Bestway (Holdings) Limited

Annual report and financial statements

Registered number 01392861

For the year ended 30 June 2017

Contents

Company information

Registered number	01392861
Registered office	2 Abbey Road Park Royal London United Kingdom NW10 7BW
Directors	Sir MA Pervez OBE HPk (Chairman) ZM Choudrey CBE, BA (Hons), FCA (Group Chief Executive) MY Sheikh R Pervez, ACA D Pervez, BA (Hons), MA Oxon, Solicitor
Secretary	D Pervez, BA (Hons), MA Oxon, Solicitor
Auditor	KPMG LLP 15 Canada Square London E14 5GL
Solicitors	Hogan Lovells International LLP Atlantic House Holborn Viaduct London EC1A 2FG

Chairman's Statement

On behalf of the Board of Directors, I am pleased to place before you the consolidated financial statements of Bestway (Holdings) Limited (the "Company") and its subsidiaries (the "Group") for the year ended 30 June 2017.

Business overview

The Group continues to boast a portfolio consisting of the 2nd largest independent wholesaler and 3rd largest retail pharmacy in the UK, in addition to the largest cement manufacturer and 2nd largest private bank in Pakistan.

Group revenue for the year ended 30 June 2017 totalled £3.0 billion compared to £2.8 billion in the previous year, an increase of 5%. Underlying profit before tax increased by 10% to £440.8 million compared to £400.7 million in the previous year.

In the UK last summer's vote to leave the European Union has caused inevitable uncertainty. Nobody yet knows what the long-term effect of leaving the EU would be However, our initial review indicates that there will be no significant impact on the Group.

In order to maximise the opportunities offered by the challenging operating environment, Bestway Wholesale has continued to focus on improving its operational efficiencies and enhance its value added services to its customers in the Independent Retail Sector.

During the period under review Well Pharmacy has invested strategically in Advanced Dispensing, Managed Care and Digital. Through these investments the management seeks to cater to the constantly evolving customer tastes and habits.

In Pakistan, Bestway Cement Limited has decided to set up a brownfield plant with clinker production capacity of 6,000 tonnes per day. Additionally, it has decided to invest in a waste heat recovery power plant which will save 9MWs per annum at its Farooquia site in Hattar, KP Province of Pakistan

Our banking subsidiary; United Bank Limited has maintained its leadership position in the local banking sector. In March 2017 UBL became the first bank in Pakistan to establish a digital branch – a completely automated facility without the physical presence of branch staff. In October 2017 UBL was judged as the "Best Bank for Corporate Finance & Capital Market Development" at the Pakistan Banking Awards 2017

Social responsibility

In June 2017 Bestway Group organised its 23rd annual charity event at Royal Ascot. The chosen charity this year was the NSPCC – National Society for Prevention of Cruelty to Children. Bestway Foundation has a long standing relationship with this national charity going back to 2001.

During the period under review Bestway Foundation donated £240,000 to fifteen local and national charities, including British Asian Trust, Crimestoppers, GroceryAid and Funding Neuro, among others.

Bestway Foundation also provided £174,000 in scholarships to students of South Asian origin to various universities such as University College London; London School of Economics, Westminster University, Nottingham University and Kings College London.

In the UK, Bestway Wholesale has continued with its patronage of the Retail Development Awards (RDAs). The RDAs underline our commitment to the UK independent retail sector. Well Pharmacy nominated Stroke Association as its nominated charity partner for the year.

In Pakistan, Bestway Cement is actively supporting World Wildlife Fund in its mega tree plantation through the Earth Hour 2017 initiative. Under the said initiative Bestway Cement has planted 3,000 saplings in the vicinity of its five plant sites. United Bank Limited donated £224,000 to the education and healthcare causes in Pakistan.

Outlook

The Board remains confident that Bestway is strategically placed in today's challenging global environment and that our strength leads to opportunity. Our time tested proactive approach has served us well and has positioned us for long-term growth. Thanks to a highly diversified business model, and a clear and well-articulated strategy with a focus on fundamentals, we look forward to the future with enthusiasm and confidence.

In Pakistan our businesses are uniquely placed to benefit from the Government's increased focus on infrastructure development projects through the China Pakistan Economic Corridor. In the UK we are a business of scale and are well placed to face the challenges that lie ahead and to continue to contribute to the long-term success of the Group.

Sir MA Pervez OBE HPK *(Chairman)*

22nd March 2018

Strategic report: Group Chief Executive's review

On behalf of the Board of Directors, I am pleased to present the audited financial statements for Bestway (Holdings) Limited for the year ended 30 June 2017.

Review of business

2017 has been a year of profit growth and rapid debt repayment for Bestway Group. Despite difficult business conditions and uncertainty in the UK, we have maintained our market share across the Wholesale and Pharmacy businesses

Business conditions in Pakistan have remained stable during the year and we have capitalised on opportunities to enhance our market share in the cement and banking sectors through Bestway Cement Limited and United Bank Limited

There has been a strong emphasis on cash generation across all business units and during the year, £177.3 million of debt was repaid, thus reducing the Group's liabilities as well as the residual risk to rising interest rates.

Group financial performance

During the year ended 30 June 2017, the Group's revenue increased by 5% to £3.0 billion from £2.8 billion in 2016. All our businesses were profitable for the year under review and overall Group underlying profit before tax increased by 10% to £440.8 million as compared to £400.7 million in 2016. This was due to an improvement in the underlying performance of the Wholesale and Cement business as well as the benefit of devaluation in the British Pound following the Brexit announcement.

Tangible fixed assets after depreciation as at 30 June 2017 stood at £964.9 million, compared to £850.6 million in the previous year.

The Trading Group has improved cash in hand to £109.0 million in 2017 as compared to £90.2 million in 2016

During the year, the Group made repayments of £177.3 million as part of its ongoing de-leveraging strategy This included £132.9 million of repayments of debt in the UK, which had been taken as part of the acquisition of Well Pharmacy, as well as repayments of £44.4 million of debt by Bestway Cement Limited as part of Pakcem's acquisition.

The Group refinanced the £290 million outstanding debt in September 2017 and this new facility provides the Group with the funding security to develop its businesses and execute its growth strategy.

Bestway Wholesale

Market conditions in the wholesale sector remain challenging with the continuing pressure of multiple convenience providers taking a keener interest in the sector. The independent retail sector has been suffering as the supermarket chains have been growing their presence in the sector However, Bestway Wholesale has retained focus on executing its strategic plans and was able to increase profitability.

Revenue in the wholesale business amounted to £1.78 billion, a decrease of 3.8% compared to the corresponding period last year. Like for like revenue, excluding the revenue from Bestway Northern Limited following its acquisition into the Group, decreased from £1.71 billion to £1.66 billion. The 2.9% decrease was in line with the performance of the broader wholesale sector due to tobacco sales being under pressure.

Bestway Wholesale was able to increase profit before tax from £7.1 million in 2016 to £33.7 million during the year. However, it should be noted that the 2017 figure includes an exceptional profit on the disposal of certain non-strategic properties of £13.5 million (2016: £0.0 million). Additionally, the acquisition of Bestway Northern during the financial year contributed £6.0 million of profit before tax to the group. Therefore, underlying profit before tax increased from £7.1 million to £14.2 million during the year. This was an encouraging performance aided by margins increasing to historic levels. It is also encouraging that our conscious decision to invest in margin in 2016 to support the independent retail sector against the increased competition from the multiples has resulted in increased loyalty amongst our customer base.

Bestway Northern Limited became a wholly owned member of the Group in April 2017 as part of a group reorganisation project. In the 3 months to 30 June 2017, Bestway Northern Limited contributed £6 0 million to the consolidated profit before tax for the year and £115.8 million of revenue

Trading stock as at 30 June 2017 amounted to £171.1 million, which includes £34.5 million held by Bestway Northern Limited as at the year end. Excluding this, trading stock as at 30 June 2017 is £136.6 million compared to £131.6 million in the previous year.

During the year, the business has continued to maintain its focus on the three pillars of Symbol & Club, Foodservice and Digital;

Symbol & Club: The Best-one and Xtra Local retail club membership continues to grow as we ensure greater discipline and compliance among our affiliated stores. During the year, we continued the Great Rebate and MyRewards schemes to help our customers increase their margins and profitability.

Foodservice: Our catering sales grew 7 6% during the year to £154 5 million.

Strategic report: Group Chief Executive's review *(continued)*

Bestway Wholesale *(continued)*

Digital. Our online business now has 62,000 registered users compared to 37,000 in the prior year. Weekly sales grew 12.0% with total app and website sales averaging £26 million a month. The mobile app accounts for nearly 25% of all online transactions, compared to 15% in the prior year.

Investment Property- UK

The UK investment property portfolio was rationalised during the year with low yielding assets disposed of. The market value of the investment properties held fell from £120 million in June 2016 to £113 million in June 2017. This is principally due to the disposal of assets with £17 million of value, offset by the consolidation of Bestway Northern's investment property with value of £7 million as well as a £3 million gain on the increase in the fair value of the remaining assets.

Well Pharmacy

The period under review reflects a difficult period of trading for Well Pharmacy. There were significant challenges presented by government intervention, both directly in pharmacy via reduction in NHS funding and indirectly via National Living Wage policy, which resulted in Well Pharmacy's profitability reducing for the year ended 30 June 2017.

Despite, the continued reduction in Government funding, Well Pharmacy is well-placed to adapt to market conditions and deliver on its strategic plans. In the medium-term, there will need to be focus on driving efficiencies in the business without compromising on patient service, while concentrating on digital and technology services to grow market share.

Revenue of the pharmacy business for the year ended 30 June 2017 was £779.2 million compared to £802.7 million in the prior year. The sales contraction was driven by a reduction in funding and drug reimbursement price as the margin mechanism recovers margin overpayment from prior periods. Well's market share of the prescriptions nationally remained broadly at 6.0%.

Profit before tax decreased from £27.5 million in 2016 to £3.6 million in 2017. this was driven by a reduction in funding as well as a significant Category M clawback provision which related to a prior period. When adjusting for the prior periods' clawback provision Well's profit before tax still decreased, but to a lesser extent.

In 2015 Well Pharmacy introduced new initiatives like B2B trading under "Bestway Medhub" and "WellCarePlus", a care home pharmaceutical supply solution. The B2B business has grown steadily during the period under review and delivered on its forecast profit target through growing volume of accounts and sales per account. WellCarePlus has grown sales steadily during the year. The conversion of sales to profitable margin remains a challenge, however as scale grows this will turn positive.

Well Pharmacy is also investing significantly in its technology initiatives through its central dispensing project ("Advanced Dispensing") and is also currently developing a digital proposition for customers. We expect these initiatives to be launched in the coming year and to start generating returns.

Bestway Cement Limited ('BCL')

BCL continues to maintain its position as the largest cement manufacturer and market leader in Pakistan. Significant investments have been made in long-term growth drivers including infrastructure and human capital development. The gap between supply and demand has enabled the Pakistani cement sector to maximise sales with the benefit of stable pricing and BCL has benefited from this for the majority of the year.

A number of cement manufacturers are significantly advanced in their capacity expansion projects, and it is likely that the additional capacity in the sector will impact both price and capacity utilisation. There was evidence of this in the latter part of the year as one competitor went live with their new plant. Nonetheless, BCL is well placed for a change in market conditions given it is the lowest cost producer in the country and it has a diversified cement brand portfolio.

During the period under review, BCL's despatches increased by 20.3% to 8.3 million tonnes from 6.9 million tonnes in 2016 This included 0.8 million tonnes of clinker sold separately to another cement manufacturer that suffered from production issues.

Strategic report: Group Chief Executive's review *(continued)*

Bestway Cement Limited ('BCL') *(continued)*

Domestic despatches increased by 10.2% to 6.5 million tonnes from 5.9 million tonnes in 2016. Exports grew by 5.1% to 989 thousand tonnes as compared to 941 thousand tonnes in 2016. BCL maintained its position as the largest cement producer and the market leader in the domestic market and the largest exporter to Afghanistan and India

Revenue for the financial year 2017 increased by 31.4% to £388.5 million compared to £295.7 million for 2016. BCL's profit before tax recognised in the Group's accounts during the period under review increased by 29.2% to £125.0 million compared to £96.7 million for 2016 However, the numbers benefited from a weakening of the pound which resulted in a one-off foreign exchange gain on conversion. In PKR terms, BCL's profit before tax increased 10.5% during the year under review.

During the year, BCL repaid £44.4 million of its long term debt which stood at £73.5 million as at June 2017.

BCL completed the construction work on the 12MW Waste Heat Recovery Power Plant (WHRPP) at its Kallar Kahar plant on schedule and this is now fully operational.

In response to the expansion drive in the sector, BCL started development on a brownfield cement plant with a capacity of 6,000 tonnes of clinker per day along with a WHRPP of 9 MWs capacity at its Farooqia site. This will enable BCL to maintain its market leader position going forward, once all market announced expansions are completed.

For the year ended 30 June 2017, BCL declared a combined dividend of 12 PKR per share (£0.09 per share) or 120%.

United Bank Limited ('UBL')

UBL is the second largest private bank in Pakistan and has a branch network of 1,363 branches globally, with presence in four continents and serving over 4 million customers The bank's long term strategy is to evolve its leading corporate and consumer lending segments whilst creating opportunities through new digital platforms and product development.

The market in Pakistan for banks has been challenging given the low-interest rate environment and there is likely to be ongoing pressure on interest rates in Pakistan in the medium term. Despite these challenges, UBL has been able to counteract a low interest rate environment through continued focus on expanding its low-cost deposit base and diversifying of its non-fund income portfolio to maintain its market share. Going forward, UBL is investing heavily in its technology initiatives and in developing a digital proposition for customers which will leave UBL well placed to continue to drive volume growth to counteract market conditions.

UBL increased its net interest income by 9.3% during the year from £395.6 million in 2016 to £432.3 million in 2017. UBL's profit before tax recognised in the Group's accounts during the period under review increased from £307.8 million in 2016 to £318.4 million. However, the numbers benefited from a weakening of the pound which resulted in a one-off foreign exchange gain on conversion. In PKR terms, UBL's profit before tax decreased 11.4% during the year due to the reducing interest rate environment.

The bank declared a total dividend of 13PKR (£0.10) per share or 130% during the year ended 30 June 2017

UBL's total assets at 30 June 2017 were £14.6 billion compared to £12.1 billion for the corresponding period last year, an increase of 20.6%. UBL's deposit base grew by 12.4% to £9.7 billion for the year to 30 June 2017.

As part of its Digital Strategy program, UBL re-launched its net banking mobile app in May 2017 which now offers greater functionality and fluidity to users. It has already attained 205,000 downloads to date and this number continues to rise.

During the year UBL was awarded the "Best Bank for Corporate Finance & Capital Market Development" award at the 2nd Pakistan Banking Awards.

Principal risks & uncertainties

The Group's wholesale business is exposed to duty fraud on alcohol and non-duty paid tobacco. The Group mitigates these risks through frequently reviewing its product offerings in an attempt to diversify this range, thus reducing the overall risk faced by the Group. The increasing influence of multiple convenience businesses in the wholesale sector is also a threat as it imposes pressure on margins. The Group ensures that it frequently reviews its costs so as to be able to remain price competitive whilst also maintaining margins.

The Group's pharmacy business is exposed to Government policy on the funding of the pharmacy sector which remains an uncertainty in the business. While the net benefits the pharmacy sector has on public finances is undisputed, the quantum of central government funding is still uncertain. The Group continues to mitigate this risk through looking for alternative revenue streams in an attempt to diversify revenue away from the government.

Strategic report: Group Chief Executive's review *(continued)*

Principal risks & uncertainties *(continued)*

Due to the Group's presence in Pakistan, it is exposed to foreign exchange risk and interest rate movements. As the performance of the cement industry is directly correlated to the state of the economy, a key risk is the performance of the Pakistani economy. Additionally, the increase in power costs in Pakistan continues to pose a threat to the cement sector.

The Group's banking subsidiary faces the risk of future net interest margin compression as the State Bank of Pakistan has cut interest rates in the last year. There is economic risk as the performance of the banking sector is directly correlated with the state of the economy and the interest rate environment. As with any bank there is regulatory compliance risk in Pakistan and the overseas territories that the bank operates in.

The Group has taken the necessary measures to reduce the key risks in the business.

On 23 June 2016, the UK electorate voted to discontinue its membership of the EU. Until further clarity is known regarding terms in which the UK will exit, the Directors are not able to assess the impact on the Company or what impact the wider regulatory and legal consequences of the UK leaving the EU would be on the Group. Initial review, however, indicates that there will be no significant impact on the Group.

Key performance indicators

The Board of Directors uses many performance indicators, both financial and non-financial, to monitor the Group's position.

Among the financial performance indicators within the wholesale business, the key performance indicators are gross profit margin, sales per depot, sales per department, wage cost per depot, stock availability and stock levels.

The financial performance indicators within the pharmacy business include, the key performance indicators are prescription growth, over the counter sales growth, profitability per branch, stock levels and cost per prescription.

Financial performance indicators in the cement business are margin, daily despatches and cost of production.

Among the financial performance indicators within the banking business, the key performance indicators are deposit levels, assets under management, return on assets, return on equity, net interest margin and non-financial income.

General non-financial performance indicators are staff turnover, staff, supplier and customer satisfaction and health and safety reports, amongst others.

The Board is of the belief that the monitoring of the aforementioned indicators is an effective aspect of business performance review.

Future outlook

The Group's focus is to continue to enhance market share in its respective business sectors.

The wholesale business will focus on organic growth which is supported by investments in existing and new initiatives Despite the tough trading conditions, we are confident that we will continue to provide maximum support to our customers by delivering the best prices, value and service to them.

The pharmacy sector is adversely affected by the reduction in government funding. In the medium term, there will be financial pressure on the pharmacy market, however, with low operating costs, Well pharmacy is in a sound position. We will continue to focus on outperforming the market in both prescription volumes and margin deliver. Well is also focused on delivering its strategic plans whilst minimising capital expenditure and expediting good control of working capital. Well is investing significantly in technology initiatives that will enable us to reduce our cost to serve as well as enable a growth in market share.

The cement sector in Pakistan is likely to see a wave of capacity expansion in the market, given certain competitors have announced their intention to set up new plants. This is likely to result in downwards pressure on price as the market competes to maintain its capacity utilisation. This, coupled with rising coal prices, is likely impact profitability in the short to medium term, however, this should balance out in the long-term once a supply-demand equilibrium is reached. Nonetheless, BCL is comparatively better positioned to face these challenges as it is one of the most efficient and lowest cost producers in the country and has a strong brand presence. Moreover, BCL has already begun steps on its brownfield expansion project in Farooqia to maintain its market leading position in the cement sector.

The Pakistan banking sector continues to be operating in a low interest rate environment and in the short term this is unlikely to change. UBL will continue its focus on managing and improving its asset portfolio, enhancing its consumer banking assets and expanding its network both through branches and through digital channels The bank is well positioned to take benefit from the implementation of the China Pakistan Economic Corridor (CPEC). UBL will also continue its strategy of increasing deposit volumes and diversifying its income base to protect against adverse interest rate movements. UBL is investing significantly in its technology infrastructure and in developing a digital proposition for customers to supplement volume growth.

Strategic report: Group Chief Executive's review *(continued)*

Future outlook *(continued)*

We see challenges ahead of us both in the UK and in Pakistan as the respective economies go through an economic stabilisation phase. We will continue to enhance our market share in UK wholesale and pharmacy sectors and in the Pakistan cement and banking sectors whenever suitable opportunities arise.

In the last twelve months we have continued to demonstrate the strength of our business model and to create value for all our stakeholders This has been accomplished with the continued support of our employees and our highly successful relationships with suppliers and customers.

I would like to thank all our suppliers and employees for their commitment to the business. I would also like to thank my fellow Directors for their contribution to our strategic deliberations.

Z M Choudrey CBE, BA (Hons), FCA

Group Chief Executive

22 March 2018

Directors' report

The Directors submit their report and the financial statements of Bestway (Holdings) Limited for the year ended 30 June 2017.

Principal activities

The principal activities of the Group during were in the wholesale, pharmacy, cement and financial services sectors.

Directors

The Directors who held office during the year were as follows:

- Sir MA Pervez OBE HPk (Group Chairman)
- ZM Choudrey CBE, BA (Hons), FCA (Group Chief Executive)
- MY Sheikh
- R Pervez, ACA
- D Pervez, BA (Hons), MA Oxon, Solicitor
- AK Bhatti; *resigned 14 November 2016*
- AK Chaudhary; *resigned 14 November 2016*
- AM Chaudhary, MBA; *resigned 14 November 2016*

Indemnity provisions

No qualifying third party provision is in force for the benefit of any Director of the Company.

Employee involvement and equal opportunities

The Group systematically provides employees with information on matters of concern to them and consults with employees on a regular basis to ensure that their views can be taken into account in making decisions which are likely to affect their interests The Group encourages the involvement of employees in the Group's performance and ensures that it provides employees with the information required such that they are able to achieve a common awareness of the financial and economic factors affecting its performance.

The Group is an equal opportunities employer and its policies for the recruitment, training, career development and promotion of employees are based on the relevant merits and abilities of the individuals concerned. It recognises its responsibilities towards the disabled and gives full and fair consideration to applications for employment from them, having regard to their particular aptitudes and abilities. So far as particular disabilities permit, the Group will give continued employment and arrange appropriate training for any existing employee who becomes disabled. It is the policy of the Group that the training, career development and promotion of disabled persons should as far as possible be identical to that of other employees.

Financial instruments

The Group's policy is to finance its operations on a medium term basis from retained profits, related party borrowings and bank facilities. Additional uncommitted borrowing and overdraft facilities are utilised for short term financing requirements.

The financial instruments utilised by the Company are borrowings, short-term cash deposits and items such as trade creditors which arise directly from its operations. Borrowing and deposit facilities are on a floating rate basis. The Company's policy is not to trade in other financial instruments.

Dividends

On 21st March 2018, Bestway (Holdings) Limited declared and paid an ordinary dividend of £69.3 million in respect of the year ended 30 June 2016. No amount has been accrued for in the financial statements of Bestway (Holdings) Limited with respect to this dividend.

On 22nd March 2018, Bestway (Holdings) Limited declared a final ordinary dividend of £6.0 million in respect of the year ended 30 June 2017. No amount has been accrued for in the financial statements of Bestway (Holdings) Limited with respect to this dividend.

Bestway (Holdings) Limited did not declare any dividends in the previous financial year.

Directors' report *(continued)*

Ultimate parent company

On 21st March 2018, Bestway (Holdings) Limited became a wholly owned subsidiary of Bestway Group Limited, a company incorporated in the United Kingdom on 9 October 2017.

Share repurchase

During the year, a number of Directors, who were also shareholders, left the Company and as a result the Company repurchased 24,930 of shares held by those exiting Directors and other shareholders, with a nominal value of £1 each. The Company still held these shares at the year end, but these shares were subsequently cancelled For further information please see the Statement of Changes in Equity.

Share issue movements

On 21st March 2018, Bestway (Holdings) Limited called up 47,949 previously unpaid ordinary shares. These shares were fully paid by Bestway Group Limited on the same day.

Political donations

Political donations made in the year totalled £159,500 (2016: £127,000).

Other information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic report on page 4.

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Going Concern

The financial statements have been prepared on a going concern basis, which assumes the Company and Group will have sufficient cash to pay its debts as and when they become payable, for a period of at least 12 months from the date the financial statements were authorised for issue. The Directors believe this to be appropriate as the Group balance sheet shows net assets of £2.0 billion (2016: £1.9 billion) as at the balance sheet date and the Group made profit after tax of £360 million (2016: £257 million) and generated cash of £383 million (2016: £12 million outflow) in the financial year ended 30 June 2017. Additionally, in September 2017 the Group refinanced third party debt on a 5 year term with no mandatory repayments until March 2019.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board

Z M Choudrey CBE, BA (Hons), FCA
Director

2 Abbey Road
Park Royal
London
NW10 7BW
22 March 2018

Statement of Directors' Responsibilities in respect of the Annual report and the Financial Statements

The Directors are responsible for preparing the Annual report and the Group and parent Company financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*

Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable,
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

KPMG

KPMG LLP
15 Canada Square
London
E14 5GL
United Kingdom

Independent auditor's report to the members of Bestway (Holdings) Limited

Opinion

We have audited the financial statements of Bestway (Holdings) Limited ("the Company") for the year ended 30 June 2017 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement, company balance sheet, company statement of changes in equity and related notes, including the accounting policies in note 3 and note 46.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 June 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice, including FRS 101 *Reduced Disclosure Framework*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and Directors' report

The Directors are responsible for the Strategic report and the Directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic report and the Directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Independent auditor's report to the members of Bestway (Holdings) Limited *(continued)*

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 11, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Mike Woodward

Mike Woodward (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
22 March 2018

Consolidated Income Statement

For the year ended 30 June 2017

	Note	Trading Group 2017 £000	Banking Group 2017 £000	Total Combined 2017 £000	Trading Group 2016 £000	Banking Group 2016 £000	Total Combined 2016 £000
Revenue	5	2,947,721	-	2,947,721	2,812,703	-	2,812,703
Cost of sales		(2,446,223)	-	(2,446,223)	(2,336,455)	-	(2,336,455)
		501,498	-	501,498	476,248	-	476,248
Interest income	6	-	766,535	766,535	-	659,734	659,734
Interest expense	14	-	(334,235)	(334,235)	-	(264,132)	(264,132)
Net interest income		-	432,300	432,300	-	395,602	395,602
Gross written premium		-	17,941	17,941	-	12,051	12,051
Premium ceded to reinsurer		-	(10,545)	(10,545)	-	(7,540)	(7,540)
Net written premiums	6a	-	7,396	7,396	-	4,511	4,511
Gross benefits and claims paid		-	(10,970)	(10,970)	-	(4,784)	(4,784)
Claims ceded to reinsurer		-	7,306	7,306	-	2,991	2,991
Movement in technical provisions		-	47	47	-	(204)	(204)
Net benefits and claims	6b	-	(3,617)	(3,617)	-	(1,997)	(1,997)
Net fee, commission and brokerage income	7	-	105,495	105,495	-	91,423	91,423
Gross profit		501,498	541,574	1,043,072	476,248	489,539	965,787
Dividend income on investments		-	13,659	13,659	-	15,370	15,370
Gains and losses on investments	9	-	55,936	55,936	-	60,155	60,155
Other operating income	8	18,451	2,097	20,548	7,189	1,565	8,754
Other gains and losses	10&11	3,523	269	3,792	3,045	2,975	6,020
Distribution expenses		(11,732)	-	(11,732)	(7,606)	-	(7,606)
Administrative expenses	10	(356,213)	(303,349)	(659,562)	(338,550)	(264,528)	(603,078)
Share of profit of equity accounted investees net of tax	22	1,608	8,209	9,817	-	2,703	2,703
Restructuring costs		-	-	-	(4,273)	-	(4,273)
Other operating expenses		(2,962)	-	(2,962)	-	-	-
Operating profit		154,173	318,395	472,568	136,053	307,779	443,832
Finance income	12	678	-	678	736	-	736
Finance expense	13	(32,415)	-	(32,415)	(43,862)	-	(43,862)
Net Finance expense		(31,737)	-	(31,737)	(43,126)	-	(43,126)
Underlying Profit before taxation		122,436	318,395	440,831	92,927	307,779	400,706

Consolidated Income Statement *(continued)*
For the year ended 30 June 2017

	Note	**Trading Group 2017 £000**	**Banking Group 2017 £000**	**Total Combined 2017 £000**	Trading Group 2016 £000	Banking Group 2016 £000	Total Combined 2016 £000
Underlying Profit before taxation		**122,436**	**318,395**	**440,831**	92,927	307,779	400,706
One off gain on group reorganisation	*17*	**102,702**	**-**	**102,702**	-	-	-
Profit before taxation		**225,138**	**318,395**	**543,533**	92,927	307,779	400,706
Tax on profit	*15*	**(49,753)**	**(133,432)**	**(183,185)**	(32,372)	(110,872)	(143,244)
Profit after taxation		**175,385**	**184,963**	**360,348**	60,555	196,907	257,462
Attributable to:							
Equity holders of the parent		**136,825**	**102,509**	**239,334**	31,329	103,393	134,722
Non-controlling interests	*39*	**38,560**	**80,965**	**119,525**	29,226	86,458	115,684
Investors of UBL funds		**-**	**1,489**	**1,489**	-	7,056	7,056
Profit for the year		**175,385**	**184,963**	**360,348**	60,555	196,907	257,462

The results shown above are derived entirely from continuing operations.

