

Board of Directors' Report to the Shareholders

The Directors of Al Salam Bank B.S.C. "the Bank" are pleased to submit the annual report to the shareholders, accompanied by the consolidated financial statements of the Bank and its subsidiaries "the Group" for the year ended 31 December, 2021.

The global effort to combat COVID-19 continues to be the focal point of economies worldwide, which are expected to grow by 4.9% in 2022 following an expansion of 5.9% in 2021. While some challenges, such as supply-chain disruptions and higher inflation rates, are expected to continue in 2022, the global economy is forecasted to continue its overall recovery. In Bahrain, the economy is expected to grow by 3.1% in 2022 compared to 2.5% in 2021, primarily due to a rebound in the non-oil sector and further supported by the increase in oil prices. While the banking sector faced volatile challenges creating deployment difficulties as a result of the low profit rate environment, the sector continued to exhibit sustained resilience.

The short-term strategy which was swiftly devised by the Bank in the wake of the pandemic was strategically designed with defined objectives to mitigate against headwinds and steer the Bank through a period of uncertainty. This strategy was successfully achieved and yielded outstanding results. During this period, the Bank succeeded in making exceptional progress in the Bank's overall growth strategy to grow core banking activities and successfully capture additional market share. The Bank is now strongly positioned to navigate the uncertain waters that lie ahead and continue making strides in implementing its growth initiatives.

In the face of a fragile landscape that continues to be clouded with uncertainty, the Bank posted a YoY increase in net operating income of 12%, from BD 57.4 million in 2020 to BD 64.2 million in 2021. Total operating expenses saw a slight YoY increase, from BD 30 million to BD 33.9 million, in line with operational activities. Global macro-economic factors improved in 2021 compared to 2020, and the Bank capitalized on this position by adopting a prudent approach to provisioning levels, resulting in a decrease in impairment charges from BD 18.28 million in 2020 to BD 9.16 million in 2021. Ultimately, the Bank's net profit for the year increased from 9.12 million in 2020 to BD 21.22 million in 2021, reflecting an impressive YoY increase of 133%.

The Bank recorded robust growth across all verticals achieving record levels of customer deposits ending the year at BD 1.8 billion, up from BD 1.3 billion in 2020, reflecting a YoY increase of 36%. Financings also increased by 6% in 2021, reaching BD 1.36 billion, up from BD 1.28 billion in 2020. The Group's total assets increased from BD 2.3 billion in 2020 to BD 2.7 billion as of 31 December 2021, reflecting a solid growth of 19%. Furthermore, the Bank achieved a significant improvement in its non-performing financing ratio, declining from 5.1% in 2020 to a record low of 2.1% in 2021. The Bank continued to grow and diversify its fixed income portfolio closing the year at BD 640 million reflecting a robust increase of 56%. The cost-to-income ratio during the year stood at 52.7% in 2021 compared to 52.3% in 2020. Maintaining its strong capital position, the Bank ended 2021 with a Capital Adequacy Ratio (CAR) of 28.5%, significantly higher than the 12.5% mandated by the CBB.

All in all, the core banking book continued its upward trajectory driven by robust organic growth and optimization across all verticals. In line with our strategy to focus on core-banking assets, the Bank executed initiatives to exit legacy investments and reduce real estate exposure, further aiding our strong capital base and liquidity metrics. The resilience of the Bank position was further enhanced by incorporating the requisite stress testing and strategic future scenarios.

As part of the Bank's inorganic growth aspirations, several projects were strategically launched aimed at further enhancing the Group's position and market standing. Prudent and tactical expansion of market share, growth and enhancement of earnings quality, further development of operational efficiency, fast-tracking digitalization initiatives, and strict adherence to the Bank's corporate and social responsibility measures formed the foundation of our strategy.

Moreover, in line with Bank's strategic vision to maintain its leading position and keep ahead of evolving market changes and proactively cater to a post-pandemic stakeholder base, the Bank expedited the roll out of front and back-end digitization initiatives and tackled specified focus areas, including increasing fee-based income and expanding International Trade and Transaction Banking operations. The Bank also underwent a bold, compelling, forward-thinking re-branding exercise. The Bank launched a new Brand DNA comprising of a new brand promise where reinvigorated brand values and principles were carefully formulated.

Under this new brand DNA, the Bank embraced a digitally-native mindset and launched a number of new features on its banking app, including digital financing, new saving offerings such as the "Fils Challenge", and an analytics feature providing customers a self-service platform for analyzing their banking activities. Looking ahead, the Bank's Innovation Lab plans to further accelerate its rollouts with a focus on Private Banking and SME customers, alongside a variety of new digital-only services and business offerings.

