

**PRO FORMA PRELIMINARY CONDENSED
CONSOLIDATED FINANCIAL INFORMATION**

The following pro forma preliminary condensed consolidated financial information and related notes ("Pro forma financial information") illustrates the effects on the statement of financial position and financial performance of the combination (Merger) between National Bank of Abu Dhabi and its subsidiaries (together referred to as "NBAD") and First Gulf Bank and its subsidiaries (together referred to as "FGB"). The closing of the Merger has occurred on 1 April 2017.

The Pro forma financial information consists of the Unaudited Pro Forma Condensed Consolidated Statement of Financial Position of NBAD and FGB (together referred to as "the Group") as at 31 December 2015, as if the Merger has taken place as at 31 December 2015, and its Unaudited Pro forma Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income for the financial year ended 31 December 2015 and Notes to the Unaudited Pro Forma Financial Information.

The purpose of the Pro forma financial information is to show the material effects that the Merger of NBAD and FGB would have had on the historical consolidated statement of financial position if the Group had already existed in the structure created by the Merger as at 31 December 2015 and on the historical consolidated statement of profit or loss and other comprehensive income for the financial year ended 31 December 2015. They are not representative of the financial situation and performance that could have been observed if the indicated business combination had been undertaken at an earlier date.

The presentation of the Pro forma financial information of the Group is based on certain pro forma assumptions and has been prepared for illustrative purposes only and, because of its nature, the pro forma consolidated statement of financial position and financial performance addresses a hypothetical situation and, therefore, does not represent and may not give a true picture of the financial position and financial performance of the Group. Furthermore, the Pro forma financial information is only meaningful in conjunction with the historical consolidated financial statements of NBAD and FGB as at and for the financial year ended 31 December 2015.

The Pro forma financial information has been prepared on figures extracted from the audited consolidated financial statements of NBAD, and the audited consolidated financial statements of FGB as at 31 December 2015, both prepared on the basis of International Financial Reporting Standards.

The Pro forma financial information have been compiled based on the accounting policies of FGB being the accounting acquirer. Those accounting policies are disclosed in the consolidated financial statements as at 31 December 2015 of FGB. The principles/criteria used in the compilation of these pro forma financial information and assumptions used are explained in this document (Notes).

The Pro forma financial information does not take into consideration the effects of expected synergies or costs incurred to achieve these synergies as a result of the Merger. The Pro forma financial information gives no indication of the results and future financial situation of the activities of the Group.

**PRO FORMA PRELIMINARY CONDENSED
CONSOLIDATED FINANCIAL INFORMATION (continued)**

Under IFRS 3 *Business Combinations*, the Group accounts for the Merger as an acquisition by FGB of NBAD (“reverse acquisition”) and is required to fair value the assets, liabilities and contingent liabilities acquired at the date of acquisition and to reflect the difference between their fair value and the purchase consideration as goodwill or gain on acquisition. The fair value exercise (“purchase price allocation”) has not been completed as at the date of this document and may result in different values being attributed to the assets, liabilities and contingent liabilities acquired than those that are shown in the Pro forma financial information.

