

Disclosure on Accumulated Losses in Line with Regulatory Requirements

A. Regulatory requirement

The provisions of Articles (4 and 5) of the CMA's Chairman Resolution No. (32/R.M) of 2019 regarding the procedures for companies listed on the Exchange whose accumulated losses are 20% or more of its capital stipulate the following:

Article 4

1. When disclosing its interim or annual financial statements, which include accumulated losses of 50% or more of its capital, the company shall be obligated to include in its disclosure a detailed analysis of the accumulated losses, their amount and percentage of the capital, the main reasons that led to these accumulated losses, their date and the actions that will be taken to address them.
2. The Market shall add a distinctive red mark on the Company name on the trading screens indicating that the accumulated losses of the Company have reached 50% or more of its capital upon the issuance of the disclosure referred to in clause (1) of this Article.
3. After coordination with the Market, the Authority may suspend trading on the Company's shares listed on the Market from the date of disclosure stated in the clause (1) of this Article until the following are met:
 - A. With respect to Local Public Joint Stock Company: Disclosure of a plan for addressing the accumulated losses in accordance with the provisions of this Decision.

Article (5)

1. The Local Public Joint Stock Company, that have accumulated losses of 50% or more, shall be obligated, within a period not exceeding thirty (30) days from the date of disclosing the interim or annual financial statements, to disclose to the Authority and the Market a plan for addressing the accumulated losses, provided that it is approved by an entity with technical and financial expertise approved by the Authority.
2. The Local Public Joint Stock Company shall provide addressing plan according to the form prepared by the Authority, provided that it specially includes detailed analysis of the accumulated losses, their amount, percentage of the capital and reasons, procedures for addressing them and time schedule, taking into account any observations or notes

- stated in the Company's external auditor report and providing the Authority with no objection by the licensing authority to that plan as for banks and insurance companies.
3. The Company's Board of Directors shall form a committee called (the Committee of following up the implementation of the plan for addressing the accumulated losses) of not less than three members including one of the independent Board's Members and the entity with expertise approved by the Authority. That Committee shall follow up the implementation of plan and submit a periodic report to the Company's Board of Directors on the development of the implementation of the plan and the results of implementation according to time schedule.
 4. The Company shall disclose to the Authority and the Market, monthly or upon the Authority's or the Market's request, details of the implementation of the plan, updated expectations and figures contained in the plan, the justifications for any deviation of performance, if any, and how to address it within the interim or annual financial statements.

B. Key challenges and support

The Bank entered into a challenging phase during 2017 when due to impairment charge incurred losses and faced liquidity and solvency issue. CBUAE made a press announcement on 16 December 2018, that it will support the Bank with all the available liquidity facilities, which remain at Bank's disposal if and when needed. Further, the Government of Sharjah (GoS or Government) provided the required support by injection of additional capital and subscribing the right shares issued by the Bank.

C. Challenging period

- a. In 2017, the Bank reported its first ever net loss for the year of AED 0.3 billion due to recognition of provisions for credit losses of AED 0.9 billion as significant portion of loans and advances were downgraded to non-performing status on account of continued market challenges and the then prevailing sluggish economic environment and in preparation for IFRS 9. However, the Bank's capital was able to absorb the reported loss as the shareholders' equity dropped to AED 2.5 billion (31 December 2016 AED 2.9 billion) and the Capital Adequacy Ratio (CAR) was reported at 15.9% (2016: 17.8%).
- b. The situation further worsened during 2018 whereby the Bank accounted for AED 1.7 billion as impairment provision and reported a net loss of AED 1.5 billion. Consequently, the Bank's equity dropped to AED 0.7 billion (2017: AED 2.5 billion) causing the CAR to fall to 6.2%,

significantly below the applicable regulatory threshold set by the CBUAE of 12.38%. Accumulated losses reached AED 1.6 billion representing 102.3% of the share capital.

- c. Consequently, the Bank put in place a recapitalization plan. This involved the Bank entering into an agreement on 13 December 2018 with the GoS whereby the Government acquired a 50.07% controlling interest in the Bank through a "Strategic Investment", which was approved by the shareholders at the General Meeting held on 10 April 2019 subsequent to the receipt of the regulatory approvals. As such, 1,592,857,143 shares of AED 1 each were issued to the Government at a discounted price of AED 0.7 per share for a total consideration of AED 1.1 billion.
- d. On the back of the strong shareholding base the Bank embarked on a transformational journey to streamline and strengthen its core operations. This began with an exercise to enhance the Bank's corporate governance structure, including an upgrade of the processes around credit underwriting and risk monitoring, as well as a comprehensive evaluation of legacy loans. Furthermore, the Bank undertook initiatives to simplify its operations, increasing efficiencies and reducing costs associated with activities across the Bank.
- e. However, the legacy of the past continued to impact the Bank's performance. The subdued economic environment coupled with years of weak governance and credit underwriting and monitoring practices weighed down the Bank's asset quality and led to increase in non-performing loans. As a result, the Bank accounted additional provision of AED 0.6 billion during 2019 resulting in a net loss of AED 0.6 billion for the year 2019.
- f. With the issue of share capital to GoS amounting to AED 1.1 billion, the share capital increased to AED 3.2 billion and accumulated losses amounted to AED 2.2B, representing 69.6% of its share capital. CAR stood at 12.3% against applicable regulatory threshold of 13%.

