BBK B.S.C.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 MARCH 2017 (Reviewed)

Building a better working world

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF BBK B.S.C.

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of BBK B.S.C. ("the Bank") and its subsidiaries (collectively, "the Group") comprising of the interim consolidated statement of financial position as at 31 March 2017 and the related interim consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the three-month period then ended and explanatory notes. The Board of Directors of the Bank is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 [IAS 34] *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young

24 April 2017
Manama, Kingdom of Bahrain

BBK B.S.C.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2017 (Reviewed)

	Note	*Reviewed 31 March 2017 BD '000*	*Audited 31 December 2016 BD '000*
ASSETS			
Cash and balances with central banks		**314,175**	314,368
Treasury bills		**353,836**	401,635
Deposits and amounts due from banks and other financial institutions		**202,402**	318,407
Loans and advances to customers	6	**1,770,013**	1,767,138
Investment securities		**791,191**	768,134
Investments in associated companies and joint ventures		**45,464**	43,923
Interest receivable and other assets		**61,235**	64,769
Premises and equipment		**23,965**	24,183
TOTAL ASSETS		**3,562,281**	3,702,557
LIABILITIES AND EQUITY			
Liabilities			
Deposits and amounts due to banks and other financial institutions		**341,986**	259,911
Borrowings under repurchase agreement		**184,082**	184,016
Term borrowings		**206,448**	206,109
Customers' current, savings and other deposits		**2,254,857**	2,493,715
Interest payable and other liabilities		**104,956**	84,591
Total liabilities		**3,092,329**	3,228,342
Equity			
Share capital		**108,165**	108,165
Treasury stock		**(1,232)**	(1,206)
Perpetual tier 1 convertible capital securities	9	**86,098**	86,098
Share premium		**39,919**	39,919
Statutory reserve		**54,082**	54,082
General reserve		**54,082**	54,082
Cumulative changes in fair values		**(1,524)**	(13,669)
Foreign currency translation adjustments		**(10,331)**	(11,558)
Retained earnings		**138,766**	122,830
Appropriations	10	**-**	33,666
EQUITY ATTRIBUTABLE TO THE OWNERS OF THE BANK AND CAPITAL SECURITIES' HOLDERS		**468,025**	472,409
Non-controlling interest		**1,927**	1,806
Total equity		**469,952**	474,215
TOTAL LIABILITIES AND EQUITY		**3,562,281**	3,702,557

Murad Ali Murad
Chairman

Aref Saleh Khamis
Deputy Chairman

Riyadh Yousif Sater
Chief Executive

The attached notes 1 to 14 form part of these interim condensed consolidated financial statements

BBK B.S.C.

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Three-month period ended 31 March 2017 (Reviewed)

	Note	Three-month ended 31 March 2017 BD '000	Three-month ended 31 March (Restated) 2016 BD '000
Interest and similar income		**33,143**	30,951
Interest and similar expense		**(10,530)**	(10,540)
Net interest income		**22,613**	20,411
Share of profit of associated companies and joint ventures		**1,236**	1,196
Other income	7, 8	**11,733**	10,022
Total operating income		**35,582**	31,629
Staff costs		**8,468**	8,593
Other expenses		**3,851**	3,654
Depreciation		**843**	746
Net provision for credit impairment		**6,329**	4,515
Net write-back for impairment on investments		**(74)**	(754)
Total operating expenses		**19,417**	16,754
PROFIT BEFORE TAXATION		**16,165**	14,875
Net tax provision		**(282)**	(237)
PROFIT FOR THE PERIOD		**15,883**	14,638
Attributable to:			
Owners of the Bank		**15,762**	14,587
Non-controlling interest		**121**	51
		15,883	14,638
Basic earnings per share (BD)	11	**0.015**	0.014
Diluted earnings per share (BD)	11	**0.012**	0.011

Murad Ali Murad
Chairman

Aref Saleh Khamis
Deputy Chairman

Reyadh Yousif Sater
Chief Executive

The attached notes 1 to 14 form part of these interim condensed consolidated financial statements

BBK B.S.C.

