

Social Insurance Organization

**INDEPENDENT AUDITOR'S REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS**

31 DECEMBER 2021

Social Insurance Organization

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SOCIAL INSURANCE ORGANIZATION

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of the Social Insurance Organization (the "Organization") and its subsidiaries (together the "Group"), which comprise the consolidated statement of net assets as at 31 December 2021 and the consolidated statements of changes in net assets and cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 2021, and its financial performance and its cash flows for the year then ended in accordance with 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 Group in accordance with the 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

We draw attention to Note 2 to the consolidated financial statements which indicates that the unfunded actuarial deficit at 31 December 2021 amounted to BD 9,750 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 matter

The comparative amounts included in the accompanying consolidated financial statements have been audited by another auditor whose audit report dated 8 June 2021 expressed an unmodified audit opinion with an emphasis of matter paragraph.

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 IFRSs, 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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS 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 (continued)

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.

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 scepticism 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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS 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)

- 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 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 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 those charged with governance 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.



Partner's Registration No. 45
26 February 2023
Manama, Kingdom of Bahrain

Social Insurance Organization

CONSOLIDATED STATEMENT OF NET ASSETS

At 31 December 2021

	Note	31 December 2021 BD '000	31 December 2020 BD '000 (Restated)	1 January 2020 BD '000 (Restated)
ASSETS				
Bank balances and term deposits	10	206,605	448,992	575,865
Social insurance contributions receivable	11	65,064	62,245	55,353
Social insurance benefits:				
Assumed and past services receivable	12	33,683	42,131	47,874
Members' loans	13	13,142	13,313	17,097
Early extinguishment loans	14	161,035	172,628	181,171
Investment securities	15	2,233,277	2,105,644	2,131,382
Investment properties	16	209,968	215,286	263,194
Other receivables and prepayments	17	48,811	50,896	49,389
Equipment, furniture and right-of-use assets	18	4,956	5,450	6,131
TOTAL ASSETS		2,976,541	3,116,585	3,327,456
LIABILITIES				
Accrued expenses and other liabilities	19	65,929	84,636	97,224
TOTAL LIABILITIES		65,929	84,636	97,224
NET ASSETS		2,910,612	3,031,949	3,230,232
REPRESENTED BY:				
Members' funds		2,903,360	3,025,238	3,224,783
Non-controlling interests	30	7,252	6,711	5,449
		2,910,612	3,031,949	3,230,232

The consolidated financial statements were approved by the Board of Directors on 8 December 2022 and signed on its behalf by:

Mahmood Hashim Alkooheji
Chairman

Eman Mustafa Al Murbati
Chief Executive Officer

The accompanying notes from 1 to 40 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 2021

	Note	2021 BD '000	2020 BD '000 (Restated)
Contributions and benefits			
Social insurance contributions	20	347,143	349,532
Compensations from Government	21	5,179	12,844
Total contributions		352,322	362,376
Benefits	22	(714,086)	(685,912)
Impairment charge on social insurance contributions receivable	11	(3,431)	(4,941)
Excess of benefits over contributions		(365,195)	(328,477)
Investment income	23	258,373	145,286
Other operational expenses	27	(14,404)	(15,092)
NET CHANGE IN NET ASSETS		(121,226)	(198,283)
NET CHANGE IN NET ASSETS ATTRIBUTABLE TO:			
Members' fund		(121,878)	(199,547)
Non-controlling interests	30	652	1,264
		(121,226)	(198,283)
Net assets at 1 January (restated)		3,031,949	3,230,307
Dividend paid by subsidiaries to non-controlling interest		(111)	(75)
NET ASSETS AT 31 DECEMBER		2,910,612	3,031,949



Mahmood Hashim Alkooheji
Chairman



Eman Mustafa Al Murbati
Chief Executive Officer

The accompanying notes from 1 to 40 are an integral part of these consolidated financial statements.

Social Insurance Organization

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Note	2021 BD '000	2020 BD '000 (Restated)
OPERATING ACTIVITIES			
Net change in net assets		(121,226)	(198,283)
Adjustments for:			
Depreciation	18	739	879
Social insurance benefits written off due to death	22	1,367	962
Impairment charge on social insurance contributions receivable and other receivables	29	4,738	5,378
Net change in fair value of investment securities	24	(191,640)	(105,713)
Dividend income	24	(24,423)	(35,203)
Interest income	25	(39,860)	(44,941)
Income from investment properties		2,895	(3,127)
Net change in net assets before working capital changes		(367,410)	(380,048)
Social insurance contributions receivable		(6,250)	(6,892)
Other receivables and prepayments		1,474	(1,507)
Assumed and past services receivable		8,355	5,743
Scheme members' loans		120	3,784
Early extinguishment loans		10,370	8,543
Accrued expenses and other liabilities		(18,707)	(12,038)
Net cash flows used in operating activities		(372,048)	(382,415)
INVESTING ACTIVITIES			
Purchase of investment securities	15	(239,337)	(909,215)
Proceeds from sale of investment securities	15	303,344	1,080,499
Additions to investment properties		(1,362)	(550)
Purchase of equipment and furniture	18	(245)	(223)
Dividends received		24,423	35,402
Net receipts of deposits with an original maturity of more than 90 days	10	150,408	258,182
Interest received		40,036	46,869
Income received from investment properties		3,408	3,227
Net cash flows from investing activities		280,675	514,191
FINANCING ACTIVITIES			
Dividend paid by subsidiaries to non-controlling interest		(111)	(75)
Payment of lease liabilities		(495)	(392)
Net cash flows used in financing activities		(606)	(467)
NET CHANGE IN CASH AND CASH EQUIVALENTS		(91,979)	131,309
Cash and cash equivalents at 1 January		287,524	156,215
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	10	195,545	287,524