The notes on pages 22 to 108 are an integral part of these consolidated financial statements

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2017

	Note	Trading Group 2017 £000	Banking Group 2017 £000	Total Combined 2017 £000	Trading Group 2016 £000	Banking Group 2016 £000	Total Combined 2016 £000
Profit after taxation		175,385	184,963	360,348	60,555	196,907	257,462
Items that will not be reclassified subsequently to profit or loss:							
Profit attributable to investors of UBL funds		-	(1,489)	(1,489)	-	(7,056)	(7,056)
Revaluation of property, plant and equipment		-	-	-	-	4,863	4,863
Remeasurement of net defined benefit liability		(1,038)	(294)	(1,332)	(3,473)	(2,471)	(5,944)
Tax on remeasurement of net defined benefit liability		31	-	31	-	-	-
		(1,007)	(1,783)	(2,790)	(3,473)	(4,664)	(8,137)
Items that are or may be reclassified subsequently to profit or loss when specific conditions have been met:							
Loss arising on revaluation of non-banking fixed assets	19	-	(2,344)	(2,344)	-	(45)	(45)
Surplus / (loss) arising on available for sale securities		3,820	(61,820)	(58,000)	(1,763)	22,965	21,202
Other losses		(4)	-	(4)	-	(5,592)	(5,592)
Exchange gain on translation of foreign operations		6,298	17,032	23,330	184,696	-	184,696
		10,114	(47,132)	(37,018)	182,933	17,328	200,261
Other comprehensive income for the year		9,107	(48,915)	(39,808)	179,460	12,664	192,124
Total comprehensive income for the year		184,492	136,048	320,540	240,015	209,571	449,586
Total comprehensive income attributable to:							
Equity holders of the parent		143,682	76,213	219,895	125,559	116,101	241,660
Non-controlling interests		40,810	59,835	100,645	114,456	93,470	207,926
Total comprehensive income for the year		184,492	136,048	320,540	240,015	209,571	449,586

The notes on pages 22 to 108 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet
As at 30 June 2017

	Note	**At 30 June 2017 £000**	**At 30 June 2016 £000**
Non-current assets			
Group goodwill	*16*	**206,294**	214,977
Trading Group			
Other intangible assets	*18*	**464,443**	501,173
Property, plant and equipment	*19*	**653,118**	578,741
Investment property	*20*	**114,987**	122,266
Banking Group			
Other intangible assets	*18*	**7,494**	7,100
Property, plant and equipment	*19*	**311,760**	271,857
Investment property	*20*	**19,634**	25,543
Reinsurance assets		**12,877**	10,606
Investments in associates	*22*	**31,600**	23,803
Investments in financial assets	*25*	**4,392,263**	3,636,520
Lending to financial institutions and advances	*27*	**1,991,887**	1,543,610
		8,206,357	6,936,196
Current assets			
Trading Group			
Inventories	*24*	**298,020**	238,407
Other financial assets classified as held for sale			447
Tax receivable		**8,048**	7,303
Trade and other receivables	*26*	**214,202**	210,863
Cash and cash equivalents	*28*	**108,973**	90,157
Banking Group			
Investments in financial assets	*25*	**3,315,760**	2,764,453
Lending to financial institutions and advances	*27*	**2,752,614**	2,587,324
Tax receivable		**96,501**	53,456
Trade and other receivables	*26*	**307,489**	272,438
Cash and cash equivalents	*28*	**1,354,340**	942,470
		8,455,947	7,167,318
TOTAL ASSETS		**16,662,304**	14,103,514
Current liabilities			
Trading Group			
Trade and other payables	*29*	**526,225**	546,855
Tax payable		**-**	998
Bank overdraft	*28*	**38,320**	7,394
Other interest bearing loans and borrowings	*32*	**50,965**	26,544
Provisions	*33*	**20,694**	12,864
Banking Group			
Trade and other payables	*29*	**263,407**	344,178
Deposits and other accounts	*31*	**9,162,686**	8,225,328
Payable to investors of UBL funds		**13,016**	99,630
Bills payable	*40*	**129,188**	87,272
Bank overdraft	*28*	**3,950**	4,065
Other interest bearing loans and borrowings	*32*	**2,802,778**	1,555,115
		13,011,229	10,910,243

Consolidated Balance Sheet *(continued)*

As at 30 June 2017

	Note	At 30 June 2017 £000	At 30 June 2016 £000
Non-current liabilities			
Trading Group			
Other interest bearing loans and borrowings	*32*	**408,416**	542,435
Employee benefits	*35*	**12,053**	11,151
Deferred tax liabilities	*34*	**151,466**	145,085
Preference shares	*32*	**58,178**	516
Banking Group			
Other interest bearing loans and borrowings	*32*	**131,491**	6,727
Deposits and other accounts	*31*	**577,074**	415,790
Employee benefits	*32*	**6,555**	7,716
Deferred tax liabilities	*34*	**58,024**	72,640
Provisions	*33*	**17,091**	14,663
Other financial liabilities	*30*	**191,511**	85,718
		1,611,859	1,302,441
TOTAL LIABILITIES		**14,623,088**	12,212,684
TOTAL NET ASSETS		**2,039,216**	1,890,830
Equity			
Share capital	*45*	**71**	96
Share premium		**3,055**	3,055
Revaluation reserve		**271,243**	302,403
Capital redemption reserve		**39**	14
Statutory reserve		**205,124**	185,270
Reserve pertaining to UBL funds		**1,178**	8,133
Translation reserves		**225,775**	222,774
Retained earnings		**612,618**	469,408
Equity attributable to equity holders of the parent		**1,319,103**	1,191,153
Non-controlling interests	*39*	**720,113**	699,677
TOTAL EQUITY		**2,039,216**	1,890,830

The notes on pages 22 to 108 are an integral part of these consolidated financial statements.

These financial statements were approved by the Board of Directors on 22 March 2018 and were signed on its behalf by:

Z M Choudrey, CBE, BA (Hons), FCA — *(Chief Executive)*

M Y Sheikh — *(Director)*

Company registered number: 01392861

Consolidated Statement of Changes in Equity

For the year ended 30 June 2017

	Share capital £000	Share premium £000	Revaluation reserve £000	Capital redemption reserve £000	Statutory reserve £000	Reserve pertaining to UBL funds £000	Translation reserve £000	Retained earnings £000	Total parent equity £000	Non-controlling interests £000	Total £000
At 1 July 2015	96	3,055	235,403	14	141,836	5,301	38,078	525,710	949,493	552,268	1,501,761
Profit for the period	-	-	-	-	-	-	-	134,722	134,722	115,684	250,406
Other comprehensive income for the period	-	-	67,000	-	23,701	2,832	184,696	(171,291)	106,938	92,242	199,180
Total comprehensive income for the period	-	-	67,000	-	23,701	2,832	184,696	(36,569)	241,660	207,926	449,586
Dividends paid	-	-	-	-	-	-	-	-	-	(58,893)	(58,893)
Change in non-controlling interest	-	-	-	-	-	-	-	-	-	(1,624)	(1,624)
Transfers	-	-	-	-	19,733	-	-	(19,733)	-	-	-
At 30 June 2016	96	3,055	302,403	14	185,270	8,133	222,774	469,408	1,191,153	699,677	1,890,830
Profit for the period	-	-	-	-	-	-	-	239,334	239,334	119,525	358,859
Other comprehensive (loss) / income for the period	-	-	(30,788)	-	-	-	3,001	8,348	(19,439)	(18,880)	(38,319)
Total comprehensive (loss) / income for the period	-	-	(30,788)	-	-	-	3,001	247,682	219,895	100,645	320,540
Dividends paid	-	-	-	-	-	-	-	-	-	(66,626)	(66,626)
Repurchase of own shares	-	-	-	-	-	-	-	(92,931)	(92,931)		(92,931)
Change in non-controlling interest	-	-	-	-	-	-	-	-	-	(10,577)	(10,577)
Issuance and repurchase of units	-	-	-	-	-	(6,955)	-	7,941	986	(3,006)	(2,020)
Transfers	(25)	-	(372)	25	19,854	-	-	(19,482)	-	-	-
At 30 June 2017	**71**	**3,055**	**271,243**	**39**	**205,124**	**1,178**	**225,775**	**612,618**	**1,319,103**	**720,113**	**2,039,216**

The notes on pages 22 to 108 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 30 June 2017

	Trading Group 2017 £000	Banking Group 2017 £000	Total Combined 2017 £000	Trading Group 2016 £000	Banking Group 2016 £000	Total Combined 2016 £000
Cash flows from operating activities						
Profit for the year	175,385	184,963	360,348	60,555	196,907	257,462
Adjustments for:						
Share of profit of equity accounted investees	(1,608)	(8,209)	(9,817)	-	(2,703)	(2,703)
Finance income	(678)	-	(678)	(736)	-	(736)
Other gains and losses	(3,523)	(269)	(3,792)	(3,045)	(2,975)	(6,020)
Finance costs	32,415	-	32,415	43,862	-	43,862
One off gain	(102,702)	-	(102,702)	-	-	-
Taxation	49,753	133,433	183,186	32,372	110,872	143,244
Depreciation of property, plant and equipment	39,213	15,903	55,116	35,279	10,899	46,178
Amortisation of intangible assets	37,923	2,941	40,864	37,243	2,690	39,933
Profit on disposal of property, plant and equipment	(206)	-	(206)	(248)	(167)	(415)
Profit on disposal of investment property	(13,548)	-	(13,548)	-	-	-
(Decrease) / increase in provisions	5,022	2,428	7,450	8,380	18,261	26,641
Increase / (decrease) in pension provision	902	(1,161)	(259)	4,122	2,007	6,129
Impairment of goodwill	13,641	-	13,641	11,529	-	11,529
Impairment of intangible assets	(848)	-	(848)	-	-	-
Operating cash flows before movements in working capital	231,141	330,029	561,170	229,313	335,791	565,104
(Increase) / decrease in inventories	(25,586)	-	(25,586)	5,874	-	5,874
Decrease / (increase) in receivables	138,197	(1,019,026)	(880,829)	1,857	(640,684)	(638,827)
Increase in payables	47,846	1,314,470	1,362,316	27,247	1,138,470	1,165,717
Decrease / increase in investments	447	(1,307,050)	(1,306,603)	(10)	(1,481,518)	(1,481,528)
	392,045	(681,577)	(289,532)	264,281	(647,941)	(383,660)
Tax paid	(51,497)	(176,477)	(227,974)	(36,821)	(141,338)	(178,159)
Interest paid	(32,415)	-	(32,415)	(43,862)	-	(43,862)
Net cash from / (used in) operating activities	308,133	(858,054)	(549,921)	183,598	(789,279)	(605,681)
Cash flows from investing activities						
Interest received	678	-	678	736	-	736
Proceeds on disposal of property, plant and equipment	4,921	22,737	27,658	2,862	1,002	3,864
Proceeds on disposal of investment property	30,778	6,602	37,380	781	-	781
Purchases of property, plant and equipment	(56,183)	(72,365)	(128,548)	(35,346)	(38,845)	(74,191)
Purchases of investment property	(282)	-	(282)	(301)	-	(301)
Proceeds on disposal of intangible assets	2,050	-	2,050	1,074	-	1,074
Purchase of intangible assets	(2,385)	(3,089)	(5,474)	(513)	(1,317)	(1,830)
Acquisition of subsidiary net of cash	2,526	-	2,526	(3,709)	-	(3,709)
Dividends received / (paid)	69,205	(69,205)	-	-	-	-
Dividends paid to non-controlling interest	(32,265)	(44,938)	(77,203)	(60,517)	-	(60,517)
Net cash from / (used in) investing activities	19,043	(160,258)	(141,215)	(94,933)	(39,160)	(134,093)

Consolidated Cash Flow Statement *(continued)*
For the year ended 30 June 2017

	Trading Group 2017 £000	Banking Group 2017 £000	Total Combined 2017 £000	Trading Group 2016 £000	Banking Group 2016 £000	Total Combined 2016 £000
Cash flows from financing activities						
Net borrowings (from) / to third parties	(123,624)	1,415,886	1,292,262	(84,910)	800,292	715,382
Net borrowings (from) / to related party	(122,774)	-	(122,774)	11,918	-	11,918
Repurchase of own shares	(92,931)	(2,019)	(94,950)	-	-	-
Net cash (used in) / from financing activities	(339,329)	1,413,867	1,074,538	(72,992)	800,292	727,300
Net (decrease) / increase in cash and cash equivalents	(12,153)	395,555	383,402	15,673	(28,147)	(12,474)
Cash and cash equivalents at beginning of year	82,763	938,405	1,021,168	65,012	856,689	921,701
Effect of foreign exchange rate changes	43	16,430	16,473	2,078	109,863	111,941
Cash and cash equivalents at end of year	70,653	1,350,390	1,421,043	82,763	938,405	1,021,168

The notes on pages 22 to 108 are an integral part of these consolidated financial statements.

Notes *(forming part of the financial statements)*

1. General information

Bestway (Holdings) Limited (the "Company") is a private Company limited by shares, incorporated, domiciled and registered in England in the UK under the Companies Act The registered number is 01392861 and the registered address is 2 Abbey Road, Park Royal. London NW10 7BW.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") and equity account the Group's interest in associates. The parent Company financial statements present information about the Company as a separate entity and not about its Group

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). The Company has elected to prepare its parent Company financial statements in accordance with FRS 101; these are presented on pages 109 to 115.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

Judgements made by the Directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 44.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates.

2. Adoption of new and revised standards

Amendments to IFRSs that are mandatorily effective for the current year

The following new standards and interpretations to existing standards have been published and are mandatory for the Group's future accounting. The application of the amendments has had no material impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

- IAS 1 (amendments): *Financial statement disclosure*
- IAS 27 (amendments): *Separate Financial statements*
- IAS 16 and IAS 38. *Clarification of Acceptable Methods of Depreciation and Amortisation*
- Annual Improvements to IFRSs – 2012-2014 Cycle: *Amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34*

New and revised IFRSs in issue but not yet effective

At the date of authorisation off these financial statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and had not yet been adopted by the EU;

- IFRS 9: *Financial instruments*
- IFRS 15: *Revenue from contracts with customers*
- IFRS 16: *Leases*
- IAS 12 (amendments): *Recognition of Deferred Tax Assets for Unrealised Losses*
- IAS 7 (amendments). *Disclosure Initiative*
- IAS 40 (amendments): *Investment Property*
- Annual Improvements to IFRSs – 2014-2016 Cycle
- IFRIC Interpretation 22: *Foreign Currency Transactions and Advance Consideration*

Standards which the Directors believe may have a material impact on the financial statements are discussed in detail below:

- *IFRS 9. Financial Instruments*

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments

IFRS 9 is effective for annual periods beginning on or after 1 January 2018. with early adoption permitted.

Notes *(continued)*

2. Adoption of new and revised standards *(continued)*

***New and revised IFRSs in issue but not yet effective** (continued)*

The actual impact of adopting IFRS 9 on the Group's consolidated financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Group holds, particularly within the Banking Group, and economic conditions at that time as well as accounting elections and judgements that it will make in the future. The new standard will require the Group to revise its accounting processes and internal controls related to reporting financial instruments and these changes are not yet complete.

Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows: and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective by both collecting contractual cash flows and selling financial assets, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI This election is made on an investment-by-investment basis

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset is classified into one of these categories on initial recognition. However, for financial assets held at initial application, the business model assessment is based on facts and circumstances at that date Also, IFRS 9 permits new elective designations at FVTPL or FVOCI to be made on the date of initial application and permits or requires revocation of previous FVTPL elections at the date of initial application depending on the facts and circumstances at that date.

Impairment – Financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets. Under IFRS 9, loss allowances will be measured on either of the following bases:

– 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
– lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component. The expectation is that impairment losses are likely to increase and become more volatile for assets in the scope of the IFRS 9 impairment model.

Notes *(continued)*

2. Adoption of new and revised standards *(continued)*

***New and revised IFRSs in issue but not yet effective** (continued)*

Classification - Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

– the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and

– the remaining amount of change in the fair value is presented in profit or loss.

The Group will start the process of evaluating the impact of this new standard over the next 6 months.

- *IFRS 15. Revenue from contracts with customers*

In April 2016, the IASB issued clarifications to IFRS 15, which provides additional clarity on revenue recognition related to identifying performance obligations, application guidance on principal versus agent and licenses of intellectual property. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The Group will start the process of evaluating the impact of this new standard over the next 6 months

- *IFRS 16: Leases*

In January 2016, the IASB issued IFRS 16 Leases ("IFRS 16"), which provides guidance for leases whereby lessees will recognise a liability for the present value of future lease liabilities and record a corresponding asset on the balance sheet. There are minimal changes to lessor accounting IFRS 16 is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

The Group are assessing the impact of the accounting changes that will arise under IFRS 9, IFRS 15 and IFRS 16 and at this point it is not possible to definitely determine whether the changes will have a material impact on the consolidated income statement and consolidated balance sheet. Beyond the information above, it is not practicable to provide a reasonable estimate of this effect.

The Group will start the process of evaluating the impact of this new standard over the next 6 months.

All other new and revised Standards are not expected to have a material impact on the financial statements.

3. Significant accounting policies

Basis of accounting

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Going concern

The Group accounts have been prepared on a going concern basis. The Group balance sheet shows net assets of £2 billion (2016: £1.9 billion) as at the balance sheet date The Group is profitable with profit after tax of £360 million (2016. £257 million) in 2017. The Group has significant cash and bank balances of £1.4 billion (2016: £1.0 billion). It is for these reasons that the Directors believe it is appropriate to prepare the accounts on a going concern basis. The Directors are confident that the Group has access to sufficient financial resources to meets its liabilities as they fall due for at least 12 months from the date of signing these financial statements

Notes *(continued)*

3. Significant accounting policies *(continued)*

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Due to the size and significance of the United Bank Limited, in order to provide users of the financial statements clarity in the financial statements, the results have been separately disclosed between those of the "Trading Group" (incorporating the Holding Companies, Wholesale, Pharmacy and Cement operations) and those of the "Banking Group" (incorporating the Bank and Insurance operations).

Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 per cent of the voting power of another entity.

Associates are accounted for using the equity method (equity accounted investees) and are initially recognised at cost except for in the individual financial statements of the investor, where this is held at cost less any impairment losses. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the total comprehensive income and equity movements of equity accounted investees, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

Change in subsidiary ownership and loss of control

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Business combinations

All business combinations are accounted for by applying the acquisition method. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

-the fair value of the consideration transferred; plus
-the recognised amount of any non-controlling interests in the acquiree; plus
-the fair value of the existing equity interest in the acquiree; less
-the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

On a transaction-by-transaction basis, the Group elects to measure non-controlling interests, which have both present ownership interests and are entitled to a proportionate share of net assets of the acquiree in the event of liquidation, either at its fair value or at its proportionate interest in the recognised amount of the identifiable net assets of the acquiree at the acquisition date. All other non-controlling interests are measured at their fair value at the acquisition date.

Notes *(continued)*

3. Significant accounting policies *(continued)*

Foreign Currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency, Sterling, at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve or non-controlling interest, as the case may be.

Intangible assets- Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment in the investee

Intangible assets- Licences and other intangible assets

Intangible assets acquired on the acquisition of pharmacies are stated at cost less accumulated amortisation. Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Amortisation

Amortisation is charged to administrative expenses in the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Licenses	20 years
Software	3 - 10 years

Revenue recognition

Wholesale

Revenue is measured at the fair value of the consideration received or receivable and represents the invoiced amounts receivable for goods provided to customers in the normal course of business, net of discounts, VAT and other sales-related taxes. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Revenue is recognised when the risks and rewards of ownership are transferred to the customer, which is at the point of sale (or on despatch for delivered items)

The revenue and profit before taxation were derived from its principal activity and performed solely in the United Kingdom.

Pharmacy

Revenue includes cash sales and goods sold on credit, exclusive of VAT. NHS sales, included in Group revenue are estimated for May to June by reference to the number of items dispensed, the expected cost of drugs, together with the remuneration element published by the National Health Service. Revenue is recognised when the risks and rewards of ownership are transferred to the customer, which is at the point of sale (or on despatch for delivered items)

Cement

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised on the despatch of goods to the customer.

Investment Property

Revenue represents the gross value of rents receivable. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Notes *(continued)*

3. Significant accounting policies *(continued)*

Leases

The Group as lessee

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans and other post employment benefits is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Group determines the net interest on the net defined benefit liability/asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset).

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the Group's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Group recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs. The gain or loss on a settlement is the difference between the present value of the defined benefit obligation being settled as determined on the date of settlement and the settlement price, including any plan assets transferred and any payments made directly by the Group in connection with the settlement.

The Group presents defined benefit costs within administrative expenses (see note 35) in its consolidated income statement. Net-interest expense or income is recognised within finance expenses (see note 13).

Investment property

Investment property, which is property held to earn rentals and / or for capital appreciation (including property under construction for such purposes), is stated at its fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Rental income from investment property is accounted for as described in the revenue recognition accounting policy.

Notes *(continued)*

3. Significant accounting policies *(continued)*

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised For investment property that is measured at fair value deferred tax is provided at the rate applicable to the sale of the property except for that part of the property that is depreciable and the Group's business model is to consume substantially all of the value through use. In the latter case the tax rate applicable to income is used.

Property, plant and equipment

Property, plant and equipment within the trading Group are stated at historical cost less accumulated depreciation and accumulated impairment losses. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Land and buildings within the Banking Group are revalued by professionally qualified valuers every 24 months to ensure that their net carrying value does not differ materially from their fair value. A surplus arising on revaluation is credited to the surplus on revaluation of fixed assets account. Any deficit arising on subsequent revaluation of fixed assets is adjusted against the balance in the above-mentioned surplus account The surplus on revaluation of fixed assets, to the extent of incremental depreciation, is transferred to unappropriated profit.

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described above

Assets in the course of construction represent the assets under development but not yet complete at the balance sheet date. All such assets are held at cost and transferred to the relevant asset class on completion.

Depreciation method, useful lives and residual value are reviewed at each balance sheet date. Depreciation is charged to the income statement for all property, plant and equipment other than freehold and long leasehold land at rates calculated to write each asset down to its estimated residual value over its expected useful life as follows:

Freehold and long leasehold properties	2% straight line
Plant and machinery	5 - 25% straight line or reducing balance
Fixtures, fittings and equipment	10 - 25% reducing balance
Motor vehicles	20 - 25% reducing balance

Classification of financial instruments issued by the Group

Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

Notes *(continued)*

3. Significant accounting policies *(continued)*

Classification of financial instruments issued by the Group *(continued)*

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, interest-bearing loans and borrowings, and trade and other payables.

Investments in debt and equity securities

Investments in debt and equity securities are stated at amortised cost less impairment. Financial instruments held for trading or designated upon initial recognition are stated at fair value, with any resultant gain or loss recognised in profit or loss.

Other investments in debt and equity securities held by the Group are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity (in the fair value reserve), except for impairment losses and, in the case of monetary items such a debt securities, foreign exchange gains and losses. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Interest-bearing loans and borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Intra-group financial instrument

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Provision is made for obsolete and slow moving items.

Impairment excluding inventories, investment properties and deferred tax assets

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Notes *(continued)*

3. Significant accounting policies *(continued)*

***Impairment excluding inventories, investment properties and deferred tax assets** (continued)*

Financial assets (including receivables) (continued)

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ("CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Retrospective rebates and discounts

The Group's cash and carry subsidiaries negotiate discounts directly with suppliers. These discounts are accounted for once the Directors are confident that those companies are entitled to the discount. Supplier allowances and credits are recorded as a reduction of cost of sales as they are earned according to the underlying agreement. Allowances consist primarily of promotional allowances, quantity discounts and payments under merchandising agreements Amounts received under promotional or other merchandising allowance agreements that require specific performance are recognised when the performance is satisfied, the amount is fixed and determinable and the collection is reasonably assured.

Financial income and expenses

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis

Reserves Categorisation

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations, as well as the effective portion of any foreign currency differences arising from hedges of a net investment in a foreign operations.

Notes *(continued)*

3. Significant accounting policies *(continued)*

Reserves Categorisation *(continued)*

UBL Funds

The reserve pertaining to UBL funds relates to the consolidated general reserve position on the mutual funds under management of UBL Fund Managers Limited.

Statutory reserve

The statutory reserve is in relation to the requisition of State of Bank of Pakistan's Banking Companies Ordinance, which requires the transfer of certain percentage of profits to a statutory capital reserve to meet capital adequacy requirements.

Revaluation reserves

The revaluation reserve relates to the revaluation of property, plant and equipment immediately before its reclassification as investment property and the revaluation of available for sale securities.

The Banking Group additional specific accounting policies

Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts the estimates future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest income and expense presented in the statement of profit or loss and OCI include:

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis; and
- Interest on available-for-sale investment securities calculated on an effective interest basis

Fair value changes on other derivatives held for risk management purposes, and other financial assets and financial liabilities carried at FVTPL are presented in net income from other financial instruments at FVTPL in the statement of profit or loss and OCI.

Fees, commission and brokerage income

Fees, commission and brokerage income are recognised during the year on an accrual basis when the service has been rendered, except when those fees are an adjustment to the yield on the related asset, in which case they are amortised over the expected maturity of the asset using the effective interest rate method.

Dividend income

Dividend income is recognised when the right to receive the dividend is established.

Notes *(continued)*

3. Significant accounting policies *(continued)*

The Banking Group additional specific accounting policies *(continued)*

Insurance revenue

Premium received under a policy is recognised as written from the date of attachment of the policy to which it relates. Premium income under a policy is recognised over the period of insurance from inception to expiry as follows:

(a) For direct business, evenly over the period of the policy;

(b) For proportional reinsurance business, evenly over the period of underlying insurance policies; and

(c) For non-proportional reinsurance business, in accordance with the pattern of the reinsurance service.

Where the pattern of incidence of risk varies over the period of the policy, premium is recognised as revenue in accordance with the pattern of the incidence of risk.

Administrative surcharge is recognised as premium at the time the policies are written.

Commission income from re insurers is recognised at the time of issuance of the underlying insurance policy by the Banking Group. This income is defined and accounted for as revenue in accordance with the pattern of recognition of the reinsurance premium to which it relates. Profit commission, if any, which the Banking Group may be entitled to under the terms of reinsurance is recognised on an accrual basis.

Dividend income is recognised when the right to receive the dividend is established.

Gain / loss on sale / redemption of investments is taken to profit and loss account in the year of sale / redemption

Profit on held to maturity instruments is recognised on a time proportion basis taking into account the effective yield on the investment.

Interest / profit on bank deposit accounts is accounted for on an accrual basis.

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rates prevailing on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in GBP terms at the rates of exchange prevailing at the statement of financial position date (£1: PKR 136.11). Forward foreign exchange contracts and foreign bills purchased are measured at fair value using forward exchange rates applicable to their respective maturities

Non-monetary assets and liabilities in foreign currencies are expressed in GBP terms at the rates of exchange prevailing at the date of initial recognition of the non-monetary assets or liabilities

Translation gains and losses

Translation gains and losses are taken to the profit and loss account, except those arising on translation of foreign currency equity securities classified as Available for Sale and on translation of the net investment in foreign branches and subsidiaries which are taken to reserves until the disposal of the net investment, at which time these are recognised in the profit and loss account.

Foreign operations and subsidiaries

The assets and liabilities of foreign operations and subsidiaries are translated to GBP at exchange rates prevailing at the statement of financial position date. The results of foreign operations and subsidiaries are translated at the average rate of exchange for the year.

Loans and advances

Loans and advances to banks/customers are initially measured at fair value plus incremental direct transaction costs and subsequently measured at their amortised cost (less impairment losses) using the effective interest method. For details pertaining to impairment, refer to accounting policy section on impairment

Advances are written off when there is no realistic prospect of recovery The amount so written off is a book entry and does not necessarily prejudice the Banking Group's right of recovery against the customer.

Notes *(continued)*

3. Significant accounting policies *(continued)*

The Banking Group additional specific accounting policies *(continued)*

Restructured Loans

A restructured loan is one where the Banking Group, for economic or legal reasons relating to the borrower's difficulty, grants to the borrower concessions that would not be considered in normal circumstances. Restructuring would normally involve modification of the terms of advances / securities which could include alteration of repayment period / repayable amount / the amount of instalments / rate of interest (due to reasons other than competition). The restructuring of an asset is only granted in situations where the customer has showed a willingness to repay the borrowing and is expected to be able to meet the revised terms of the restructuring. The restructured troubled loan is measured by reducing its recorded value to its net realisable value, taking into account the cost of all concessions at the date of the restructuring. The reduction in the carrying value is recorded as a charge to the profit and loss statement in the period in which the loan is restructured.

In relation to loans and advances, the modifications of terms and conditions related to security and collateral arrangements or the waiver of certain covenants which do not affect payment arrangements, are not regarded as sufficient indicators of impairment or restructuring, as such changes do not necessarily indicate credit issues affecting the borrower's payment ability.

The Banking Group derecognises a loan when there are substantial modifications to the terms of the loan on restructuring

Reverse Repurchase agreement

In this case, the amount advanced (being the purchase price) is classified as loans and advances while the differential between the purchase price and the resale price is amortised over the period of the agreement and recorded as interest income. Securities held as collateral are not recognized in the books, unless these are sold to third parties, in which case the obligation to return them is recorded at fair value as a trading liability under borrowings from financial institutions.

Investment securities

Investments of the Group, other than investments in subsidiaries and associates, are classified as held for trading, held to maturity and available for sale.

Held for trading

The Group classifies its investments in equity and debt instruments as held for trading and these are fair valued with any gains / losses taken through profit and loss. These are the securities which are either acquired for generating a profit from short-term fluctuations in market prices, interest rate movements and dealer's margin, or are securities included in a portfolio in which a pattern of short term profit taking exists.

