Annual Report & Financial Statements 2018

GATEHOUSE FINANCIAL GROUP

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CONTENTS

GATEHOUSE FINANCIAL GROUP LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2018

Registered number: 117951


GATEHOUSE
FINANCIAL GROUP

COMPANY INFORMATION

Directors
Fahed Faisal Boodai
Abdulaziz Al-Bader
Mohamad Tawfik Al-Tahawy
Charles Haresnape

Secretary
Intertrust Corporate Services (Jersey) Limited

Auditor
Deloitte LLP
Hill House, 1 Little New Street, London
EC4A 3TR

Registered office
Gatehouse Financial Group Limited
44 Esplanade, St Helier
Jersey, JE4 9WG

Registered number
117951


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CHAIRMAN'S STATEMENT

In the name of Allah, the Most Gracious, the Most Merciful, on behalf of the Board of Directors of Gatehouse Financial Group Limited ("GFG", the "Group"), I am pleased to present the 2018 Annual Report and Financial Statements.

I am delighted with the progress made during 2018 across both trading companies in our Group – Gatehouse Bank ("Bank") and Gatehouse Capital ("GC").

At the Bank the new Home Finance proposition is now fully implemented, enabling Shariah-compliant owner occupied and buy to let products for both UK and international clients whose wish to buy UK property. During 2018 total financing, including both home finance and commercial senior debt of £251m was originated. These products will be developed further during 2019.

The Bank has developed and launched a new website and corporate brand and agreed a new set of Values and Behaviours with all staff. These are focused around the key values of ROC – Responsibility, Open and Can-Do.

The Bank acquired a majority shareholding in Ascend Properties, an asset management company, which will enable the Bank to provide in-house management, over time, to the new and existing BTR funds. Our existing funds are now established and providing excellent returns to investors.

Whilst it was necessary to provide for some significant revaluations from historic business during 2018, I remain confident the new business strategy is already refocusing the Bank to be more retail customer centric and profitability will be restored, in line with its five year business plan.

The Board continues to monitor Brexit developments and any potential impacts. Whilst it remains difficult to have clarity on Brexit, to date no material adverse impacts for the Bank are anticipated in light of the conservative leverage of our property exposures and the Board continues to closely scrutinise Bank development against the approved Risk Appetite.

GC continues to contribute excellent profitability to the Group and has recently confirmed Khaled Al-Baijan as its new Chief Executive Officer. GC is now regulated by the Capital Markets Authority (CMA) in Kuwait. GC's profit contribution was driven by significant fee income from the acquisition of additional assets to its portfolio under management and the exiting of several US and UK portfolios during the year. Significant acquisitions included LPOC (Lafayette Park Office Complex) and Bluelinx Industrial Portfolio in the US.

I would like to conclude by thanking our shareholders for their continued and valued support and wisdom as the Group continues to grow sustainably. I would again like to express my appreciation to the Shariah Supervisory Board for its valued guidance and to all Group employees, without whom the Group would not have such a positive outlook.

Fahed Faisal Boodai
Chairman

13 June 2019

SHARIAH SUPERVISORY BOARD REPORT

بسم الله الرحمن الرحيم

To the Shareholders of Gatehouse Financial Group Limited

Assalaam A'laikum Wa Rahmat Allah Wa Barakatuh

In compliance with our terms of appointment with Gatehouse Financial Group Limited ("GFG"), we, the Shariah Supervisory Board (the "SSB"), are required to submit the following report of Shariah compliance to you in connection with the business activities and the operations of GFG and its subsidiaries (the "Group").

In connection with our mandate, we have reviewed all material transaction documents that were presented to us and we also relied on certification of Shariah compliance issued by the respective Shariah Supervisory Boards of the subsidiaries within the Group. These include transactional as well as agreements signed with third parties for the purpose of obtaining their services to facilitate the proper operation of the Group. This report relates to the year ended 31 December 2018.

We have conducted overall Shariah review of the Group to form an opinion as to whether the Group has complied with Shariah and with the specific pronouncements, rulings and guidelines issued by us.

Management is responsible for ensuring that the Group conducts its business in accordance with Islamic Shariah. It is our responsibility to form an independent opinion and report to you, based on our overall review of the operations of the Group.