The accompanying notes from 1 to 40 are an integral part of these consolidated financial statements.

Social Insurance Organization

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

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>Applicable law</u>	<u>Coverage</u>
Public Sector *	Law No. 13 of 1975 *	Bahrainis: Old age, disability and death Work injury Non-Bahrainis: Work injury
Private Sector *	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) **	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 ("PSI") Fund".

** 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 ("SPM") Fund 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 the Government of Bahrain (the "Government").

Social Insurance Organization

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

1 BACKGROUND AND REPORTING ENTITY (continued)

Funds and Funding policy (continued)

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

<u>Plan</u>	<u>Applicable law</u>	<u>Coverage</u>
Unemployment	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 SPM), 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 2021 were authorized for issue by the Board of Directors of the Organization on 8 December 2022.

Subsidiaries

The consolidated financial statements incorporate the results of the Organization (which includes PSI Fund and SPM Fund) 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 activities. All other subsidiaries are considered as investments and carried at their fair values. As at 31 December, SIO had the following operational subsidiary:

	<u>Note</u>	<u>Country of incorporation</u>	<u>Equity Ownership %</u>	
			<u>2021</u>	<u>2020</u>
Subsidiaries				
Osool Asset Management Company B.S.C. (c)	(a)	Bahrain	63.06%	63.06%

(a) 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.

Amlak Social Insurance Organization Development Company W.L.L ("Amlak") had been established by the Organization in 2010 to provide operational supports in its management of the investment properties portfolio and is principally involved in managing the properties of the Organization, the Unemployment Fund and the Military Pension Fund.

The Organization's Board of Directors in its meeting dated 28 January 2020 passed a resolution to transfer the responsibility of Amlak management and operation to the Board of Directors of Osool, which then approved the acquisition of the entire share capital of Amlak effective 1 January 2020.

Social Insurance Organization

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 ACTUARIAL POSITION

The Organization has appointed an independent actuary, to carry out a valuation of its pension funds as at 31 December 2021 using the Projected Unit Method. The valuations for the years ended 31 December 2021 and 31 December 2020 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 (2020: 6% per annum), consistent with the expected long-term investment returns to the Organization.

The Organization's net unfunded deficit at 31 December 2021 amounted to BD 9,750 million (2020: BD 9,474 million).

In order 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.

Subsequent to the financial statements date, some reforms were implemented which did not have a significant impact on the actuarial liability. Refer to note 37 for details.

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

	<i>PSI Fund</i> <i>BD million</i>	<i>SPM Fund</i> <i>BD million</i>	<i>Total</i> <i>BD million</i>
2021			
Net assets of the fund	2,899	12	2,911
Actuarial liability of the fund:			
Vested	(11,930)	(81)	(12,011)
Non-vested	(650)	-	(650)
Total actuarial liability	(12,580)	(81)	(12,661)
Unfunded liabilities	(9,681)	(69)	(9,750)
2020			
Net assets of the fund	3,020	12	3,032
Actuarial liability of the fund:			
Vested	(11,781)	(82)	(11,863)
Non-vested	(643)	-	(643)
Total actuarial liability	(12,424)	(82)	(12,506)
Unfunded liabilities	(9,404)	(70)	(9,474)

Social Insurance Organization

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 ACTUARIAL POSITION (continued)

The movement in the Organization's actuarial liability for the years 2021 and 2020 was as follows:

<i>2021</i>	<i>Ref.</i>	<i>PSI Fund BD million</i>	<i>SPM Fund BD million</i>	<i>Total BD million</i>
Actuarial liability at 1 January		12,424	82	12,506
Increase in interest cost	a	723	4	727
Increase in service cost	b	252	-	252
Benefits paid	c	(711)	(5)	(716)
Actuarial gain due to experience	f	(108)	-	(108)
Actuarial liability at 31 December		12,580	81	12,661

<i>2020</i>	<i>Ref.</i>	<i>PSI Fund BD million</i>	<i>SPM Fund BD million</i>	<i>Total BD million</i>
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 due to change in pension increase assumption	d	(6,123)	(42)	(6,165)
Actuarial adjustment	e	254	-	254
Actuarial liability at 31 December		12,424	82	12,506

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 2021 calculated at the rate of 6% per annum (2020: 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

This 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.