Held to maturity

These are securities with fixed or determinable payments and fixed maturities, in respect of which the Banking Group has the positive intent and ability to hold to maturity.

Available for sale

These are investments, other than those in subsidiaries and associates that do not fall under the held for trading or held to maturity categories.

Initial measurement

All purchases and sales of investments are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the investment. Investments are initially recognised at fair value which, in the case of investments other than held for trading, includes transaction costs associated with the investments. Transaction costs on investments held for trading are expensed as incurred.

Subsequent measurement

Held for trading

These are measured at subsequent reporting dates at fair value. Gains and losses on re-measurement are included in the profit and loss account.

Held to maturity

These are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts.

Notes *(continued)*

3. Significant accounting policies *(continued)*

The Banking Group additional specific accounting policies *(continued)*

Investment securities *(continued)*

Subsequent measurement *(continued)*

Available for sale

Investments in debt and equity securities held by the Group are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity (in the revaluation reserve), except for impairment losses. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

Financial assets

Initial measurement

All financial assets are recognised initially at fair value other than specific policies disclosed for Loans and advances.

Subsequent measurement

Financial assets, other than the specific items mentioned above, are carried at fair value with changes reportable to profit and loss.

Derecognition

Financial assets are derecognised when the right to receive the cashflows has expired.

Impairment

Losses for impaired loans are recognised when there is objective evidence that impairment of a loan or portfolio of loans has occurred Losses which may arise from future events are not recognised.

Impairment of financial instruments carried at amortised cost or debt securities

The Banking Group considers evidence of impairment for loans and advances, held-to-maturity and available for sale investment securities at both a specific asset and a collective level All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

The Banking Group assesses a financial asset for specific impairment if it becomes probable that the borrower is facing significant financial difficulty. The Banking Group also assesses for specific impairment and makes specific provision if necessary, if there is evidence of any significant credit deterioration or any event which indicates a reduced ability for the borrower to repay its interest and principal. The indicators of impairment can include, among other things:

a) Net worth of the risk counterparty / borrower turning negative
b) Delay in interest and or principal repayments
c) Breach in financial covenants
d) Likelihood of borrower entering bankruptcy / financial reorganization.
e) Rating downgrade by external credit rating agencies.
f) National or local economic conditions that correlate with defaults on the assets in the borrower group (e.g. an increase in the unemployment rate in the geographical area of the borrowers, a decrease in oil prices for loan assets to oil producers, or adverse changes in industry conditions that affect the borrowers in the group).
g) Substantial decline in value of security provided to the Bank, especially when security is prime consideration for the lending. The unsecured portion of the exposure may be subjected to impairment testing.
h) Invocation of contractual comfort by the Bank such as corporate guarantee/put option which is not honoured by the counterparty

In assessing collective impairment, the Banking Group uses statistical modelling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than is suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate

Notes *(continued)*

3. Significant accounting policies *(continued)*

The Banking Group additional specific accounting policies *(continued)*

Impairment *(continued)*

Impairment losses on loans and receivables and debt securities classified as held to maturity are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

Impairment of available for sale debt securities

Impairment losses on available for sale (AFS) investment securities are recognised by reclassifying the losses accumulated in the revaluation reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. If, in a subsequent period, the fair value of an AFS debt instrument increases and the increase can be objectively related to an event happening after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

IAS 39 does not further describe the nature of an 'event' that gives rise to reversal of an impairment loss through profit or loss, nor does it discuss situations in which there continues to be some objective evidence of impairment but in which the amount of the impairment may be reduced

The Banking Group considers all available evidence of impairment, including observable market data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows These events may include a significant financial difficulty of the issuer, a breach of contract such as a default, bankruptcy or other financial reorganisation, or the disappearance of an active market for the debt security because of financial difficulties relating to the issuer, information about the issuer's liquidity, business and financial risk exposures, level of and trends in default for similar financial assets, national and local economic conditions. While assessing for objective evidence of impairment, the Group considers the performance of the underlying collateral, changes in credit rating, credit enhancements, default events etc.

Impairment loss is calculated as the difference between the carrying amount and the fair value.

Impairment losses are recognised in profit or loss. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

Available for sale equity investments are impaired when there has been a significant or prolonged decline in their fair value below their cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates, among other factors, the normal volatility in share price.

Impairment of investments in associates

The Group considers that a decline in the recoverable value of the investment in an associate below its cost may be evidence of impairment. Recoverable value is calculated as the higher of fair value less costs to sell and value in use. An impairment loss is recognised when the recoverable value falls below the carrying value and is charged to the profit and loss account. A subsequent reversal of an impairment loss, up to the cost of the investment in the associate, is credited to the profit and loss account.

Impairment in non-financial assets (excluding deferred tax)

The carrying amounts of non-financial assets are reviewed at each reporting date for impairment whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable. If such indication exists, and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amount. The resulting impairment loss is charged to the profit and loss account except for an impairment loss on revalued assets, which is adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the revaluation surplus.

Derivative financial instruments

Derivative financial instruments are included in trade and other receivables and are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value using appropriate valuation techniques. All derivative financial instruments are carried as assets when their fair value is positive and liabilities when their fair value is negative. Any change in the fair value of derivative financial instruments during the period is taken to the profit and loss account.

Notes *(continued)*

3. Significant accounting policies *(continued)*

The Banking Group additional specific accounting policies *(continued)*

Hedge accounting

The Banking Group makes use of derivative instruments to manage exposures to interest rate and foreign currency. In order to manage particular risks, the Banking Group may undertake a hedge. The Banking Group applies hedge accounting for transactions which meet the specified criteria.

At the inception of the hedging relationship, the Banking Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. A formal assessment is also undertaken to ascertain whether the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. A hedge is regarded as highly effective if, during the period for which the hedge is designated, changes in the fair value or cash flows attributable to the hedged item are expected to be offset by between 80% to 125% by corresponding changes in the fair value or cash flows attributable to the hedging instrument.

For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedge is recognised initially in the statement of changes in equity, and recycled through the profit and loss account in the periods when the hedged item will affect profit or loss. Any gain or loss on the ineffective portion of the hedging instrument is recognised in the profit and loss account immediately.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the hedged item is ultimately recognised in the profit and loss account.

Non-derivative financial instruments

Non-derivative financial instruments comprise investments, trade and other debtors, cash and cash equivalents, loans and borrowings, and trade other creditors

Offsetting financial instruments

Financial assets and financial liabilities are set off and the net amount is reported in the financial statements when there is a currently legally enforceable right to set off and the Banking Group intends to either settle on a net basis, or to realise the assets and to settle the liabilities simultaneously.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Banking Group has access to at that date. The fair value of a liability reflects its non-performance risk.

When available, the Banking Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, the Banking Group then uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received.

The Banking Group recognises transfers (if any) between levels of the fair value hierarchy as of the end of the reporting period.

Borrowings and deposits

Borrowings and deposits from banks and deposits from customers are recorded at fair value which is the amount of proceeds received and subsequently under amortised cost accounting.

Borrowings from banks also include securities sold under repurchase agreements. Securities sold subject to a repurchase agreement are continued to be recorded as investments since the risk and rewards associated with the security is not transferred while the amount of cash advanced is reported as borrowings from financial institutions. The differential between the sale price and the repurchase price is amortised over the period of the agreement and recorded as an interest expense.

Deposits include remunerative and non-remunerative deposits. Non-remunerative deposits are non interest bearing whereas the remunerative deposits are of saving or term nature with interest component.

Notes *(continued)*

3. Significant accounting policies *(continued)*

The Banking Group additional specific accounting policies *(continued)*

Bills payable

Bills payable represent payables against the banker's cheques which are secured cheques by the Banking Group in favor of payee after collection of funds from the remitter.

Provisions

A provision is recognised if, as a result of a past event, the Banking Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle an obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

Insurance contracts

Insurance contracts are those contracts under which the Banking Group as insurer has accepted significant insurance risk from the insurance contract holder (insured) by agreeing to compensate the insured if a specified uncertain future event (the insured event) adversely affects the insured. Once a contract has been classified as an insurance contract it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

The takaful contracts are based on the principles of Wakala. The takaful contracts which are agreed, usually adopt the concept of tabarru (to donate for benefit of others) and mutual sharing of losses with the overall objective of eliminating the element of uncertainty.

Leases (Ijarah)

Assets leased out under Ijarah are considered to be operating lease and are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Assets under Ijarah are depreciated over the term of the lease.

Ijarah income is recognized on an accrual basis.

Insurance contracts / takaful are classified into following main categories, depending on the duration of risk and whether or not the terms and conditions are fixed.

- Fire and property damage
- Marine, aviation and transport
- Motor
- Miscellaneous

These contracts are normally one year insurance contracts except marine and some contracts of fire and property and miscellaneous class. Normally all marine insurance contracts and some fire and property contracts have three months period. In miscellaneous class, some engineering insurance contracts have more than one year period whereas normally travel insurance contracts expired within one month time.

Fire and property insurance contracts mainly compensate the Banking Group's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities.

Marine, aviation and transport insurance covers the loss or damage of ships, cargo, terminals, and any transport or property by which cargo is transferred, acquired, or held between the points of origin and final destination.

Motor insurance is to provide protection against losses incurred as a result of traffic accidents and against liability that could be incurred in an accident.

Miscellaneous insurance includes various types of coverage mainly burglary, loss of cash in safe and cash in transit, engineering losses, accident and health, money and other coverage

Bankers blanket insurance covers losses as a result of dishonest or fraudulent acts by officers and employees of the bank, including on premises coverage of cash, coverage of cash during transit and coverage of forged cheques.

The Banking Group also accepts insurance risk pertaining to insurance contracts of other insurer as reinsurance inward The insurance risk involved in these contracts is similar to the contracts undertaken by the Banking Group as insurer. All reinsurance inward contracts are facultative (specific risk) acceptance contracts.

Notes *(continued)*

3. Significant accounting policies *(continued)*

The Banking Group additional specific accounting policies *(continued)*

Reinsurance contracts

These are contracts entered into by the Banking Group with reinsurers for compensation of losses suffered on insurance contracts issued. These reinsurance contracts include both facultative and treaty arrangements contracts and are classified in same categories of insurance contracts for the purpose of these special purpose financial statements.

Reinsurance assets represent balances due from reinsurance companies and reinsurance recoveries against outstanding claims Due from reinsurance companies are carried at cost less any provision for impairment. Cost represents the fair value of the consideration to be received. Reinsurance recoveries against outstanding claims are measured at the amount expected to be received

Reinsurance assets are not offset against related insurance liabilities. Income or expenses from reinsurance contract are not offset against expenses or income from related insurance assets.

Reinsurance liabilities represent balances due to reinsurance companies Due to reinsurance companies are carried at cost which is the fair value of the consideration to be paid.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expired.

Insurance contract liabilities

The Banking Group recognizes liability in respect of all claims incurred up to the statement of financial position date which is measured at the undiscounted value of expected future payments. These liabilities are known as provision for outstanding claims. The claims are considered at time of the incident giving rise to the claim except as otherwise expressly indicated in the insurance contract The liability for claims includes amount in relation to unpaid reported claim, claims incurred but not reported (IBNR) and expected claims settlement cost.

Provision for liability in respect of unpaid reported claims is made on the basis of individual case estimates.

Staff retirement and other benefits

The Banking Group operates the following staff retirement schemes for its employees

a) For new employees and for those who opted for the below mentioned conversion option introduced in 2001, the Banking Group operates,

- an approved contributory provident fund (defined contribution scheme), and
- an approved gratuity scheme (defined benefit scheme).

b) For employees who have not opted for the conversion option introduced in 2001, the Banking Group operates ;

- an approved non-contributory provident fund in lieu of the contributory provident fund; and
- an approved funded pension scheme, introduced in 1986 (defined benefit scheme).

In 2001, the Banking Group modified the pension scheme and introduced a conversion option for employees covered under option (b) above to move to option (a). This conversion option ceased on 31 December 2003.

The Banking Group also operates a contributory benevolent fund for all its eligible employees (defined benefit scheme).

Annual contributions towards defined benefit schemes are made on the basis of actuarial advice using the Projected Unit Credit Method.

For the defined contribution scheme, the Banking Group pays contributions to the fund on a periodic basis and has no further payment obligation once the contributions have been paid. The contributions are recognised as an expense when the obligation to make payments to the fund has been established. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Other benefits

a) Employees' compensated absences

The Banking Group makes provisions for compensated vested and non-vested absences accumulated by its eligible employees on the basis of actuarial advice under the Projected Unit Credit Method

b) Post retirement medical benefits (defined benefit scheme)

Notes *(continued)*

3. Significant accounting policies *(continued)*

The Banking Group additional specific accounting policies *(continued)*

Staff retirement and other benefits *(continued)*

The Banking Group provides post retirement medical benefits to eligible retired employees. Provision is made on the basis of actuarial advice under the Projected Unit Credit Method.

c) Employee motivation and retention scheme

The Banking Group has a long term motivation and retention scheme for its employees. The liability of the Banking Group in respect of the scheme for each year, if any, is fixed, and is accounted for in the year to which the scheme relates.

Remeasurement of Defined Benefit Obligations

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the statement of comprehensive income when they occur with no subsequent recycling through the profit and loss account.

Actuarial gains and losses pertaining to long term compensated absences are recognised in the profit and loss account immediately.

4. Operating segments

The Group's revenue and profit before taxation arose principally from its banking, cement, wholesale and pharmacy activities. The Group's revenue, profits before taxation and net assets are principally attributable to activities in the United Kingdom and Pakistan. Segmental analysis is presented after elimination of intra-group sales, profits / (losses) and balances.

The Holding Company analysis disclosed below pertains to Bestway (Holdings) Limited, Bestway UK HoldCo Limited and Bestway Securities Limited. Included within these figures are the interest costs relating to debt required for the acquisition of Bestway Panacea Holdings Limited, impairment of goodwill for all entities where goodwill arises in the holding company, gains arising on the group reorganisation, foreign exchange movements and elimination of subsidiaries retained earnings on acquisition where applicable.

	Wholesale	**Pharmacy**	**Cement**	**Banking Group**	**Holding Companies**	**Total**
	2017	**2017**	**2017**	**2017**	**2017**	**2017**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Revenue	**1,779,797**	**779,208**	**388,716**	**-**	**-**	**2,947,721**
Net interest income	**-**	**-**	**-**	**432,300**	**-**	**432,300**
Profit before taxation	**33,717**	**3,555**	**124,942**	**318,395**	**62,924**	**543,533**
Net assets	**503,174**	**280,271**	**350,811**	**1,238,987**	**(334,027)**	**2,039,216**

	Wholesale	Pharmacy	Cement	Banking Group	Holding Companies	Total
	2016	2016	2016	2016	2016	2016
	£000	£000	£000	£000	£000	£000
Revenue	1,714,286	802,732	295,685	-	-	2,812,703
Net interest income	-	-	-	395,602	-	395,602
Profit / (loss) before taxation	7,109	27,542	96,731	307,779	(38,455)	400,706
Net assets	282,372	273,235	299,830	1,221,881	(186,488)	1,890,830

Notes *(continued)*

5. Revenue

Trading Group	**2017**	2016
	£000	£000
Wholesale. sale of goods	**1,773,111**	1,706,494
Pharmacy: sale of goods	**779,208**	802,732
Cement: sale of goods	**388,509**	295,510
Investment property· rental income	**6,893**	7,967
	2,947,721	2,812,703

6. Interest income

Banking Group	**2017**	2016
	£000	£000
Operating Interest Income on.		
Available for sale investments	**266,728**	238,003
Held for trading securities	**12,059**	13,400
Held to maturity securities	**226,918**	188,584
Loans and advances to financial institutions	**15,680**	7,622
Loans and advances to customers	**243,574**	209,507
Placement with banks	**1,576**	2,618
	766,535	659,734

Interest income on individually impaired loans is £28.9 million (2016: £23.5 million)

6a. Net written premiums

Banking Group	**2017**	2016
	£000	£000
Gross written premium		
Gross premiums written	**17,548**	14,428
Change in provision for unearned premiums	**393**	(2,377)
	17,941	12,051
Premium ceded to reinsurer		
Re-insurance ceded	**(10,058)**	(9,003)
Change in prepaid reinsurance premium ceded	**(487)**	1,463
	(10,545)	(7,540)
Net written premiums	**7,396**	4,511

Notes *(continued)*

6b. Net benefits and claims

Banking Group

	Gross benefits and claims paid	Claims ceded to reinsurers	Gross change in contract liabilities	Change in contract liabilities ceded to reinsurers	Net benefits and claims
	2017	**2017**	**2017**	**2017**	**2017**
	£000	**£000**	**£000**	**£000**	**£000**
Fire	**(2,586)**	**2,347**	**331**	**(225)**	**(133)**
Marine	**(430)**	**386**	**(56)**	**30**	**(70)**
Motor	**(2,108)**	**355**	**(104)**	**12**	**(1,845)**
Miscellaneous	**(5,846)**	**4,218**	**(2,618)**	**2,677**	**(1,569)**
Total	***(10,970)***	***7,306***	***(2,447)***	***2,494***	***(3,617)***

	Gross benefits and claims paid	Claims ceded to reinsurers	Gross change in contract liabilities	Change in contract liabilities ceded to reinsurers	Net benefits and claims
	2016	2016	2016	2016	2016
	£000	£000	£000	£000	£000
Fire	(821)	733	(1,421)	1.367	(142)
Marine	(274)	220	(38)	56	(36)
Motor	(1,367)	285	65	(49)	(1,066)
Miscellaneous	(2,322)	1,753	(1,538)	1,354	(753)
Total	(4,784)	2,991	(2,932)	2,728	(1,997)

7. Net fee, commission and brokerage income

Banking Group	**2017**	2016
	£000	£000
Commission on remittances	**10,101**	11,804
Rebate income on home remittances - net*	**6,859**	6,675
Commission on ATM / Debit cards	**8,581**	6,371
Corporate service charges / finance / facility fee	**11,040**	10.550
Commission on intercity cheque / cash deposit and withdrawals	**3,596**	3,452
Commission on cash management	**4,436**	3,394
Trade income	**19,576**	17,947
Bank assurance commission	**5,578**	4,562
Commission on consumer loans	**5,732**	4,809
Minimum balance charges	**2,046**	2,139
Commission on inward / outward cheque clearance	**1,351**	1,127
Commission on utility bills	**2,034**	1,813
Commission on cheque book issuance	**2,734**	2,525
Commission from financial institutions	**1,650**	2,432
Fee for management of funds	**8,879**	4,536
Others	**11,302**	7,287
	105,495	91,423

* This includes pay out to correspondents for home remittances amounting to £19.5 million (2016: £17 3 million)

Notes *(continued)*

8. Other operating income

Trading Group	2017 £000	2016 £000
Net gain on disposal of investment property	**13,548**	-
Net gain on disposal of property, plant and equipment	**206**	194
Management fee income from a related party	**4,101**	4,874
Other income	**596**	2,121
	18,451	7,189

Banking Group	2017 £000	2016 £000
Investment property rental income	**1,576**	1,314
Other income	**521**	251
	2,097	1,565

9. *Gains and losses on investments*

Banking Group	2017 £000	2016 £000
Income from dealing in foreign currencies	**13,174**	14,528
Gain on sale of securities – realised	**37,656**	36,614
Unrealised gain on revaluation of investments classified as held for trading	**466**	3,014
Other income	**4,640**	5,999
	55,936	60,155

This relates to investment income, gains and losses relating to banking operations other than net interest income. Other investment income is shown in note 8, which relates to non-operating investment revenues.

10. Expenses and auditor's remuneration

Included in profit are the following:	Trading Group 2017 £000	Banking Group 2017 £000	Total 2017 £000	Trading Group 2016 £000	Banking Group 2016 £000	Total 2016 £000
Unrealised (gain) on revaluation of investments classified as held for trading	**-**	**(466)**	**(466)**	-	(3,014)	(3,014)
Impairment of goodwill	**13,641**	**-**	**13,641**	11,529	-	11,529
(Increase) in fair value of investment property	**(3,523)**	**(269)**	**(3,792)**	(3,045)	(2,975)	(6,020)
Operating expenses of investment property	**700**	**-**	**700**	200	-	200
Restructuring costs expensed as incurred	**6**	**-**	**6**	4,273	-	4,273

The restructuring costs relate to the separation of the pharmacy business from its legal parent and set-up of the operation as a discrete re-branded business known as Well Pharmacy. This process was completed in November 2015

Notes *(continued)*

10. Expenses and auditor's remuneration *(continued)*

Auditor's remuneration:	**2017 £000**	2016 £000
Audit of these financial statements	**15**	15
Amounts receivable by the Company's auditor and its associates in respect of		
Audit of financial statements of subsidiaries of the Company	**658**	653
Taxation compliance services	**202**	125
Other tax advisory services	**69**	-
All other services	**192**	42
	1,136	835

Amounts paid to the Company's auditor and its associates in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

11. Staff numbers and costs

The average monthly number of employees (including executive Directors) was:

	Trading Group 2017 Number	**Banking Group 2017 Number**	**Total 2017 Number**	Trading Group 2016 Number	Banking Group 2016 Number	Total 2016 Number
Office and Management	**2,574**	**-**	**2,574**	2,407	-	2,407
Retailing	**9,585**	**-**	**9,585**	9,527	-	9,527
Manufacturing	**1,611**	**-**	**1,611**	1,438	-	1,438
Distribution	**659**	**-**	**659**	660	-	660
Banking	**-**	**10,693**	**10,693**	-	10,256	10,256
	14,429	**10,693**	**25,122**	14,032	10,256	24,288

Their aggregate remuneration comprised:

	Trading Group 2017 £000	**Banking Group 2017 £000**	**Total 2017 £000**	Trading Group 2016 £000	Banking Group 2016 £000	Total 2016 £000
Wages & salaries	**239,869**	**110,624**	**350,493**	224,543	91,008	315,551
Social security costs	**17,658**	**1,111**	**18,769**	16,997	966	17,963
Other pension costs	**5,421**	**1,044**	**6,465**	5,468	1,032	6,500
	262,948	**112,779**	**375,727**	247,008	93,006	340,014

Notes *(continued)*

12. Finance income

Trading Group	2017 £000	2016 £000
Bank deposits	**18**	129
Other interest	**105**	-
Interest from related parties	**555**	607
	678	736

13. Finance expense

Trading Group	2017 £000	2016 £000
Interest on bank overdrafts and loans	**26,007**	36,928
Accrued preference dividends	**834**	-
Interest to related parties	**5,314**	6,729
Net interest expense on defined benefit obligation	**260**	205
	32,415	43,862

14. Interest expense

Banking Group

	2017 £000	2016 £000
On deposits	**237,791**	191,017
On securities sold under repurchase agreements	**77,439**	58,957
On short term borrowings	**14,640**	10,999
On long term borrowings	**4,365**	3,159
	334,235	264,132

Notes *(continued)*

15. Taxation

i) Analysis of charge in period

Recognised in the income statement	**2017 £000**	2016 £000
Current tax expense		
UK corporation tax on profits for the period	**7,162**	16,249
Adjustments in respect of previous periods	**(2,178)**	13,685
Foreign tax: Current tax on income in the period	**159,084**	125,496
Current tax expense	**164,068**	155,430
Deferred tax expense		
Origination and reversal of temporary differences	**20,470**	(6,425)
Reduction in tax rate	**(4,463)**	(5,761)
Adjustments in respect of previous periods	**3,110**	-
Deferred tax expense (note 34)	**19,117**	(12,186)
Total tax expense	**183,185**	143,244

Income tax recognised in other comprehensive income	**2017 £000**	2016 £000
Remeasurements of defined benefit liability / (asset)	**28**	(1,943)
	28	(1,943)

ii) Reconciliation of effective tax rate

	2017 £000	2016 £000
Profit for the year	**360,348**	257,462
Total tax expense (including tax on equity accounted investees)	**183,185**	143,244
Profit excluding taxation	**543,533**	400,706
Tax using the UK corporation tax rate of 19.75 % (2016 · 20%)	**107,348**	80,141
Effects of:		
Expenses that are not deductible in determining taxable profit	**26,635**	2,049
Income not taxable for tax purposes	**(42,392)**	(8,100)
Other timing differences	**12,041**	(11,641)
Higher rates of tax on overseas earnings	**72,454**	63,050
Under provided in previous years	**933**	13,685
Overseas withholding tax	**10,629**	9,821
Rate change impact	**(4,463)**	(5,761)
Total tax expense (including tax equity accounted investees)	**183,185**	143,244

iii) Factors that may affect future current and total tax charges

Reductions in the UK corporation tax from 20% to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016 This will reduce the company's future current tax charge accordingly. The deferred tax liability at 30 June 2017 relating to UK entities has been calculated based on these rates. No such changes are expected for foreign operations

Notes *(continued)*

16. Group goodwill

	Total £000
Cost	
At 1 July 2015	212,520
Exchange differences	15,170
At 30 June 2016	227,690
Exchange differences	4,646
At 30 June 2017	**232,336**
Accumulated impairment charge	
At 1 July 2015	-
Impairment for the year	11,529
Exchange differences	1,184
At 30 June 2016	12,713
Impairment for the year	13,641
Exchange differences	(312)
At 30 June 2017	**26,042**
Net book value	
At 30 June 2017	**206,294**
At 30 June 2016	214,977
At 1 July 2015	212,520

The impairment charge predominantly represents the unwinding of goodwill booked based on the future cashflow benefit the Group realised on acquiring a functioning cement plant following the purchase of Pakcem Limited

The impairment charge is recognised in administrative expenses in the income statement Management has also conducted a sensitivity analysis taking into consideration the impact of reasonably possible changes in the discount factor, budgeted cash flows and growth assumptions. The results of this indicate no further impairments are required.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs), or group of units that are expected to benefit from that business combination The carrying amount of goodwill had been allocated as follows:

Group goodwill by cash generating units	**2017 £000**	2016 £000	2015 £000
Wholesale	**12,055**	12,055	12,055
Cement	**101,544**	112,028	115,668
Pharmacy	**40,829**	41,330	41,574
Banking	**51,866**	49,564	43,223
	206,294	214,977	212,520

Notes *(continued)*

16. Group goodwill *(continued)*

The Group tests goodwill annually for impairment, or more frequently if there are indicators that goodwill might be impaired.

The recoverable amounts of the CGUs and the group of units are determined from the higher of value in use and fair value less costs of disposal calculations. In accordance with IAS 36:19, if either the fair value less costs of disposal or the value in use is found to be higher than the carrying amount, the asset is not impaired, and there is no need to calculate the other amount.

Goodwill in pharmacy business:

The goodwill in the pharmacy business has a deemed indefinite life and is assessed annually for impairment. Impairment has been considered in comparison to the Group's total carrying amount compared to cash generating units of the pharmacy Group.

The recoverable amount of the pharmacy cash generating unit has been calculated with reference to its value in use. The key assumptions of this calculation are shown below:

	2017	2016
Period on which management approved forecasts are based	**20 years**	20 years
Growth rate applied beyond approved forecast period	**2%**	2%
Discount rate	**9.2%**	9.3%

Management have used an approved forecast period of greater than 5 years because the 20 year life of the asset is deemed more appropriate given the average length of the licences

The growth rates used in value in use calculation reflect the average industry growth rate over 20 years.

The recoverable amount of the Pharmacy business has been calculated with reference to its fair value less cost to sell. In calculating this value, management have assumed an increase in budgeted EBITDA Budgeted EBITDA was based on expectations of future outcomes taking into account past experience, adjusted for anticipated revenue growth. Revenue growth was projected based upon the latest forecasts at the time of review and is in line with the average growth rate for the industry.

Goodwill in wholesale business

The goodwill in the wholesale business has a deemed indefinite life and is assessed annually for impairment. Impairment has been considered in comparison to the Group's total carrying amount compared to cash generating units of the wholesale Group.

The recoverable amount of the wholesale cash generating unit has been calculated with reference to its value in use. The key assumptions of this calculation are shown below:

	2017	2016
Period on which management approved forecasts are based	**5 years**	5 years
Growth rate applied beyond approved forecast period	**nil**	nil
Discount rate	**6.0%**	9.3%

The growth rates used in value in use calculation reflect the average industry growth expected.

The recoverable amount of the wholesale business has been calculated with reference to its fair value less cost to sell. In calculating this value, management have assumed an increase in budgeted EBITDA. Budgeted EBITDA was based on expectations of future outcomes taking into account past experience, adjusted for anticipated revenue growth. Revenue growth was projected based upon the latest forecasts at the time of review and is in line with the average growth rate for the industry.

Goodwill in cement business:

The goodwill in the cement business has a deemed indefinite life and is assessed annually for impairment. For the Cement business, where a quoted share price is available, the fair value is determined using the Group's percentage share of the market capitalisation in the respective subsidiaries. Since the goodwill allocated to the Cement segment is denominated in PKR, the goodwill assessment is performed in PKR. The Group assumes costs to sell to be 10% of the fair value, to cover professional, legal costs and taxes relating to the transaction. This assumption is based on historic examples of disposals of similar sized businesses.