Supervision

The SSB has supervised the Group's operations to the extent it is relevant to Shariah compliance and carried out its role in directing the Group to comply with Shariah and the SSB's Shariah pronouncements.

Group's Contracts

The Group has entered into contracts which include obtaining services from third parties in order to efficiently manage the Group. The SSB has reviewed the contracts and agreements presented during the year and conveyed their pronouncements. The Group has followed the pronouncements and, where necessary, amended the relevant documents in order to comply with Shariah principles.

Shariah Audit

Regular Shariah audits have been carried out of the Group's business activities for the year ended 31 December 2018. The Shariah audit included a review of material transaction documents executed by the Group. In all material respects, the SSB found the business activities of the Group to be in compliance with the principles of Shariah and thanks the management of the Group for adhering to the principles of Shariah.

Balance Sheet

The SSB has reviewed the Group's Balance Sheet, the attached statements therewith and notes complementary thereto. The SSB indicates that the Balance Sheet is within limits of information presented by the Group's management representing the Group's assets and liabilities.

Zakaat

The Group calculates the Zakaat on behalf of its shareholders according to the Shariah rules approved by the Shariah Supervisory Board and was calculated using the Net Invested Funds method. The SSB reviewed the Group's policies on Zakaat which states that the payment out of the shareholders' funds retained with the Group or the Zakaat payable on the Group's paid up capital is the responsibility of the shareholders.

Conclusions

We performed our review so as to obtain material information including reliance on the certification of Shariah compliance issued by the Shariah Supervisory Boards of the entities within the Group. We sought explanations which we considered necessary in order to provide us with sufficient evidence to give assurance that the Group has not breached the rules and principles of Shariah.

In our opinion, the contracts and agreements, transactions and dealings entered into by the Group for the year ended 31 December 2018 complies with the Islamic principles of Shariah.

Members of the Shariah Supervisory Board

Sheikh Nizam Yaquby
Chairman of the SSB

13 June 2019

Sheikh Dr Esam Khalaf Al Enezi
Member of the SSB

Sheikh Dr. Abdul Aziz Al-Qassar
Member of the SSB

DIRECTORS' REPORT

The Directors present their report on the affairs of the Group, together with the financial statements and independent auditor's report, for the year ended 31 December 2018.

Principal Activities

Gatehouse Financial Group Limited ("GFG", the "Group") was incorporated in Jersey on 5 March 2015 to be the holding Company for Gatehouse Bank plc and Gatehouse Capital Economic and Financial Consultancy K.S.C.C ("Gatehouse Capital").

Gatehouse Bank plc is incorporated in the UK and is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA to act as a deposit-taking institution.

Gatehouse Capital is a closed shareholding Company registered in Kuwait and is engaged in providing management consultancy to local and foreign companies.

Financial results

The financial statements for the year ended 31 December 2018 are shown on pages 19 to 23. The consolidated Group loss for the year after taxation amounts to £15,334,319 (2017: profit of £277,241). The consolidated Group comprehensive loss for the year amounts to £14,248,643 (2017: loss of £3,582,255). As disclosed in Note 5 to the financial statements, a key part of the loss for the current year amounting to £12,312,585 is of a non-recurring nature and is attributed to a negative revaluation on legacy financing assets.

Dividend

No dividends were paid during the year (2017: £nil). The Directors do not recommend a final dividend on ordinary shares to be paid in respect of the year (2017: £nil).

Directors and Directors' Interests in Shares

The date of appointment to the Board of the Company is set out overleaf:

Below is a table of Directors appointments:

Fahed Boodai
(18 March 2015)

Abdulaziz Al-Bader
(15 February 2017)

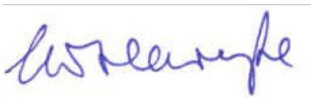
Mohamad Tawfik Al-Tahawy
(18 March 2015)

Charles Haresnape
(15 June 2017)

Zakaat

The Group calculates the Zakaat on behalf of its shareholders according to the Shariah rules approved by the Shariah Supervisory Board. Zakaat calculated for the year ended 31 December 2018 is 0.0164 pence per ordinary share of 1 pence each (2017: 0.0172 pence per ordinary share of 1 pence each). The responsibility for payment of Zakaat lies with the shareholders of the Group.