**PRO FORMA CONDENSED CONSOLIDATED
STATEMENT OF FINANCIAL POSITION**

AS AT 31 DECEMBER 2015

	NBAD	FGB	Pro forma adjustments	Notes	Pro forma Consolidated
	AED 000	AED 000	AED 000		AED 000
ASSETS					
Cash and balances with central banks	76,382,109	21,075,886	-		97,457,995
Investments at fair value through profit or loss	12,291,138	572,965	(388,543)	i	12,475,560
Due from banks and financial institutions	10,891,768	13,463,952	(2,939,095)	i	21,416,625
Reverse repurchase agreements	13,330,186	2,327,549	(184,760)	i	15,472,975
Derivative financial instruments	10,574,091	1,920,189	(151,221)	i	12,343,059
Loans and advances	205,913,553	149,071,406	(1,082)	i	354,983,877
Non-trading investments	63,794,151	22,119,178	-		85,913,329
Other assets	10,550,483	7,022,809	(84,461)	i	17,488,831
Investment properties	190,546	8,242,190	-		8,432,736
Property and equipment	2,645,782	1,485,732	218,990	ii	4,350,504
Goodwill and intangible assets	-	194,517	16,058,025	iv	16,252,542
Total assets	406,563,807	227,496,373	12,527,853		646,588,033
LIABILITIES					
Due to banks and financial institutions	39,502,515	9,809,459	(2,939,095)	i	46,372,879
Repurchase agreements	30,550,652	8,313,565	(184,760)	i	38,679,457
Euro commercial paper	8,720,597	2,834,808	-		11,555,405
Derivative financial instruments	12,852,358	2,368,583	(151,221)	i	15,069,720
Customer accounts and other deposits	233,814,558	142,430,910	-		376,245,468
Term borrowings	21,046,668	15,649,245	(388,543)	i	36,307,370
Other liabilities	15,582,508	5,561,782	(85,543)	i	21,058,747
Sukuk financing instruments	-	4,223,950	-		4,223,950
Subordinated notes	1,275,298	-	-		1,275,298
Total liabilities	363,345,154	191,192,302	(3,749,162)		550,788,294
EQUITY					
Share capital	5,209,723	4,500,000	1,143,000	iii, v	10,852,723
Additional paid-in capital	265,245	-	51,655,924	iii, v	51,921,169
Treasury shares	(11,083)	-	-	iii, v	(11,083)
Legal reserve	5,209,722	11,030,110	(11,030,110)	iii, v	5,209,722
Tier 1 capital notes	6,754,750	4,000,000	-	iv, v	10,754,750
Share option scheme	190,232	-	-	iv, v	190,232
Convertible notes-equity component	108,265	-	-	iv, v	108,265
Revaluation reserve	-	280,601	-		280,601
Other reserves	18,628,226	460,875	(18,628,226)	v	460,875
Retained earnings	6,863,573	15,632,046	(6,863,573)	v	15,632,046
Equity attributable to equity holders of the Bank	43,218,653	35,903,632	16,277,015		95,399,300
Non-controlling interests	-	400,439	-		400,439
Total equity	43,218,653	36,304,071	16,277,015		95,799,739
Total liabilities and equity	406,563,807	227,496,373	12,527,853		646,588,033

See notes to the Pro forma financial information.

**PRO FORMA CONDENSED CONSOLIDATED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED**

31 DECEMBER 2015

	NBAD	FGB	Pro forma adjustments	Notes	Pro forma Consolidated
	AED 000	AED 000	AED 000		AED 000
Interest income	8,965,129	7,863,127	(137,571)	i	16,690,685
Interest expense	(2,021,044)	(1,564,046)	137,571	i	(3,447,519)
Net interest income	6,944,085	6,299,081	-		13,243,166
Income from Islamic financing contracts	385,625	426,652	-		812,277
Islamic financing expense	(22,632)	(296,282)	-		(318,914)
Net income from Islamic financing contracts	362,993	130,370	-		493,363
Net interest and Islamic financing income	7,307,078	6,429,451	-		13,736,529
Net fees and commission income	2,106,242	1,700,445	-		3,806,687
Net foreign exchange gain	817,587	200,325	-		1,017,912
Net gain on investments and derivatives	254,189	205,509	-		459,698
Other operating income	70,754	897,935	-		968,689
Operating income	10,555,850	9,433,665	-		19,989,515
General, administration and other operating expense	(4,082,919)	(1,947,403)	-		(6,030,322)
Profit before net impairment charge and taxation	6,472,931	7,486,262	-		13,959,193
Net impairment charge	(942,971)	(1,453,752)	-		(2,396,723)
Profit before taxation	5,529,960	6,032,510	-		11,562,470
Overseas income tax expense	(298,143)	(13,286)	-		(311,429)
Net profit	5,231,817	6,019,224	-		11,251,041
Other comprehensive income/(loss)	(682,638)	(279,298)	-		(961,936)
Total comprehensive income	4,549,179	5,739,926	-		10,289,105

See notes to the Pro forma financial information.

NOTES TO THE PRO FORMA FINANCIAL INFORMATION

BASIS OF PRO FORMA FINANCIAL INFORMATION PRESENTATION

The Group has adopted the acquisition method of accounting under IFRS 3 *Business Combinations*. IFRS 3 requires that an acquirer be identified in any business combination and acquisition accounting principles be applied. For the purposes of this Pro forma financial information, FGB has been identified as the acquirer. The Merger however is to be effected by a capital issuance of 5,643 million shares of AED 1 by NBAD to the shareholders of FGB, in a share swap transaction at the exchange rate of 1.254 shares of NBAD for each share of FGB. Accordingly, the transaction is accounted for as a reverse acquisition.