Notes *(continued)*

16. Group goodwill *(continued)*

Goodwill in banking business

The goodwill in the banking business has a deemed indefinite life and is assessed annually for impairment. For the banking business, where a quoted share price is available, the fair value is determined using the Group's percentage share of the market capitalisation in the respective subsidiaries. Since the goodwill allocated to the business segment are denominated in PKR, the goodwill assessment is performed in PKR. The Group assumes costs to sell to be 10% of the fair value, to cover professional, legal costs and taxes relating to the transaction. This assumption is based on historic examples of disposals of similar sized businesses.

17. Acquisition of subsidiary

Acquisitions in the current period

On 14th November 2016, Bestway (Holdings) Limited acquired 26% of the shares in Oakleaf Limited (refer to note 23). On 4 April 2017, Bestway Northern Holdings Limited, a wholly owned subsidiary of Bestway (Holdings) Limited, acquired the remaining 74% of the share capital of Oakleaf Limited, by issue of £57,662,428 in preference shares in Bestway Northern Holdings Limited.

The primary reason for the acquisition was because Oakleaf Limited owned 100% of the shares in Bestway Northern Limited, a Company which also operates in the wholesale business, and has common directorship with Bestway (Holdings) Limited. In the 3 months to 30 June 2017, Bestway Northern Limited contributed revenue of £106.1 million and net profit of £3.0 million to the consolidated net profit for the year. If the acquisition had occurred on 1 July 2016, Group revenue would have been £3,321.8 million and net profit would have been £430.0 million. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 July 2016.

Effect of acquisition

The acquisition had the following effect on the Group's assets and liabilities

	Oakleaf Limited £000
Fair Value of Oakleaf Limted's consolidated net assets at the acquisition date:	
Property, plant and equipment	**53,307**
Investment property	**6,851**
Investment in listed securities*	**32,425**
Inventories	**36,026**
Trade and other receivables	**140,134**
Cash and cash equivalents	**21,126**
Interest-bearing loans and borrowings	**(15,375)**
Trade and other payables	**(59,888)**
Deferred tax liabilities	**(4,220)**
Total net assets acquired	**210,386**
Consideration paid	
Debt instruments issued	**57,662**
Fair value of previous equity interests	**50,024**
Total consideration	**107,386**
One off gain on group reorganisation recognised in Income Statement	**102,702**

* The investment in listed securities represents the market value of shares held in Bestway Cement Limited not owned by the Group on acquisition, these have been eliminated on consolidation.

Acquisition related costs

The Group did not incur any acquisition related costs at this stage of the step acquisition

Notes *(continued)*

17. Acquisition of subsidiary *(continued)*

***Acquisitions in the current period** (continued)*

Acquired receivables

The fair value of acquired receivables was £140.1 million, of which £135 2 million is due from Group entities. The gross contractual amounts receivable are £140.1 million and, at the acquisition date, £140 1 million of contractual cash flows were not expected to be received.

Acquisitions in the prior period

On the 28 August 2015, Bestway National Chemists a wholly owned subsidiary of Bestway UK HoldCo Limited, acquired 100% of the share capital of Ideal Healthcare Limited for £4,398,000 satisfied in cash The acquisition of Ideal Healthcare Limited, four pharmacies and an online prescription business in Weymouth, is complimentary to the Bestway National Chemists business and increases the businesses UK shop front presence.

In the 10 months to 30 June 2016 the subsidiary contributed net profit of £0.2 million to the consolidated net profit for the year. If the acquisition had occurred on first day of the accounting period, the subsidiary would have continued revenue of £0.6 million and profit before tax of £0.1 million to the Group. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on first day of the accounting period. In the year ended 30 June 2017, the subsidiary contributed revenue of £1.1 million, profit before tax of £0.2 million and net profit of £0.2 million to the Group.

Effect of acquisition

No goodwill arose on the purchase. The fair values of the identifiable assets and liabilities of Ideal Healthcare Limited as at the date of acquisition were:

	Ideal Healthcare Limited £000
Intangible assets (Licences)	3,161
Property, plant and equipment	188
Inventories	154
Debtors	889
Cash in Bank	689
Trade and other payables	(668)
Provision for liabilities	(15)
Total net assets acquired	4,398
Consideration paid:	
Cash price paid	4,398
Total consideration	4,398
Goodwill	-

Acquisition related costs

The Group incurred acquisition related cost of £10,000 related to legal and professional services. These costs have been included in administrative expenses in the Group's consolidated statement of comprehensive income.

Acquired receivables

The fair value of acquired receivables was £889,000. The gross contractual amounts receivable are £889,000 and, at the acquisition date, £nil of contractual cash flows were not expected to be received.

Notes *(continued)*

18. Other intangible assets

Trading Group	**Licences £000**	**Total £000**
Cost		
At 1 July 2015	563,515	563,515
Acquired on acquisition of a subsidiary	3,161	3,161
Additions purchased externally	513	513
Exchange difference	68	68
Disposals	(1,964)	(1,964)
At 30 June 2016	565,293	565,293
Additions purchased externally	2,385	2,385
Exchange difference	11	11
Disposals	(3,881)	(3,881)
At 30 June 2017	**563,808**	**563,808**
Amortisation and impairment		
At 1 July 2015	27,738	27,738
Charge for the year	37,243	37,243
Exchange differences	29	29
Disposals	(890)	(890)
At 30 June 2016	64,120	64,120
Impairment	(848)	(848)
Charge for the year	37,923	37,923
Exchange differences	1	1
Disposals	(1,831)	(1,831)
At 30 June 2017	**99,365**	**99,365**
Net book value		
At 30 June 2017	**464,443**	**464,443**
At 30 June 2016	501,173	501,173
At 1 July 2015	535,777	535,777

Licences are amortised over the estimated useful economic life of the asset, which is 20 years.

Notes *(continued)*

18. Other intangible assets *(continued)*

Banking Group	**Software £000**	**Total £000**
Cost		
At 1 July 2015	11,894	11,894
Additions purchased externally	1,317	1,317
Exchange difference	926	926
At 30 June 2016	14,137	14,137
Additions purchased externally	3,089	3,089
Disposals	(37)	(37)
Exchange difference	756	756
At 30 June 2017	**17,945**	**17,945**
Amortisation and impairment		
At 1 July 2015	4,347	4,347
Charge for the year	2,690	2,690
At 30 June 2016	7,037	7,037
Charge for the year	2,941	2,941
Disposals	(37)	(37)
Exchange differences	509	509
At 30 June 2017	**10,451**	**10,451**
Net book value		
At 30 June 2017	**7,494**	**7,495**
At 30 June 2016	7,100	7,100
At 1 July 2015	7,547	7,547

Software is amortised over the estimated useful economic life of the asset, which is between 3 and 10 years.

Notes *(continued)*

19. Property, plant and equipment

Trading Group	Land and buildings	Plant and machinery	Fixtures, fittings and equipment	Motor vehicles	Assets in course of construction	Total
	£000	£000	£000	£000	£000	£000
Cost or valuation						
At 1 July 2015	307,961	318,171	80,981	10,237	653	718,003
Additions	1,551	4,651	19,907	2,511	6,726	35,346
Acquired in business combination	-	-	188	-	-	188
Disposals	(2,127)	(1,661)	(2,650)	(1,220)	-	(7,658)
Exchange difference	10,667	36,445	244	285	722	48,363
Transfers	-	767	23	-	(790)	-
Transfers from investment property	(1,501)	-	-	-	(51)	(1,552)
At 30 June 2016	**316,551**	**358,373**	**98,693**	**11,813**	**7,260**	**792,690**
Additions	6,365	9,232	16,406	4,378	19,802	56,183
Acquired in business combination	50,481	1,540	1,287	-	-	53,308
Disposals	(2,126)	(3,854)	(699)	(2,516)	-	(9,195)
Exchange difference	2,337	7,435	48	32	(25)	9,827
Transfers	2,092	8,247	(442)	-	(9,897)	-
Transfers to investment property	796	-	-	-	-	796
At 30 June 2017	**376,496**	**380,973**	**115,293**	**13,707**	**17,140**	**903,609**
Depreciation						
At 1 July 2015	50,663	88,070	30,164	5,816	-	174,713
Charged in year	7,716	11,769	13,333	2,461	-	35,279
Disposals	(1,657)	(600)	(1,835)	(953)	-	(5,045)
Exchange difference	1,944	6,824	127	107	-	9,002
At 30 June 2016	58,666	106,063	41,789	7,431	-	213,949
Charged in year	8,215	13,723	14,615	2,660	-	39,213
Disposals	(514)	(1,627)	(545)	(1,794)	-	(4,480)
Exchange difference	401	1,365	26	17	-	1,809
At 30 June 2017	**66,768**	**119,524**	**55,885**	**8,314**	-	**250,491**
Net book value						
At 30 June 2017	**309,728**	**261,449**	**59,408**	**5,393**	**17,140**	**653,118**
At 30 June 2016	257,885	252,310	56,904	4,382	7,260	578,741
At 30 June 2015	257,298	230,101	50,817	4,421	653	543,290

Notes *(continued)*

19. Property, plant and equipment *(continued)*

Property, plant and equipment under construction

The amount of borrowing costs capitalised during the period was £406,653 (2016. £28,653) with a capitalisation rate of 6.5% (2016: 6.9%).

Assets pledged as security

Freehold land and buildings with a carrying amount of £309.7 million (2016: £257 9 million) have been pledged to secure borrowings of the Group. The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.

Banking Group	**Land and buildings**	**Plant and machinery**	**Fixtures, fittings and equipment**	**Motor vehicles**	**Assets in course of construction**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Cost or valuation						
At 1 July 2015	159,615	6,159	32,836	2,397	25,404	226,411
Additions	10,372	1,108	9,652	871	13,607	35,610
Disposals	(262)	(2,119)	(444)	(349)	(6)	(3,180)
Exchange difference	24,195	1,086	9,914	489	5,102	40,786
Transfers from investment property	(5,399)	-	(9)	-	-	(5,408)
Revaluation	4,863	-	-	-	-	4,863
At 30 June 2016	193,384	6,234	51,949	3,408	44,107	299,082
Additions	47,858	2,491	21,257	655	104	72,365
Disposals	(902)	(2,954)	(1,037)	(591)	(21,303)	(26,787)
Exchange difference	4,085	234	1,530	130	1,735	7,714
At 30 June 2017	**244,425**	**6,005**	**73,699**	**3,602**	**24,643**	**352,374**
Depreciation						
At 1 July 2015	86	1,541	9,156	473	-	11,256
Charged in year	2,682	1,548	6,263	406	-	10,899
Disposals	(104)	(1,672)	(329)	(242)	-	(2,347)
Exchange difference	752	405	6,046	214	-	7,417
At 30 June 2016	3,416	1,822	21,136	851	-	27,225
Charged in year	4,094	1,515	9,712	582	-	15,903
Disposals	(595)	(1,913)	(983)	(559)	-	(4,050)
Exchange difference	307	100	1,071	58	-	1,536
At 30 June 2017	7,222	1,524	30,936	932	-	40,614
Net book value						
At 30 June 2017	**237,203**	**4,481**	**42,763**	**2,670**	**24,643**	**311,760**
At 30 June 2016	189,968	4,412	30,813	2,557	44,107	271,857
At 1 July 2015	159,529	4,618	23,680	1,924	25,404	215,155

Notes *(continued)*

19. Property, plant and equipment *(continued)*

The properties of the Banking Group were last revalued by independent professional valuers as at 31 December 2015. The revaluation was carried out by M/s. Pirsons Chemicals Engineering (Private) Limited, M/s. Sadruddin Associates, M/s. Engineering Pakistan International (Private) Limited and M/s. Indus Surveyors (Private) Limited on the basis of professional assessment of present market values. The accumulated surplus arising against the revaluation of fixed assets as at 30 June 2017 amounts to £146.8 million.

The properties of UBL UK were last revalued by independent professional valuer, Quantum Valuation LLP, as at 31 December 2015. The accumulated surplus arising against the revaluation of fixed assets as at 30 June 2017 amounts to £9 2 million.

The independent valuers provide the fair value of the Banking Group's property portfolio every 24 months. Had there been no revaluation, the carrying amount of revalued assets would have been as follows:

Banking Group	**Cost 2017 £000**	**Accumulated depreciation 2017 £000**	**Net book value 2017 £000**
Freehold land	**5,478**	**-**	**5,478**
Leasehold land	**22,696**	**10**	**22,686**
Buildings on freehold land	**10,596**	**943**	**9,653**
Buildings on leasehold land	**32,104**	**932**	**31,173**
Buildings on leasehold land	**70,874**	**1,885**	**68,990**

Banking Group	Cost 2016 £000	Accumulated depreciation 2016 £000	Net book value 2016 £000
Freehold land	5,589	-	5,589
Leasehold land	9,527	(10)	9.517
Buildings on freehold land	13.753	(2.304)	11,449
Buildings on leasehold land	4,063	(762)	3,301
Buildings on leasehold land	32,932	(3,076)	29.856

Notes *(continued)*

20. Investment property

Trading Group	**Total £000**
Cost or valuation	
At 1 July 2015	117,801
Additions	301
Disposals	(781)
Exchange difference	348
Transfers to property plant and equipment	1,552
Revaluation	3,045
At 30 June 2016	122,266
Acquired on acquisition of a subsidiary	6,851
Additions	282
Disposals	(17,230)
Exchange difference	91
Transfers from property plant and equipment	(796)
Revaluation	3,523
At 30 June 2017	**114,987**
Net book value	
At 30 June 2017	**114,987**
At 30 June 2016	122,266
At 1 July 2015	117,801

An investment property fair value exercise was undertaken in the year to 30 June 2017, based on a desktop valuation performed by Jones Lang La Salle - Chartered Surveyors, independent valuers not connected with the Group. Jones Lang La Salle is a member of the Royal Institution of Chartered Surveyors and the valuation conforms to international Valuation Standards. The independent valuers provide the fair value of the Trading Group's investment property portfolio every 12 months. The valuations, which are supported by market evidence, are prepared by considering the aggregate of the net annual rents receivable from the properties and where relevant, associated costs. A yield which reflects the specific risks inherent in the net cash flows is then applied to the net annual rentals to arrive at the property valuation.

Investment properties of £6.9 million were acquired on the acquisition of Oakleaf Limited (a Company which owns 100% of the share capital in Bestway Northern Limited (see Note 17 for more information)). The fair value of these properties at 30 June 2017 were arrived at on the basis of an external valuation carried out at that date by Jones Lang La Salle - Chartered Surveyors, independent valuers not connected with the Group. Jones Lang La Salle is a member of the Royal Institution of Chartered Surveyors and the valuation conforms to international Valuation Standards. The fair value was determined on an open market existing use basis. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Any gain or loss arising from a change in fair value is recognised in profit or loss.

Details of the Group's investment properties and information about the fair value hierarchy as at the end of the reporting period are as follows:

	Level 1 £000	**Level 2 £000**	**Level 3 £000**	**Fair value as at 30/06/17 £000**
Commercial property units:				
Located in the United Kingdom	-	113,148	-	**113,148**
Located in Pakistan	-	-	1,839	**1,839**
	-	113,148	1,839	**114,987**

Notes *(continued)*

20. Investment property *(continued)*

	Level 1 £000	Level 2 £000	Level 3 £000	Fair value as at 30/06/16 £000
Commercial property units:				
Located in the United Kingdom	-	119,763	-	119,763
Located in Pakistan	-	-	2,503	2,503
	-	119,763	2,503	122,266

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements: Level 1 – Fair value measurements using quoted prices (unadjusted) in active markets for identical assets and liabilities; Level 2 – Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices): Level 3 – *Fair value measurements using input for the asset or liability that are not based on observable market data (i.e unobservable* inputs)

There were no transfers between Levels 1 and 2 during the year.

The Trading Group has pledged £113.1 million (2016: £119.8 million) of its investment property to secure general banking facilities granted to the Trading Group.

Banking Group	**Total £000**
Cost or valuation	
At 1 July 2015	11,845
Additions	3,235
Transfers from property plant and equipment	5,408
Exchange differences	2,080
Revaluation	2,975
At 30 June 2016	25,543
Disposals	(6,602)
Exchange differences	430
Revaluation	263
At 30 June 2017	**19,634**
Net book value	
At 30 June 2017	**19,634**
At 30 June 2016	25,543
At 1 July 2015	11,845

The fair value of investment property was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued The independent valuers provide the fair value of the Group's investment property portfolio every financial year.

The last external valuation of investment properties was performed by M. J. Surveyors (Pvt) Limited (domestic operations) on 26 August 2016 and Chesterton International LLC (International branches) on 2 July 2016

The valuations, which are supported by market evidence, are prepared by considering the aggregate of the net annual rents receivable from the properties and where relevant, associated costs. A yield which reflects the specific risks inherent in the net cash flows is then applied to the net annual rentals to arrive at the property valuation. Any gain or loss arising from a change in fair value is recognised in profit or loss.

Notes *(continued)*

21. Investments in subsidiaries

The Group consists of a parent Company, Bestway (Holdings) Limited, incorporated in the UK and a number of subsidiaries held directly and indirectly by Bestway (Holdings) Limited. Note 48 to the Company's separate financial statements lists details of the interests in subsidiaries.

There are no significant restrictions on the ability of the Group to access or use assets and settle liabilities.

The Group and Company have the following investments in subsidiaries as at the financial year end.

Trading Group	UK Company number	Registered office	Class of shares held	Effective Ownership % 2017	2016
Bestway Securities Limited (direct)	09106250	B	Ordinary	100	100
Bestway Northern Holdings Limited (direct)		T	Ordinary	100	0
Bestway Cement Limited (direct)		N	Ordinary	54.50	53.86
Bestway Power Limited* (direct)		N	Ordinary	100	100
Bestway Spinning Limited* (direct)		N	Ordinary	100	100
Bestway UK HoldCo Limited	09106288	B	Ordinary	100	100
Oakleaf Limited°		T	Ordinary	100	0
Bestway Northern Limited	02675585	B	Ordinary	100	0
Bestway Limited*	02596168	B	Ordinary	100	100
Bestway Panacea Holdings Limited'	09225479	A	Ordinary	100	100
Bestway Wholesale Limited	01207120	B	Ordinary	100	100
Palmbest Limited	02548785	B	Ordinary	100	100
Batleys Properties Limited	00170410	B	Ordinary	100	100
MAP Trading Limited'	01826942	B	Ordinary	100	100
Euroimpex (U.K.) Limited*	01584125	B	Ordinary	100	100
Batleys Limited*	00675326	B	Ordinary	100	100
Bestway Direct Limited*	04103203	B	Ordinary	100	100
Prospect Pharmaceuticals*^	09225435	A	Ordinary	0	100
Bestway Pharmacy NDC Limited'	01050265	A	Ordinary	100	100
Donald Wardle and Son^'	02914910	A	Ordinary	100	100
Opus Pharmaceuticals Limited*^'	05888155	A	Ordinary	100	100
Bestway Panacea Healthcare Limited'	09225514	A	Ordinary	100	100
Bestway National Chemists Limited'	09225457	A	Ordinary	100	100
Portslade Medical Supplies Limited^'	01663067	A	Ordinary	80	80
FA Parkinson (Chemists) Limited^'	SC038900	I	Ordinary	100	100
Parkinson (Paisley) Limited^'	SC204178	I	Ordinary	100	100
Bestway Belfast Chemists Limited^'	NI626625	J	Ordinary	100	100
Ebbw Vale Consortium Limited*^'	01338409	A	Ordinary	100	100
Care4U Pharmacy Limited^'	03983332	A	Ordinary	100	100
Ideal Healthcare Limited^'	03443725	A	Ordinary	100	100
Pills Limited*	SC271830	I	Ordinary	100	100
RLJ Consultancy Limited*	03283312	A	Ordinary	100	100
CCS (West Street) Limited*	06149560	A	Ordinary	100	100
G Lightfoot & Son Limited*	00626296	A	Ordinary	100	100
Crown Imperial Associates Limited*	03262921	A	Ordinary	100	100
Crewe Complete Solution Limited*	05765407	A	Ordinary	100	100
Thomas Hetherington Limited*	SC095304	I	Ordinary	100	100
P.H.C Pharmacy Limited*	SC115847	D	Ordinary	67	67
Cannon St. (HCC) Limited*	01659041	C	Ordinary	59	59

Notes *(continued)*

21. Investments in subsidiaries *(continued)*

	UK Company number	Registered office	Class of shares held	Effective Ownership % 2017	2016
P Williams Chemists (Chester) Limited*	03210568	A	Ordinary	100	100
Three Swans Pharmacy Limited*	06975508	H	Ordinary	50	50
Penrith Health Centre (PD) Consortium Limited*	01775075	E	Ordinary	50	50
Penrith Health Centre (PD) Consortium Limited*	01775075	E	A	77	77
Batleys Glasgow Limited*	SC125810	B	Ordinary	100	100
Benson (Grocers) Limited*	SC256747	B	Ordinary	100	100
Bellevue Cash and Carry Limited*	SC046528	B	Ordinary	100	100
Banking Group					
United Bank Limited" (direct)		L	Ordinary	55.77	55.77
UBL Insurers Limited (direct)		O	Ordinary	79.00	79.00
United Bank AG Zurich"		R	Ordinary	55.77	55.77
United National Bank Limited"	04146820	M	Ordinary	30.67	30 67
UBL Bank (Tanzania) Limited"		Q	Ordinary	55.77	55.77
United Executives & Trustees Company Limited"		P	Ordinary	55.77	55.77
UBL Fund Managers Limited"		S	Ordinary	55.14	55.14
Al Ameen Financial Services (Pvt.) Limited"		S	Ordinary	55.14	55.14

* These entities are dormant and are exempt from the requirements of Companies Act 2006 relating to the preparation and filing of their individual accounts in respect of the year ended 30 June 2017 by virtue of Section 480 of the Act. All other entities are included in the consolidation.

^ The subsidiary undertakings listed above are exempt from the Companies Act 2006 requirements relating to the audit of their individual accounts by virtue of Section 479A of the Act as this Company has guaranteed the subsidiary Company under Section 479C of the Act

' These entities require financial support from Bestway (Holdings) Limited.

" These entities have 31 December year ends, in line with industry standards.

° This entity has 5 April year end, in line with the tax year.

A- Merchants Warehouse, Castle Street, Manchester, UK, M3 4LZ
B- 2 Abbey Road, Park Royal, London, UK, NW10 7BW
C- 64 Burnedge Lane, Grasscroft, Oldham, OL4 4EB
D- Citypoint 2 25 Tyndrum Street, Glasgow, G4 0JY
E- 4 Mason Court Gillan Way, Penrith 40 Business Park, Penrith, Cumbria, CA11 9GR
F- The Health Centre, Victoria Road, Hartlepool, TS26 8DB
G- 29 Devonshire Street, Keighley, West Yorkshire, BD21 2BH
H- The Three Swans Surgery, Rollestone Street, Salisbury, SP1 1DX
I- 18-20 Main Street, Beith, Ayrshire, Scotland, KA15 2AD
J- 70 Ballygomartin Road, Belfast, BT13 3NE
K- 20 Muirside Road, Baillieston, Glasgow, G69 7AD
L- 13th Floor, UBL Building, Jinnah Avenue, Blue Area, Islamabad, Pakistan
M- 2 Brook St, London W1S 1BQ
N- Bestway Building, 19-A, College Road, F-7 Markaz, Islamabad, Pakistan
O- 126-C, Jami Commercial, Street No. 14, Phase VII, DHA, Karachi, Pakistan
P- State Life BUILDING No 1, I.I. Chundrigar Road, Karachi, Pakistan
Q- 26 MKWEPU / Kaluta Street, P.O. BOX 5887, Dares Salaam, Tanzani, Tanzania.
R- United Bank AG (Zurich), Feldeggstrasse 55, P.O Box No 1176, 8034, Zurich, Switzerland
S- 4th Floor, STSM Building, Beaumont Road, Civil Lines, Karachi, Pakistan
T- Newport House, 15 The Grange, St Peters Port, GY1 2QL, Guernsey

Notes *(continued)*

22. Investments in associates and equity accounted investees

The nature of the activities of the Group's associates is in banking, energy and pharmacy services. These are seen as complementing the Group's operations and contributing to achieving the Group's overall strategy. The Group has the following indirect investment in associates:

Trading Group	Registered office	Class of shares held	Effective Ownership % 2017	2016
Victoria Pharmacy Limited*	U	Ordinary	**25.00**	25.00
Victoria Pharmacy Limited*	U	A	**43.00**	43.00
Keighley Health Centre Limited*	V	Ordinary	**33.00**	33.00
Baillieston Health Centre Pharmacy Limited*	W	Ordinary	**36.00**	36.00
Banking Group				
DHA Cogen Limited"	X	Ordinary	**11.71**	11.71
Oman Exchange Company"	Z	Ordinary	**13.94**	13.94
Khushhali Bank Limited"	Y	Ordinary	**16.56**	16.56

* Dormant in the financial year. All entities are included in the consolidation

" These entities have 31 December year ends, in line with industry standards

All of the above associates are accounted for using the equity method in these consolidated financial statements as set out in the Group's accounting policies in note 3.

U- The Health Centre, Victoria Road, Hartlepool, TS26 8DB
V- 29 Devonshire Street, Keighley, West Yorkshire, BD21 2BH
W- Baillieston Health Centre, 20 Muirside Road, Baillieston, Glasgow, G69 7AD
X- D- 35, Block-5 Clifton, Karachi, Pakistan
Y- 55-C, 5th Floor, U-Fone Tower, Jinnah Avenue, Blue Area, Islamabad
Z- Said Rajab Building 39, 3727, Ruwi High Street, Mezzanine Floor, Ruwi Area, 889, Muscat, Oman

Trading Group

Bestway Northern Limited

On 14th November 2016, Bestway (Holdings) Limited purchased a 26% interest in Oakleaf Limited, a Company which owns 100% of the share capital in Bestway Northern Limited, which is principally engaged in the wholesale business and a related party through common directorship. On 4th April 2017, Bestway Northern Holdings Limited, a wholly owned subsidiary of Bestway (Holdings) Limited, purchased a further 74% of the share capital in Oakleaf limited, making it a wholly owned subsidiary (see note 17.) Oakleaf Limited is an immaterial associate in the Group, however Bestway Northern Limited is material, and therefore its financial information is disclosed as follows:

	2017 £000
Percentage ownership interest	**26%**
Non-current assets	44,049
Current assets	217,019
Non-current liabilities	(20,586)
Current liabilities	(58,553)
Net Assets (100%)	**181,929**
Group's share of net assets (26%)	47,291
Carrying amount of interest in associate	**47,291**

This investment was disposed of in full in the financial year to 30 June 2017. Note 23 details this disposal.

Notes *(continued)*

22. Investments in associates and equity accounted investees *(continued)*

Bestway Northern Limited *(continued)*	**2017**
	£000
Revenue	157,600
Profit from continuing operations	4,530
Other comprehensive income (100%)	5,974
Total comprehensive income (100%)	10,504
Group share of total comprehensive income (26%)	**2,731**

Banking Group

The Banking Group's investment in associates as at 30th June 2017 totalling £31.6 million (2016: £23.8 million) is immaterial when disaggregated by entity.

The Banking Group's interests in individually immaterial associates is analysed, in aggregate, in the below table.

	2017	2016
	£000	£000
Carrying amount of interests in associates	**31,600**	23,803
Share of:		
Profit from continuing operations	**8,209**	2,703
Exchange differences	**(412)**	3,518
Total comprehensive income	**7,797**	6,221

23. Disposal of associates

On 4th April 2017, Bestway (Holdings) Limited obtained control of Bestway Northern Limited, and subsequently the associate holding (see note 22) was disposed of. Equity accounting for the step acquisition of Bestway Northern Limited from an associate to a subsidiary in the year is as follows:

	Bestway Northern Limited 2017 £000
Carrying amount of interest in associate (note 22)	47,291
Group share of total comprehensive income (note 22)	2,731
Net book value of interest in associate	50,022
Fair value of shares on disposal	(50,022)
Profit on disposal of associate	-

Notes *(continued)*

24. Inventories

Trading Group	**2017 £000**	2016 £000
Stores, spares and loose tools	**45,829**	43,176
Raw materials	**3,477**	3,139
Work-in-progress	**17,744**	5,681
Finished goods	**230,970**	186,411
	298,020	238,407

The cost of inventories recognised as an expense during the year in respect of continuing operations was £2,789 million (2016: £2,336 million).

The cost of inventories recognised as an expense includes £4.7 million (2016: £8.4 million) in respect of write-downs of inventory to net realisable value.

£298 million of inventories are expected to be recovered in the next twelve months (2016: £238 million)

Inventories with a carrying amount of £227 million (2016: £185 million) have been pledged as security for certain of the Trading Group's borrowings.

