

Social Insurance Organization

**CONSOLIDATED
FINANCIAL STATEMENTS**

31 DECEMBER 2020

Social Insurance Organization

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

CONTENTS	PAGE
INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS	1 - 2
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED STATEMENT OF NET ASSETS	3
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS	4
CONSOLIDATED STATEMENT OF CASH FLOWS	5
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	6 - 34



KPMG Fakhro
Audit
12th Floor, Fakhro Tower
P O Box 710, Manama
Kingdom of Bahrain

Telephone +973 17 224807
Fax +973 17 227443
Website: home.kpmg/bh
CR No. 6220

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 2020, 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 2020, 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), together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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 – Reporting entity

We draw attention to note 1 to the consolidated financial statements, which describes that these financial statements reflect the consolidated statements of net assets, changes in net assets and cash flows of the Pension Funds managed by the Organization and exclude other social security and non-pension fund related activities managed by the Organization. Our opinion is not modified in respect of this matter.

Emphasis of matter – unfunded actuarial deficit

We draw attention to note 2 to the consolidated financial statements which describes that the unfunded actuarial deficit at 31 December 2020 amounted to BD 9,370 million (2019: BD 14,353 million). 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)
Social Insurance Organization

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 June 2021

Social Insurance Organization

CONSOLIDATED STATEMENT OF NET ASSETS

At 31 December 2020

	Note	31 December 2020 BD '000	31 December 2019 BD '000	1 January 2019 BD '000
ASSETS				
Bank balances and deposits	10	448,992	575,865	552,307
Social insurance contributions receivable	11	166,200	164,552	169,643
Social insurance benefits:				
Assumed and past services receivable	12	42,131	47,874	56,256
Members' loans	13	13,313	17,097	21,403
Early extinguishment loans	14	172,628	181,171	181,318
Investment securities	15	2,105,644	2,131,382	1,906,925
Investment properties	16	215,286	263,194	260,231
Other receivables and prepayments	17	50,896	49,389	49,069
Property, equipment and furniture	18	5,450	6,131	2,520
TOTAL ASSETS		3,220,540	3,436,655	3,199,672
LIABILITY				
Accrued expenses and other liabilities	19	84,636	97,224	71,270
TOTAL LIABILITY		84,636	97,224	71,270
NET ASSETS		3,135,904	3,339,431	3,128,402
REPRESENTED BY:				
Members' funds		3,129,191	3,333,982	3,124,010
Non-controlling interests	30	6,713	5,449	4,392
		3,135,904	3,339,431	3,128,402

The consolidated financial statements were approved by the Board of Directors on 8 June 2021 and signed on its behalf by:

Mahmood Hashim AlKooheji
Chairman

Eman Mustafa Al Murbati
Chief Executive Officer

The accompanying notes from 1 to 41 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 2020

	Note	2020 BD '000	2019 BD '000
Contributions and benefits			
Social insurance contributions	20	349,532	499,679
Compensations from Government	21	8,110	8,713
Total contributions		357,642	508,392
Benefits	22	(686,422)	(717,958)
Impairment losses on social insurance contribution receivables	11	(4,941)	(6,647)
Excess of benefits over contributions		(333,721)	(216,213)
Investment income	23	145,286	441,397
Other operational expenses	27	(15,092)	(14,155)
NET CHANGE IN NET ASSETS		(203,527)	211,029
NET CHANGE IN NET ASSETS ATTRIBUTABLE TO:			
Members' fund		(204,791)	209,972
Non-controlling interests		1,264	1,057
		(203,527)	211,029
Net assets at 1 January		3,339,431	3,128,402
NET ASSETS AT 31 DECEMBER		3,135,904	3,339,431


Mahmood Hashim AlKooheji
Chairman


Eman Mustafa Al Murbati
Chief Executive Officer

The accompanying notes from 1 to 41 are an integral part of these consolidated financial statements.

Social Insurance Organization
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2020