Approved by the Board of Directors and signed on behalf of the Board.



Charles Haresnape
Director

13 June 2019

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Jersey Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as issued by the European Union. The financial statements are required by Jersey Company law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year.

In preparing these financial statements, International Accounting Standard 1 requires that Directors present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the fair representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Group's ability to continue as a going concern.

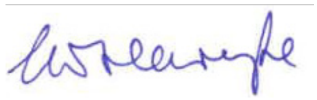
The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' Responsibilities Statement

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with relevant reporting framework, give a true and fair view of the assets, liabilities, financial results of the Group and the undertakings included in the consolidation taken as a whole;
- The Chairman's statement includes a fair review of the development and performance of the business and the position of the Group and the undertakings; and
- The annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

By order of the Board:



Charles Haresnape
Director

13 June 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GATEHOUSE FINANCIAL GROUP LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Gatehouse Financial Group Limited (the 'parent company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's affairs as at 31 December 2018 and of the group's loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been properly prepared in accordance with the Companies (Jersey) Law 1991.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated statement of financial position;
- the consolidated statement of changes in equity;
- the consolidated statement of cash flows; and
- the related notes 1 to 38.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group'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 the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Matters on which we are required to report by exception

Under the Companies (Jersey) Law 1991 we are required to report in respect of the following matters if, in our opinion:

- proper accounting records have not been kept by the parent company, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

