

Social Insurance Organization

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

31 DECEMBER 2022

Social Insurance Organization
CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2022

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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 2022 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 2022, 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 2022 amounted to BD 10,569 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 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.

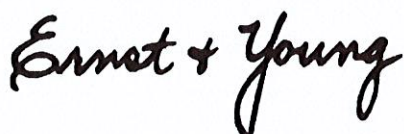
**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
SOCIAL INSURANCE ORGANIZATION (continued)**

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.



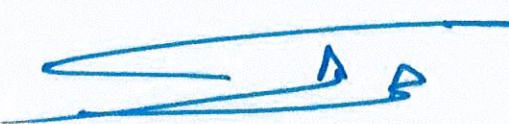
Partner's Registration No. 45
24 September 2023
Manama, Kingdom of Bahrain

Social Insurance Organization

CONSOLIDATED STATEMENT OF NET ASSETS

At 31 December 2022

		31 December 2022 BD '000	31 December 2021 BD '000
	Note		
ASSETS			
Bank balances and term deposits	10	215,676	206,605
Social insurance contributions receivable	11	68,892	65,064
Social insurance benefits:			
Assumed and past services receivable	12	30,941	33,683
Members' loans	13	16,977	13,142
Early extinguishment loans	14	153,620	161,035
Investment securities	15	1,749,922	2,233,277
Investment properties	16	181,266	209,968
Other receivables and prepayments	17	59,768	48,811
Equipment, furniture and right-of-use assets	18	4,369	4,956
TOTAL ASSETS		2,481,431	2,976,541
LIABILITIES			
Accrued expenses and other liabilities	19	59,424	65,929
TOTAL LIABILITIES		59,424	65,929
NET ASSETS		2,422,007	2,910,612
REPRESENTED BY:			
Members' funds		2,414,476	2,903,360
Non-controlling interest	29	7,531	7,252
		2,422,007	2,910,612


Mahmood Hashim Alkooheji

Chairman


Eman Mustafa Al Murbati

Chief Executive Officer

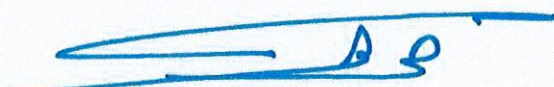
The accompanying notes from 1 to 36 are an integral part of these consolidated financial statements.

Social Insurance Organization

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the year ended 31 December 2022

	Note	2022 BD '000	2021 BD '000
Social insurance contributions	20	385,240	347,143
Compensations from Government	21	13,405	5,179
Total contributions		398,645	352,322
Benefits	22	(778,119)	(714,086)
Impairment charge on social insurance contributions receivable	11	(2,413)	(3,431)
Excess of benefits over contributions		(381,887)	(365,195)
Net investment (loss) / income	23	(91,618)	258,373
Other operational expenses	27	(14,989)	(14,404)
NET CHANGE IN NET ASSETS		(488,494)	(121,226)
NET CHANGE IN NET ASSETS ATTRIBUTABLE TO:			
Members' fund		(488,884)	(121,878)
Non-controlling interest	29	390	652
		(488,494)	(121,226)
Net assets at 1 January		2,910,612	3,031,949
Dividend paid by subsidiaries to non-controlling interest		(111)	(111)
NET ASSETS AT 31 DECEMBER		2,422,007	2,910,612



Mahmood Hashim Alkooheji
Chairman



Eman Mustafa Al Murbati
Chief Executive Officer

The accompanying 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 2022

	Note	2022 BD '000	2021 BD '000
OPERATING ACTIVITIES			
Net change in net assets		(488,494)	(121,226)
Adjustments for:			
Depreciation	18	727	739
Social insurance benefits written off due to death	22	1,309	1,367
Impairment charge on social insurance contributions receivable	11	2,413	3,431
Impairment charge on other receivables	17	62	1,307
Net change in fair value of investment securities	24	147,413	(191,640)
Dividend income	24	(30,319)	(24,423)
Interest income	25	(38,145)	(39,860)
Net change in fair value of investment properties	23	23,491	5,279
Net income from investment properties	26	(2,628)	(2,384)
Net change in net assets before working capital changes		(384,171)	(367,410)
Social insurance contributions receivable		(6,785)	(6,250)
Other receivables and prepayments		(5,488)	1,474
Assumed and past services receivable		2,697	8,355
Scheme members' loans		(3,849)	120
Early extinguishment loans		6,165	10,370
Accrued expenses and other liabilities		(6,525)	(18,707)
Net cash flows used in operating activities		(397,956)	(372,048)
INVESTING ACTIVITIES			
Purchase of investment securities	15	(190,413)	(239,337)
Disposal of investment securities	15	526,355	303,344
Additions to investment properties		(497)	(1,362)
Purchase of equipment and furniture	18	(153)	(245)
Dividends received		30,319	24,423
Net receipt of deposits with an original maturity of more than three months	10	520	150,408
Interest received		38,637	40,036
Income received from investment properties		3,439	3,408
Net cash flows from investing activities		408,207	280,675
FINANCING ACTIVITIES			
Dividend paid by subsidiaries to non-controlling interest		(111)	(111)
Payment of lease liabilities		(549)	(495)
Net cash flows used in financing activities		(660)	(606)
NET CHANGE IN CASH AND CASH EQUIVALENTS		9,591	(91,979)
Cash and cash equivalents at 1 January		195,545	287,524
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	10	205,136	195,545