On behalf of all the Board members, I would like to take this opportunity to express our gratitude for the visionary leadership of His Majesty King Hamad bin Isa Al Khalifa and His Royal Highness Prince Salman bin Hamad Al Khalifa, the Crown Prince and Prime Minister. Their guidance and wise directives during these unprecedented times and the responsiveness of the Kingdom's various Government institutions have bolstered the nation's stability and confidence in overcoming profound challenges. We would also like to express our gratitude to the Ministry of Finance and National Economy, the Ministry of Industry, Commerce and Tourism, the CBB, the Bahrain Bourse, Dubai Financial Market, as well as the Group's correspondent banks, customers, shareholders, partners and employees for their continued support and co-operation.

We look forward to a year ahead of increased growth, and a brighter outlook in 2022.

Finally, in line with the Commercial Companies Law No. (21) of 2001 and its amendments, and pursuant to the provisions of Article No. (188) of the Commercial Companies Law and Article No. (125) of the Executive Regulations of Resolution No. (3) for the year 2022, we are pleased to attach the table below that shows the remuneration of members of the Board and the Executive Management for the year ending 31 December 2021.

First: Board of directors' remuneration details:

Name	Fixed remunerations					Variable remunerations					End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
	Remunerations of the chairman and BOD	Total allowance for attending Board and committee meetings	Salaries	Others*	Total	Remunerations of the chairman and BOD	Bonus	Incentive plans	Others**	Total			
First: Independent Directors:													
1- Mr. Alhur Mohammed Al Suwaidi	75,000	64,000	-	-	139,000	-	-	-	-	-	-	139,000	-
2-Mr. Khalid Salem Al Halyan	75,000	64,000	-	-	139,000	-	-	-	-	-	-	139,000	-
3-Mr. Salim Abdullah Al Awadi	75,000	52,000	-	-	127,000	-	-	-	-	-	-	127,000	-
4-Mr. Tariq Abdul Hafidh Salim Al-Aujaili	75,000	48,000	-	-	123,000	-	-	-	-	-	-	123,000	-
Second: Non-Executive Directors:													
1-H.E. Sheikh Khalid bin Mustahail Al Mashani	90,000	66,000	-	-	156,000	-	-	-	-	-	-	156,000	-
2-Mr. Matar Mohamed Al Blooshi	75,000	52,000	-	-	127,000	-	-	-	-	-	-	127,000	-
3-Mr. Salman Saleh Al Mahmeed	75,000	52,000	-	-	127,000	-	-	-	-	-	-	127,000	-
4-Mr. Zayed Ali Al-Amin	75,000	44,000	-	-	119,000	-	-	-	-	-	-	119,000	-
5- Mr. Hisham Al Saie	75,000	36,000	-	-	111,000	-	-	-	-	-	-	111,000	-
Third: Executive Directors:													

1-	-	-	-	-	-	-	-	-	-	-	-	-
2-	-	-	-	-	-	-	-	-	-	-	-	-
Total	690,000	478,000	-	-	1,168,000	-	-	-	-	-	1,168,000	-

Note: All amounts stated are in Bahraini Dinars.

Notes:

1. The Bank does not have any variable remuneration payments, end of service benefits, or expense allowances paid to its directors.
2. The Bank does not have any Executive Directors in its Board.
3. Board remuneration represents allocation of proposed remuneration for 2021 subject to approval of the Annual General Meeting.

Other remunerations:

* It includes in-kind benefits – specific amount - remuneration for technical, administrative and advisory works (if any).

** It includes the board member's share of the profits - Granted shares (insert the value) (if any).

Second: Executive management remuneration details:

Executive management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/ in kind remunerations for 2021	Aggregate Amount
Top 6 remunerations for executives, including CEO* and Senior Financial Officer**	1,688,000	749,151	-	2,437,151

Note: All amounts stated are in Bahraini Dinars.

Notes:

1. Paid salaries and allowances exclude indirect staff expenses such as GOSI contributions, leave and indemnity accruals, medical insurance and air travel reimbursements.
2. Remuneration details exclude any Board remuneration earned by executive management from their role in investee companies or other subsidiaries.
3. Refer to the Remuneration related disclosures in Annual Report for a better understanding of the Bank's variable remuneration framework.

* The highest authority in the executive management of the company, the name may vary: (CEO, President, General Manager (GM), Managing Director...etc).

** The company's highest financial officer (CFO, Finance Director, ...etc)



H.E. Shaikh Khalid Bin Mustahil Al Mashani

Chairman

12 February 2022

Manama, Kingdom of Bahrain