25. Investments in financial assets

Banking Group	**Current 2017 £000**	**Non-current 2017 £000**	**Total 2017 £000**	Current 2016 £000	Non-current 2016 £000	Total 2016 £000
Available-for-sale investments carried at fair value						
Market Treasury Bills	**1,745,618**	**-**	**1,745,618**	466,231	1,644	467,875
Pakistan Investment Bonds	**492,080**	**1,576,370**	**2,068,450**	723,909	1,706,429	2,430,338
Government of Pakistan Sukuk	**697**	**111,626**	**112,323**	-	47,466	47,466
Government of Pakistan Eurobonds	**-**	**96,936**	**96,936**	36,423	77,485	113,908
Ordinary shares of listed companies	**164,660**	**364**	**165,024**	188,907	403	189,310
Preference shares	**2,737**	**-**	**2,737**	2,929	-	2,929
Ordinary shares of unlisted companies	**1,898**	**-**	**1,898**	1,738	-	1,738
Term Finance Certificates	**3,913**	**-**	**3,913**	8,372	5,025	13,397
Units of mutual funds:						
Investment in REIT	**3,623**	**-**	**3,623**	3,275	-	3,275
Foreign bonds	**91,454**	**364,458**	**455,912**	102,255	314,022	416,277
Other bonds	**-**	**1,318**	**1,318**	-	2,137	2,137
	2,506,680	**2,151,072**	**4,657,752**	1,534,039	2,154,611	3,688,650
Trading investments carried at fair value						
Market Treasury Bills	**67,764**	**-**	**67,764**	7,378	-	7,378
Pakistan Investment Bonds	**144,831**	**6,376**	**151,207**	82,374	13,966	96,340
Ordinary shares of listed companies	**7,192**	**-**	**7,192**	4,137	-	4,137
Term Finance Certificates	**197**	**-**	**197**	4,122	-	4,122
Government of Pakistan Sukuks	**-**	**-**	**-**	11,246	-	11,246
	219,984	**6,376**	**226,360**	109,257	13,966	123,223

Notes *(continued)*

25. Investments in financial assets *(continued)*

Banking Group *(continued)*	Current 2017 £000	Non-current 2017 £000	Total 2017 £000	Current 2016 £000	Non-current 2016 £000	Total 2016 £000
Held-to-maturity investments carried at amortised cost						
Market Treasury Bills	61,568	-	61,568	281,999	-	281,999
Pakistan Investment Bonds	544,558	1,924,862	2,469,420	761,661	1,302,472	2,064,133
Government of Pakistan Eurobonds	1,010	38,154	39,164	37,760	25,052	62,812
Other Federal Government Securities	-	-	-	38,501	-	38,501
Term Finance Certificates	1,340	49,881	51,221	15,780	22,137	37,917
Sukuk Bonds	559	78,817	79,376	10,121	36,438	46,559
Participation Term Certificates	11	-	11	20	-	20
Debentures	17	-	17	16	-	16
Foreign Bonds	6,709	141,035	147,744	3,882	83,887	87,769
Recovery Note	302	2,066	2,368	300	2,008	2,308
CDC SAARC Fund	1	-	1	-	2	2
	616,075	2,234,815	2,850,890	1,150,040	1,471,996	2,622,036
Impairment provision on investments	(26,979)	-	(26,979)	(28,883)	(4,053)	(32,936)
	3,315,760	4,392,263	7,708,023	2,764,453	3,636,520	6,400,973

Listed investments in current assets are held at fair value.

26. Trade and other receivables

Trading Group	2017 £000	2016 £000
Amount receivable for the sale of goods	129,956	145,828
Allowance for doubtful debts	(2,990)	(2,173)
	126,966	143,655
Trade receivables from related parties	1,277	-
Other debtors	50,361	30,676
Prepayments and accrued income	35,598	36,532
	214,202	210,863

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost. All balances are classified as current.

Banking Group	2017 £'000	2016 £'000
Other debtors	307,014	272,144
Prepayments and accrued income	475	294
	307,489	272,438

Included within trade and other receivables is £13 million (2016: £24 million) expected to be recovered in more than 12 months. All other trade and other receivables in both current and prior year are current and expected to be recovered within 12 months.

Notes *(continued)*

27. Lending to financial institutions and advances

Banking Group	Current 2017 £000	Non-current 2017 £000	Total 2017 £000	Current 2016 £000	Non-current 2016 £000	Total 2016 £000
Lending to financial institutions						
Call money lending	**3,022**	**1,033**	**4,055**	45,897	10,268	56,165
Repurchase agreement lending	**21,915**	**7,496**	**29,411**	42,222	9,446	51,668
Other lending to financial institutions	**185,372**	**63,404**	**248,776**	137,448	30,753	168,201
Provision against lending to financial institutions	**(4,061)**	**(1,389)**	**(5,450)**	(5,092)	(1,139)	(6,231)
	206,248	**70,544**	**276,792**	220,475	49,328	269,803
Advances						
Loans, cash credits, running finances, etc.	**2,431,067**	**1,820,013**	**4,251,080**	2,246,454	1,418,272	3,664,726
Bills discounted and purchased	**295,816**	**221,462**	**517,278**	294,216	185,750	479,966
Provision against advances	**(180,517)**	**(120,132)**	**(300,649)**	(173,821)	(109,740)	(283,561)
	2,546,366	**1,921,343**	**4,467,709**	2,366,849	1,494,282	3,861,131
	2,752,614	**1,991,887**	**4,744,501**	2,587,324	1,543,610	4,130,934

Movement in provision against advances	2017 £000	2016 £000
Balance at the beginning of the period	**283,561**	277,786
Charge for the year	**17,493**	15,502
Transfer in	**10,844**	2,223
Write backs	**(16,926)**	(49,678)
Exchange differences	**5,677**	37,728
Balance at the end of the period	**300,649**	283,561

£194 million of the total provision as at year end relates to the collective provision (2016: £184 million)

28. Cash and cash equivalents

	Trading Group 2017 £000	Banking Group 2017 £000	Total 2017 £000	Trading Group 2016 £000	Banking Group 2016 £000	Total 2016 £000
Cash and cash equivalents	**108,973**	**1,354,340**	**1,463,313**	90,157	942,470	1,032,627
Bank overdrafts	**(38,320)**	**(3,950)**	**(42,270)**	(7,394)	(4,065)	(11,459)
	70,653	**1,350,390**	**1,421,043**	82,763	938,405	1,021,168

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value.

Notes *(continued)*

29. Trade and other payables

	Trading Group 2017 £000	Banking Group 2017 £000	Total 2017 £000	Trading Group 2016 £000	Banking Group 2016 £000	Total 2016 £000
Trade creditors	447,534	-	447,534	365,824	-	365,824
Interest payable	-	96,959	96,959		84,275	84,275
Workers welfare fund payable	-	16,884	16,884		9,895	9,895
Other banking group payables	-	144,974	144,974	-	244,445	244,445
Insurance payables	-	3,436	3,436	-	4,493	4,493
Other taxation and social security costs	7,936	-	7,936	3,920	-	3,920
Amounts due to related parties	-	-	-	122,774	-	122,774
Other creditors and accruals	70,755	1,154	71,909	54,337	1,070	55,407
	526,225	263,407	789,632	546,855	344,178	891,033

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms. The Directors consider that the carrying amount of trade payables approximates to their fair value.

Trade and other payables in both current and prior year are current and expected to be paid within 12 months.

30. Other financial liabilities

Banking Group	2017 £000	2016 £000
Provision against off - balance sheet obligations	392	1,053
Deferred income	2,389	5,341
Deferred liabilities	90,524	15,390
Acceptances	98,206	63,934
	191,511	85,718

31. Deposits and other accounts

Banking Group	Current 2017 £000	Non-current 2017 £000	Total 2017 £000	Current 2016 £000	Non-current 2016 £000	Total 2016 £000
Customers						
Fixed deposits	2,520,901	265,338	2,786,239	2,331,734	117,869	2,449,603
Savings deposits	2,646,411	273,241	2,919,652	2,297,836	116,155	2,413,991
Sundry deposits	220,135	13,864	233,999	169,490	8,568	178,058
Margin deposits	41,644	2,623	44,267	42,274	2,137	44,411
Current accounts - remunerative	51,847	-	51,847	82,902	4,191	87,093
Current accounts - non-remunerative	3,332,306	-	3,332,306	2,927,451	147,983	3,075,434
Financial Institutions						
Remunerative deposits	228,837	14,412	243,249	276,637	13,984	290,621
Non-remunerative deposits	120,605	7,596	128,201	97,004	4,903	101,907
	9,162,686	577,074	9,739,760	8,225,328	415,790	8,641,118

Deposits include remunerative and non-remunerative deposits. Non-remunerative deposits are non-interest bearing whereas the remunerative deposits are of saving or term nature with interest component

Notes *(continued)*

32. Other interest-bearing loans and borrowings

Trading Group	**2017**	2016
	£000	£000
Non-current liabilities		
Shares classified as debt	**58,178**	516
Loan from related parties	**-**	30,000
Secured bank loans	**408,416**	512,435
	466,594	542,951
Current liabilities		
Current portion of secured bank loans	**50,965**	26,544
	50,965	26,544
Total loans and borrowings	**517,559**	569,495

The cumulative preference shares have been classified as non-current liabilities in the current and prior year as they are redeemable in greater than a year.

516,000 of cumulative preference shares with a par value of £1 each, are redeemable 10 years from the initial date of issue and accrue dividends at 8% and 10%. In both the current and prior year the dividend has been waived, consequently no charge has been recognised in the profit and loss account. Holders of cumulative preference shares are entitled to priority over other shareholders in receipt of their 8% and 10% preference dividends or on share redemption on distribution of assets in a winding up. Holders are not entitled to attend or vote at general meetings of the Company except where there is default in respect of, or proposed resolutions to modify, their rights. Preference shareholder consent is required for the issue of new or additional preference shares and modifications to the Directors' borrowing powers under the Articles of Association.

On 4th April 2017, Bestway Northern Holdings Limited acquired a 74% share of Oakleaf Limited, with the consideration being satisfied via the issue of 57,662,428 preference shares with a par value of £1 each and a coupon rate of 6%, with interest being paid quarterly over 10 years. Holders of cumulative preference shares are entitled to priority over other shareholders in receipt of their preference dividends or on share redemption on distribution of assets in a winding up. Holders are not entitled to attend or vote at general meetings of the Company except where there is default in respect of, or proposed resolutions to modify, their rights. Preference shareholder consent is required for the issue of new or additional preference shares and modifications to the Directors' borrowing powers under the Articles of Association.

Bank loan

During the 2015 period the Group attained bank finance in order to complete its acquisition of Panacea Holdings Limited This consists of two tranches. The first tranche amounted to £195,000,000 which is repaid biannually until 6 October 2020, and the second tranche amounted to £425,000,000 repayable on 6 October 2021. The loans initially attracted interest of LIBOR + 3.75% and LIBOR + 4.75% respectively. Fees associated with the raising of finance were capitalised and released over the initial expected life of the loan. It was estimated that the refinancing would take place in the year ended 30 June 2017. As such the remaining balance was fully amortised this year. See note 41 for information on the refinancing transaction that took place subsequent to the year ended 30 June 2017.

During the 2015 period the Group also acquired a term finance facility of 25 billion Pakistani Rupees from a syndicate of banks with Allied Bank Limited as the lead bank. This facility is repayable in 10 stepped up semi annual instalments starting from October 2015. Interest is payable on semi annual basis at the rate of 6 months' KIBOR (Karachi Inter-Banking Offering Rate) plus 0.20% per annum. The facility is secured against all present and future assets excluding land and buildings of the cement group.

During the 2017 period the Group attained bank finance, comprising a £60 million loan maturing in 2018 and bearing an interest rate of LIBOR + 3.85%. During this period, Bestway Northern Limited also became part of the Group (see Note 17 for more information). As such, its bank loans of £10.6 million were brought into the Group. This loan is repayable on October 2020 and bears an interest rate of LIBOR + 3.5%

Notes *(continued)*

32. Other interest-bearing loans and borrowings *(continued)*

Analysis of borrowings by currency:	Currency	Nominal interest rate	Year of maturity	Carrying amount 2017 £000	Carrying amount 2016 £000
Loan from related parties	GBP	LIBOR + 4%	2020	-	30,000
Shares classified as debt	GBP	8%		2	2
Shares classified as debt	GBP	10%		514	514
Shares classified as debt	GBP	6%	2027	57,662	-
				58,178	516
Term Loan A	GBP	LIBOR + 3%	2020	68,663	114,713
Term Loan B	GBP	LIBOR + 4.5%	2021	210,773	297,639
Term Loan C	GBP	LIBOR + 3.85%	2020	60,000	-
Term Loan D	GBP	LIBOR + 3%	2020	10,563	-
Loan fees amortisation	GBP			-	(8,640)
				349,999	403,712
Syndicate loan	PKR	KIBOR + 0.2%	2020	109,382	135,267
				459,381	538,979
				517,559	569,495

All interest bearing loans and borrowings are at amortised cost. All carrying amounts are equal to face value.

Banking Group		Carrying amount 2017 £000	Carrying amount 2016 £000
Unsecured borrowing at amortised cost	**Sub note**		
Call borrowings	*a*	85,778	62,063
Other borrowings	*b*	104,067	68,465
		189,845	130,528
Secured borrowing at amortised cost			
Export refinance scheme	*c*	97,174	82,229
Refinance facility for modernisation of SME	*d*	109	-
Long term financing facility	*e*	109,660	72,242
Repurchase agreement borrowings	*f*	2,537,481	1,276,843
		2,744,424	1,431,314
		2,934,269	1,561,842
Amount due for settlement within 12 months		2,802,778	1,555,115
Amount due for settlement after 12 months		131,491	6,727
		2,934,269	1,561,842

Notes *(continued)*

32. Other interest-bearing loans and borrowings *(continued)*

All balances have been translated from PKR as at the balance sheet date.

(a) These are unsecured borrowings carrying mark-up at rates ranging from 0 85% to 6.00% per annum and are repayable latest by October 2017.

(b) These borrowings carry mark-up at rates ranging from 2.10% to 6.39% per annum, and are repayable by December 2019.

(c) The Banking Group has entered into agreements with the State Bank of Pakistan (SBP) for extending export finance to customers. As per the terms of the agreement, the Bank has granted the SBP the right to recover the outstanding amounts from the Bank at the date of maturity of the finances by directly debiting the Bank's current account maintained with the SBP. These borrowings are repayable by May 2024. These carry mark-up at rates ranging from 1.0% to 2.0% per annum.

(d) These borrowings have been obtained from the SBP to finance modernisation of Small and Medium Enterprises (SME) by providing financing facilities for purchase of new plant and machinery for Balancing, Modernisation and Replacement (BMR) of existing units and setting up of new units. In addition, financing for import / local purchase of new generators up to a maximum capacity of 500 KVA is also eligible under this Scheme. These borrowings are repayable by October 2019. These carry mark-up at a rate of 6.0%

(e) These borrowings have been obtained from the SBP for providing financing facilities to exporters for adoption of new technologies and modernizing their plant and machinery These borrowings are repayable by June 2027. These carry mark-up at rates ranging from 2.00% to 9.45% per annum.

(f) These repurchase agreement borrowings are secured against Market Treasury Bills and Pakistan Investment Bonds and carry mark-up at rates ranging from 5.70% to 6 10% per annum. These borrowings are repayable latest by July 2017.

All interest bearing loans and borrowings are at amortised cost. All carrying amounts are equal to face value. All carrying amounts are in Pakistani rupees translated to sterling at the closing rate on 30th June 2017.

33. Provisions

Trading Group	**Reduction in pharmacy funding £000**	**Dilapidation provision £000**	**Other £000**	**Total £000**
At the beginning of the year	9,800	480	2,584	12,864
Additional provision in the year	19,750	-	-	19,750
Utilisation of provision	(9,800)	(480)	(1,640)	(11,920)
At the end of the year	**19,750**	**-**	**944**	**20,694**

All provisions in both financial years are current and are expected to be used within one year. Other provisions include lease premiums and other provisions for liabilities incurred as part of the Group's operations.

The reduction in government funding relates to a provision made for the NHS funding cut announced by the Department of Health (DoH) and NHS England. Additionally a provision for Category M adjustments relating to the NHS year ended March 2017 was made. This relates to an estimate of the cumulative margin overpayment received from the DoH for the year to 30 June 2017. The estimate included in the accounts is a figure provided by the DoH via the Pharmaceutical Services Negotiating Committee (PSNC) as the quantum of the margin over delivery.

Banking Group	**Fire £000**	**Marine £000**	**Motor £000**	**Miscellaneous £000**	**Total £000**
At the beginning of the year	4,217	859	2,432	7,155	14,663
Claims incurred during the year	2,256	486	2,213	8,464	13,419
Claims paid during the year	(2,586)	(430)	(2,108)	(5,846)	(10,970)
Premium written in the year	4,552	1,712	5,327	5,957	17,548
Premiums earned during the year	(4,908)	(1,745)	(4,688)	(6,600)	(17,941)
Exchange differences	137	24	52	159	372
At the end of the year	**3,668**	**906**	**3,228**	**9,289**	**17,091**

The movement in provisions is due to the normal course of business of providing insurance contracts. All provisions in both financial years are non-current.

Notes *(continued)*

34. Deferred Tax

The following are the major deferred tax liabilities and assets recognised by the Company and movements thereon during the current and prior reporting period.

Trading Group	Property, plant & equipment	Intangible assets	Investment property	Investments and associates	Tax losses	Sub total
	£000	£000	£000	£000	£000	£000
At 1 July 2015	52,601	105,253	2,236	4,938	(18,707)	146,321
Charge / (credit) to profit and loss	232	(20,842)	88	1,710	19,414	602
Charge to the OCI	-	-	-	84	-	84
Exchange differences	7,741	1,061	-	913	(707)	9,008
At 30 June 2016	60,574	85,472	2,324	7,645	-	156,015
On acquisition	1,378	-	-	2,816	-	4,194
(Credit) / charge to profit and loss	(2,141)	(11,741)	2,849	2,264	(25)	(8,794)
Charge to the OCI	-	-	-	317	-	317
Timing difference	5,471	(2,756)	-	-	-	2,715
Exchange differences	1,791	(1,490)	-	153	-	454
At 30 June 2017	**67,073**	**69,485**	**5,173**	**13,195**	**(25)**	**154,901**

Trading Group	Sub total	Employee benefits	Tax credits	Short term timing	Other	Total
	£000	£000	£000	£000	£000	£000
At 1 July 2015	146,321	(1,114)	(2,368)	1,466	49	144,354
Charge / (credit) to profit and loss	602	-	(5,927)	(1,572)	-	(6,897)
Charge / (credit) to the OCI	84	(488)	-	-	-	(404)
Exchange differences	9,008	-	(969)	(13)	6	8,032
At 30 June 2016	156,015	(1,602)	(9,264)	(119)	55	145,085
On acquisition	4,194	-	-	(26)	-	4,168
(Credit) / charge to profit and loss	(8,794)	-	9,763	(806)	8	171
Charge / (credit) to the OCI	317	29	-	(55)	(60)	231
Timing difference	2,715	-	-	-	-	2,715
Exchange differences	454	-	(499)	(855)	(3)	(903)
At 30 June 2017	**154,901**	**(1,573)**	**-**	**(1,861)**	**-**	**151,467**

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes·

Trading Group	2017	2016
	£000	£000
Deferred tax liabilities	**154,926**	156,070
Deferred tax assets	**(3,460)**	(10,985)
Net deferred tax liability	**151,466**	145,085

Notes *(continued)*

34. Deferred Tax *(continued)*

Banking Group	***Employee benefits***	***Tax losses***	***Retirement fund***	***Property, plant & equipment***	***Investment property***	***Sub total***
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
At 1 July 2015	(2,444)	-	(12,773)	3,513	159	(11,545)
(Credit) / charge to profit and loss	(522)	(3,352)	(1,255)	(175)	107	(5,197)
(Credit) / charge to the OCI	-	(304)	(1,834)	3,159	-	1,021
Exchange differences	(413)	(384)	(2,198)	828	35	(2,132)
At 30 June 2016	(3,379)	(4,040)	(18,060)	7,325	301	(17,853)
(Credit) / charge to profit and loss	(2,357)	2,002	18,218	1,953	94	19,910
Charge / (credit) to the OCI	-	205	(873)	(369)	(204)	(1,241)
Exchange differences	(41)	(169)	(932)	(1,253)	1,744	(651)
At 30 June 2017	**(5,777)**	**(2,002)**	**(1,648)**	**7,656**	**1,935**	**165**

Banking Group	**Sub total**	**Investments**	**Associates**	**Short term timing differences**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
At 1 July 2015	(11,545)	54,656	3,740	5,451	52,302
On acquisition	(5,197)	-	(674)	(234)	(6,105)
Charge / (credit) to profit and loss	1,021	16,596	-	(49)	17,568
(Credit) / charge to the OCI	(2,132)	9,760	478	769	8,875
Exchange differences	(11,545)	54,656	3,740	5,451	52,302
At 30 June 2016	(17,853)	81,012	3,544	5,937	72,640
Charge / (credit) to profit and loss	19,910	(553)	(212)	(198)	18,947
(Credit) to the OCI	(1,241)	(34,076)	-	(727)	(36,044)
Exchange differences	(651)	3,165	107	(139)	2,481
At 30 June 2017	**165**	**49,548**	**3,439**	**4,872**	**58,024**

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes.

Banking Group	**2017**	2016
	£000	£000
Deferred tax liabilities	**67,451**	98,119
Deferred tax assets	**(9,427)**	(25,479)
Net deferred tax liability	**58,024**	72,640

Notes *(continued)*

35. Employee benefits

Trading Group

The Trading Group operates a number of pension plans throughout the world, devised in accordance with local conditions and practices. The majority of the plans are defined benefit plans and are funded by payments to separately administered trusts or insurance companies. The principal plans are in the United Kingdom and Pakistan.

United Kingdom Scheme

The Schemes are subject to the funding legislation, which came into force on 30 December 2005, outlined in the Pensions Act 2004. This, together with documents issued by the Pensions Regulator, and Guidance Notes adopted by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension plans in the UK.

The trustees of the Schemes are required to act in the best interest of the Schemes' beneficiaries. The appointment of the trustees is determined by the Scheme's trust documentation. It is policy that one third of all trustees should be nominated by the members.

Full actuarial valuations were carried out as at 30 April 2014 for the Main Scheme and 31 December 2012 for the Officers' Scheme in accordance with the scheme funding requirements of the Pensions Act 2004 and the funding of the Schemes are agreed between the Company and the trustees in line with those requirements. These in particular require the surplus/deficit to be calculated using prudent, as opposed to best estimate actuarial assumptions.

These actuarial valuations showed a deficit of £2,215,000 for the Main Scheme and £342,000 for the Officers' Scheme.

The Company has agreed with the trustees that it will aim to eliminate the deficit for the Main Scheme over a period of 5 years from 30 April 2015 by the payment of annual contributions of £455,000 increasing each year by 3%. The Company has agreed with the trustees that it will aim to eliminate the deficit for the Officers' Scheme over a period of 2 years and 8 months from 1 April 2014 by the payment of annual contributions of £200,000 in respect of the deficit. In addition and in accordance with the actuarial valuations, the Company has agreed with the trustees that it will meet expenses of the Schemes and levies to the Pension Protection Fund.

Defined benefit pension schemes

The information disclosed below is in respect of the whole of the plans for which the Group is the sponsoring employer throughout the periods shown

Present values of scheme liabilities, fair values of assets and deficit:	**2017 £000**	2016 £000
Present value of scheme liabilities	**(39,529)**	(36,230)
Fair value of assets	**27,594**	25,079
Deficit	**(11,935)**	(11,151)
Related deferred tax asset	**1,573**	1,602
Net liability	**(10,362)**	(9,549)

The present value of plan liabilities is measured by discounting the best estimate of future cash flows to be paid out by the plan using the projected unit credit method The value calculated in this way is reflected in the net liability in the balance sheet as shown above.

All actuarial gains and losses are recognised in the year in which they occur in Other Comprehensive Income (OCI).

Impact of the Asset Ceiling

The Group has reviewed implications of the guidance provided by IFRIC 14 and have concluded that it is not necessary to make any adjustments to the IAS 19 figures in respect of an asset ceiling or Minimum Funding Requirements as at 30 June 2017

Notes *(continued)*

35. Employee benefits *(continued)*

Movements in present value of defined benefit obligations:	**2017**	2016
	£000	£000
Defined benefit obligation at beginning of period	**36,230**	30,635
Current service costs	**363**	212
Interest cost	**1,178**	1,278
Actuarial losses	**2,792**	4,724
Benefits paid	**(971)**	(1,010)
Exchange differences	**(63)**	391
At the end of the period	**39,529**	36,230

There have been no scheme amendments, curtailments or settlements in the accounting period.

Movements in fair value of plan assets:	**2017**	2016
	£000	£000
Value of scheme assets at beginning of period	**25,079**	-
Transfer from group Company	**-**	23,606
Expected return on plan assets	**765**	930
Actuarial gains	**1,754**	718
Contributions by employer	**716**	703
Benefits paid	**(720)**	(878)
At the end of the period	**27,594**	25,079

Expense recognised in the profit and loss account:	**2017**	2016
	£000	£000
Interest on defined benefit pension plan obligation	**1,178**	1,278
Expected return on defined benefit pension plan assets	**(765)**	(930)
Total expense	**413**	348

Expense recognised in other comprehensive income:	**2017**	2016
	£000	£000
Actuarial losses	**2,792**	4,724
Actuarial gains	**(1,754)**	(718)
Total expense	**1,038**	4,006

Notes *(continued)*

35. Employee benefits *(continued)*

The fair value of the plan assets and the return on those assets were as follows:

	2017	2016
	£000	£000
Cash	**419**	764
Equities	**9,028**	7,545
Bonds	**1,166**	1,177
Hedge funds	**44**	139
Liability Driven Investments (LDI)	**5,227**	4,991
Diversified growth	**11,710**	10,463
	27,594	25,079

None of the fair values of the assets shown above include any direct investments in the Company's own financial instruments or any property occupied by, or other assets used by, the Company All of the scheme assets have a quoted market price in an active market with the exception of the Trustee's bank account balance.

It is the policy of the Trustees and the Company to review the investment strategy at the time of each funding valuation. The Trustees' investment objectives and the processes undertaken to measure and manage the risks inherent in the Schemes' investment strategy are documented in the Schemes' Statement of Investment Principles

All equity securities and government bonds have quoted prices in active markets. All other plan assets are not quoted in an active market.

Actuarial assumptions

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages)

	2017 UK	**2017 Pakistan**	2016 UK	2016 Pakistan
Discount rate	**2.60%**	**7.75%**	3.05%	7.25%
Inflation (RPI)	**3.40%**	**-**	3.10%	-
Inflation (CPI)	**2.40%**	**-**	2.10%	-
Future salary increases	**3.60%**	**5.75%**	3.30%	6.25%

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

- Current pensioner aged 65: 22.2 years (male), 24.1 years (female).
- Future retiree upon reaching 65: 23.9 years (male), 25.9 years (female).

Sensitivity analysis

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarises how the impact on the defined benefit obligation at the end of the reporting period would have increased / (decreased) as a result of a change in the respective assumptions:

	Change in assumption	**Change in liabilities**
Discount rate	Decrease of 0.25% p.a.	Increase by 4.4%
Rate of inflation	Increase of 0.25% p.a.	Increase by 1.4%
Rate of salary growth	Increase of 0.25% p.a.	Increase by 0.5%
Rate of mortality	Increase in life expectancy of 1 year	Increase by 3.7%
Commutation	Members commute an extra 10% of Post A Day pension on retirement	Decrease by 0 6%

The sensitivities shown above are approximate. Each sensitivity considers one change in isolation The inflation sensitivity includes the impact of changes to the assumptions for revaluation, pension increases and salary growth The average duration of the defined benefit obligation at the period ended 30 June 2017 is 18 years

Notes *(continued)*

35. Employee benefits *(continued)*

Sensitivity analysis *(continued)*

The Schemes typically expose the Company to actuarial risks such as investment risk, interest rate risk, salary growth risk, mortality risk and longevity risk. A decrease in corporate bond yields, a rise in inflation or an increase in life expectancy would result in an increase to plan liabilities. This would detrimentally impact the balance sheet position and may give rise in increased charges in future P&L accounts This effect would be partially offset by an increase in the value of the Schemes' bond and LDI holdings, and in qualifying death in service insurance policies that cover the mortality risk. Additionally, caps on inflationary increases are in place to protect the plan against extreme inflation.

Funding

The best estimate of contributions to be paid by the Company to the Schemes for the period beginning 1 July 2017 is £552,000.

Banking Group

The Banking Group operates a funded pension scheme established in 1986. The Banking Group also operates a funded gratuity scheme for new employees and for those employees who have not opted for the pension scheme.

The Bank also operates a contributory benevolent fund scheme and provides post retirement medical benefits to eligible retired employees. The benevolent fund scheme and the post-retirement medical scheme cover all regular employees of the Bank who joined the Bank pre-privatization

The liabilities of the Bank in respect of these schemes are determined based on actuarial valuations carried out using the Projected Unit Credit Method. Actuarial valuations of the defined benefit schemes are carried out every year and the latest valuation was carried out as at 30 June 2017.