INTERIM CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

Three-month period ended 31 March 2017 (Reviewed)

	Three-month ended 31 March	
		(Restated)
	2017	*2016*
	BD '000	*BD '000*
Profit for the period	**15,883**	14,638
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Fair value through other comprehensive income reserve (equity instruments)	**(1,473)**	(2,934)
Items that are or may be reclassified subsequently to profit or loss		
Movement in translation reserve:		
Foreign currency translation adjustments	**1,227**	431
Movement in hedging reserve:		
Effective portion of changes in fair value	**541**	(261)
Movement in fair value reserve (debt instruments - IFRS 9):		
Net change in fair value	**14,015**	(12,413)
Net amount transferred to profit or loss	**(938)**	(303)
Other comprehensive income (loss) for the period	**13,372**	(15,480)
Total comprehensive income (loss) for the period	**29,255**	(842)
Attributable to:		
Owners of the Bank	**29,134**	(893)
Non-controlling interest	**121**	51
	29,255	(842)

The attached notes 1 to 14 form part of these consolidated financial statements

BBK B.S.C.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Three-month period ended 31 March 2017 (Reviewed)

		Attributable to the owners of the Bank and capital securities' holders												
	Note	*Share capital BD '000*	*Treasury stock BD '000*	*Perpetual tier 1 convertible capital securities BD '000*	*Share premium BD '000*	*Statutory reserve BD '000*	*General reserve BD '000*	*Cumulative changes in fair values BD '000*	*Foreign currency translation adjustments BD '000*	*Retained earnings BD '000*	*Appropriations BD '000*	*Total BD '000*	*Non-controlling interest BD '000*	*Total equity BD '000*
Balance at 1 January 2017		108,165	(1,206)	86,098	39,919	54,082	54,082	(13,669)	(11,558)	122,830	33,666	472,409	1,806	474,215
Profit for the period		-	-	-	-	-	-	-	-	15,762	-	15,762	121	15,883
Other comprehensive income for the period		-	-	-	-	-	-	12,145	1,227	-	-	13,372	-	13,372
Total comprehensive income		-	-	-	-	-	-	12,145	1,227	15,762	-	29,134	121	29,255
Share - based payments		-	-	-	-	-	-	-	-	174	-	174	-	174
Dividends paid	10	-	-	-	-	-	-	-	-	-	(32,266)	(32,266)		(32,266)
Donations	10	-	-	-	-	-	-	-	-	-	(1,400)	(1,400)	-	(1,400)
Movement in treasury stock		-	(26)	-	-	-	-	-	-	-	-	(26)	-	(26)
Balance at 31 March 2017		**108,165**	**(1,232)**	**86,098**	**39,919**	**54,082**	**54,082**	**(1,524)**	**(10,331)**	**138,766**	**-**	**468,025**	**1,927**	**469,952**
Balance at 1 January 2016 (Restated)		108,165	(4,728)	-	39,919	54,082	51,507	(29,184)	(10,635)	107,560	30,586	347,272	1,562	348,834
Profit for the period (Restated)		-	-	-	-	-	-	-	-	14,587	-	14,587	51	14,638
Other comprehensive loss for the period (Restated)		-	-	-	-	-	-	(15,911)	431	-	-	(15,480)	-	(15,480)
Total comprehensive loss (Restated)		-	-	-	-	-	-	(15,911)	431	14,587	-	(893)	51	(842)
Share-based payments		-	-	-	-	-	-	-	-	32	-	32	-	32
Dividends paid	10	-	-	-	-	-	-	-	-	-	(26,611)	(26,611)	-	(26,611)
Donations	10	-	-	-	-	-	-	-	-	-	(1,400)	(1,400)	-	(1,400)
Transfer to general reserve 2015	10	-	-	-	-	-	2,575	-	-	-	(2,575)	-	-	-
Balance at 31 March 2016 (Restated)		108,165	(4,728)	-	39,919	54,082	54,082	(45,095)	(10,204)	122,179	-	318,400	1,613	320,013

The attached notes 1 to 14 form part of these interim condensed consolidated financial statements

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

Three-month period ended 31 March 2017 (Reviewed)

