

**Social Insurance Organization**

**INDEPENDENT AUDITORS' REPORT AND  
CONSOLIDATED FINANCIAL STATEMENTS  
31 DECEMBER 2023**

# **Social Insurance Organization**

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## **CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2023

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# Independent auditors' report

## To the Board of Directors of

*Social Insurance Organization  
Manama, Kingdom of Bahrain*

### 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 2023, the consolidated statements of changes in net assets, and cash flows for the year then ended, and notes, comprising material 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 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

### 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 – Actuarial position

We draw attention to note 2 to the consolidated financial statements which describes the actuarial position at 31 December 2023 and the management's reform plans and strategy to reduce the unfunded actuarial deficit. Our opinion is not modified in respect of this matter.

### Other Matter – Previous year audit

The consolidated financial statements of the Group as at and for the year ended 31 December 2022 were audited by another auditor who expressed an unqualified opinion on these consolidated financial statements dated 24 September 2023.

### Responsibilities of 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 Accounting standards, 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 AUDITORS' REPORT (continued)*  
*Social Insurance Organization*

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.

### Auditors' Responsibilities for the Audit of the 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  
Auditor Registration Number 83  
30 May 2024

# Social Insurance Organization

## CONSOLIDATED STATEMENT OF NET ASSETS

At 31 December 2023

		<b>31 December 2023 BD '000</b>	<b>31 December 2022 BD '000</b>
<b>ASSETS</b>			
Bank balances and term deposits	9	284,173	215,676
Social insurance contributions receivable	10	68,272	68,892
Social insurance benefits:			
Assumed and past services receivable	11	25,434	30,941
Members' loans	12	20,528	16,977
Early extinguishment loans	13	151,825	153,620
Investment securities	14	1,420,133	1,749,922
Investment properties	15	169,090	181,266
Other receivables and prepayments	16	68,334	59,768
Equipment, furniture and right-of-use assets	17	5,418	4,369
<b>TOTAL ASSETS</b>		<b>2,213,207</b>	<b>2,481,431</b>
<b>LIABILITIES</b>			
Accrued expenses and other liabilities	18	42,274	59,424
<b>TOTAL LIABILITIES</b>		<b>42,274</b>	<b>59,424</b>
<b>NET ASSETS</b>		<b>2,170,933</b>	<b>2,422,007</b>
<b>REPRESENTED BY:</b>			
Members' funds		2,162,570	2,414,476
Non-controlling interest	28	8,363	7,531
		<b>2,170,933</b>	<b>2,422,007</b>

**Rasheed Mohamed Al Maraj**

Chairman

**Eman Mustafa Al Murbati**

Chief Executive Officer

The accompanying notes from 1 to 35 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 2023

	Note	2023 BD '000	2022 BD '000
Social insurance contributions	19	456,455	385,240
Compensations from Government	20	11,871	13,405
<b>Total contributions</b>		<b>468,326</b>	398,645
Benefits	21	(810,112)	(778,119)
Impairment charge on social insurance contributions receivable	10	(2,063)	(2,413)
<b>Excess of benefits over contributions</b>		<b>(343,849)</b>	(381,887)
Net investment income / (loss)	22	108,656	(91,618)
Other operational expenses	26	(15,770)	(14,989)
<b>NET CHANGE IN NET ASSETS</b>		<b>(250,963)</b>	(488,494)
<b>NET CHANGE IN NET ASSETS ATTRIBUTABLE TO:</b>			
Members' fund		(251,906)	(488,884)
Non-controlling interest	28	943	390
		<b>(250,963)</b>	(488,494)
Net assets at 1 January		2,422,007	2,910,612
Dividend paid by subsidiaries to non-controlling interest		(111)	(111)
<b>NET ASSETS AT 31 DECEMBER</b>		<b>2,170,933</b>	2,422,007

**Rasheed Mohamed Al Maraj**  
Chairman

**Eman Mustafa Al Murbati**  
Chief Executive Officer

The accompanying notes from 1 to 35 are an integral part of these consolidated financial statements.