	<i>Note</i>	2020 BD '000	2019 <i>BD '000</i>
OPERATING ACTIVITIES			
Change in net assets		(203,527)	211,029
Adjustments for:			
Depreciation	18	879	1,232
Social insurance benefits written off due to death	22	962	602
Impairment charge on social insurance contribution and rent receivable	29	5,378	6,745
Net change in fair value of investment securities	24	(105,713)	(338,148)
Dividend income	24	(35,203)	(40,873)
Interest income	25	(44,941)	(54,227)
Income from investment properties		(3,127)	(3,908)
Additions to work in progress	16	550	3,054
Change in net assets before working capital changes		(384,742)	(214,494)
Social insurance contributions receivable		(1,648)	5,091
Other receivables and prepayments		(1,507)	(320)
Assumed and past services receivable		5,743	8,382
Scheme members' loans		3,784	4,306
Early extinguishment loans		8,543	147
Accrued expenses and other liabilities		(12,588)	25,954
Net cash used in operating activities		(382,415)	(170,934)
INVESTING ACTIVITIES			
Purchase of investment securities		(909,215)	(159,817)
Additions to investment properties		(550)	(228)
Purchase of equipment and furniture		(223)	(793)
Proceeds from sale of investment securities		1,080,499	273,508
Dividends received		35,402	40,766
Net receipt of deposits		258,182	347
Interest received		46,869	55,699
Income received from investment properties		3,227	4,677
Net cash from investing activities		514,191	214,159
FINANCING ACTIVITY			
Dividend paid by subsidiaries to non-controlling interest		(75)	(75)
Payment of lease liabilities		(392)	(556)
Net cash used in financing activity		(467)	(631)
NET CHANGE IN CASH AND CASH EQUIVALENTS		131,309	42,594
Cash and cash equivalents at 1 January		156,215	113,621
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	10	287,524	156,215

The accompanying notes from 1 to 41 are an integral part of these consolidated financial statements.

Social Insurance Organization
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

1 BACKGROUND AND 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 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.

Funds and Funding policy

The Organization is responsible for managing the operation of the retirement pension plans. Presented below is a summary of the plans and the funding arrangements:

<u>Plan</u>	<u>Funding</u>	<u>Applicable law</u>	<u>Coverage</u>
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
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 13 July 2020, Decree No. 21 of 2020 was issued, which merged the public and private sectors' funds under Law No. 13 of 1975 and Decree No. 24 of 1976, respectively as one unified fund named "Pension and Social Insurance Fund" ("PSI").

** 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 Fund ("SPMF") ceased members contributions in 2019, however the Organization continues to pay retirement benefits to members and beneficiaries eligible in accordance with Decree No. 45 of 2018, funded by payment of past and assumed service contributions from Government of Bahrain.

The Organization is also responsible for managing the Unemployment Fund formed in accordance with the Law No. 78 of 2006. During the year, based on legal opinion obtained from the Legislation and Legal Opinion Commission, the Organization has decided to segregate the Unemployment Fund from the pension schemes' consolidated financial statements under the Organization's management. Accordingly, these consolidated financial statements do not include the Unemployment Fund financial results and the previous years consolidated financial statements have been restated to rectify these changes. The funding arrangement of the Unemployment fund is as follows:

<u>Plan</u>	<u>Funding</u>	<u>Applicable law</u>	<u>Coverage</u>
Unemployment	Bahrainis and non-Bahrainis: Employee 1% Employer 1% Government 1%	Law No. 78 of 2006	Bahrainis: Unemployed persons

Reporting entity:

The reporting entity for the purposes of these consolidated financial statements are the Organization's Pension Funds (PSI and SPMF), i.e. the post-retirement benefit plans, and exclude other activities that reflect management of other non-pension funds and social security payment activities by the Organization, the Fund Manager. These do not form part of these consolidated financial statements and are reported and managed separately (e.g. the Unemployment Fund). Any amounts receivable from the Government to reimburse funding of such activities, if any, is reflected as a claim under other receivables (refer note 17).

The consolidated financial statements for the year ended 31 December 2020 were authorized for issue by the Board of Directors of the Organization on 8 June 2021.

Social Insurance Organization
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

1 BACKGROUND AND REPORTING ENTITY (continued)

Subsidiaries

The consolidated financial statements incorporate the results of the Organization (which includes PSI and SPMF) and its operational subsidiaries (together referred to as the "Group"). The Group only consolidates operational subsidiaries whose main purpose and activities are providing services that relate to supporting the Organization's investment activities. All other investment subsidiaries are considered as investments and carried at their fair values. As at 31 December, SIO had the following operational subsidiaries:

	Note	Country of incorporation	Equity Ownership %	
			2020	2019
Subsidiaries				
Amlak Social Insurance Organization Development Company W.L.L	(a)	Bahrain	-	100.00%
Osool Asset Management Company B.S.C. (c)	(b)	Bahrain	75.00%	75.00%
Qalali Real Estate Development Company W.L.L (Liquidated)	(c)	Bahrain	75.00%	75.00%

(a) Amlak Social Insurance Organization Development Company W.L.L

Amlak Social Insurance Organization Development Company W.L.L ("Amlak") has been established by the Organization to provide operational supports in its management of the investment properties portfolio and is principally involved in managing the properties of the Organization and Military Pension Fund.

During the year and effective 1 January 2020, the Organization's Board of Directors in its meeting dated 28 January 2020 passed a resolution to transfer responsibility of Amlak Social Insurance Organization Development Company W.L.L management and operation to the Board of Directors of Osool Asset Management Company B.S.C (c), which then had approved the acquisition of the entire share capital of Amlak Social Insurance Organization Development Company W.L.L effective 1 January 2020. As of the date of these consolidated financial statements, the acquisition has been substantially completed and the final formalities, including updating articles of association, commercial registration records and other related matters are in progress.