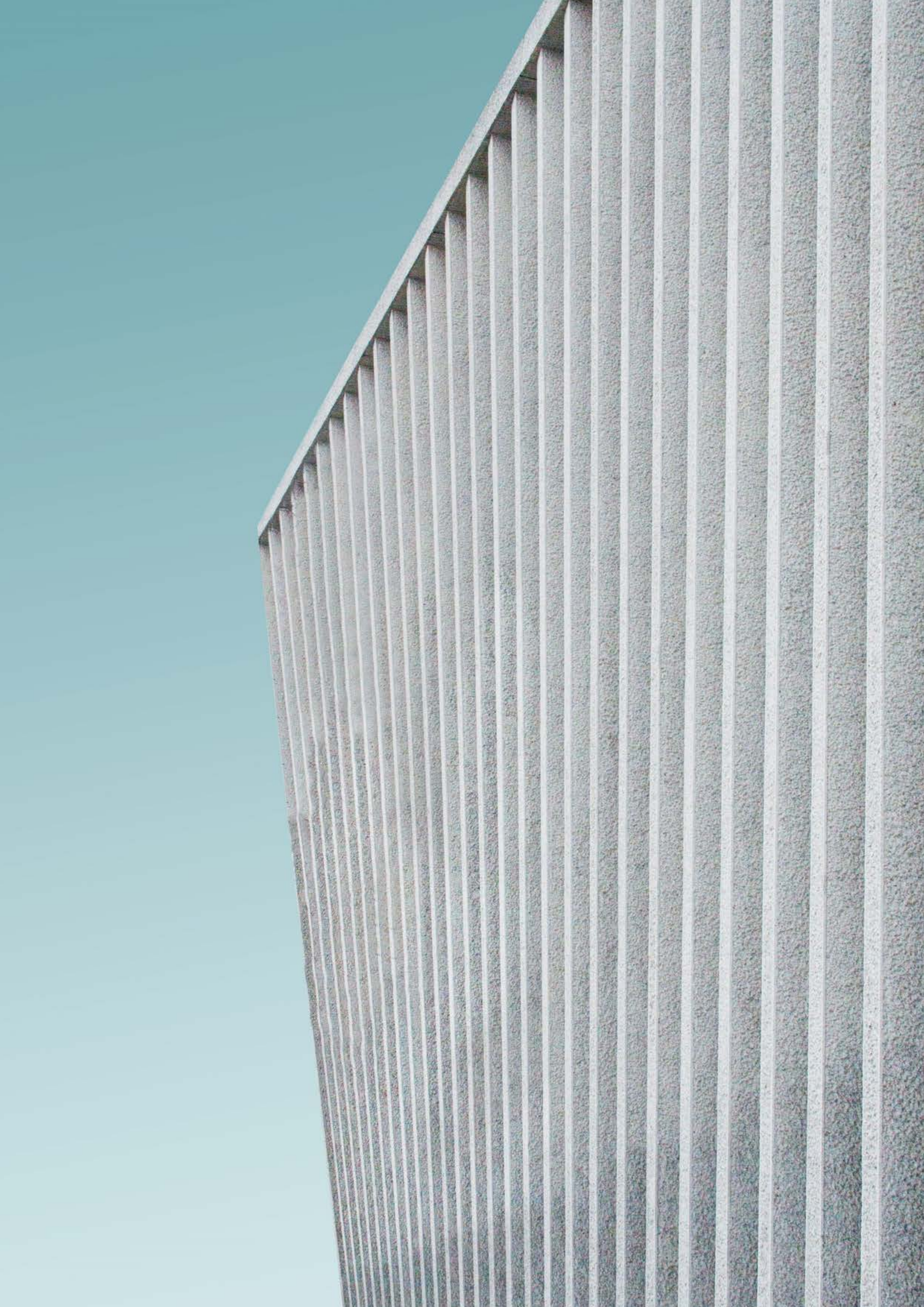
Use of our report

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. 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.

Alastair Morley

for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

13 June 2019



CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 Dec 2018 £	Year ended 31 Dec 2017 £
Income			
Income from financial assets held at amortised cost	4	6,486,866	5,108,262
Charges to financial institutions and customers		(5,464,056)	(3,424,915)
Fees and commission income	6	11,104,198	12,154,720
Fees and commission expense		(12,243)	(341)
Net (losses)/gains from financial assets at fair value through income statement	5	(10,288,018)	144,009
Dividend income on financial assets at FVTOCI		1,757,466	2,046,348
Unrealised gain on investment properties		6,008	314,924
Impairment of financial assets	9	(1,150,740)	(1,670,730)
Foreign exchange gains/(losses)		679,760	(208,115)
Other income		517,897	1,396,694
Total operating income		**3,637,138**	**15,860,856**
Expenses			
Staff costs	7	(12,314,224)	(10,281,274)
Other operating expenses	8	(7,226,538)	(5,286,367)
Depreciation and amortisation		(686,013)	(614,381)
Total operating expenses		**(20,226,775)**	**(16,182,022)**
Operating Loss		**(16,589,637)**	**(321,166)**
Net share of profit of associate	21	2,640,614	2,163,191
Amortisation of intangibles of subsidiary	23	(997,100)	(1,173,448)
Impairment of Associate	21	(375,647)	(384,765)
(Loss)/Profit before tax	10	**(15,321,770)**	**283,812**
Tax	11	(12,549)	(6,571)
Loss for the year from continuing operations		**(15,334,319)**	**277,241**
Attributable to:			
Loss attributable to the Bank's equity holders		(15,326,248)	277,241
Non-controlling interest		(8,071)	-
		(15,334,319)	**277,241**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 Dec 2018 £	Year ended 31 Dec 2017 £
(Loss)/Profit for the year from continuing operations	**(15,334,319)**	**277,241**
Items that may be reclassified subsequently to income statement if specific conditions are met:		
Net movement on instruments at FVTOCI	(2,154,549)	138,667
Foreign currency translation gains/(losses) from investment in associate	2,981,536	(3,998,163)
Items that will not be reclassified subsequently to income statement:		
Net movement on instruments at FVTOCI	258,689	-
Other comprehensive gain/loss for the year	1,085,676	(3,859,496)
Comprehensive loss for the year	**(14,248,643)**	**(3,582,255)**
Attributable to:		
Loss attributable to the Bank's equity holders	(14,240,572)	(3,582,255)
Non-controlling interest	(8,071)	-
	(14,248,643)	**(3,582,255)**