**Social Insurance Organization**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
For the year ended 31 December 2023

	<i>Note</i>	<b>2023</b> <b>BD '000</b>	<b>2022</b> <b>BD '000</b>
<b>OPERATING ACTIVITIES</b>			
<b>Net change in net assets</b>		<b>(250,963)</b>	(488,494)
Adjustments for:			
Depreciation	17	883	727
Social insurance benefits written off due to death	21	928	1,309
Impairment charge on social insurance contributions receivable	10	2,063	2,413
Impairment charge on other receivables	16	54	62
Net change in fair value of investment securities	23	(23,365)	147,413
Dividend income	23	(37,173)	(30,319)
Interest income	24	(40,274)	(38,145)
Net change in fair value of investment properties	22	5,764	23,491
Net income from investment properties	25	(2,942)	(2,628)
<b>Net change in net assets before working capital changes</b>		<b>(345,025)</b>	(384,171)
Social insurance contributions receivable		(2,000)	(6,785)
Other receivables and prepayments		(8,566)	(11,196)
Assumed and past services receivable		5,440	2,697
Scheme members' loans		(3,600)	(3,849)
Early extinguishment loans		983	6,165
Accrued expenses and other liabilities		(17,741)	(6,525)
<b>Net cash flows used in operating activities</b>		<b>(370,509)</b>	(403,664)
<b>INVESTING ACTIVITIES</b>			
Purchase of investment securities	14	(557,195)	(190,413)
Disposal of investment securities	14	910,349	526,355
Additions to investment properties		(588)	(497)
Disposals of investment properties		7,314	5,876
Purchase of equipment and furniture	17	(1,965)	(173)
Dividends received		37,173	30,319
Net receipt of deposits with an original maturity of more than three months	9	2,812	520
Interest received		41,394	38,657
Income received from investment properties		2,710	3,271
<b>Net cash flows from investing activities</b>		<b>442,004</b>	413,915
<b>FINANCING ACTIVITIES</b>			
Dividend paid by subsidiaries to non-controlling interest		(111)	(111)
Payment of lease liabilities		(75)	(549)
<b>Net cash flows used in financing activities</b>		<b>(186)</b>	(660)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>71,309</b>	9,591
Cash and cash equivalents at 1 January		205,136	195,545
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	<b>9</b>	<b>276,445</b>	205,136

The accompanying notes from 1 to 35 are an integral part of these consolidated financial statements.

# Social Insurance Organization

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

### 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:

<b>Plan</b>	<b>Applicable law</b>	<b>Coverage</b>
<b>Public Sector *</b>	Law No. 13 of 1975 *	<b>Bahrainis:</b> Old age, disability and death Work injury  <b>Non-Bahrainis:</b> Work injury
<b>Private Sector *</b>	Decree No. 24 of 1976 *	<b>Bahrainis:</b> Old age, disability and death Work injury  <b>Non-Bahrainis:</b> Work injury
<b>Shura, parliament and municipality members (until December 2018) **</b>	Law No. 32 of 2009 Decree No. 45 of 2018 **	<b>Bahrainis:</b> Old age, disability and death  <b>Bahrainis:</b> Work injury

\* On 22 Apr 2022, Decree No. 13 and Decree No. 14 was issued, which was an amendment to Law No. 13 of 1975 and Decree no. 24 of 1976, these amendment included the gradual increase in contribution rates from employee and employer along other reforms such as Non Bahrainis leaving indemnities collection arrangement.

\*\* 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 2023

### 1 BACKGROUND AND REPORTING ENTITY (continued)

#### Funds and Funding policy (continued)

The Organization is also responsible for managing the Unemployment Fund (the "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	<b>Bahrainis/ Non-Bahrainis:</b> 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 social security and non-pension funds, namely the Unemployment Fund (the "Fund") which does not form part of these consolidated financial statements and is reported separately. The Organization is the fund manager of this Fund.

