

## **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 combination is subject to the occurrence or waiving of certain conditions precedent and is expected to occur in the first quarter of 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 30 June 2016, as if the merger has taken place as at 30 June 2016, and its Unaudited Pro forma Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income for the six-month period ended 30 June 2016, 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 combination as at 30 June 2016 and on the historical consolidated statement of profit or loss and other comprehensive income for the six-month period ended 30 June 2016. 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 NBAD’s actual financial position and actual financial performance 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 and the historical interim condensed consolidated financial statements of the two entities as at and for the six-month period ended 30 June 2016.

The Pro forma financial information has been prepared on figures extracted from the unaudited interim condensed consolidated financial statements of NBAD, and the unaudited interim condensed consolidated financial statements of FGB as at 30 June 2016, 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 of 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 acquisition / combination. 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”) is not 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 30 JUNE 2016**

	NBAD	FGB	Pro forma adjustments	Notes	Pro forma Consolidated
	AED 000	AED 000	AED 000		AED 000
<b>ASSETS</b>					
Cash and balances with central banks	73,004,515	19,474,888	-		92,479,403
Investments at fair value through profit or loss	14,876,442	622,858	(417,800)	i	15,081,500
Due from banks and financial institutions	14,834,458	7,757,534	(110,638)	i	22,481,354
Reverse repurchase agreements	13,367,962	3,689,823	(1,255,263)	i	15,802,522
Derivative financial instruments	15,086,986	2,081,659	(225,274)	i	16,943,371
Loans and advances	202,912,617	153,412,138	-		356,324,755
Non-trading investments	71,110,563	23,269,049	-		94,379,612
Other assets	11,244,353	6,882,120	(27,673)	i	18,098,800
Investment properties	185,623	8,344,606	-		8,530,229
Property and equipment	2,759,446	1,523,027	219,640	ii	4,502,113
Goodwill and intangible assets	-	183,757	16,087,898	iv	16,271,655
<b>Total assets</b>	<b>419,382,965</b>	<b>227,241,459</b>	<b>14,270,889</b>		<b>660,895,313</b>
<b>LIABILITIES</b>					
Due to banks and financial institutions	38,855,865	12,212,488	(110,638)	i	50,957,714
Repurchase agreements	30,456,924	10,095,110	(1,255,263)	i	39,296,771
Euro commercial paper	5,766,784	2,323,338	-		8,090,122
Derivative financial instruments	18,625,377	2,675,697	(225,274)	i	21,075,800
Customer accounts and other deposits	243,335,109	139,633,458	-		382,968,567
Term borrowings	24,448,319	17,167,941	(417,800)	i	41,198,460
Other liabilities	14,454,621	4,282,929	(27,673)	i	18,709,877
Sukuk financing instruments	-	4,223,950	-		4,223,950
Subordinated notes	416,281	-	-		416,281
<b>Total liabilities</b>	<b>376,359,280</b>	<b>192,614,911</b>	<b>(2,036,649)</b>		<b>566,937,542</b>
<b>EQUITY</b>					
Share capital	5,254,546	4,500,000	1,143,000	iii, v	10,897,546
Additional paid-in capital	278,839	-	51,455,704	iii, v	51,734,543
Treasury shares	(53,623)	-	-	iii, v	(53,623)
Legal reserve	5,209,722	11,030,110	(11,030,110)	iii, iv	5,209,722
Tier 1 capital notes	6,754,750	4,000,000	-	iv, v	10,754,750
Share option scheme	210,130	-	-	iv, v	210,130
Convertible notes-equity component	108,265	-	-	iv, v	108,265
Revaluation reserve	-	280,601	-		280,601
Other reserves	20,247,889	689,543	(20,247,889)	v	689,543
Retained earnings	5,013,167	13,703,599	(5,013,167)	v	13,703,599
<b>Equity attributable to equity holders of the Bank</b>	<b>43,023,685</b>	<b>34,203,853</b>	<b>16,307,538</b>		<b>93,535,076</b>
Non-controlling interests	-	422,695	-		422,695
<b>Total equity</b>	<b>43,023,685</b>	<b>34,626,548</b>	<b>16,307,538</b>		<b>93,957,771</b>
<b>Total liabilities and equity</b>	<b>419,382,965</b>	<b>227,241,459</b>	<b>14,270,889</b>		<b>660,895,313</b>