Notes 1 to 38 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31 Dec 2018 £	31 Dec 2017* £
Assets			
Cash and balances with banks		16,804,748	16,452,273
Financing and advances at amortised cost	16	294,737,373	122,614,587
Financial assets held at fair value through the income statement	17	24,987,580	28,461,065
Financial assets at fair value through other comprehensive income	18	55,331,860	71,067,958
Investment in associate	21	11,631,081	10,800,956
Goodwill	26	10,704,533	8,080,314
Derivative financial instruments	22	1,943,199	-
Intangible assets	23	2,322,040	2,298,107
Investment Properties	25	2,114,905	1,995,580
Property, Plant and Equipment	24	12,921,364	13,039,036
Other assets	27	4,184,683	5,903,229
Total assets		**437,683,366**	**280,713,105**
Liabilities			
Financial liabilities measured at amortised cost	28	318,846,691	150,077,161
Derivative financial instruments	22	1,854,165	506,336
Other liabilities	29	5,310,193	4,481,313
Total liabilities		**326,011,049**	**155,064,810**
Net assets		**111,672,317**	**125,648,295**
Shareholders' equity			
Share capital	34	158,000,001	158,000,001
Own shares	35	(7,950,700)	(7,950,700)
Fair value through other comprehensive income reserve		(2,372,806)	(394,901)
Foreign currency translation reserve		4,695,266	1,714,643
Retained deficits		(41,239,686)	(25,720,748)
Equity attributable to the Bank's equity holders		111,132,075	125,648,295
Non-controlling interest		540,242	-
Total Equity		**111,672,317**	**125,648,295**

* Presentation of comparative information for 2017 has been changed in line with the presentation adopted for 2018 balances. Please refer to Note 14 for more information.

Notes 1 to 38 form an integral part of the financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on the 13 June 2019.

They were signed on its behalf by:

Fahed Faisal Boodai
Director

Charles Haresnape
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Own Shares	FVTOCI reserve	Foreign currency translation reserve	Retained deficit	Equity attributable to the Bank's equity holders	Non-controlling interest	Total
	£	£	£	£	£	£	£	£
Balance at 1 January 2017	158,000,001	(7,950,700)	(533,568)	5,712,806	(25,997,989)	129,230,550	-	129,230,550
Other comprehensive gains/(losses) for the year								
Net movement on instruments at FVTOCI	-	-	138,667	-	-	138,667	-	138,667
Foreign currency translation gain from associate investments	-	-	-	(3,998,163)	-	(3,998,163)	-	(3,998,163)
Total other comprehensive gains/(losses) for the year	**158,000,001**	**(7,950,700)**	**(394,901)**	**1,714,643**	**(25,997,989)**	**125,371,054**	**-**	**125,371,054**
Profit for the year	-	-	-	-	277,241	277,241	-	277,241
Balance at 31 December 2017	**158,000,001**	**(7,950,700)**	**(394,901)**	**1,714,643**	**(25,720,748)**	**125,648,295**	**-**	**125,648,295**