	Note	Three-month ended 31 March 2017 BD '000	(Restated) 2016 BD '000
OPERATING ACTIVITIES			
Profit for the period before taxation		**16,165**	14,875
Adjustments for non-cash items:			
Net provision / (write back) relating to:			
Credit impairment		**6,329**	4,515
Investments		**(74)**	(754)
Share of profit of associated companies and joint ventures		**(1,236)**	(1,196)
Depreciation		**843**	746
Realised gains on sale of investment securities		**(1,022)**	(303)
Accrual on term borrowings		**339**	359
Operating profit before working capital changes		**21,344**	18,242
(Increase) decrease in operating assets:			
Mandatory reserve deposits with central banks		**(343)**	2,792
Treasury bills maturing after 90 days		**49,251**	(31,099)
Deposits and amounts due from banks and other financial institutions		**13,624**	(4,249)
Loans and advances to customers		**(9,133)**	9,699
Interest receivable and other assets		**4,075**	(2,464)
Increase (decrease) in operating liabilities:			
Deposits and amounts due to banks and other financial institutions		**82,075**	98,105
Borrowings under repurchase agreement		**66**	-
Customers' current, savings and other deposits		**(238,858)**	25,089
Interest payable and other liabilities		**20,365**	36,019
Income tax paid		**(123)**	(225)
Net cash (used in) from operating activities		**(57,657)**	151,909
INVESTING ACTIVITIES			
Purchase of investment securities		**(78,787)**	(68,766)
Sale of investment securities		**68,082**	49,058
Other movements in investment in associated companies		**(15)**	-
Purchase of premises and equipment		**(625)**	(336)
Net cash used in investing activities		**(11,345)**	(20,044)
FINANCING ACTIVITIES			
Payment of dividend and donations		**(33,666)**	(28,011)
Movement in treasury stock		**(26)**	-
Net cash used in financing activities		**(33,692)**	(28,011)
Foreign currency translation adjustments		**1,227**	431
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(101,467)**	104,285
Cash and cash equivalents at beginning of the period		**537,604**	533,116
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	5	**436,137**	637,401

1 ACTIVITIES

BBK B.S.C. ('the Bank"), a public shareholding company, was incorporated in the Kingdom of Bahrain by an Amiri Decree in March 1971 and registered with the Ministry of Industry, Commerce and Tourisim under Commercial Registration number 1234 dated 16 March 1971. The Bank operates in the Kingdom of Bahrain under a commercial banking license issued by the Central Bank of Bahrain and its shares are listed on the Bahrain Bourse B.S.C. (c).

The Bank and its subsidiaries (collectively, "the Group") are engaged in commercial banking activities through its branches in Bahrain, Kuwait and India and investment banking, credit card operations and business process outsourcing services through its subsidiaries. The Bank's registered office is at 43 Government Avenue, P O Box 597, Manama, Kingdom of Bahrain.

The interim condensed consolidated financial statements for the three-month period ended 31 March 2017 were authorised for issue in accordance with a resolution of the Board of Directors on 24 April 2017.

2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial statements of the Group for the three-month period ended 31 March 2017 are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2016. In addition, results for the three-month period ended 31 March 2017 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2017.

These interim condensed consolidated financial statements incorporate the interim financial statements of the Bank and its subsidiaries. All intra-group transactions and balances including unrealised gains and losses on transactions between the Group companies have been eliminated on consolidation.

Restatement

The comparative figures in the interim consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the three-month period ended 31 March 2017, have been restated since the Group early adopted IFRS 9 on the audited consolidated financial statements for the year ended 31 December 2016, with a date of initial application of 1 January 2016.

The early adoption in 2016 required that the information of the interim periods of 2016 to be restated. The restatements information is set out below:

	Previously reported BD'000	*Restate-ment BD'000*	*As reported herein BD'000*
Interim Consolidated Statement of Profit or Loss			
Other income	**10,625**	**(603)**	**10,022**
Net provision for credit impairment	**4,359**	**156**	**4,515**
Net write-back for impairment on investments	**(683)**	**(71)**	**(754)**
Profit for the period	**15,326**	**(688)**	**14,638**
Net profit attributable to owners of the Bank	**15,275**	**(688)**	**14,587**
Interim Consolidated Statement of Other Comprehensive Income			
Profit for the period	**15,326**	**(688)**	**14,638**
Other comprehensive loss for the period	**(15,920)**	**440**	**(15,480)**
Total comprehensive loss for the period	**(594)**	**(248)**	**(842)**
Total comprehensive loss attributable to owners of the Bank	**(645)**	**(248)**	**(893)**
Interim Consolidated Statement of Cash Flows			
Net cash from operating activities	**153,478**	**(1,569)**	**151,909**
Net cash used in investing activities	**(21,613)**	**1,569**	**(20,044)**

2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continue

Significant accounting policies

New standards, interpretations and amendments adopted by the Group
The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2016, except for the adoption of new standards and interpretations effective for annual period beginning on or after as of 1 January 2017.