The number of employees covered under the following defined benefit schemes are:

Banking Group	**2017**	2016
Pension fund	**6,861**	6,926
Gratuity fund	**8,703**	8,329
Benevolent Fund	**4,329**	4,596
Post-retirement medical benefit scheme	**8,016**	9,882

Principal actuarial assumptions

The actuarial valuations were carried out as at 30 June using the following significant assumptions:

Banking Group	**2017**	2016
Discount rate and expected rate of return on plan assets	**7.25%**	7.25%
Expected rate of future salary increase	**5.75%**	5.25%
Expected rate of increase in pension and medical benefit	**1.75%**	1.25%
Expected rate of increase in pension	**7.75%**	7.25%
Post-retirement mortality at age 60:		
Pension fund	**12.32**	12.29
Benevolent Fund	**8.25**	8.11
Post-retirement medical benefit scheme	**13.77**	13.73

Notes *(continued)*

35. Employee benefits *(continued)*

Present values of scheme liabilities, fair values of assets and deficit:	**Pension fund 2017 £000**	**Gratuity fund 2017 £000**	**Benevolent Fund 2017 £000**	**Post-retirement medical benefit 2017 £000**	**Total 2017 £000**
Present value of scheme liabilities	20,313	4,884	3,331	9,764	38,292
Fair value of plan assets	(23,027)	(5,118)	(3,593)	-	(31,738)
	(2,714)	**(234)**	**(262)**	**9,764**	**6,554**

	Pension fund 2016 £000	Gratuity fund 2016 £000	Benevolent Fund 2016 £000	Post-retirement medical benefit 2016 £000	Total 2016 £000
Present value of scheme liabilities	21,789	4,367	3,507	8,675	38,338
Fair value of plan assets	(22,799)	(4,749)	(3,441)	-	(30,989)
Fair value of plan assets	(1,010)	(382)	66	8,675	7,349

	Pension fund £000	**Gratuity fund £000**	**Benevolent Fund £000**	**Post-retirement medical benefit £000**	**Total £000**
Defined benefit obligation at 1 July 2016	21,789	4,367	3,507	8,675	38,338
Current service cost	67	785	58	36	946
Interest cost	871	344	249	625	2,089
Benefits paid	(3,390)	(1,216)	(524)	(974)	(6,104)
Return allocated to other funds	965	-	-	-	965
Actuarial loss on obligations	(667)	488	(66)	1,174	929
Exchange difference	678	116	107	228	1,129
At 30 June 2017	**20,313**	**4,884**	**3,331**	**9,764**	**38,292**

Notes *(continued)*

35. Employee benefits *(continued)*

Movement in fair value of plan assets.	Pension fund £000	Gratuity fund £000	Benevolent Fund £000	Post-retirement medical benefit £000	Total £000
Value of scheme assets at 1 July 2016	22,371	4,749	3,441	-	30,561
Interest income on plan assets	1,879	372	243	-	2,494
Contribution by employer	84	551	20	-	655
Benefits paid	-	-	20	-	20
Amount paid by the fund to the Bank	(2,685)	(1,179)	(425)	-	(4,289)
Actuarial gain on plan assets	734	493	197	-	1,424
Exchange difference	644	132	97	-	873
At 30 June 2017	**23,027**	**5,118**	**3,593**	**-**	**31,738**

Expense recognised in profit and loss account:	Pension fund 2017 £000	Gratuity fund 2017 £000	Benevolent Fund 2017 £000	Post-retirement medical benefit 2017 £000	Total 2017 £000
Current service cost	67	785	58	36	**946**
Net interest on defined benefit asset or liability	(1,008)	(28)	6	625	**(405)**
Return allocated to other funds	965	-	-	-	**965**
Employees' contribution	-	-	(20)	-	**(20)**
	24	**757**	**44**	**661**	**1,486**

	Pension fund 2016 £000	Gratuity fund 2016 £000	Post-retirement medical benefit 2016 £000	Total 2016 £000
Current service cost	117	601	30	748
Net interest on defined benefit asset or liability	(925)	(31)	616	(340)
Return allocated to other funds	915	-	-	915
	107	570	646	1,323

Notes *(continued)*

35. Employee benefits *(continued)*

Movement recognised in the statement of comprehensive income:	**Pension fund 2017 £000**	**Gratuity fund 2017 £000**	**Benevolent Fund 2017 £000**	**Post-retirement medical benefit 2017 £000**	**Total 2017 £000**
Actuarial gain on obligations	(33)	4	(64)	(169)	**(262)**
Experience adjustments	(634)	484	(2)	1,343	**1,191**
Return on plan assets over interest income	(734)	(493)	(197)	-	**(1,424)**
Adjustment for mark up	52	4	5	-	**61**
	(1,349)	(1)	**(258)**	1,174	**(434)**

	Pension fund 2016 £000	Gratuity fund 2016 £000	Post-retirement medical benefit 2016 £000	Total 2016 £000
Actuarial gain on obligations				
Experience adjustments	1,017	(16)	1,758	2,759
Return on plan assets over interest income	2,033	200	(406)	1,827
Adjustment for mark up	(541)	(193)	-	(734)
	2,509	(9)	1,352	3,852

The fair value of the plan assets and the return on those assets were as follows	**Pension fund 2017 £000**	**Gratuity fund 2017 £000**	**Benevolent Fund 2017 £000**	**Total 2017 £000**
Cash and cash equivalents	86	14	10	**110**
Quoted ordinary shares	1,225	210	177	**1,612**
Unquoted term finance certificates	569	36	68	**673**
Pakistan investment bonds	10,389	2,925	1,414	**14,728**
Special savings certificates	10,759	626	1,920	**13,305**
Reverse Repo	-	1,306	3	**1,309**
	23,028	**5,117**	**3,592**	**31,737**

Notes *(continued)*

35. Employee benefits *(continued)*

The fair value of the plan assets and the return on those assets were as follows

	Pension fund	Gratuity fund	Total
	2016	2016	2016
	£000	£000	£000
Quoted ordinary shares	894	55	949
Quoted term finance certificates	418	73	491
Unquoted term finance certificates	247	-	247
Pakistan investment bonds	11,296	2,715	14,011
Special savings certificates	9,486	1,898	11,384
Other	458	8	466
	22,799	4,749	27,548

The funds primarily invests in government securities and accordingly do not carry any significant credit risk These are subject to interest rate risk based on market movements. Investment in term finance certificates are subject to credit risk and interest rate risks, while equity securities are subject to price risk. These risks are regularly monitored by Trustees of the employee funds.

Sensitivity analysis

Sensitivity analysis has been performed by varying one assumption keeping all other assumptions constant and calculating the impact on the present value of the defined benefit obligations under the various employee benefit schemes The increase/(decrease) in the present value of defined benefit obligations as a result of a change in each assumption is summarised below:

Banking Group	**Pension fund**	**Gratuity fund**	**Benevolent Fund**	**Post-retirement medical benefit**	Pension fund	Gratuity fund	Post-retirement medical benefit
	2017	**2017**	**2017**	**2017**	2016	2016	2016
	£000	**£000**	**£000**	**£000**	£000	£000	£000
Increase in discount rate by 1%	**(607)**	**(395)**	**(176)**	**(948)**	(821)	(345)	(731)
Decrease in discount rate by 1%	**689**	**461**	**199**	**1,154**	939	402	868
Increase in expected future increment in salary by 1%	**-**	**466**	**13**	**-**	-	406	-
Decrease in expected future increment in salary by 1%	**-**	**(406)**	**(13)**	**-**	-	(354)	-
Increase in expected future increment in pension by 1%	**620**	**-**	**-**	**-**	245	-	-
Decrease in expected future increment in pension by 1%	**(549)**	**-**	**-**	**-**	(213)	-	-
Increase in expected future increment in medical benefit by 1%	**-**	**-**	**-**	**1,092**	-	-	196
Decrease in expected future increment in medical benefit by 1%	**-**	**-**	**-**	**(927)**	-	-	(172)

Although the analysis does not take account of the full distribution of expected cash flows, it does provide an approximation of the sensitivity of the assumptions shown.

Expected contributions to be paid to the funds in the next financial year

The Banking Group contributes to the pension and gratuity funds according to the actuary's advice. Based on actuarial advice, management estimates that the expected contribution of £1.58 million in the financial year to 30 June 2017.

Notes *(continued)*

35. Employee benefits *(continued)*

Funding policy

The Bank endeavours to ensure that liabilities under the various employee benefit schemes are covered by the Fund on any valuation date having regards to the various actuarial assumptions such as projected future salary increase, expected future contributions to the fund, projected increase in liability associated with future service and the projected investment income of the Fund.

36. Operating lease arrangements

Trading Group	2017	2016
	£000	£000
Lease payments under operating leases recognised as an expense in the year	15,775	15,469

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2017 £000	2016 £000
Less than one year	14,193	13,911
Between one to five years	46,125	43,869
More than five years	62,472	60,389
	122,790	118,169

Operating lease payments represent rentals payable by the Group for certain of its office properties Leases are negotiated for an average term of 8 years and rentals are fixed for an average of 8 years with an option to extend for a further period at the then prevailing market rate.

Leases as lessor

The investment properties are let under operating leases The future minimum lease payments under non-cancellable leases are as follows:

	2017 £000	2016 £000
Less than one year	4,640	5,223
Between one and five years	13,133	15,282
More than five years	54,583	54,216
	72,356	74,721

During the year £6.9 million (2016: £8.0 million) was recognised as rental income.

Banking Group

At 30 June 2017 the Banking Group had no annual commitments under non-cancellable operating leases (2016: nil)

37. Capital Commitments

At 30 June 2017 the Group had entered into contracts to purchase property, plant and equipment; the Trading Group commitment was £9,488,000 (2016. £2,555,000) and the Banking Group commitment was £10,373,000 (2016: £18,400,000)

Notes *(continued)*

38. Contingent liabilities

Trading Group

The UK Group, which excludes Bestway Cement Limited, became party to a Senior Facilities Agreement with JP Morgan Limited on 6 October 2014, whereby the liabilities to JP Morgan Limited of each of the Group and Bestway Northern are cross guaranteed by each of the companies. The loans under agreement at 30 June 2017 amount to £290 million (2016: £430 million). See note 41 for information on the refinancing transaction that took place subsequent to the year ended 30 June 2017.

Regarding Bestway Cement Limited, appeals against the Competition Commission of Pakistan's (CCP) orders were also filed as an abundant precaution in the Honorable Supreme Court of Pakistan under Section 42 of the Competition Ordinance, 2007. During the year, the cases were fixed for hearing on time to time, however, due to non availability of defendant, the hearings of the case were adjourned. These appeals are still pending and management is confident of a favorable outcome of the case, accordingly no provision has been made in these financial statements.

The CCP issued a show cause notice dated 28 October 2008 to 21 cement companies (including the Company) under section 30 of the Competition Ordinance, 2007. On 27 August 2009, CCP imposed a penalty aggregating £8.43m on the Company and Pakcem (acquired by the Company). The cement manufacturers (including the Company) have challenged the CCP order in the Honorable High Court and the Honorable High Court has passed an interim order restraining CCP from taking any adverse action against those 21 cement companies.

The Commissioner Inland Revenue (Appeals-I) (CIR (A)) while deciding the appeal filed against the Order-in-Original No. 20 of 2013 dated 07 May 2013 (the OIO) for the years 2010, 2011 and 2012 passed by the tax authority raising alleged aggregate demand of £143.67 million (including £25.06 million related to Mustehkam Cement Limited (MCL), which was amalgamated into the Company in 2013), remanded the case back to the tax authority by observing that the OIO is completely silent about the earlier judgment passed by the Customs, Excise and Sales Tax Appellate Tribunal dated 30 April 2003 on the similar issue that the cement produced/sold by the Company was less than the quantity of cement worked out in standard mix of 95:5 (5 being gypsum). The Company is in appeal against the order of the CIR(A) which is pending disposal to date. On similar issue in a parallel case, the Appellate Tribunal Inland Revenue (the ATIR) has set aside the demand raised by the tax authority by observing that working out production on the basis of working back gypsum percentage should not be followed as there are many other ingredients required to manufacture cement.

Further, taking up the reassessment proceedings, the tax authority passed the Order-in-Original No. 09/065 of 2014 dated 18 March 2013 (the Order) by following a completely different view that the production of cement should be worked out at the rate of 98% of installed capacity for all years under review. Resultantly, an aggregate demand of £64.27 million (including £11.74 million related to MCL) against the Company was raised. Being aggrieved with this decision, the Company filed an appeal before the CIR(A) who upheld the treatment followed by the tax authority with modification that instead of 98%, the capacity should be worked out on average production in parallel cases for the years. However, the tax authority has worked out production by applying a rate of 86.66% instead of 98%. As a result demand of £39.74 million (including £6.92 million related to MCL) along with default surcharge and penalty was raised. On appeal filed by the Company the ATIR has annulled the orders of tax authority. The tax authority has filed reference before the Honourable Islamabad High Court against the appellate orders of the ATIR.

Banking Group

In previous years, penalties amounting to £30.54 million have been levied by the FE Adjudication Court of the State Bank of Pakistan relating to alleged contraventions of the requirements of foreign exchange regulations with respect to issuance and certification of E-Forms by the Bank to certain customers (Exporters) who failed to submit the export documents there against. As a result foreign exchange on account of export proceeds have not been repatriated. The Bank maintains that it fully discharged its liability, in accordance with the law and has filed a civil suit in the High Court of Sindh challenging the levy of the penalty. The High Court has granted a stay on action being taken against the Bank The management, based on the advice from legal counsel, is confident that the view of the Bank will prevail and the Bank will not be exposed to any loss on this account.

United Bank Limited Yemen (UBL) issued two Standby Letters of Credit (SBLCs) for £9.47 million and £10.26 million in favor of Ministry of Oil and Minerals, Yemen (MOM) against the counter SBLCs of a foreign bank. In March 2015, the Counterparty to the performance agreement notified MOM of suspension of SBLCs because of force majeure. In September 2015, MOM filed a law suit against UBL at the Preliminary Commercial Court in Sana'a claiming the payment of both SBLCs for the sum of £19.73 million.

UBL management is pursuing the matter in the Court in Yemen and so far no major debate has been held as hearing has been adjourned to subsequent dates due to either non-appearance of legal counsel of Ministry of Oil and Mineral and non-submission of responses required by legal counsel of UBL The case is still in the Court schedule however no summon is received for next hearing.

Notes *(continued)*

39. Non-controlling interest

Group	**Total £000**
Balance at 1 July 2015	552,268
Share of total comprehensive income for the year	207,926
Payment of dividends	(58,893)
Adjustment arising from change in non-controlling interest	(1,624)
Balance at 30 June 2016	699,677
Share of total comprehensive income for the year	100,645
Payment of dividends	(66,626)
Adjustment arising from change in non-controlling interest	(10,577)
Issuance and repurchase of units	(3,006)
Balance at 30 June 2017	**720,113**

Summarised financial information in respect of each of the Group's subsidiaries that have material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	2017 £000	2016 £000
Bestway Cement Limited		
Current assets	**114,127**	84,019
Non-current assets	**486,597**	471,744
Current liabilities	**(99,373)**	(69,520)
Non-current liabilities	**(150,393)**	(186,413)
Equity attributable to owners of the Company	**(350,958)**	(299,830)
United Bank Limited		
Current assets	**7,803,247**	6,613,771
Non-current assets	**6,763,003**	5,500,154
Current liabilities	**(12,370,436)**	(10,310,060)
Non-current liabilities	**(964,731)**	(588,569)
Equity attributable to owners of the Company	**(1,195,369)**	(1,176,890)
Non-controlling interests	**(35,714)**	(38,406)

Notes *(continued)*

40. Financial instruments

Group

a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to the shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2016.

The capital structure of the Group consists of net debt (borrowings disclosed in note 32 after deducting cash and bank balances) and equity of the Group (comprising issued capital and retained earnings as disclosed in the Consolidated Statement of Changes in Equity).

The Group is not subject to any externally imposed capital requirements.

Gearing ratio

The gearing ratio at the year-end is as follows:	**2017 £000**	2016 £000
Debt	**3,451,829**	2,131,337
Cash and cash equivalents	**(1,421,044)**	(1,021,168)
Net Debt	**2,030,785**	1,110,169
Equity	**2,065,767**	1,191,153
Net debt to equity ratio	**0.98**	0.93

Debt is defined as long- and short-term borrowings as detailed in note 32. Cash & cash equivalents is defined as cash net of outstanding bank overdrafts as detailed in note 28 Equity includes all capital and reserves of the Group excluding non-controlling interest share.

Trading Group

b) Financial risk

The following table shows the carrying amounts of financial assets and financial liabilities by categories:

Financial Assets	**2017 £000**	2016 £000
Loans and Receivables		
Amounts receivable for sale of goods	**126,967**	143,655
Other receivables	**50,363**	30,676
Cash and cash equivalents	**108,973**	90,157
Total Financial Assets	**286,303**	264,488
Financial Liabilities		
Overdraft	**38,320**	7,394
Trade payables	**447,533**	365,824
Amounts due to related parties	**-**	152,774
Other interest bearing loans and borrowings	**459,381**	538,979
Total Financial Liabilities	**945,234**	1,064,971

Notes *(continued)*

40. Financial instruments *(continued)*

b) Financial risk (continued)

Financial risk management objectives

The Trading Group's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Trading Group through internal risk reports which analyses exposures by degree and magnitude of risks. These risks include liquidity risk and cash flow interest rate risk.

The Trading Group seeks to minimise the effects of these risks by detailed forecasting and cash management to ensure that loan covenants are not breached The Group has a policy of using reasonable cash surpluses to pay down debt and thereby reducing interest costs. The Group has also entered into an interest rate cap arrangement with JP Morgan to reduce the exposure to large increases in LIBOR. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes

c) Credit Risk

Credit risk is the risk of financial loss to the Trading Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Trading Group's receivables from customers.

The Trading Group manages credit risk principally through the performance of credit checks on new customers and credit control procedures. The trade debtor balances are made up of a large number of individual customer balances, none of which are individually significant Cash and cash equivalents represents deposits at high quality financial institutions.

The carrying amount of financial assets represents the maximum credit exposure The maximum exposure to credit risk at the reporting date is listed in financial assets within the table above. All trade receivables at the balance sheet date are within the UK or Pakistan. See note 33 for more information on provisions relating to credit customers.

The average credit period taken on sales of goods for our wholesale business is 30 days, 66 days for the Pharmacy business and 10 days for the cement business. No interest is charged on the receivables balance. The Trading Group has recognised an allowance for doubtful debts of 100% against all receivables over 90 days because historical experience has been that receivables that are past due beyond 90 days are less likely to be recoverable.

Before setting up a new customer account on credit, the Group assesses the potential customer's credit quality.

The aging of trade receivables at the balance sheet date was:

	Gross 2017 £000	**Impairment 2017 £000**	Gross 2016 £000	Impairment 2016 £000
Not past due	**122,915**	**-**	142,629	-
0-30 days past due	**2,873**	**-**	1,772	-
31-60 days past due	**715**	**-**	381	-
More than 61 days past due	**3,454**	**2,990**	1,046	2,173
	129,957	**2,990**	145,828	2,173

Movement in the allowance for doubtful debts.

	2017 £000	2016 £000
Balance at the beginning of the period	**2,173**	1,851
Impairment losses recognised	**1,067**	394
Impairment losses reversed	**(250)**	(72)
Balance at the end of the period	**2,990**	2,173

In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated.

Notes *(continued)*

40. Financial instruments *(continued)*

***c) Credit Risk** (continued)*

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

All trade and other receivables for the Trading Group are current and expected to be recovered within 12 months.

d) Interest rate and liquidity risk

The Group is exposed to interest rate risk because the Trading Group borrows funds at floating interest rates, namely LIBOR and KIBOR (Karachi inter-bank offer rate).

Ultimate responsibility for liquidity risk management rests with the board of Directors, which has established an appropriate liquidity risk management framework for the management of the Trading Group's short, medium and long-term funding and liquidity management requirements. The Trading Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. Details of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk are set out below.

Liquidity and interest risk tables

The following tables detail the Trading Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Trading Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the balance sheet date. The contractual maturity is based on the earliest date on which the Trading Group may be required to pay.

	Weighted average effective interest rate **%**	***1 year or less*** **£000**	**1-5 years £000**	**5+ years £000**	**Total £000**
30 June 2017					
Fixed interest rate instruments:					
Shares classified as debt	10	52	206	717	975
Shares classified as debt	6	-	-	57,662	57,662
Variable interest rate instruments:					
Bank Loans	4.3	34,000	371,720	-	405,720
Bank Loans	KIBOR + 0.2	35,912	73,470	-	109,382
		69,964	**445,396**	**58,379**	**573,739**
30 June 2016					
Fixed interest rate instruments:					
Shares classified as debt	10	51	206	718	975
Variable interest rate instruments:					
Borrowings from related parties	2.53	14,214	19,082	233,156	266,452
Bank Loans	4.9	34,481	160,343	313,307	508,131
Bank Loans	KIBOR + 0.5	35,715	99,981	-	135,696
		84,461	279,612	547,181	911,254

Financing facilities	**2017 £000**	2016 £000
Secured bank overdraft facility:		
Amount used	**38,320**	7,168
Amount unused	**36,680**	67,832
	75,000	75,000

Notes *(continued)*

40. Financial instruments *(continued)*

d) Interest rate and liquidity risk (continued)

Sensitivity analysis

The Group has exposure to interest rate risk on:

- Bank loans that bear interest on LIBOR or KIBOR plus basis

A 1% change in LIBOR or KIBOR rates will increase or decrease equity by:

	2017 £000	2016 £000
Bank loans	4,594	5,695
Loan to related party	-	300
	4,594	5,995

A 1% change in interest rates will increase or decrease profit and loss by:

	2017 £000	2016 £000
Bank loans	4,594	5,695
Loan to related party	-	300
	4,594	5,995

Banking Group

This section presents information about the Banking Group's exposure to and its management and control of risks, in particular, the primary risks associated with its use of financial instruments such as credit, market, liquidity, and operational risks.

Risk management

The Banking Group has an integrated risk management structure in place. The Board Risk Management Committee (BMRC) oversees the entire risk management process of the Bank. The Risk and Credit Policy Group is responsible for the development and implementation of all risks policies as approved by the BMRC/Board of Directors. The Group is organised into the functions of Market & Financial Institutions Risk, Credit Policy & Research, Credit Risk Management and Operational Risk & Basel II. Each risk function is headed by a senior manager who reports directly to the Group Head, Risk and Credit Policy. The role of the Risk and Credit Policy Group include:

- Determining guidelines relating to the Banking Group's risk appetite;
- Recommending risk management policies in accordance with the Prudential Regulations, Basel II framework and international best practices;
- Reviewing policies/manuals and ensuring that these are in accordance with BMRC/Board of Directors approved risk management policies;
- Developing systems and resources to review the key risk exposures of the Banking Group;
- Approving credits and granting approval authority to qualified and experienced individuals;
- Reviewing the adequacy of credit training across the Banking Group;
- Organising portfolio reviews focusing on quality assessment, risk profiles, industry concentrations, etc ; and
- Setting systems to identify significant portfolio indicators, problem credits and level of provisioning required.

Notes *(continued)*

40. Financial instruments *(continued)*

(e) Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Banking Group has access to at that date.

Investments which are tradable in an open market are revalued at the market prices prevailing on the statement of financial position date. The fair value of unquoted equity investments is carried at cost less impairment, if any.

The fair value of fixed term loans, other assets (except for unrealised gain on derivative financial instruments and forward exchange contracts), other liabilities (except for unrealised loss on derivative financial instruments and forward exchange contracts) and fixed term deposits cannot be calculated with sufficient reliability due to the absence of a current and active market for these assets and liabilities and reliable data regarding market rates for similar instruments

In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since these are either short-term in nature or, in the case of customer loans and deposits, are frequently repriced.

The information set out below provides information about how the Group determines fair values of various financial assets and financial liabilities.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

-Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Fair value hierarchy as at 30 June 2017			
	Level 1	**Level 2**	**Level 3**	**Carrying Value**
	£000	**£000**	**£000**	**£000**
Investments in financial assets measured at fair value (Note 25)				
Investments.				
Government Securities (T-bills, PIBs, GoP Sukuks and Eurobonds)	-	4,236,500	-	4,236,500
Foreign Bonds	-	455,919	-	455,919
Ordinary shares of listed companies	158,455	-	-	158,455
Debt securities (TFCs)	-	3,206	-	3,206
Investment in REIT	3,623	-	-	3,623
Financial assets not measured at fair value				
Investment in Associates	-	31,600	-	31,600
Cash and bank balances with treasury banks	-	1,141,707	-	1,141,707
Balances with other banks	-	212,008	-	212,008
Lending to financial institutions	-	276,792	-	276,792
Advances	-	-	4,467,709	4,467,709
Other financial assets	-	-	249,273	249,273
Investments	-	2,842,660	-	2,842,660
Financial liabilities not measured at fair value				
Bills Payable	-	-	(129,188)	(129,188)
Borrowings	-	(2,938,220)	-	(2,938,220)
Deposits and other accounts	-	(9,739,760)	-	(9,739,760)
Other financial liabilities	-	-	(404,945)	(404,945)
	162,078	(3,477,588)	4,182,849	867,339

Notes *(continued)*

40. Financial instruments *(continued)*

***(e) Fair value measurements** (continued)*

	Fair value hierarchy as at 30 June 2016			
	Level 1	Level 2	Level 3	Carrying Value
	£000	£000	£000	£000
Financial assets measured at fair value				
Investments:				
Government Securities (T-bills, PIBs, GoP Sukuks and Eurobonds)	-	3,169,727	-	3,169,727
Foreign Bonds	-	414,484	-	414,484
Ordinary shares of listed companies	181,309	-	-	181,309
Debt securities (TFCs)	-	10,472	-	10,472
Investment in REIT	3,216	-	-	3,216
Financial assets not measured at fair value				
Investment in Associates	-	23,803	-	23,803
Cash and bank balances with treasury banks	-	647,350	-	647,350
Balances with other banks	-	294,822	-	294,822
Lending to financial institutions	-	269,804	-	269,804
Advances	-	-	3,861,130	3,861,130
Other financial assets	-	-	224,156	224,156
Investments	-	2,639,184	-	2,639,184
Financial liabilities not measured at fair value				
Bills Payable	-	-	(87,272)	(87,272)
Borrowings	-	(1,565,907)	-	(1,565,907)
Deposits and other accounts	-	(8,641,118)	-	(8,641,118)
Other financial liabilities	-	-	(458,301)	(458,301)
	184,525	(2,737,379)	3,539,713	986,859

Operating fixed assets and investment properties are carried at revalued amounts determined by professional valuers (level 2 measurement) based on their assessment of the market values as disclosed in note 20. Particulars relating to fair value of off-balance sheet financial instruments are given in the following section.

During the year there have been no transfers between the levels.

The fair value of quoted securities other than those classified as held to maturity, is based on quoted market price. The fair value of unquoted equity securities, other than investments in associates is determined on the basis of the break-up value of these investments as per their latest available audited financial statements. The fair value of associates is based on the net assets of the associates as per their latest financial statements.

The fair value of unquoted debt securities, fixed term loans, other assets, other liabilities, fixed term deposits and borrowings cannot be calculated with sufficient reliability due to the absence of a current and active market for these assets and liabilities and reliable data regarding market rates for similar instruments.

(f) Credit risk

Credit risk is the risk that a customer or counterparty may not settle an obligation for full value, either when due or at any time thereafter.

Notes *(continued)*

40. Financial instruments *(continued)*

(f) Credit risk (continued)

This risk arises from the potential that a customer's or counterparty's willingness or ability to meet such an obligation is impaired, resulting in an economic loss to the Banking Group. The credit risk management process is driven by the Bank's Credit Policy, which provides policies and procedures in relation to credit initiation, approval, documentation and disbursement, credit maintenance and remedial management. Individual credit authorities are delegated to credit officers by the Board according to their seasoning/maturity Approvals for Corporate and Consumer loans are centralised, while approval authorities for Commercial and SME exposures are delegated to a Regional level. All credit policy functions are centrally organised.

Concentrations of credit risk exist if clients are engaged in similar activities, or are located in the same geographical region, or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. The Banking Group manages limits and controls concentrations of credit risk to individual counterparties and groups, and to industries, where appropriate. Limits are also applied to portfolios or sectors where the Banking Group considers it appropriate to restrict credit risk concentrations, or to areas of higher risk, or to control the rate of portfolio growth.

The table below sets out information about the credit quality of financial assets and the allowance for impairment/loss held by the Banking Group against those assets.