(b) Osool Asset Management Company B.S.C. (c)

Osool Asset Management Company B.S.C (c) ("Osool") has been established to be involved in managing and dealing with financial instruments as both a principal and an agent, providing management and advisory services relating to financial instruments and directing collective investment undertakings of the Organization.

Osool operates in the Kingdom of Bahrain under an Investment Business Firm (Category 1) License issued by the CBB.

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

During the year, the Group's Board of Directors in its meeting dated 14 April 2020 decided to cease the operation and liquidate Qalali Real Estate Development Company W.L.L ("Qalali"). Accordingly, Qalali has been liquidated during the year.

2 ACTUARIAL POSITION

The Organization has appointed an independent actuary, to carry out a valuation of its pension funds as at 31 December 2020 using the Projected Unit Method. The valuations for the years ended 31 December 2020 and 31 December 2019 indicated 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 (2019: 6% per annum), consistent with the expected long-term investment returns to the Organization.

The Organization's net unfunded deficit at 31 December 2020 amounted to BD 9,370 million (2019: BD 14,353 million). In order to reduce the net unfunded deficit, during the year, Decree No. 21 of 2020 was issued which has merged the public and private sector funds, discontinued the annual pension increments of 3% and other attributes. The impact of the law requirements have substantially reduced the actuarial liability as of 31 December 2020 as compared to the prior year end of around BD 6,165 million.

In addition to the above and to reduce the net unfunded deficit, the Board of Directors of the Organization has taken a number of actions including:

- (ii) Developing and diversifying investments for reasonable return to support sources of funding;
- (iii) Recommending to increase contributions in order to match the pension benefits paid; and
- (vi) 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. The comparable public and private funds have been merged in the prior year presented below to be inline with the current year presentation:

Social Insurance Organization
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

2 ACTUARIAL POSITION (continued)

	PSI Fund	SPMF Fund	Total
	<i>BD million</i>	<i>BD million</i>	<i>BD million</i>
2020			
Net assets of the funds	<u>3,020</u>	<u>116</u>	<u>3,136</u>
Actuarial liability of the fund:			
Vested	(11,781)	(82)	(11,863)
Non-vested	<u>(643)</u>	<u>-</u>	<u>(643)</u>
Total actuarial liability	<u>(12,424)</u>	<u>(82)</u>	<u>(12,506)</u>
(Unfunded) / funded liabilities	<u>(9,404)</u>	<u>34</u>	<u>(9,370)</u>
2019			
Net assets of the funds	<u>3,219</u>	<u>121</u>	<u>3,340</u>
Actuarial liability of the fund:			
Vested	(16,686)	(122)	(16,808)
Non-vested	<u>(885)</u>	<u>-</u>	<u>(885)</u>
Total actuarial liability	<u>(17,571)</u>	<u>(122)</u>	<u>(17,693)</u>
Unfunded funded liabilities	<u>(14,352)</u>	<u>(1)</u>	<u>(14,353)</u>

The movement in the Organization's actuarial liability for the years 2020 and 2019 was as follows:

		PSI Fund	SPMF Fund	Total
	<i>Ref.</i>	<i>BD million</i>	<i>BD million</i>	<i>BD million</i>
2020				
Actuarial liability at 1 January		17,571	122	17,693
Increase in interest cost	a	1,034	7	1,041
Increase in service cost	b	372	-	372
Benefits paid	c	(684)	(5)	(689)
Actuarial gain - change in pension increase assumption	d	(6,123)	(42)	(6,165)
Actuarial adjustment	e	254	-	254
Actuarial liability at 31 December		<u>12,424</u>	<u>82</u>	<u>12,506</u>
2019				
Actuarial liability at 1 January		17,319	116	17,435
Increase in interest cost	a	1,017	7	1,024
Increase in service cost	b	372	-	372
Benefits paid	c	(712)	(6)	(718)
Actuarial adjustment	e	<u>(425)</u>	<u>5</u>	<u>(420)</u>
Actuarial liability at 31 December		<u>17,571</u>	<u>122</u>	<u>17,693</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 2020 calculated at the rate of 6% per annum (2019: 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 gain - change in pension increase assumption

Actuarial gain on pension increase assumption relates to the change in the defined benefit obligations due to changes in the law related to Decree No. 21 of 2020 which has discontinued annual pension increment of 3%. Therefore, the actuarial liability calculation has assumed zero increment effective 1 January 2021, which resulted in gain of BD 6,165 million. The actuarial gain assumed zero increment across entire population of the pensioners until the Organization completed its study if any of the pensioners should be eligible to any increments.

e) Actuarial adjustment

Actuarial adjustment relates to the change in the defined benefit obligations due to other 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.