The below new standards and amendments apply for the first time in 2017. However, they do not have a material impact on the interim condensed consolidated financial statements of the Group:

- IAS 7 Disclosure Initiative - Amendments;
- IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses - Amendments; and
- IFRS 12 Disclosure of Interests in Other Entities - Clarification of the scope of the disclosure requirements in IFRS 12.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective, such as:

- IFRS 15 Revenue from Contracts from Customers; and
- IFRS 16 Leases.

3 SEGMENTAL INFORMATION

For management purposes the Group is organised into four major business segments:

Retail banking	-	Principally handling individual customers' deposits and providing consumer finance type loans, overdrafts, credit facilities and funds transfer facilities, credit cards and foreign exchange.
Corporate banking	-	Principally handling loans and other credit facilities, deposit and current accounts for corporate and institutional customers in the Kingdom of Bahrain.
International banking	-	Principally handling loans and other credit facilities, deposit and current accounts for international corporate and institutional customers. This also covers the operations of the overseas units.
Investment, treasury and other activities	-	Principally providing money market, trading and treasury services as well as the management of the Group's funding operations. Investment activities involve handling investments in local and international markets, investment advisory services and funds management. Other activities also include business process outsourcing services.

These segments are the basis on which the Group reports its information to the chief operating decision maker. Transactions between segments are generally recorded at estimated market rates on an arm's length basis. Interest is charged/credited to business segments based on a transfer pricing rate which approximates the marginal cost of funds on a matched funding basis.

3 SEGMENTAL INFORMATION (continued)

Three-month period ended 31 March 2017

	Retail banking BD '000	*Corporate banking BD '000*	*International banking BD '000*	*Investment, treasury and other activities BD '000*	*Total BD '000*
Interest income	**6,992**	**9,372**	**8,094**	**8,685**	**33,143**
Interest expense	**(761)**	**(2,091)**	**(2,247)**	**(5,431)**	**(10,530)**
Internal fund transfer price	**(604)**	**(1,099)**	**(1,471)**	**3,174**	**-**
Net Interest Income	**5,627**	**6,182**	**4,376**	**6,428**	**22,613**
Other Operating Income	**5,417**	**1,022**	**1,425**	**3,869**	**11,733**
Operating income before share of profit of associated companies and joint ventures	**11,044**	**7,204**	**5,801**	**10,297**	**34,346**
Net provision for credit impairment	**(2,317)**	**(2,680)**	**(1,332)**	**-**	**(6,329)**
Net write-back of impairment on investments	**-**	**-**	**-**	**74**	**74**
Segment result	**2,545**	**1,069**	**681**	**10,352**	**14,647**
Share of profit of associated companies and joint ventures	**1,240**	**-**	**-**	**(4)**	**1,236**
Profit for the period					**15,883**
Profit attributable to non-controlling interest					**(121)**
Profit attributable to the owners of the Bank					**15,762**

3 SEGMENTAL INFORMATION (continued)

Three-month period ended 31 March 2016 (Restated)

	Retail banking BD '000	*Corporate banking BD '000*	*International banking BD '000*	*Investment, treasury and other activities BD '000*	*Total BD '000*
Interest income	6,638	8,992	8,075	7,246	30,951
Interest expense	(640)	(1,928)	(2,824)	(5,148)	(10,540)
Internal fund transfer price	(1,086)	(346)	(465)	1,897	-
Net Interest Income	4,912	6,718	4,786	3,995	20,411
Other Operating Income	4,647	757	1,492	3,126	10,022
Operating income before share of profit of associated companies and joint ventures	9,559	7,475	6,278	7,121	30,433
Net provision for credit impairment	(1,404)	(2,387)	(724)	-	(4,515)
Net write back of impairment on investments	-	-	-	754	754
Segment result	2,072	1,454	2,639	7,277	13,442
Share of profit of associated companies and joint ventures	1,196	-	-	-	1,196
Profit for the period					14,638
Profit attributable to non-controlling interest					(51)
Profit attributable to the owners of the Bank					14,587

4 COMMITMENTS AND CONTINGENT LIABILITIES

	Reviewed 31 March 2017 BD '000	*Audited 31 December 2016 BD '000*
Contingencies		
Letters of credit	**39,004**	38,518
Guarantees	**246,273**	228,287
	285,277	266,805
Commitments		
Undrawn loan commitments	**157,919**	127,186
	443,196	393,991