The consolidated statement of financial position of NBAD at 31 December 2015 has been extracted from the audited consolidated financial statements of NBAD. The consolidated statement of financial position of FGB at 31 December 2015 has been extracted from the audited consolidated financial statements of FGB.

The consolidated statement of profit or loss and other comprehensive income of NBAD for the financial year ended 31 December 2015 has been extracted from the audited consolidated financial statements of NBAD. The consolidated statement of profit or loss and other comprehensive income of FGB for the financial year ended 31 December 2015 has been extracted from the audited consolidated financial statements of FGB.

The Pro forma financial information has been prepared and are presented on the basis of accounting policies of FGB as disclosed in its consolidated financial statements for the year ended 31 December 2015. The accounting policies used by FGB as described in its financial statements for the year ended 31 December 2015 do not materially differ from those used by NBAD except for the following:

- a. Lands classified under property and equipment are measured by FGB under the revaluation model compared to the cost model adopted by NBAD and thus carried at fair value in the statement of financial position. Based on the fair value of land properties provided by NBAD, an increase of AED219 million has been recognised.
- b. Investment properties are measured at fair value by FGB compared to cost model as adopted by NBAD. However, as disclosed in NBAD's audited financial statements as at 31 December 2015, the fair value of investment properties approximates its carrying amounts and thus no adjustment has been recognised.

The following presentation adjustments have been made to ensure consistency of presentation with the consolidated statement of financial position between NBAD and FGB, in particular:

- a. FGB's investments have been separately presented as investments at fair value through profit or loss and non-trading investments;
- b. FGB's investments in associates have been presented under other assets;
- c. FGB's derivative financial assets and liabilities have been separately presented out of other assets and other liabilities, respectively;
- d. FGB's repurchase agreements have been separately presented out of due to banks and financial institutions, customer accounts and other deposits, and term borrowings;
- e. FGB's reverse repurchase agreements have been separately presented out of loans and advances, and due from banks;
- f. FGB's goodwill and intangible assets have been separately presented out of other assets; and
- g. FGB's foreign currency translation reserve and cumulative change in fair value reserve have been presented as part of other reserves.

NOTES TO THE PRO FORMA FINANCIAL INFORMATION (continued)

BASIS OF PRO FORMA FINANCIAL INFORMATION PRESENTATION (continued)

The following presentation adjustments have been made to ensure consistency of presentation with the consolidated statement of profit or loss and other comprehensive income between NBAD and FGB, in particular:

- a. FGB's income from Islamic financing contracts have been separately presented and reclassified from 'Interest income and income from Islamic financing' in its financial statements; and
- b. FGB's expense from Islamic financing have been separately presented and reclassified from 'Interest expense and Islamic financing expense' in its financial statements; and
- c. FGB's net foreign exchange gain and net gain on investments and derivatives have been separately presented out of other operating income.

PRO FORMA ADJUSTMENTS

The pro forma adjustments made for purposes of the Pro forma financial information are based on information available and on preliminary estimates, as well as certain pro forma assumptions of the Group as described in these pro forma notes. The Pro forma financial information neither contains any potential synergies or cost savings nor any normalisation adjustments or any additional future expenses that could result from the Merger. Furthermore, the Pro forma financial information does not contain any potential or future effects resulting from any possible remedies imposed on the Group by authorities or regulators in connection with the Merger. The Pro forma financial information has not been adjusted for acquisition-related costs.

For purposes of the Pro forma financial information, it is assumed that the closing of the Merger occurred as at 31 December 2015. The pro forma financial information has not been adjusted for acquisition-related costs.

The pro forma adjustments included in the Pro forma financial information are as follows:

- i. To record elimination of intercompany balances between FGB and NBAD. Intercompany balances for accounts under statements of financial position (assets and liabilities) and statements of profit or loss and other comprehensive income (income and expenses) between FGB and NBAD have been reconciled against each other.
- ii. To record the adjustments relating to the revaluation of NBAD land within property and equipment as follows:

	<u>AED'000</u>
Carrying value	1,100,695
Fair value	1,319,685
Difference	218,990

The following is the journal entry to record the above adjustment:

	<u>AED'000</u>	<u>AED'000</u>
Land (Dr.)	218,990	
Retained earnings (Dr.)	185,308	
Revaluation reserve (Cr.)		404,298

NOTES TO THE PRO FORMA FINANCIAL INFORMATION (continued)

PRO FORMA ADJUSTMENTS (continued)