The accompanying 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 2022

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:

Plan	Applicable law	Coverage
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 the Kingdom of Bahrain (the "Government").

Social Insurance Organization

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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.

Plan	Applicable law	Coverage
Unemployment	Law No. 78 of 2006	Bahrainis/ Non-Bahrainis: Unemployed persons

Reporting entity

The reporting entity for the purposes of these consolidated financial statements are the Organization's post-retirement benefit plans (i.e. PSI Fund and SPM Fund) and exclude other activities that reflect the management of other non-pension funds, namely the Unemployment Fund. This does not form part of these consolidated financial statements and is reported and managed separately.

The consolidated financial statements for the year ended 31 December 2022 were authorized for issue by the Board of Directors of the Organization on 25 July 2023.

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. At 31 December, the Organization had the following operational subsidiary:

	<u>Country of incorporation</u>	<u>Equity Ownership %</u>	
		2022	2021
Osool Asset Management Company B.S.C. (c)	Bahrain	63.06%	63.06%

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 Central Bank of Bahrain ("CBB").

Amlak Real Estate Company W.L.L. (formerly Amlak Social Insurance Organization Development Company W.L.L) ("Amlak") had been established by the Organization in 2010 to provide operational support 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 2022

2 ACTUARIAL POSITION

The Organization has appointed an independent actuary to carry out a valuation of its pension funds as at 31 December 2022 using the Projected Unit Method. The valuations for the years ended 31 December 2022 and 31 December 2021 indicated an existence of net unfunded actuarial liabilities. The Government 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 (2021: 6% per annum), consistent with the expected long-term investment returns to the Organization.

The Organization's net unfunded deficit at 31 December 2022 amounted to BD 10,569 million (2021: BD 9,750 million).

In order to reduce the net unfunded liability a number of reforms have been implemented through the issuance of Decree No. 21 of 2020 and Law No. 13 and 14 of 2021 which included, amongst others, the suspension of the 3% annual pension increment, the incremental increase of contribution rates to 27% by 2028, and the calculation of pension salaries using a 5-year average salary. The Board of Directors of the Organization continues to take the below actions to reduce the net unfunded liability:

- (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 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:

	<i>PSI Fund BD million</i>	<i>SPM Fund* BD million</i>	<i>Total BD million</i>
2022			
Net assets	2,410	12	2,422
Actuarial liability:			
Vested	(12,325)	(81)	(12,406)
Non-vested	(585)	-	(585)
Total actuarial liability	(12,910)	(81)	(12,991)
Unfunded liability	(10,500)	(69)	(10,569)
2021			
Net assets	2,899	12	2,911
Actuarial liability:			
Vested	(11,930)	(81)	(12,011)
Non-vested	(650)	-	(650)
Total actuarial liability	(12,580)	(81)	(12,661)
Unfunded liability	(9,681)	(69)	(9,750)

* The unfunded liability of the SPM Fund is supported by the Government who has undertaken to pay the annual benefit expenses as they fall due. Refer to note 21 for details.

Social Insurance Organization

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

2 ACTUARIAL POSITION (continued)

The movement in the Organization's actuarial liability for the years 2022 and 2021 are as follows:

2022	Note	PSI Fund BD million	SPM Fund BD million	Total BD million
Actuarial liability at 1 January		12,580	81	12,661
Increase in interest cost	a	731	5	736
Increase in service cost	b	252	-	252
Benefits paid	c	(773)	(5)	(778)
Actuarial loss due to experience	d	120	-	120
Actuarial liability at 31 December		12,910	81	12,991

2021	Note	PSI Fund BD million	SPM Fund BD million	Total BD million
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	d	(108)	-	(108)
Actuarial liability at 31 December		12,580	81	12,661

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 2022 calculated at the rate of 6% per annum (2021: 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 (loss) / gain due to experience

This represents an actuarial adjustment made in relation to the change in defined benefit obligations due to changes such as the law and 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 PREPARATION

3.1 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, Decree No. 45 of 2018, Decree No. 21 of 2020, Law No. 13 of 2022 and Law no. 14 of 2022. In particular, the Organization has applied IAS 26: Accounting and Reporting by Retirement Benefit Plans.