5 CASH AND CASH EQUIVALENTS

	Reviewed 31 March 2017 BD '000	*Reviewed 31 March 2016 BD '000*
Cash	**15,456**	17,240
Current account and placements with central banks, excluding mandatory deposits	**221,027**	189,290
Treasury bills	**1,452**	23,924
Deposits and amounts due from banks and other financial institutions with an original maturity of ninety days or less	**198,202**	406,947
	436,137	637,401

6 LOANS AND ADVANCES TO CUSTOMERS

At 31 March 2017

	Stage 1: 12-month ECL BD '000	*Stage 2: Lifetime ECL not credit-impaired BD '000*	*Stage 3: Lifetime ECL credit-impaired BD '000*	*Total BD '000*
Loans and advances at amortised cost				
Commercial loans and overdrafts	995,671	336,213	99,851	1,431,735
Consumer loans	436,976	20,224	13,898	471,098
	1,432,647	356,437	113,749	1,902,833
Loss allowance	(5,225)	(49,135)	(78,460)	(132,820)
	1,427,422	**307,302**	**35,289**	**1,770,013**

At 31 December 2016

	Stage 1: 12-month ECL BD '000	*Stage 2: Lifetime ECL not credit-impaired BD '000*	*Stage 3: Lifetime ECL credit-impaired BD '000*	*Total BD '000*
Loans and advances at amortised cost				
Commercial loans and overdrafts	980,556	348,670	99,984	1,429,210
Consumer loans	432,854	18,641	13,335	464,830
	1,413,410	367,311	113,319	1,894,040
Loss allowance	(5,574)	(43,682)	(77,646)	(126,902)
	1,407,836	323,629	35,673	1,767,138

At 31 March 2017, interest in suspense on past due loans that are fully impaired amounts to BD 23,250 thousand (31 December 2016: BD 21,572 thousand).

During the three-month period ended 31 March 2017, loans amounting to BD 524 thousand were written off (31 March 2016: BD 2,619 thousand) and recovery of BD 155 thousand (31 March 2016: BD 180 thousand).

During the three-month period ended 31 March 2017, net expected credit loss charged against off balance sheet and other credit exposures amounting of BD 42 thousand.

7 SEASONAL RESULTS

Other income for the three-month period ended 31 March 2017 includes BD 1,252 thousand (31 March 2016: BD 1,253 thousand) of dividend income, which is of a seasonal nature.

8 OTHER INCOME

Other income for the three-month period ended 31 March 2017 includes gain of BD 1,380 thousand (31 March 2016: gain of BD 665 thousand) relating to sale of investment securities.

9 PREPETUAL TIER 1 CONVERTIBLE CAPITAL SECURITIES

During the year ended 31 December 2016, the Bank completed an issue of BD 86,098 thousand Basel III compliant Additional Tier I Convertible Perpetual Capital Securities. Distribution Payment Amounts shall be payable subject to and in accordance with terms and conditions on the outstanding nominal amount of the Capital Securities at rate of 8.25 per cent per annum. These securities are recognised under equity in the consolidated statement of financial position and the corresponding coupon on those securities are accounted as appropriation of profits. Expenses relating to this issuance have been included in retained earnings. Securities' holders will not have a right to claim the coupon and such event will not be considered as event of default.

10 APPROPRIATIONS

At the Annual General Meeting held on 29 March 2017, the shareholders approved the proposed appropriations of the year ended 31 December 2016.

11 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share
Basic and diluted earnings per share for the three-month periods ended are calculated by dividing the profit for the three-month by the weighted average number of shares outstanding during the three-month period ended and the dilutive effect of the conversion impact of the convertible capital securities are as follows:

	Three-month ended	
	31 March 2017	*31 March 2016 (Restated)*
Profit for the period attributable to the owners of the Bank for basic and diluted earnings per share computation (BD '000)	**15,762**	14,587
Weighted average number of shares, net of treasury stock, outstanding during the period	**1,075,484,685**	1,064,452,452
Weighted average number of shares, outstanding during the period adjusted for dilutive effect of the conversion impact of the Convertible Capital Securities	**1,290,728,465**	1,279,696,232
Basic earnings per share (BD)	**0.015**	0.014
Diluted earnings per share (BD)	**0.012**	0.011

12 RELATED PARTY TRANSACTIONS

Certain related parties (principally the major shareholders, associates, joint venture, directors and key management of the Group, their families and entities controlled, jointly controlled or significantly influenced by such parties) were customers of the Group in the ordinary course of business.