- iii. To record the issuance of shares of NBAD to FGB shareholders. For the Pro forma financial information purposes, the consideration for the acquisition has been calculated on the basis of a share swap transaction at the rate of 1.254 shares in NBAD for each share in FGB which would result to 52.05% ownership interest of FGB shareholders in the Group and a 47.95% ownership interest of NBAD shareholders, as shown below:

	<u>Units 000</u>	<u>%</u>
Outstanding shares of FGB	4,500,000	
Exchange ratio	1.254	
Number of shares to be issued by NBAD to FGB	5,643,000	
Par value of shares issued by NBAD to FGB	5,643,000	52.05%
Outstanding share capital of NBAD (net of treasury shares)	5,198,640	47.95%
Total shares of NBAD post combination (net of treasury shares)	10,841,640	100.00%

Accordingly, NBAD's share capital post-Merger amount to AED10,842 million which is presented as follows:

	<u>AED'000</u>
Share capital	10,852,723
Treasury shares	(11,083)
Total share capital	10,841,640

Applying the rules of IFRS 3 for reverse acquisitions, the consideration for FGB's acquisition of NBAD is the fair value of the equivalent number of shares that FGB would have to issue to NBAD shareholders that would give FGB shareholders and NBAD shareholders the same percentage of equity ownership of 52.05% and 47.95%, respectively, in the Group. The purchase consideration has been calculated on the basis of FGB's closing price of AED12.65 per share on Abu Dhabi Securities Exchange on 31 December 2015. The purchase consideration is an indicative cost, and will be revised to reflect the market price of the shares of FGB as on the date of acquisition.

The consideration is computed as follows:

Outstanding shares of FGB (units'000)	4,500,000
Divided by: FGB's percentage ownership in the Group	52.05%
Total number of shares of the Group (units'000)	8,645,646
Multiplied by: NBAD's percentage ownership in the Group	47.95%
Number of shares to be issued by FGB to NBAD (units'000)	4,145,646
Multiplied by: Share price of FGB	12.65
Total consideration (AED'000)	52,442,421

A share premium of AED46,799 million arises on NBAD issuance of the new shares for this transaction computed as follows:

	<u>AED'000</u>
Total consideration	52,442,421
Less: Par value of shares issued by NBAD to FGB	5,643,000
Share premium	46,799,421

NOTES TO THE PRO FORMA FINANCIAL INFORMATION (continued)

PRO FORMA ADJUSTMENTS (continued)

- iv. To record AED16,058 million excess of total consideration over the net assets of NBAD as at 31 December 2015 after adjustments for other equity items. This amount has not been bifurcated between goodwill and intangible assets pending the results of the purchase price allocation exercise. Moreover, the Pro forma financial information does not include any adjustments to the fair value of the assets, liabilities and contingent liabilities of NBAD as required by IFRS 3. A full fair value exercise will be undertaken as on the date of acquisition.

	AED'000
Total consideration	52,442,421
Less: Adjusted net assets of NBAD as at 31 December 2015	(36,384,396)
Goodwill / intangible	16,058,025

The adjusted net assets of NBAD has been computed by deducting other equity items which represents NBAD's continuing interest in the Group and thus were excluded from computation of goodwill.

	AED'000
Net assets of NBAD as at 31 December 2015	43,437,643
Less: Other equity items	
Tier 1 capital notes	(6,754,750)
Share option scheme	(190,232)
Convertible notes-equity component	(108,265)
Adjusted net assets of NBAD as at 31 December 2015	36,384,396

- v. The consolidated retained earnings and other equity balances at the date of the pro forma combination represents FGB's pre-combination balances with the exception of the following:
- The legal reserve represents NBAD total legal reserve being the legal surviving entity;
 - Tier 1 capital represents both NBAD and FGB's balances as NBAD tier 1 capital has been excluded from the acquired net assets (see note iv); and
 - NBAD share option reserve and equity component of convertible notes has been retained as these represent non-controlling continuing interest in the Group.

Accordingly, the total paid-in capital of NBAD post combination is presented below:

	AED'000
FGB's capital pre combination	4,500,000
Total consideration	52,442,421
Capital post combination	56,942,421
Adjustment to retain NBAD's legal reserve	5,820,388
Total paid-in capital	62,762,809

The following shows the breakdown of total paid-in capital:

	AED'000
Share capital	10,852,723
Additional paid-in capital	51,921,169
Treasury Shares	(11,083)
Total paid-in capital	62,762,809

