(8,826)
Non-vested	(573)	(395)	(968)
Total actuarial liability	(5,273)	(4,521)	(9,794)
Unfunded deficit	(4,057)	(2,336)	(6,393)

The movements in the Organization's actuarial liability for the years 2014 and 2013 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>
2014				
Actuarial liability at 1 January		5,273	4,521	9,794
Increase in interest cost	a	311	266	577
Increase in service cost	b	179	243	422
Benefits paid	c	(196)	(155)	(351)
Actuarial liability at 31 December		5,567	4,875	10,442
2013				
Actuarial liability at 1 January		4,983	4,179	9,162
Increase in interest cost	a	293	247	540
Increase in service cost	b	169	229	398
Benefits paid	c	(172)	(134)	(306)
Actuarial liability at 31 December		5,273	4,521	9,794