12 RELATED PARTY TRANSACTIONS (continued)

Balances in respect of transactions entered into with related parties as of the statement of financial position date were as follows:

31 March 2017	*Major shareholders BD '000*	*Associated companies and joint venture BD '000*	*Directors and key management personnel BD '000*	*Total BD '000*
Loans and advances to customers	**-**	**12,688**	**2,443**	**15,131**
Customers' current, savings and other deposits	**201,473**	**3,289**	**10,630**	**215,392**
31 December 2016				
Loans and advances to customers	-	15,521	3,325	18,846
Customers' current, savings and other deposits	208,871	3,286	8,885	221,042

No provision is required in respect of loans given to related parties (2016: nil).

The income and expense in respect of related parties included in the interim consolidated statement of profit or loss are as follows:

Three-month period ended 31 March 2017	*Major shareholders BD '000*	*Associated companies and joint venture BD '000*	*Directors and key management personnel BD '000*	*Total BD '000*
Interest and similar income	**-**	**159**	**31**	**190**
Interest and similar expense	**745**	**16**	**31**	**792**
Three-month period ended 31 March 2016				
Interest and similar income	-	44	4	48
Interest and similar expense	791	25	28	844

13 KEY MANAGEMENT COMPENSATION

Compensation for key management, including executive officers, comprises the following:

	Three-month ended	
	31 March 2017 BD '000	*31 March 2016 BD '000*
Salaries and other short term benefits	**2,652**	2,419
Post-employment benefits	**105**	148
Share based compensation	**174**	33
	2,931	2,600

14 FINANCIAL INSTRUMENTS

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market date.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy at 31 March 2017 and 31 December 2016:

31 March 2017	***Level 1 BD'000***	***Level 2 BD'000***	***Level 3 BD'000***	***Total BD'000***
Financial assets				
Bonds	**581,172**	**-**	**-**	**581,172**
Equities	**42,000**	**6,092**	**28,176**	**76,268**
Managed funds	**-**	**1,427**	**-**	**1,427**
Derivatives held for trading	**-**	**591**	**-**	**591**
Derivatives held as fair value hedges	**-**	**7,510**	**-**	**7,510**
Derivatives held as cash flow hedges	**-**	**408**	**-**	**408**
	623,172	**16,028**	**28,176**	**667,376**
Financial liabilities				
Derivatives held for trading	**-**	**305**	**-**	**305**
Derivatives held as fair value hedges	**-**	**7,749**	**-**	**7,749**
	-	**8,054**	**-**	**8,054**

31 December 2016	*Level 1 BD'000*	*Level 2 BD'000*	*Level 3 BD'000*	*Total BD'000*
Financial assets				
Bonds	563,023	2,634	-	565,657
Equities	43,742	6,066	28,153	77,961
Managed funds	-	1,442	-	1,442
Derivatives held for trading	-	108	-	108
Derivatives held as fair value hedges	-	6,672	-	6,672
Derivatives held as cash flow hedges	-	158	-	158
	606,765	17,080	28,153	651,998
Financial liabilities				
Derivatives held for trading	-	137	-	137
Derivatives held as fair value hedges	-	9,638	-	9,638
	-	9,775	-	9,775

Transfers between level 1, level 2 and level 3
During the reporting year ended 31 March 2017 and 31 December 2016, there were no transfers into and out of Level 3 fair value measurements.

14 FINANCIAL INSTRUMENTS (continued)

Financial instruments not recorded at fair value

The table below sets out the estimated carrying values and fair values of those on and off statement of financial position financial instruments carried at amortised cost where fair values are different from the carrying amounts shown in the consolidated financial statements:

	31 March 2017			*31 December 2016*		
	Carrying value BD '000	***Fair value BD '000***	***Difference BD '000***	*Carrying value BD '000*	*Fair value BD '000*	*Difference BD '000*
Financial liabilities						
Term borrowings	**206,448**	**203,702**	**(2,746)**	206,109	199,596	(6,513)
Financial assets						
Investment securities	**132,324**	**130,318**	**(2,006)**	123,073	120,937	(2,136)

The above financial liabilities and assets are level 1 fair value.

The fair value of financial assets and financial liabilities approximate their carrying values, other than those disclosed in the table above.