D. Transformation Journey

1) Year 2020

- a. Having set out on a transformational journey in 2019 to become more efficient and productive organization, the Bank continued to make progress in 2020 by further streamlining its operations and lowering costs. However, recovery efforts were hampered by the outbreak of COVID-19. The Bank had to book another AED 0.4 billion of provisions during 2020 which led to a net loss of AED 0.4 billion for the year.

- b. At the annual general meeting of the Bank, held on 30 June 2020, a special resolution was passed to transfer the legal and special reserve to partially offset the accumulated losses. Accordingly, an amount of AED 0.9 billion was offset against the accumulated losses reducing the balance of accumulated losses at 30 June 2020 to AED 1.5 billion, representing 45.6% of the share capital.
- c. However, the transfer of above-mentioned reserves balance to accumulated losses could not help much as the full year loss of AED 0.4 billion caused the accumulated losses to increase to AED 1.8 billion at 31 December 2020, which represented 55.08% of the share capital. The shareholders' equity decreased to AED 0.9 billion at 31 December 2020 and the CAR dropped to 10.24% against the applicable regulatory capital of 11.5%.
- d. During this period, the Bank was able to function on the back of significant liquidity support from the CBUAE and GoS which allowed it to maintain sufficient liquidity to function as a bank.
- e. Further during the year, the GoS, as the major shareholder owning 50.07% of the Bank, established a Banking Sector Taskforce (BST) to undertake a diagnostic review of the key concerns, and to identify longer term strategic solutions to resolve the current problems in coordination with the CBUAE.

2) Year 2021

- a. The transformation journey which commenced in 2019 faced headwinds due to the pandemic and the resulting aftermath. Nevertheless, the Bank continued to streamline its operations and lower its costs while at the same time continued to invest in improving corporate governance and risk management which paid off resulting in lower operating expenses and lower impairment provisions for the year.
- b. The Bank continued operating under close coordination with CBUAE and the GoS, the majority shareholder of the Bank, which were kept apprised of the developing situation as the Bank progresses towards conclusion of a recapitalization plan.
- c. Due to restricted business capacity on account of capital restraints and impairment charges the Bank reported a net loss for the year of AED 0.3 billion with net equity reaching AED 0.6 billion at 31 December 2021. The accumulated losses reached AED 2.0 billion at the end of 2021 representing 64.2% of the share capital. CAR reduced further to 9.3% against applicable regulatory threshold of 11.5%.

3) Year 2022 and 2023:

- a. The balance sheet derisking efforts as discussed above and restricted lending capacity due to eroded capital base led the Bank to post yet another net loss of AED 0.6 billion for the year 2022, reducing the net equity to a further low of AED 0.1 billion. Accumulated losses increased to AED 2.6 billion and represented 82.5% of the share capital. Further, CAR dropped to 2.77% against the regulatory threshold of 13%.
- b. The Bank continued its focus on finalization of recapitalization plan during the period and the shareholders of the Bank in a General Meeting held on 27 April 2023 approved the proposed Capital Restructuring Plan (the “Plan”). The relevant regulatory approvals for the Plan had already been obtained.
- c. Guarantee agreement with GoS: Subsequent to the approval of the Plan, as mentioned above, the Bank entered into a guarantee agreement “the Guarantee agreement” with the GoS the “Guarantor” who is also the ultimate controlling party of the Bank as disclosed in detail in note 2.1 in financial statements for the year ended 31 December 2023.
- d. This provided much needed relief to the Bank with respect to liquidity and capital constraints and the Bank was able to focus on future growth while addressing the legacy issues.
- e. Simultaneously, the Bank continued its efforts to derisking the balance sheet and establish a robust monitoring and governance structure. To support the Bank to achieve the envisioned growth, state of the art core banking system was finalised to replace the legacy core banking system which would allow the Bank to deliver customer centric products and services to its customers.
- f. With the successful completion of the rights issue of AED 2.6 billion, the issued capital of the Bank increased to AED 3.2 billion, distributed over 263 billion shares with a nominal value of AED 0.0121684 per share.
- g. At 31 December 2023 the CAR improved to 38.6% from 2.77% at 31 December 2022, mainly on account of rights issue as discussed above. The improved CAR provided the required room for balance sheet growth. The accumulated loss represented 47.2% of the share capital as at 31 December 2023.