*See notes to the Pro forma financial information.*

**PRO FORMA CONDENSED CONSOLIDATED  
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE SIX-MONTH PERIOD ENDED**

**30 JUNE 2016**

	NBAD	FGB	Pro forma adjustments	Notes	Pro forma Consolidated
	AED 000	AED 000	AED 000		AED 000
Interest income	4,766,133	3,996,042	(32,071)	i	8,730,104
Interest expense	(1,350,754)	(950,668)	32,071	i	(2,269,350)
<b>Net interest income</b>	<b>3,415,379</b>	<b>3,045,374</b>	-		<b>6,460,753</b>
Income from Islamic financing contracts	264,517	232,808	-		497,325
Islamic financing expense	(12,177)	(127,418)	-		(139,595)
<b>Net income from Islamic financing contracts</b>	<b>252,340</b>	<b>105,390</b>	-		<b>357,730</b>
<b>Net interest and Islamic financing income</b>	<b>3,667,719</b>	<b>3,150,764</b>	-		<b>6,818,483</b>
Net fees and commission income	1,180,986	827,385	-		2,008,371
Net foreign exchange gain	648,278	92,592	-		740,870
Net gain on investments and derivatives	(101,748)	130,826	-		29,078
Other operating income	14,211	165,884	-		180,095
<b>Operating income</b>	<b>5,409,446</b>	<b>4,367,451</b>	-		<b>9,776,897</b>
General, administration and other operating expense	(2,016,768)	(923,639)	-		(2,940,407)
<b>Profit before net impairment charge and taxation</b>	<b>3,392,678</b>	<b>3,443,812</b>	-		<b>6,836,490</b>
Net impairment charge	(592,796)	(774,086)	-		(1,366,882)
<b>Profit before taxation</b>	<b>2,799,882</b>	<b>2,669,726</b>	-		<b>5,469,608</b>
Overseas income tax expense	(153,034)	(12,350)	-		(165,384)
<b>Net profit</b>	<b>2,646,848</b>	<b>2,657,376</b>	-		<b>5,304,224</b>
Other comprehensive (loss) / income	(379,300)	231,167	-		(148,133)
<b>Total comprehensive income</b>	<b>2,267,548</b>	<b>2,888,543</b>	-		<b>5,156,091</b>

*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 30 June 2016 has been extracted from the unaudited interim condensed consolidated financial statements of NBAD. The consolidated statement of financial position of FGB at 30 June 2016 has been extracted from the unaudited interim condensed consolidated financial statements of FGB.

The consolidated statement of profit or loss and other comprehensive income of NBAD for the six-month period ended 30 June 2016 has been extracted from the unaudited interim condensed consolidated financial statements of NBAD. The consolidated statement of profit or loss and other comprehensive income of FGB for the six-month period ended 30 June 2016 has been extracted from the unaudited interim condensed 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 AED220 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. As at 30 June 2016, the fair values of the investment properties have not changed significantly and therefore still approximate their carrying amounts.

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;
- c. FGB's net foreign exchange gain and net gain on investments and derivatives have been separately presented out of other operating income;

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.

### PRO FORMA ADJUSTMENTS

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

- i. To record elimination of intercompany balances and transactions 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 fair valuation of NBAD land within property and equipment as follows:

	<u>AED'000</u>
Carrying value	1,100,695
Fair value	1,320,335
<b>Difference</b>	<b><u>219,640</u></b>

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

	<u>AED'000</u>	<u>AED'000</u>
Land (Dr.)	219,640	
Retained earnings (Dr.)	185,022	
Revaluation reserve (Cr.)		404,662

**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 52.04% ownership interest of FGB shareholders in the Group and a 47.96% ownership interest of NBAD shareholders, as shown below:

	<b>Units 000</b>	<b>%</b>
Outstanding shares of FGB	<b>4,500,000</b>	
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	52.04%
Outstanding share capital of NBAD (net of treasury shares)	<b>5,200,923</b>	47.96%
<b>Total shares of NBAD post combination (net of treasury shares)</b>	<b>10,843,923</b>	<b>100.00%</b>

Accordingly, NBAD's share capital post combination amount to AED10,844 million which is presented as follows:

	<b>AED'000</b>
Share capital	10,897,546
Treasury shares	(53,623)
<b>Total share capital</b>	<b>10,843,923</b>

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 52.04% and 47.96%, respectively, in the Group. The acquisition cost has been calculated on the basis of FGB's closing price of AED12.60 per share on Abu Dhabi Securities Exchange on 30 June 2016. The acquisition cost 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	52.04%
<b>Total number of shares of the Group (units'000)</b>	<b>8,647,467</b>
Multiplied by: NBAD's percentage ownership in the Group	47.96%
<b>Number of shares to be issued by FGB to NBAD (units'000)</b>	<b>4,147,467</b>
Multiplied by: Share price of FGB	12.60
<b>Total consideration (AED'000)</b>	<b>52,258,078</b>

A share premium of AED46,615 million arises on NBAD issuance of the new shares for this transaction, computed as follows:

	<b>AED'000</b>
Total consideration	52,258,078
Par value of shares issued by NBAD to FGB	5,643,000
<b>Additional paid-in capital</b>	<b>46,615,078</b>

**NOTES TO THE PRO FORMA FINANCIAL INFORMATION (continued)**

**PRO FORMA ADJUSTMENTS (continued)**

- iv. To record AED16,088 million excess of total consideration over the net assets of NBAD as at 30 June 2016 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.

	<b>AED'000</b>
Total consideration	52,258,078
Less: Adjusted net assets of NBAD as at 30 June 2016	(36,170,180)
<b>Goodwill / intangible</b>	<b>16,087,898</b>

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.

	<b>AED'000</b>
Net assets of NBAD as at 30 June 2016	43,243,325
Less: Other equity items	
Tier 1 capital notes	(6,754,750)
Share option scheme	(210,130)
Convertible notes-equity component	(108,265)
<b>Adjusted net assets of NBAD as at 30 June 2016</b>	<b>36,170,180</b>

- 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:

	<b>AED'000</b>
FGB's capital pre combination	4,500,000
Total consideration	52,258,078
<b>Capital post combination</b>	<b>56,758,078</b>
Adjustment to retain NBAD's legal reserve	5,820,388
<b>Total paid-in capital</b>	<b>62,578,466</b>

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

	<b>AED'000</b>
Share capital	10,897,546
Additional paid-in capital	51,734,543
Treasury Shares	(53,623)
<b>Total paid-in capital</b>	<b>62,578,466</b>