	Lending to financial institutions 2017 £000	Loans and advances 2017 £000	Investments (debt securities) 2017 £000	Off balance sheet items 2017 £000
At amortised cost				
Considered good	272,819	4,107,231	2,827,069	-
Watch list	-	325,540	-	-
Substandard	-	30,641	-	-
Doubtful	8,479	30,662	-	-
Loss	943	274,283	23,821	-
Less: Allowance for impairment	(5,450)	(300,648)	(9,383)	-
Available for sale				
Considered good	-	-	4,476,456	-
Loss	-	-	717	-
Less: Allowance for impairment	-	-	(717)	-
Fair value through profit and loss	-	-	107,775	-
Off balance sheet				
Trade-related contingent liabilities	-	-	-	1,301,120
Direct credit substitutes	-	-	-	107,949
Transaction-related contingent liabilities	-	-	-	1,296,610
Forward contracts – purchase*	-	-	-	1,783,952
Forward contracts – sale*	-	-	-	1,754,971
Derivatives - Interest rate swaps*	-	-	-	40,114
FX options – purchased*	-	-	-	1,328
FX options – sold*	-	-	-	1,328
Forward purchase of Government securities*	-	-	-	7,344
Forward sale of Government securities*	-	-	-	15,424
Other claims, commitments and contingencies	-	-	-	148,881
	276,791	**4,467,709**	**7,425,738**	**6,459,021**

* *These represent the notional amount of the derivatives trade*

Notes *(continued)*

40. Financial instruments *(continued)*

***(f) Credit risk** (continued)*

	Lending to financial institutions 2016 £000	Loans and advances 2016 £000	Investments (debt securities) 2016 £000	Off balance sheet items 2016 £000
At amortised cost				
Considered good	240,955	3,276,353	2,356,246	-
Watch list	-	167,016	-	-
Substandard	-	30,427	879	-
Doubtful	7,560	20,437	-	-
Loss	1,303	256,802	23,497	-
Less: Allowance for impairment	(5,640)	(256,629)	(8,576)	-
Available for sale				
Considered good	-	-	3,131,622	-
Watch list	-	-	10,622	-
Loss	-	-	3,116	-
Less: Allowance for impairment	-	-	(2,253)	-
Fair value through profit and loss	-	-	107,775	-
Off balance sheet				
Trade-related contingent liabilities	-	-	-	1,055,394
Direct credit substitutes	-	-	-	137,393
Transaction-related contingent liabilities	-	-	-	1,015,030
Forward contracts - purchase	-	-	-	1,304,560
Forward contracts - sale	-	-	-	1,198,076
Derivatives - Interest rate swaps	-	-	-	54,883
Derivatives - Cross currency swaps	-	-	-	3,369
FX options - purchased	-	-	-	1,556
FX options - sold				1,556
Forward purchase of Government securities				9,855
	244,178	3,494,406	5,622,928	4,781,672

Individually impaired loans amount to £601 million (2016: £593 million), while individually impaired investments in financial assets amount to £25 million (2016: nil).

Included in the above loans and advances are restructured loans, details of which as of 30 June 2017 are as follows:

	2017 £000	2016 £000
Gross amount	**311,828**	310,314
Allowance for impairment	**(52,262)**	(33,597)
Net carrying amount	**259,566**	276,717

Notes *(continued)*

40. Financial instruments *(continued)*

***(f) Credit risk** (continued)*

The table below shows the breakdown of the Banking Group's on / off-balance sheet credit exposure categorised by the degree of risk of financial loss:

	Lending to financial institutions 2017 £000	Loans and advances 2017 £000	Investments (debt securities) 2017 £000	Off balance sheet items 2017 £000
Neither past due nor impaired	**272,819**	**4,044,130**	**7,522,694**	**6,459,021**
Past due but not impaired				
1 – 59 days	-	52,322	-	-
59 – 89 days	-	10,779	-	-
	-	**63,101**	-	-
Impaired portfolio				
Not past due but impaired	-	325,540	-	-
Substandard	-	30,641	-	-
Doubtful	8,479	30,662	-	-
Loss	943	274,283	24,538	-
Less. Allowance for impairment	(5,450)	(300,648)	(10,101)	-
	276,791	**4,467,709**	**7,537,131**	**6,459,021**

	Lending to financial institutions 2016 £000	Loans and advances 2016 £000	Investments (debt securities) 2016 £000	Off balance sheet items 2016 £000
Neither past due nor impaired	240,955	2,948,655	5,606,264	4,781,672
Past due but not impaired				
1 – 59 days	-	134,224	-	-
59 – 89 days	-	131,272	-	-
	-	265,496	-	-
Impaired portfolio				
Not past due but impaired	-	229,218	-	-
Substandard	-	30,427	879	-
Doubtful	7,560	20,437	-	-
Loss	1,303	256,802	26,613	-
Less: Allowance for impairment	(5,640)	(256,629)	(10,829)	-
	244,178	3,494,406	5,622,927	4,781,672

Notes *(continued)*

40. Financial instruments *(continued)*

(f) Credit risk (continued)

The table below shows a breakdown of the credit exposure by collateral type:

	Lending to financial institutions	**Loans and advances**	**Investments (debt securities)**
	2017	**2017**	**2017**
	£000	**£000**	**£000**
Cash	-	244,341	-
Marketable securities	29,951	96,750	-
Property	-	1,027,497	-
Stock	-	981,639	-
Guarantee	-	882,117	7,213,503
Others	236,657	583,738	333,729
Unsecured	15,633	932,225	-
	282,241	**4,748,307**	**7,547,232**

	Lending to financial institutions	Loans and advances	Investments (debt securities)
	2016	2016	2016
	£000	£000	£000
Cash	-	243,170	-
Marketable securities	48,208	38,284	25,013
Property	-	1,037,025	-
Stock	-	789,221	-
Guarantee	-	789,780	5,225,014
Others	139,145	100,603	383,770
Unsecured	62,464	752,951	-
	249,817	3,751,034	5,633,797

The bank takes possession of the collaterals (mostly mortgaged properties) in case of settlement arrangements with the defaulted customers. Market value of such properties amounts to £11.7 million.

The bank has pledged its marketable securities amounting to £2,438.6 million against repurchase borrowings.

The table below sets out the credit quality of trading debt securities:

State bank of Pakistan rating grade	**Govt. bonds**	**Corporate bonds and others**
	2017	**2017**
	£000	**£000**
1	-	54,889
2	151,635	8,749
3	19,122	72,401
4	62,144	2,255
5	376,425	2,610
6	6,917	-
Unrated	6,597,262	192,823
	7,213,505	**333,727**

Notes *(continued)*

40. Financial instruments *(continued)*

***(f) Credit risk** (continued)*

State bank of Pakistan rating grade	Govt bonds 2016 £000	Corporate bonds and others 2016 £000
1	8,157	14,412
2	19,713	8,811
3	26,621	53,238
4	27,898	2,249
5	98,641	6,850
6	175,284	38,514
Unrated	4,905,058	248,352
	5,261,372	372,426

The table below sets out the credit quality of trading debt securities. The analysis has been based on following ratings by following rating agencies:

Rating grade	Moody's	Fitch	JCR-VIS	S & P	PACRA
1	Aaa	AAA	AAA	AAA	AAA
	Aa1	AA+	AA+	AA+	AA+
	Aa2	AA	AA	AA	AA
	Aa3	AA-	AA-	AA-	AA-
2	A1	A+	A+	A+	A+
	A2	A	A	A	A
	A3	A-	A-	A-	A-
3	Baa1	BBB+	BBB+	BBB+	BBB+
	Baa2	BBB	BBB	BBB	BBB
	Baa3	BBB-	BBB-	BBB-	BBB-
4	Ba1	BB+	BB+	BB+	BB+
	Ba2	BB	BB	BB	BB
	Ba3	BB-	BB-	BB-	BB-
5	B1	B+	B+	B+	B+
	B2	B	B	B	B
	B3	B-	B-	B-	B-
6	Caa1 and below	CCC+ and below	CCC+ and below	CCC+ and below	CCC+ and below

Notes *(continued)*

40. Financial instruments *(continued)*

***(f) Credit risk** (continued)*

The table below sets out the concentration of risk by sector and by geographical location:

Concentration of Credit Risk	Lending to financial institutions 2017 £000	Loans and advances 2017 £000	Investments (debt securities) 2017 £000	Off balance sheet 2017 £000
Chemical and pharmaceuticals	-	74,707	893	14,143
Agri business	-	484,440	-	13,050
Communication	-	137,875	-	91,512
Textile	-	493,875	1,695	89,959
Sugar	-	89,225	-	-
Shoes and leather garments	-	69,549	59,121	2,988
Transportation equipment	-	126,475	-	23,754
Financial	282,242	334,107	51,821	3,748,712
Electronics and electrical appliances	-	97,112	-	937
Production and transmission of energy	-	920,207	89,987	732,543
Paper and allied	-	25,462	-	-
Wholesale traders	-	145,460	-	26,573
Fertilizer dealers	-	159,530	19,028	3,480
Sports goods	-	16,632	-	-
Food industries	-	192,012	-	10,688
Construction	-	190,379	650	54,107
Engineering	-	125,570	4,191	85,486
Glass and allied	-	2,795	8	18
Hotels	-	47,964	-	-
Polyester and fibre	-	72,316	31,651	4,877
Individuals	-	362,542	123,569	26,189
Others including government securities	-	600,122	7,164,620	1,530,005
	282,242	**4,768,356**	**7,547,234**	**6,459,021**
Concentration by locations				
Pakistan operations	181,826	3,219,699	6,699,008	3,292,387
Middle East	88,296	1,210,007	556,868	2,487,999
United States of America	-	60,139	-	12
Karachi Export Processing Zone	-	4,924	7,721	25,617
Europe	11,579	248,284	273,033	651,902
Africa	540	25,304	10,602	1,103
	282,241	**4,768,357**	**7,547,232**	**6,459,020**

Notes *(continued)*

40. Financial instruments *(continued)*

***(f) Credit risk** (continued)*

	Lending to financial institutions 2016 £000	Loans and advances 2016 £000	Investments (debt securities) 2016 £000	Off balance sheet 2016 £000
Concentration of Credit Risk				
Chemical and pharmaceuticals	-	68,760	995	1,533
Agri business	-	471,184	-	27,088
Communication	-	93,355	-	59,006
Textile	-	415,042	1,689	289
Sugar	-	86,488	-	-
Shoes and leather garments	-	13,683	-	1,209
Transportation equipment	-	108,074	4,145	6,564
Financial	276,035	295,197	140,264	2,841,950
Electronics and electrical appliances	-	82,378	-	4,963
Production and transmission of energy	-	637,346	43,287	879,525
Paper and allied	-	25,178	-	-
Wholesale traders	-	117,765	7,744	8,242
Fertilizer dealers	-	92,318	2,035	544
Sports goods	-	274	-	-
Food industries	-	164,150	4,308	2,682
Construction	-	200,844	6,575	45,186
Engineering	-	82,140	-	79,769
Glass and allied	-	2,236	17	315
Hotels	-	23,383	-	-
Polyester and fibre	-	35,490	-	2
Individuals	-	489,916	205,777	431,244
Others including government securities	-	639,491	5,808,207	893,379
	276,035	4,144,692	6,225,043	5,283,490
Concentration by locations				
Pakistan operations	138,373	2,691,833	5,458,984	2,277,547
Middle East	114,951	1,177,844	519,246	2,490,881
United States of America	10,764	29,390	1,475	10,470
Karachi Export Processing Zone	-	5,012	3,739	42,520
Europe	9,094	92,842	128,488	429,529
Africa	2,853	74,061	68,981	513
Rest of the World	-	73,709	44,131	32,032
	276,035	4,144,691	6,225,044	5,283,492

Notes *(continued)*

40. Financial instruments *(continued)*

(g) Market risk

Market risk is the risk that the fair value of a financial instrument will fluctuate due to movements in market prices. It results from changes in interest rates, exchange rates and equity prices as well as from changes in the correlations between them. Each of these components of market risk consists of a general market risk and a specific market risk that is driven by the nature and composition of the portfolio.

Measuring and controlling market risk is usually carried out at a portfolio level. However, certain controls are applied, where necessary, to individual risk types, to particular books and to specific exposures. Controls are also applied to prevent any undue risk concentrations in trading books, taking into account variations in price. volatility, market depth and liquidity These controls include limits on exposure to individual market risk variables as well as limits on concentrations of tenors and issuers.

Trading activities are centered in the Treasury and Capital Markets Group which facilitates clients and also runs proprietary positions. The Group is active in the cash and derivative markets for equity, interest rate and foreign exchange.

The Market and Treasury Risk division performs market risk management activities. Within this division, the Market Risk Management unit is responsible for the development and review of market risk policies and processes, and is involved in research, financial modelling and testing / implementation of risk management systems, while Treasury Middle Office is responsible for implementation and monitoring of market risk and other policies, escalation of deviations to senior management, and MIS reporting.

The functions of the Market Risk Management unit are as follows:

- To keep the market risk exposure within the Group's risk appetite as assigned by the Board of Directors.
- To develop, review and upgrade procedures for the effective implementation of market risk management policies approved by the Board of Directors..
- To review new product proposals and propose / recommend / approve procedures for the management of their market risk. Various limits are assigned to different businesses on a product/portfolio basis The products are approved through product programs, where risks are identified and limits and parameters are set. Any transactions / products falling outside these product programs are approved through separate transaction / product memos.
- To maintain a comprehensive database for performing risk analysis, stress testing and scenario analysis Stress testing activities are performed on a quarterly basis on both the Banking and Trading books

The Bank held £226 million (2016: £123 million) of Investments classed under trading portfolio. All its other assets and liabilities were classed under non-trading portfolio.

Foreign exchange risk

Foreign Exchange Risk is the risk that the fair value of a financial instrument will fluctuate due to changes in foreign exchange rates. Exposures are monitored by currency to ensure that they remain within the established limits for each currency. *Exposures are also monitored on an overall basis to ensure compliance with the Bank's SBP approved Foreign* Exchange Exposure Limit.

The Banking Group is an active participant in the cash and derivatives markets for currencies and carries currency risk from these trading activities, conducted primarily by the Treasury and Capital Markets Group (TCM). These trading exposures are monitored through prescribed stress tests and sensitivity analyses.

The Banking Group's local reporting currency is the Pakistan Rupee, but its assets, liabilities, income and expenses are denominated in multiple currencies and converted to British pounds From time to time, TCM proactively hedges foreign *currency exposures resulting from its market making activities, subject to pre-defined limits.*

Notes *(continued)*

40. Financial instruments *(continued)*

***(g) Market risk** (continued)*

***Foreign exchange risk** (continued)*

	Assets 2017 £000	Liabilities 2017 £000	Off - balance sheet items 2017 £000	Net currency exposure 2017 £000
Pakistan Rupee	11,236,878	9,946,071	(35,668)	1,255,140
US Dollar	1,916,876	1,165,458	(886,769)	(135,352)
Pound Sterling	268,144	311,606	117,173	73,711
Japanese Yen	1,135	1,824	(82)	(772)
Euro	54,015	102,160	48,916	771
UAE Dirham	675,475	1,301,093	626,476	859
Bahraini Dinar	93,902	166,532	62,535	(10,096)
Qatari Riyal	170,449	227,068	51,005	(5,614)
Other Currencies	149,378	113,355	16,414	52,437
	14,566,252	**13,335,167**	**-**	**1,231,084**

	Assets 2016 £000	Liabilities 2016 £000	Off - balance sheet items 2016 £000	Net currency Exposure 2016 £000
Pakistan Rupee	8,924,624	7,676,797	(92,480)	1,155,347
US Dollar	1,798,847	1,201,717	(630,002)	(32,872)
Pound Sterling	271,454	316,990	120,141	74,605
Japanese Yen	8,664	8,377	(157)	130
Euro	34,267	90,571	58,240	1,936
UAE Dirham	659,783	1,079,081	416,041	(3,256)
Bahraini Dinar	84,907	132,519	42,600	(5,012)
Qatari Riyal	190,856	249,150	57,514	(779)
Other Currencies	140,522	143,427	28,103	25,198
	12,113,924	10,898,629	-	1,215,297

Sensitivity analysis

The effect of different levels of shocks in the exchange rates would have following impact on the equity of the Banking Group. *This analysis assumes that all other variables, in particular interest rates, remain constant.*

Magnitude of shock (%)	**20%**	**30%**	**50%**
Net foreign exposure	149,995	149,995	149,995
Loss on exchange rate change	(29,999)	(44,998)	(74,997)
Tax adjusted loss	(19,499)	(29,249)	(48,748)

Equity position risk

Equity position risk is the risk that the fair value of a financial instrument will fluctuate due to changes in the prices of individual stocks or the levels of equity indices. The Group's equity book comprises of held for trading (HFT) and available for sale (AFS) portfolios. The objective of the HFT portfolio is to make short-term capital gains, whilst the AFS portfolio is maintained with a medium term view of earning both capital gains and dividend income. Product program manuals have been developed to provide guidelines on the objectives and policies, risks and mitigants, limits and controls for the equity portfolios of the Group.

Notes *(continued)*

40. Financial instruments *(continued)*

(g) Market risk (continued)

Yield / interest risk

Mismatch of interest rate sensitive assets and liabilities

Interest rate risk is the risk that fair value of a financial instrument will fluctuate as a result of changes in interest rates, including changes in the shape of yield curves. Interest rate risk is inherent in many of the Group's businesses and arises from mismatches between the contractual maturities or the re-pricing of on and off balance sheet assets and liabilities The interest rate sensitivity profile is prepared on a quarterly basis based on the re-pricing or contractual maturities of assets and liabilities.

Interest rate risk is monitored and managed by performing periodic gap analysis, sensitivity analysis and stress testing and taking appropriate actions where required.

The table below discloses the mismatch between contractual maturities and re-pricing of cash flows of on balance sheet assets and liabilities:

On balance sheet financial instruments	Effective yield / interest rate %	Total 2017 £000	Up to 1 year 2017 £000	Over 1 year to 2 years 2017 £000	Over 2 years to 5 years 2017 £000	Over 5 years 2017 £000	Non-interest bearing financial instruments 2017 £000
Assets							
Cash and balances with treasury banks	0%	1,141,707	68,194	-	-	-	1,073,513
Balances with other banks	2%	212,008	142,463	-	-	-	69,545
Lending to financial institutions	5%	276,792	236,605	19,329	20,858	-	-
Investments	8%	7,733,502	3,028,042	890,035	1,940,741	1,610,040	264,644
Advances	6%	4,467,709	4,178,657	73,196	134,831	63,168	17,857
Other assets	-	249,273	-	-	-	-	249,273
		14,081,041	7,653,961	982,560	2,096,430	1,673,208	1,674,832
Liabilities							
Bills payable	-	129,188	-	-	-	-	129,188
Borrowings	5%	2,938,220	2,799,882	108,756	21,488	-	8,094
Deposits and other accounts	3%	9,739,760	5,158,545	112,362	237,506	56,062	4,175,285
Liabilities against assets subject to finance lease	-	39	39	-	-	-	-
Payable to investors of UBL Funds	-	13,016	13,016	-	-	-	-
Other liabilities	-	391,890	-	-	-	-	391,890
		13,212,113	7,971,482	221,118	258,994	56,062	4,704,457
On balance sheet gap		**868,878**	**(317,521)**	**761,442**	**1,837,436**	**1,617,146**	**(3,029,625)**

Notes *(continued)*

40. Financial instruments *(continued)*

(g) Market risk (continued)

***Yield / interest risk** (continued)*

On balance sheet *financial instruments*	Effective *yield /* interest rate %	Total 2016 £000	Up to 1 year 2016 £000	*Over 1 year* to 2 years 2016 £000	*Over 2 years* to 5 years 2016 £000	Over 5 years 2016 £000	Non-interest *bearing* financial instruments 2016 £000
Assets							
Cash and balances with treasury banks	0%	647,350	51,313	-	-	-	596,037
Balances with other banks	0%	294,822	80,822	-	-	-	214,000
Lending to financial institutions	5%	269,803	232,273	13,744	13,816	5,767	4,203
Investments	10%	6,418,394	2,166,659	910,887	1,601,319	1,246,529	493,000
Advances	8%	3,861,130	3,516,650	75,017	57,813	116,780	94,870
Other assets	-	224,156	-	-	-	-	224,156
		11,715,655	6,047,717	999,648	1,672,948	1,369,076	1,626,266
Liabilities							
Bills payable	-	87,272	-	-	-	-	87,272
Borrowings	6%	1,565,907	1,565,907	-	-	-	-
Deposits and other accounts	3%	8,641,119	5,029,174	124,104	263,553	42,769	3,181,519
Liabilities against assets subject to finance lease	-	33	33	-	-	-	-
Payable to investors of UBL Funds	-	99,630	-	-	-	-	99,630
Other liabilities	-	358,637	-	-	-	-	358,637
		10,752,598	6,595,114	124,104	263,553	42,769	3,727,058
On balance sheet gap		963,057	(547,397)	875,544	1,409,395	1,326,307	(2,100,792)

Notes *(continued)*

40. Financial instruments *(continued)*

(g) Market risk (continued)

***Yield / interest risk** (continued)*

Off-balance sheet financial instruments*	**Fair Value**	**Notional Value**	**Total**	**Exposed to yield / interest rate**			
				Up to 1 year	**1-2 years**	**2-5 years**	**> 5 years**
	2017	**2017**	**2017**	**2017**	**2017**	**2017**	**2017**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Interest Rate Long Derivatives	967	40,114	40,114	6,950	33,164	-	-
Interest Rate Short Derivatives			(40,114)	(36,338)	(3,776)	-	-
Foreign currency forward purchases	6,837	1,783,952	1,783,952	1,783,952	-	-	-
Foreign currency forward sales		(1,754,971)	(1,754,971)	(1,754,971)	-	-	-
FX options - purchased	-	1,328	1,328	1,328	-	-	-
FX options - sold			(1,328)	(1,328)	-	-	-
Forward purchase of Government securities	(22)	7,344	7,344	7,344	-	-	-
Forward sale of Government securities	10	15,424	15,424	15,424	-	-	-
Off-balance sheet Gap			51,749	22,361	29,388	-	-
Total Yield / Interest Rate Risk Sensitivity Gap			940,677	(275,110)	790,830	1,837,436	1,617,146
Cum Yield / Interest Rate Risk Sensitivity Gap			**-**	**(275,110)**	**515,719**	**2,353,156**	**3,970,302**

Off-balance sheet financial instruments*	Fair Value	Notional Value	Total	Exposed to yield / interest rate			
				Up to 1 year	1-2 years	2-5 years	> 5 years
	2016	2016	2016	2016	2016	2016	2016
	£000	£000	£000	£000	£000	£000	£000
Interest Rate Derivatives - Long position	2,330	60,642	60,642	998	6,170	53,474	60,642
Interest Rate Derivatives - Short position	-	-	(60,642)	(998)	(6,170)	(53,474)	(60,642)
Cross Currency Swap - Long position	143	3,722	3,615	3,615	-	-	3,615
Cross Currency Swap - Short Position	-	-	(3,615)	(3,615)	-	-	(3,615)
Foreign currency forward purchases	(24,853)	1,441,469	1,470,275	1,470,275	-	-	1,470,275
Foreign currency forward sales		(1,323,810)	(1,225,686)	(1,225,686)	-	-	(1,225,686)
FX options - purchased	66	1,719	1,719	1,719	-	-	1,719
FX options - sold			(1,719)	(1,719)	-	-	(1,719)
Forward purchase of Government securities	418	10,890	10,890	10,890	-	-	10,890
Off-balance sheet Gap			255,479	255,479	-	-	-
Total Yield / Interest Rate Risk Sensitivity Gap			1,218,537	(291,918)	875,545	1,409,394	1,326,308
Cum Yield / Interest Rate Risk Sensitivity Gap			-	(291,918)	583,627	1,993,021	3,319,329

* *These financial instruments are measured at fair value (level 2 measurement)*

Notes *(continued)*

40. Financial instruments *(continued)*

***(g) Market risk** (continued)*

Sensitivity analysis

The effect of different levels of shocks in the interest rate applicable as of the balance sheet date would have following impact on the equity of the Banking Group. This analysis assumes that all other variables remain constant.

Magnitude of shock	**2%**	**3%**	**4%**
Total Assets - £000,000	13,869,696	13,869,696	13,869,696
Net fall in MVE - £000,000	362,581	543,861	725,134
Tax Adjusted Loss - £000,000	235,678	353,510	471,337

(h) Liquidity risk

Liquidity risk is the risk that the Banking Group may be unable to meet its obligations or to fund increases in assets as they fall due without incurring unacceptable cost or losses.

The Assets and Liability Management Committee (ALCO) of the Banking Group is responsible foi the oversight of liquidity management and meets on a monthly basis or more frequently, if required.

The Banking Group's approach to liquidity management is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking sustained damage to business franchises. A centralized approach is adopted, based on an integrated framework incorporating an assessment of all material known and expected cash flows and the availability of collateral which could be used to secure additional funding if required. The framework entails careful monitoring and control of the daily liquidity position, and regular liquidity stress testing under a variety of scenarios. These encompass both normal and stressed market conditions, including general market crises and the possibility that access to markets could be impacted by a stress event affecting some part of the Banking Group's business.

Maturities of assets and liabilities - based on contractual maturity of the assets and liabilities of the Banking Group

The maturity profile presented below has been prepared on the basis of contractual maturities. Except for products that do not have a contractual maturity which are shown in the first bucket.

30 June 2017	**Carrying amount £000**	**Up to 1 year £000**	**Over 1 year to 2 years £000**	**Over 2 years to 5 years £000**	**Over 5 years £000**
Assets					
Cash and balances with treasury banks	1,141,707	1,141,707	-	-	-
Balances with other banks	212,008	212,008	-	-	-
Lending to financial institutions	276,792	206,247	28,578	41,967	-
Investments	7,733,502	3,346,576	862,344	2,005,718	1,518,864
Advances	4,467,709	2,546,367	255,105	984,747	681,490
Operating assets and Investment property	338,272	83,045	6,075	27,733	221,418
Other assets	396,261	383,481	220	283	12,278
	14,566,251	7,919,431	1,152,322	3,060,448	2,434,050
Liabilities					
Bills payable	129,188	129,188	-	-	-
Borrowings	2,938,220	2,806,728	2,524	33,345	95,622
Deposits and other accounts	9,739,760	9,162,686	112,021	403,002	62,051
Liabilities against assets subject to finance lease	39	-	-	39	-
Deferred tax liabilities	58,099	58,099	-	-	-
Payable to investors of UBL Funds	13,016	13,016	-	-	-
Other liabilities	456,844	258,817	5,745	13,547	178,735
	13,335,166	12,428,534	120,290	449,933	336,408
Net inflow / (outflow)	**1,231,085**	**(4,509,103)**	**1,032,032**	**2,610,515**	**2,097,642**

Notes *(continued)*

40. Financial instruments *(continued)*

(h) Liquidity risk (continued)

30 June 2016	Carrying amount £000	Up to 1 year £000	Over 1 year to 2 years £000	Over 2 years to 5 years £000	Over 5 years £000
Assets					
Cash and balances with treasury banks	647,350	647,350	-	-	-
Balances with other banks	294,822	294,822	-	-	-
Lending to financial institutions	269,804	220,475	23,240	26,089	-
Investments	6,418,393	2,789,794	942,611	1,491,493	1,194,495
Advances	3,861,130	2,366,849	117,261	816,424	560,596
Operating assets and Investment property	303,948	84,240	6,732	34,482	178,494
Other assets	318,478	294,482	509	8,082	15,405
	12,113,925	6,698,012	1,090,353	2,376,570	1,948,990
Liabilities					
Bills payable	87,272	87,272	-	-	-
Borrowings	1,565,907	1,559,180	-	6,727	-
Deposits and other accounts	8,641,117	8,225,328	97,032	304,423	14,334
Deferred tax liabilities	72,651	72,651	-	-	-
Payable to investors of UBL Funds	99,630	99,630	-	-	-
Other liabilities	432,049	338,649	7,050	13,541	72,809
	10,898,626	10,382,710	104,082	324,691	87,143
Net inflow / (outflow)	*1,215,299*	*(3,684,698)*	*986,271*	*2,051,879*	*1,861,847*

(i) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Operational Risk Division of the Bank is primarily responsible for the oversight of operational risk management across the Banking Group. The operational risk management framework of the Banking Group is governed by the Operational Risk Management Policy and Procedures, while the implementation is supported by an operational risk management system and designated operational risk coordinators within different units across the Group. The framework is in line with international best practices, flexible enough to implement in stages and permits the overall approach to evolve in response to organizational learning and future requirements.

Loss data, collected through a well defined program, is evaluated and processes are reviewed for improvements in mitigation techniques. Periodic workshops are conducted for Risk & Control Self Assessment and key risk exposures are identified and assessed against existing controls to evaluate improvement opportunities. Key Risk Indicators are also defined for monitoring of risk exposures.

Business Continuity Plans have been implemented across the Bank, clearly defining the roles and responsibilities of respective stakeholders, and covering recovery strategy, IT and structural backups, scenario and impact analyses and testing directives The outsourcing policy has also been augmented to address risks associated with such arrangements.

41. Subsequent Events

On 19th September 2017, the Company, together with other companies in the Bestway (Holdings) Limited Group, became party to a Senior Facilities Agreement, whereby the liabilities of each of the subsidiaries are cross guaranteed by each of the companies. The loans available to be drawn under the Senior Facilities Agreement amount to £225 million of term loan, and £125 million of rolling credit facility. These funds were used to repay Term Loan A, Term Loan B and Term loan D in their entirety (see note 38), therefore being a refinancing transaction.

On 21st March 2018, Bestway (Holdings) Limited declared and paid an ordinary dividend of £69.3 million in respect of the year ended 30 June 2016 No amount has been accrued for in the financial statements of Bestway (Holdings) Limited with respect to this dividend.