The consolidated financial statements for the year ended 31 December 2023 were authorized for issue by the Board of Directors of the Organization on 30 May 2024.

#### 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 are carried at their fair values. At 31 December 2023, the Organization had the following operational subsidiary:

	<u>Country of incorporation</u>	<u>Equity Ownership %</u>	
		<u>2023</u>	<u>2022</u>
Osool Asset Management Company B.S.C. (c)	Bahrain	<b>63.06%</b>	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 2023

#### 2 ACTUARIAL POSITION

The Organization has appointed an independent actuary to carry out a valuation of its pension funds as at 31 December 2023 using the Projected Unit Method. The valuations for the years ended 31 December 2023 and 31 December 2022 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 (2022: 6% per annum), consistent with the expected long-term investment returns to the Organization.

The Organization's net unfunded deficit at 31 December 2023 amounted to BD12,800 million (2022: BD 10,569 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; and
- (ii) 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>
<b>2023</b>			
<b>Net assets</b>	<b>2,158</b>	<b>13</b>	<b>2,171</b>
<b>Actuarial liability:</b>			
<b>Vested</b>	<b>(14,089)</b>	<b>(74)</b>	<b>(14,163)</b>
<b>Non-vested</b>	<b>(808)</b>	<b>-</b>	<b>(808)</b>
<b>Total actuarial liability</b>	<b>(14,897)</b>	<b>(74)</b>	<b>(14,971)</b>
<b>Unfunded liability</b>	<b>(12,739)</b>	<b>(61)</b>	<b>(12,800)</b>
<b>2022</b>			
<b>Net assets</b>	<b>2,410</b>	<b>12</b>	<b>2,422</b>
<b>Actuarial liability:</b>			
<b>Vested</b>	<b>(12,325)</b>	<b>(81)</b>	<b>(12,406)</b>
<b>Non-vested</b>	<b>(585)</b>	<b>-</b>	<b>(585)</b>
<b>Total actuarial liability</b>	<b>(12,910)</b>	<b>(81)</b>	<b>(12,991)</b>
<b>Unfunded liability</b>	<b>(10,500)</b>	<b>(69)</b>	<b>(10,569)</b>

\* 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 20 for details.

## Social Insurance Organization

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

#### 2 ACTUARIAL POSITION (continued)

The movement in the Organization's actuarial liability for the years 2023 and 2022 are as follows:

		<i>PSI Fund BD million</i>	<i>SPM Fund BD million</i>	<i>Total BD million</i>
<b>2023</b>	<b>Note</b>			
Actuarial liability at 1 January		12,910	81	12,991
Increase in interest cost	a	749	4	753
Increase in service cost	b	235	-	235
Benefits paid	c	(805)	(5)	(810)
Actuarial loss due to experience	d	974	(7)	967
Actuarial loss - financial assumptions	e	209	1	210
Actuarial loss - modelling / demographic assumptions	f	625	-	625
<b>Actuarial liability at 31 December</b>		<b>14,897</b>	<b>74</b>	<b>14,971</b>
		<i>PSI Fund BD million</i>	<i>SPM Fund BD million</i>	<i>Total BD million</i>
<b>2022</b>	<b>Note</b>			
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
<b>Actuarial liability at 31 December</b>		<b>12,910</b>	<b>81</b>	<b>12,991</b>

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 2023 calculated at the rate of %6 per annum (2022: 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 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.

**e) Actuarial loss - financial assumptions**

The actuarial loss or gain that arises from changes to the financial assumptions adopted for the liability calculations. The key financial assumptions are the discount rate, salary growth rate and pension increase rate.

**f) Actuarial loss - modelling / demographic assumptions**

The actuarial loss or gain represents changes to the calculation approach or demographic assumptions adopted for the liability calculations. These relate to the approach and assumptions adopted for applying the various decrements that affect the scheme populations and include mortality rates, invalidity rates, retirement rates, family-related rates, survivor rates of dependents and other assumptions.