4) Year 2024

- a. During 2024, the transformation journey gained traction. The Guarantee agreement with the GoS which became effective in late 2023 started to bear fruits as the Bank was able to claim AED 0.5 billion from GoS during 2024 which provided the Bank with additional liquidity to support its business activities.
- b. During the year the Bank was able to bring down impairment charge by 89%, reducing it from more than AED 1 billion in 2023 to AED 0.1 billion in 2024. The impairment charge for 2024 included the impact of the new Credit Management Standards (CRMS) introduced by the CBUAE. The lower impairment charge along with the improved operating income from lending business allowed the Bank to post a lower net loss of AED 0.2 billion compared to a net loss of AED 1.0 billion for 2023. Consequently, the accumulated losses of the Bank increased to AED 1.7 billion representing 53.14% of the share capital. CAR remained strong at 28.7% well above the regulatory threshold of 13% mainly due to the effect of the rights issue in 2023.
- c. The Bank continued to focus on its talent and technology to stay abreast with other leading financial institutions in the UAE. Towards this, the Bank implemented cloud-based core banking solution, to deliver digital experience and to meet the customer evolving needs quicker, better and in a cost-efficient manner. The focus was on preparing for the future i.e. creating new avenues for the growth of the Bank and simultaneously building new possibilities for the customers.

E. Recovery and go forward strategy

1) Turnaround

- a. During 2024 the management of the Bank underwent change, whereby Mr. Edris Al Rafi, then Vice Chairman of the Board of Directors of the Bank took over an executive role of Chief Executive Officer effective September 2024. Mr. Edris had been a member of the Board of the Bank since 2022.
- b. He led the Bank with clear focus on People, Processes, and Platform to turn around the Bank. In this process, a new team of seasoned bankers was formed which started to focus on improving and streamlining the processes and focused on business. By mid-2025 significant progress around strengthening and simplification of processes was achieved providing the much-required clarity to achieve the envisioned growth.

- c. On the back of clarity and focused approach, the Bank achieved a meaningful turnaround and recorded a net profit of AED 0.2 billion in 2025 after 8 years. This transition reflects the effectiveness of redefined strategic initiatives, operational improvements, and disciplined financial management, which collectively enhanced efficiency, strengthened revenue generation and costs optimization.
- d. Due to the above, the accumulated losses of the Bank reduced to AED 1.5 billion (2024: AED 1.7B), representing 48.57% (31 December 2024: AED 1.7 billion representing 53.14%) of the share capital and accordingly the Bank's shares have become eligible for share trading subject to regulatory approvals.
- e. Further, the Bank received AED 1.1 billion upto Q4-2025 under the Guarantee agreement. This supported the Bank both in terms of liquidity and profitability. The Bank has further potential to receive up to AED 1.9 billion over the remaining period of the guarantee.
- f. The Bank continues to maintain strong liquidity as its Eligible Liquid Asset Ratio (ELAR) stands at 20.7%, well above the regulatory requirement of 10.0% and Advances to Stable Resources Ratio (ASRR) stands at 75.4%. CAR is also at a healthy level of 20.2% which translates into a solid base to build and grow further.
- g. Further, the Bank received formal approval from the CBUAE to launch its Islamic Banking window, a defining milestone that positions the Bank to serve customers through Sharia-compliant financial solutions, which further enhanced the product offering of the Bank attracting new segments of customers

2) Strategy

- a. In Q4 2025 the Group embarked on a three-year strategic journey "MYDAF" establishing a clear roadmap for accelerated growth across our core businesses to create significant value for shareholders, while maintaining high-quality and sustainable earnings as well as driving improved efficiency through digitization. The Board remains confident in the Group's strategy and is committed to delivering sustainable growth and deliver long-term value for our shareholders.
- b. The Bank emphasizes strategic commitment to harnessing technology as a core driver of growth, innovation, and value creation. In a climate characterized by rapid digital transformation and evolving industry dynamics, the Bank has prioritized the integration of advanced technologies across all levels of operations. This approach enables the Bank to enhance efficiency, strengthen cybersecurity, optimize data-driven decision-making, and



innovate products and services offering in ways that meaningfully impact customers, employees, and stakeholders.

- c. The Bank invested prudently in digital transformation to propel customer growth and efficient service delivery, while enhancing its offering across all lines of business. During this year, the Bank has launched the mobile banking application (DigiBank App); enrolled Aani, UAE's instant payment platform launched and regulated by the CBUAE.