On 22nd March 2018, Bestway (Holdings) Limited declared an final ordinary dividend of £6.0 million in respect of the year ended 30 June 2017. No amount has been accrued for in the financial statements of Bestway (Holdings) Limited with respect to this dividend.

Notes *(continued)*

41. Subsequent Events *(continued)*

Bestway (Holdings) Limited did not declare any dividends in the previous financial year.

On 21st March 2018, Bestway (Holdings) Limited became a wholly owned subsidiary of Bestway Group Limited, a company incorporated in the United Kingdom on 9 October 2017.

On 21st March 2018, Bestway (Holdings) Limited called up 47,949 previously unpaid ordinary shares. These shares were fully paid by Bestway Group Limited on the same day.

UBL is party to a legal case relating to pension arrangement of certain banks in Pakistan which were previously under the control of the Federal Government. On February 13th 2018, the Supreme Court has ordered at its discretion, fixation of minimum pension of Rs 8,000 per month with 5% indexation on an annual basis and that the said increase would be on a prospective basis. Subsequently, on 13th March 2018, UBL has filed a review petition against the judgment and has requested the formation of a larger bench. Initial actuarial estimates show that the current judgment has a financial impact of £25m-£45m. However, given the ongoing nature of the case actual quantum and timing of any financial impact cannot be accurately determined.

UBL and its New York branch entered into a Written Agreement in 2013 with the Federal Reserve Bank of New York (FRBN) to address certain compliance and risk management matters relating to primarily compliance with AML Regulations. UBL Management is in the process of addressing the matters highlighted in the Written Agreement and in the subsequent inspections. While the Bank seeks to comply with all possible laws and regulations there is no indication of any financial impact at this stage.

42. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and related party companies are disclosed below.

Trading transactions

During the year, Group companies entered into the following transactions with related parties:

	Sale of goods		**Purchase of goods**	
	2017	2016	**2017**	2016
	£000	£000	**£000**	£000
Bestway Northern Limited	**28,740**	34,976	**211**	30,121
Bestway Stores	-	455	-	-
Russell Supermarket	-	195	-	-
London Food & Wine	-	129	-	-
Map Rice Mill (Pvt) limited	-	-	**2,864**	3,365
Total	**28,740**	35,755	**3,075**	33,486

	Management fee charged		**Net interest payable**	
	2017	2016	**2017**	2016
	£000	£000	**£000**	£000
Bestway Northern Limited	**2,795**	4,873	**4,760**	6,122
Total	**2,795**	4,873	**4,760**	6,122

The following amounts were outstanding at the balance sheet date:

	Amounts owed by related parties		**Amounts owed to related parties**	
	2017	2016	**2017**	2016
	£000	£000	**£000**	£000
Bestway Northern	-	-	-	152,744
Bestway Stores	-	69	-	-
London Food & Wine	-	31	-	-
Map Rice Mill (Pvt) limited	**162**	174	-	-
Buybest Limited	**595**	-	-	-
Total	**757**	274	-	152,744

Bestway Stores, Russell Supermarket, London Food & Wine and Buybest Limited are related parties of the Group because certain Directors of Bestway (Holdings) Limited are also Directors of these companies. MAP Rice Mill (Pvt) Limited is a related party of the Group because it shares common shareholders with MAP Trading Limited.

Notes *(continued)*

42. Related party transactions *(continued)*

During the year, Bestway (Holdings) Limited undertook a group reorganisation to simplify the Group structure As a result, Bestway Northern Limited became an associate of the Group on 14th November 2016 until 4th April 2017; the date on which it became a wholly owned subsidiary (see note 17 for more information). For the year ended 30th June 2017, Bestway Northern Limited was therefore classified as a related party from 1st July 2016 to 4th April 2017.

Sales and purchases of goods between related parties are either done so at cost or at cost plus a mark-up to cover administrative expenses. The amounts outstanding are unsecured and will be settled in cash No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties Other than disclosed in note 32, no interest is charged.

Notes *(continued)*

43. Remuneration of Directors

Remuneration of key management personnel

Trading Group

The remuneration of key management personnel and Directors of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures.

Aggregate key management personnel remuneration	2017 £000	2016 £000
Salaries, fees, bonuses and benefits in kind	28,471	20,086
Contribution to money purchase pension scheme	702	386
	29,173	20,472

Aggregate Directors' remuneration	2017 £000	2016 £000
Salaries, fees, bonuses and benefits in kind	6,047	5,143
Contribution to money purchase pension scheme	81	87
	6,128	5,230

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid Director in the Group was £1.8 million (2016: £1.6 million)

There were no Directors, in either year, to whom relevant benefits under money purchase schemes are accruing in respect of qualifying services to the Company.

Directors' transactions

During the year sales transactions were entered into with certain Directors or persons connected with the Directors These transactions were entered into during the normal course of business, on an arm's length basis with certain of the Directors' retail shops, although no specific payment terms are set.

The total value of the sales to those retail shops was £0.3 million (2016: £0.4 million). Certain of the retail shops have common Directors. As required by the Companies Act 2006, the total sales value, by Director, is set out below.

	2017 £000	2016 £000
ZM Choudrey	81	396
R Pervez	81	396
AM Chaudhary	178	-

The outstanding balances due from Directors in respect of these transactions were:

	2017 £000	2016 £000
ZM Choudrey	-	69
R Pervez	-	69

All balances are repayable on demand and attract no interest

During the year, AM Chaudhary sold 7,874,441 shares (equivalent to 1.4% of the total voting rights) held in Bestway Cement Limited.

During the year, AK Bhatti sold 2,370,897 shares (equivalent to 0.2% of the total voting rights) held in United Bank Limited.

Notes *(continued)*

43. Remuneration of Directors *(continued)*

Trading Group *(continued)*

Directors' transactions *(continued)*

During the year, a number of Directors, who were also shareholders, left the Company and as a result the Company repurchased 24,930 of shares held by those exiting Directors and other shareholders, with a nominal value of £1 each. For further information please see the Statement of Changes in Equity.

On 4th April 2017, Bestway Northern Holdings Limited acquired a 74% share of Oakleaf Limited, with the consideration being satisfied via the issue of 57,662,428 preference shares with par value of £1 per share and a coupon rate of 6%, with interest being paid quarterly over 10 years. The exiting shareholders are also Directors of Bestway (Holdings) Limited and the outstanding balance of redeemable preference shares shown as non-current liabilities is as follows.

	2017 £000
Sir MA Pervez	37,403
ZM Choudrey	10,130
MY Sheikh	10,130
	57,663

Dividends payable in the year on these preference shares is as follows:

	2017 £000
Sir MA Pervez	541
ZM Choudrey	147
MY Sheikh	147

The current Directors of the Company and their immediate relatives control 83% (2016: 72%) of the voting shares of the Company.

Banking Group

The Banking Group has certain related party transactions with the Company's Directors.

The Banking Group enters into these transactions with the Directors in the normal course of business. Remuneration to the Directors is determined in accordance with the terms of their appointment.

	Deposits 2017 £000	Interest payable 2017 £000	Net income 2017 £000	Interest expense 2017 £000	Directors Fees 2017 £000
Details of transactions with these Directors is as follows:	24,940	121	1	941	109

During the year 2,370,897 shares of UBL were sold by the Company's Directors and no additional shares were purchased

Notes *(continued)*

44. Accounting estimates and judgements

In application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Trading Group

Revenue recognition

Pharmacy revenue includes estimates for May to June by reference to the number of items dispensed, the expected cost of drugs, together with the remuneration element published by the National Health Service.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the Directors have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale Therefore, in determining the Group's deferred taxation on investment properties, the Directors have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. As a result, the Group has not recognised any deferred taxes on changes in fair value of investment properties as the Group is not subject to any income taxes on the fair value changes of the investment properties on disposal

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the fair value of the cash-generating units less costs to sell. The determination of a fair value and of suitable selling costs require a level of estimation. In situations where this is lower than the book value of the net assets of the cash generating unit, a value in use calculation will need to be performed. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Details of the impairment loss calculation are set out in note 10.

Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group's Directors work closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the valuation committee's findings to the Board of Directors of the Company every quarter to explain the cause of fluctuations in the fair value of the assets and liabilities.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability. The majority of the provision in the accounts relate to an estimate of the cumulative margin overpayment received from the Department of Health for the year to 30 June 2017. The margin over delivery estimate included in the accounts is a figure provided by the Department of Health.

Notes *(continued)*

44. Accounting estimates and judgements *(continued)*

Inventory provisioning

The Group's sales are subject to changing consumer demands. As a result it is necessary to consider the recoverability of the cost of inventory and the associated provisioning required. When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated saleability of stock

Trading investments

When observable prices are not available for the Trading Group's investments, as in the case of the Bestway Northern Limited acquisition in the year, the fair value at the measurement date is determined using the income approach. The income approach measures the present value of anticipated future economic benefits (i.e., net cash flows). The estimated net cash flows are forecast over the expected remaining economic life and discounted to present value using a discount rate commensurate with the level of risk associated with the expected cash flows.

Banking Group

Impairment

Losses for impaired loans are recognised when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Losses which may arise from future events are not recognised.

Assets accounted for at amortised cost are evaluated monthly for impairment on a basis described in Note 3 on page 34. In determining whether an impairment loss should be recorded in the income statement, the Banking Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from individual financing arrangements. This evidence may include observable data indicating that there has been an adverse change in the payment status of counterparties in a portfolio, or national or local economic conditions that correlate with defaults on assets in the portfolio. The specific counterparty component of the total allowance for impairment applies to claims evaluated individually and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about each counterparty's financial situation and the realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the present value of estimated cash flows considered recoverable is approved by the Board Credit Risk Committee.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of items with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired items, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters set out in Note 3 on page 35, based on historical experience and current economic conditions.

The Banking Group considers its leasing, real estate, trade finance and corporate & structured finance portfolios to be individually significant.

Banking Group – Taxation

The Income Tax returns of the Bank have been filed up to the tax year 2016 (accounting year ended 31 December 2015) and were deemed to be assessed under section 120 of the Income Tax Ordinance, 2001 (Ordinance) unless amended by the Commissioner of Inland Revenue.

The income tax authorities have issued amended assessment orders for the tax years 2003 to 2016, and created additional tax demands (including disallowances of provisions made prior to Seventh Schedule) of £100 million (31 December 2016: £100 million), which have been fully paid as required under the law. The Bank has filed appeals before the various appellate forums against these amendments. Where the appellate authorities have allowed relief on certain issues, the assessing authorities have filed appeals before higher appellate forums. Where the appellate authorities have not allowed relief the Bank has filed appeals before higher appellate forums The management of the Bank is confident that the appeals will be decided in favour of the Bank.

The tax returns for Azad Kashmir (AK) Branches have been filed up to the tax year 2016 (financial year 2015) under the provisions of section 120(1) read with section 114 of the Ordinance and in compliance with the terms of the agreement between banks and the Azad Kashmir Council in May 2005. The returns filed are considered as deemed assessment orders under the law.

Notes *(continued)*

44. Accounting estimates and judgements *(continued)*

***Taxation** (continued)*

The tax authorities have also carried out monitoring for Federal Excise Duty, Sales tax and withholding taxes covering period from year ended 2007 to 2016. Consequently various add backs and demands were raised creating a total demand of £10 million (31 December 2016. £9 million). The Bank has filed appeals against all such demands and is confident that these would be decided in the favour of the Bank.

The tax returns for UAE, Yemen and Qatar branches have been filed up to the year ended 31 December 2016 and for USA branch up to the year ended 31 December 2015 under the provisions of the laws prevailing in the respective countries, and are deemed as assessed unless opened for reassessment

For all the subsidiaries income tax returns have been filed up to the accounting year ended 31 December 2015 under the provisions of the laws prevailing in the respective countries and are deemed as assessed unless opened for reassessment by the tax authorities. Additionally, tax clearance has been issued for UBL UK till the accounting year 2014 and for UBL (Switzerland) AG and UBL (Tanzania) Bank Limited till the accounting year 2015. There are no material tax contingencies in any of the subsidiaries.

Banking Group Yemen operations

The Banking Group has 3 branches in Yemen which has been involved in war since 2015. In the last three years there have been several sessions for peace, however, none of these yielded any resolute solution, rather with the passage of time the political situation has got complex and volatile.

As a result of prevailing political and economic crisis, liquidity crisis also aggravated while US$ liquidity crisis and non-availability of Yemeni Riyal (YER) hard cash has added to the liquidity problem. Banking and financial services have also been negatively impacted due to the prevailing crises, and corporations, traders and public at large continue to be affected by the ongoing challenging situation on ground

During the crisis, in the initial phase of the war, the Central Bank of Yemen kept the exchange parity unchanged, however in April 2016 the Central Bank of Yemen (CBY) devalued Yemeni Riyal and revised the US$ to Riyal parity from YER 214.89 to YER 250.25 (16.45% devaluation). In September 2016 the legitimate government moved the CBY headquarters from the capital city of Sana'a to the port city of Aden as a political move Since the transfer of Headquarters to Aden, the supervision and surveillance activities were run by Central Bank - Sana'a (CBY-S) while CBY stopped international settlement and YER cash payments to financial institutions. In Mid-August 2017, Central Bank Aden (CBY-A) abolished the YER/US$ parity of 250.25 and instructed financial institutions to apply market based floating rate instead of fixed parity. Effective 15 August 2017, CBY-A has started publishing bid-offer parity of YER/US$ 370.71-372.36 implying further devaluation of approximately 48.5%. Despite two times devaluation within a span of 16 months, the YER continued to lose its value in the open market and is currently traded at a further lower parity. CBY-A has also informed that their SWIFT system, which remained un-operational since the shifting of

Headquarters to Aden, will shortly be re-instated. In view of recent development we envisage that CBY-A is gearing up to resume activities and take effective control.

Out of the 3 branches in Yemen, the Banking Group is currently operating with 2 branches in Sana'a and Hodeida under close supervision of executives at the Business Continuity Plan (BCP) office, Karachi. The Branch in Aden is closed due to restricted access to the premises in which it is located. Customers of Aden branch are being served from the other two branches.

To support the team in Yemen branches, the Camp Office situated in Karachi, Pakistan is in continuous coordination with the team in Yemen to ensure that they are provided unstinted support and assistance whenever required.

Ever since the crises started, the Bank's risk is being managed very closely with a clear strategy to de-risk the Yemen Book as far as practicable. As a result of this the bank has been able to reduce its clean exposure substantially, however prevailing liquidity crisis and recent devaluation of YER has adversely affected the book. Going forward, the strategy is to continuously reduce bank's credit exposure without executing any new business and continue maintaining investments in local currency sovereign bonds.

In addition the Yemen operations are not considered significant to the overall Group as its net assets of £20 7 million only constitute 1% of the Group's total net assets

Notes *(continued)*

44. Accounting estimates and judgements *(continued)*

Yemen operations (continued)

The Banking Group's management has taken appropriate measures to support the sustainability of the business as may be required in the prevalent circumstances and is of the view that as such there is no issue on going concern on Group in the foreseeable future.

45. Share capital

	2017 £000	2016 £000
Authorised:		
500,000 ordinary shares of £1 each	**500**	500
Allotted, called up and fully paid:		
71,010 ordinary shares of £1 each	**71**	96

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Group.

On 21st March 2018, Bestway (Holdings) Limited became a wholly owned subsidiary of Bestway Group Limited, a company incorporated in the United Kingdom on 9 October 2017.

On 21st March 2018, Bestway (Holdings) Limited called up 47,949 previously unpaid ordinary shares. These shares were fully paid by Bestway Group Limited on the same day

Dividends

On 21st March 2018, Bestway (Holdings) Limited declared and paid an ordinary dividend of £69.3 million in respect of the year ended 30 June 2016. No amount has been accrued for in the financial statements of Bestway (Holdings) Limited with respect to this dividend.

On 22nd March 2018, Bestway (Holdings) Limited declared a final ordinary dividend of £6.0 million in respect of the year ended 30 June 2017. No amount has been accrued for in the financial statements of Bestway (Holdings) Limited with respect to this dividend.

Bestway (Holdings) Limited did not declare any dividends in the previous financial year

Treasury shares

During the year, the Company purchased its own shares from exiting Directors who wished to leave the business;

	2017 £000
At 1 July 2016	-
Shares purchased in the year	25
At 30 June 2017	**25**

On 20th March 2018, 24,930 ordinary shares held in treasury by Bestway (Holdings) Limited were cancelled.

Company Balance Sheet
As at 30 June 2017

	Note	2017	2016 (restated)*	2015 (restated)*
		£000	£000	£000
Fixed assets				
Investments	48	423,158	402,811	401,860
		423,158	402,811	401,860
Current assets				
Debtors: due within one year	49	59,759	35,021	11,752
Debtors: due after more than one year	49	194,198	190,204	185,913
		253,957	225,225	197,665
Investments		-	447	437
Cash at bank and in hand		362	31,113	1,416
		254,319	256,785	199,518
Creditors: amounts falling due within one year	50	(73,539)	(98,938)	(83,999)
Net current assets		180,780	157,847	115,519
Creditors: amounts falling due in greater than one year	51	(60,000)	-	-
Total assets less current liabilities		603,938	560,658	517,379
Provisions for liabilities		-	-	(809)
Net assets		543,938	560,658	516,570
Capital and reserves				
Called up share capital	52	71	96	96
Share premium account		3,055	3,055	3,055
Capital redemption reserve		39	14	14
Profit and loss account		540,773	557,493	513,405
Shareholders' funds		543,938	560,658	516,570

*See note 55 for information regarding a restatement made to the prior years' Company Balance Sheet.

The notes on pages 111 to 115 are an integral part of these financial statements

These financial statements were approved by the board of Directors on 22 March 2018 and were signed on its behalf by:

Z M Choudrey, BA (Hons), FCA
Director
Company registered number: 01392861

M Y Sheikh
Director

Company Statement Changes in Equity

	Called up share capital	Share premium account	Capital redemption reserve	Profit and loss account	Total equity
	£000	£000	£000	£000	£000
Balance at 1 July 2015	96	3,055	14	513,405	516,570
Profit for the year	-	-	-	67,440	67,440
Total comprehensive income for the period	-	-	-	67,440	67,440
Capital contribution from owners	-	-	-	(23,352)	(23,352)
Total transactions with owners	-	-	-	(23,352)	(23,352)
Balance at 30 June 2016	96	3,055	14	557,493	560,658
Profit for the year	-	-	-	76,211	76,211
Total comprehensive income for the period	-	-	-	76,211	76,211
Repurchase of own shares	(25)	-	25	(92,931)	(92,931)
Total repurchases of own shares	(25)	-	25	(92,931)	(92,931)
Balance at 30 June 2017	**71**	**3,055**	**39**	**540,773**	**543,938**

The notes on pages 111 to 115 are an integral part of these financial statements

Company notes *(forming part of the financial statements)*

46. Significant accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 2006.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 and effective immediately have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

Under section s408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

The basis of preparation is covered for all balances within note 3 of the financial statements.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital;
- Disclosures in respect of transactions with wholly owned subsidiaries,
- Disclosure in respect of the compensation of Key Management Personnel;
- Disclosures in respect of capital management; and
- The effects of new but not yet effective IFRSs.

As the consolidated financial statements include the equivalent disclosures, the Company has also taken the exemptions under IFRS 101 available in respect of the following disclosures:

- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

The Company accounts have been prepared on a going concern basis. The Company balance sheet shows net assets of £544 million (2016: £561 million) as at the balance sheet date. The Company is profitable with profit after tax of £76 million (2016: £67 million) in 2017. It is for these reasons that the Directors believe it is appropriate to prepare the accounts on a going concern basis. The Directors are confident that the Company has access to sufficient financial resources to meets its liabilities as they fall due.

47. Profit for the year

As permitted by section 408 of the Companies Act 2006 the Company has elected not to present its own profit and loss account for the year. The Company reported a profit for the financial year ended 30 June 2017 of £76,211,000 (2016: £67,440,000). The auditor's remuneration for audit and other services is disclosed in note 10 to the consolidated financial statements.

Company notes *(continued)*

48. Fixed asset investments

	Shares in group undertakings £000	Participating interests £000	Total £000
Cost			
At 1 July 2015 (restated)*	401,860	-	401,860
Additions	951	-	951
At 1 July 2016 (restated)*	402,811	-	402,811
Additions	1,747	18,600	20,347
At 30 June 2017	**404,558**	**18,600**	**423,158**
Net book value			
At 30 June 2017	**404,558**	**18,600**	**423,158**
At 30 June 2016 (restated)*	402,811	-	402,811
At 30 June 2015 (restated)*	401,860	-	401,860

*See note 55 for information regarding the prior year adjustment made to investments.

Details of the Company's subsidiaries at 30 June 2017 are as follows (see note 21 for a full list of related undertakings and indirect subsidiaries):

Name	UK Company number	Registered office	Class of shares held	2017 Ownership %	2016 Ownership %
Bestway Securities Limited	**09106250**	**A**	**Ordinary**	**100**	100
United Bank Limited		**B**	**Ordinary**	**51.60**	51.60
Bestway Cement Limited		**C**	**Ordinary**	**53.86**	53.86
UBL Insurers Limited		**D**	**Ordinary**	**55.60**	55.60
Bestway Northern Holdings Limited		**E**	**Ordinary**	**100**	-
Bestway Power Limited		**C**	**Ordinary**	**100**	100
Bestway Spinning Limited		**C**	**Ordinary**	**100**	100

Details of the Company's investments in participating interests at 30 June 2017 are as follows

Name	UK Company number	Registered office	Class of shares held	2017 Ownership %	2016 Ownership %
Oakleaf Limited		**E**	**Ordinary**	**26**	-

- A- 2 Abbey Road, Park Royal, London, UK, NW10 7BW
- B- 13th Floor, UBL Building, Jinnah Avenue, Blue Area, Islamabad, Pakistan
- C- Bestway Building, 19-A, College Road, F-7 Markaz, Islamabad, Pakistan
- D- 126-C, Jami Commercial, Street No. 14, Phase VII, DHA, Karachi, Pakistan
- E- Newport House, 15 The Grange, St Peters Port, GY1 2QL, Guernsey

The investments in subsidiaries are all stated at cost less provision for impairment. Investment in associate stated at cost

See note 55 for information regarding the prior year adjustment made to investments.

See note 17 for information regarding the acquisitions of subsidiaries in the year

See note 22 for information regarding investments in associates and note 23 for information regarding disposal of associates

Company notes *(continued)*

49. Debtors

	2017 £000	2016 £000
Amounts falling due within one year:		
Amounts owed by group undertakings	**58,133**	33,390
Other debtors	**1,626**	1,631
Amounts owed by group undertakings	**59,759**	35,021
Amounts falling due after one year:		
Amounts owed by group undertakings	**194,198**	190,204
	194,198	*190,204*

50. Creditors: Amounts falling due within one year

	2017 £000	2016 (restated)* £000	2015 (restated)* £000
Amounts owed to group undertakings	**70,326**	81,966	83,555
Amounts owed to related party	**-**	16,430	-
Accruals and other creditors	**3,213**	542	444
	73,539	98,938	83,999

*See note 55 for information regarding the prior year adjustment made to creditors falling due within one year.

51. Creditors: Amounts falling due in greater than one year

	2017 £000	2016 £000
Bank loans	**60,000**	-
	60,000	-

52. Share capital

	2017 £000	2016 £000
Authorised:		
500,000 ordinary share of £1 each	**500**	500
Allotted, called up and fully paid		
71,010 ordinary shares of £1 each (2016: 95,940 ordinary shares of £1 each)	**71**	96

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

On 21st March 2018, Bestway (Holdings) Limited became a wholly owned subsidiary of Bestway Group Limited, a company incorporated in the United Kingdom on 9 October 2017.

On 21st March 2018, Bestway (Holdings) Limited called up 47,949 previously unpaid ordinary shares. These shares were fully paid by Bestway Group Limited on the same day.

Company notes *(continued)*

52. Share capital *(continued)*

Dividends

On 21st March 2018, Bestway (Holdings) Limited declared and paid an ordinary dividend of £69.3 million in respect of the year ended 30 June 2016 No amount has been accrued for in the financial statements of Bestway (Holdings) Limited with respect to this dividend.

On 22nd March 2018, Bestway (Holdings) Limited declared a final ordinary dividend of £6.0 million in respect of the year ended 30 June 2017 No amount has been accrued for in the financial statements of Bestway (Holdings) Limited with respect to this dividend.

Bestway (Holdings) Limited did not declare any dividends in the previous financial year.

Treasury shares

During the year, the Company purchased its own shares from existing Directors who wished to leave the business;

	2017 £000
At 1 July 2016	-
Shares purchased in the year	25
At 30 June 2017	**25**

On 20th March 2018, 24,930 ordinary shares held in treasury by Bestway (Holdings) Limited were cancelled.

53. Subsequent Events

On 19th September 2017, the Company, together with other companies in the Bestway (Holdings) Limited Group, became party to a Senior Facilities Agreement, whereby the liabilities of each of the subsidiaries are cross guaranteed by each of the companies. The loans available to be drawn under the Senior Facilities Agreement amount to £225 million of term loan, and £125 million of rolling credit facility. These funds were used to repay Term Loan A and Term Loan B in their entirety (see note 38), therefore being a refinancing transaction.

On 21st March 2018, Bestway (Holdings) Limited declared and paid an ordinary dividend of £69.3 million in respect of the year ended 30 June 2016. No amount has been accrued for in the financial statements of Bestway (Holdings) Limited with respect to this dividend.

On 22nd March 2018, Bestway (Holdings) Limited declared a final ordinary dividend of £6 0 million in respect of the year ended 30 June 2017. No amount has been accrued for in the financial statements of Bestway (Holdings) Limited with respect to this dividend.

Bestway (Holdings) Limited did not declare any dividends in the previous financial year.

On 21st March 2018, Bestway (Holdings) Limited became a wholly owned subsidiary of Bestway Group Limited, a company incorporated in the United Kingdom on 9 October 2017.

On 21st March 2018, Bestway (Holdings) Limited called up 47,949 previously unpaid ordinary shares. These shares were fully paid by Bestway Group Limited on the same day.

54. Related party transactions

Remuneration of key management personnel

The Company has taken advantage of the exemption outlined in FRS 101:8(j) and is therefore not required to disclose key management personnel compensation, analysed into five categories as prescribed by IAS 24 Related Party Disclosures.

Transactions with related parties

The Company has taken advantage of the exemption outlined in FRS 101:8(k) and is therefore not required to disclose transactions with wholly owned subsidiaries, as prescribed by IAS 24 Related Party Disclosures.

During the year, Bestway (Holdings) Limited received £55 0 million (2016: £52.9 million) in dividends (net of withholding tax) from United Bank Limited During the year, Bestway (Holdings) Limited received £25 4 million (2016· £20.6 million) in dividends (net of withholding tax) from United Bank Limited.

Company notes *(continued)*

54. Related party transactions *(continued)*

***Transactions with related parties** (continued)*

As at 30th June 2017, Bestway (Holdings) Limited is owed £14,155 (2016: £nil) from United Bank Limited. As at 30th June 2017, Bestway (Holdings) Limited owes £3,010 (2016: £3,323) to Bestway Cement Limited As at 30th June 2017, Bestway (Holdings) Limited owes £nil (2016: £16,430,628) to Bestway Northern Limited.

No other transactions were entered into with the Company's disclosable related parties, as defined by IAS 24.

Aggregate Directors' remuneration

The costs relating to the Directors remuneration for the Company are mainly incurred by Bestway Wholesale Limited for the wider Group. The amount attributable to services provided to the Company was £3,240.000 (2016· £2,848,000) The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid Director in the Group was £1,640,000 (2016: £1,640,000).

55. Prior year adjustment

On 30 September 2014, Bestway (Holdings) Limited set up two additional intermediate holdings companies, Bestway UK HoldCo Limited and Bestway Securities Limited to acquire its UK subsidiaries through a share for share exchange.

Bestway Securities Limited issued share capital to Bestway (Holdings) Limited with a nominal value of £15m (equal to the total share capital held by all UK subsidiaries in return for ownership of the UK subsidiaries).

Whilst these share issues were appropriately reflected in the share registers of Bestway UK HoldCo Limited and Bestway Securities Limited, the effect of these transactions were not appropriately reflected in the financial statements of Bestway (Holdings) Limited. Instead of recording an investment in Bestway Securities Limited, the company reduced an intercompany payable. Therefore accounting entries have now been recorded by the means of a prior year adjustment to adjust both Investments and Creditors: Amounts falling due within one year (Amounts owed to subsidiary) to appropriately reflect the transaction. The adjustment has no impact on net assets and does not affect the profit or loss for the years then ended.

The following table summarises the impact on the financial statements:

	30 June 2015 (previously stated) £'000	Effect of prior year adjustment £'000	30 June 2015 (restated) £'000
Investments	371,598	30,262	401,860
Creditors: Amounts falling due within one year	(53,737)	(30,262)	(83,999)
Net current assets	**145,781**	**(30,262)**	**115,519**

	30 June 2016 (previously stated) £'000	Effect of prior year adjustment £'000	30 June 2016 (restated) £'000
Investments	372,549	30,262	402,811
Creditors: Amounts falling due within one year	(68,676)	(30,262)	(98,938)
Net current assets	**188,109**	**(30,262)**	**157,847**