	Share capital	Share capital	FVTOCI reserve	Foreign currency translation reserve	Retained deficit	Equity attributable to the Bank's equity holders	Non-controlling interest	Total
	£	£	£	£	£	£	£	£
Balance at 1 January 2018	158,000,001	(7,950,700)	(394,901)	1,714,643	(25,720,748)	125,648,295	-	125,648,295
Transition adjustment on adoption of IFRS 9 at 1 January 2018	-	-	-	-	(275,648)	(275,648)	-	(275,648)
Fair value changes recognised on reclassification of financial assets	-	-	(82,958)	-	82,958	-	-	-
Balance at 1 January 2018 (restated)	**158,000,001**	**(7,950,700)**	**(477,859)**	**1,714,643**	**(25,913,438)**	**125,372,647**	**-**	**125,372,647**
Other comprehensive (losses)/gains for the year								
Net movement on instruments at FVTOCI	-	-	(1,894,947)	(913)	-	(1,895,860)	-	(1,895,860)
Foreign currency translation gain from associate investments	-	-	-	2,981,536	-	2,981,536	-	2,981,536
Total other comprehensive (losses)/gains for the year	-	-	(1,894,947)	2,980,623	-	1,085,676	-	1,085,676
Acquisition of subsidiary	-	-	-	-	-	-	548,313	548,313
Loss for the year	-	-	-	-	(15,326,248)	(15,326,248)	(8,071)	(15,334,319)
Balance at 31 December 2018	**158,000,001**	**(7,950,700)**	**(2,372,806)**	**4,695,266**	**(41,239,686)**	**111,132,075**	**540,242**	**111,672,317**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 Dec 2018	Year ended 31 Dec 2017*
Cash flows from operating activities	£	£
Operating loss on ordinary activities after tax	(15,334,319)	277,241
Adjusted for:		
Impairment charge	1,169,449	1,670,730
Negative revaluation of financial assets held at FVTIS	13,068,076	-
Gains on financial assets held at FVTIS	854,649	-
Gains on financial assets held at FVTOCI	-	(405,329)
Share of operating profit from associate	(2,640,614)	(2,163,191)
Impairment of associate	375,647	384,765
Amortisation of intangibles of subsidiary	997,100	1,173,448
Fair value movement in derivative financial instruments	(595,370)	783,327
Depreciation and amortisation	686,013	614,381
Unrealised gain on investment properties	(6,008)	(314,924)
Foreign exchange losses	(705,210)	28,860
Taxation	12,549	6,571
Net decrease/(increase) in operating assets:		
Coupons receivable for financial assets held at FVTOCI	93,320	2,118,523
Net investment in financial assets held at FVTIS	(8,812,185)	-
Changes in financing and advances at amortised cost	(174,696,745)	7,631,855
Net decrease in other assets	1,875,857	2,980,690
Net increase/(decrease) in operating liabilities:		
Changes in financial liabilities measured at amortised cost	168,769,531	(18,346,250)
Net increase in other liabilities	318,521	(470,641)
Net cash outflow from operating activities	**(14,569,739)**	**(4,029,944)**
Cash flow from investing activities		
Dividend received from associate	2,128,273	1,948,225
Purchases of financial assets at FVTOCI	(28,199,188)	(13,533,859)
Proceeds from sale of financial assets	42,432,770	17,817,866
Net investment in subsidiary	(1,893,451)	-
Purchase of plant and equipment	(220,482)	(381,464)
Purchase of intangible assets	(680,797)	(140,437)
Net cash inflow from investing activities	**13,567,125**	**5,710,331**
Cash flows from financing activities		
Net cash inflow from financing activities	**-**	**-**
Net outflow/inflow in cash and cash equivalents	**(1,002,614)**	**1,680,387**
Cash and cash equivalents at the beginning of the year	16,452,273	16,496,015
Effect of foreign exchange rate changes	1,355,089	(1,724,129)
Cash and cash equivalents at the end of the year	**16,804,748**	**16,452,273**

* Presentation of comparative information for 2017 has been changed in line with the presentation adopted for 2018 balances. Please refer to Note 14 for more information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

1. General Information

Gatehouse Financial Group Limited (the "Group", the "Company") was incorporated as a private company in Jersey on 5 March 2015 under the Companies (Jersey) Law 1991. The address of the registered office is given on page 7.

Under Article 105(11) of the Companies Jersey Law 1991, the Directors of a holding company need not prepare separate financial statements (i.e. Company only financial statements) if consolidated accounts for the Company are prepared, unless required to do so by the member of the Company by ordinary resolution. The members of the Company had not passed a resolution requiring separate financial statements and, in the Directors' opinion the Company meets the definition of a holding company. As permitted by law, the Company's Board of Directors have elected not to prepare separate financial statements for the Company.

2. Adoption of new and revised standards

In the current year, the Group has adopted the requirements of IFRS 9 Financial Instruments and IFRS 15 Revenue from contracts with customers for the first time. The Group has also adopted all consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018.

IFRS 9 *Financial Instruments* measurement categories of financial assets and liabilities

The transition provisions of IFRS 9 allows an entity not to restate comparatives. The Group has elected not to restate comparatives in respect of the classification and measurement of financial instruments; however the Group has had to reclassify 2017 comparatives to allow for a true like-for-like comparison. The comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. The accounting policies complying with IAS 39 can be found in the Financial Statements for the year ended 31 December 2017. The nature and impact of the changes as a result of the adoption are detailed in Note 14.

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces key changes with regards to the classification and measurement of financial instruments, requiring asset classification and measurement based on both business model and product characteristics. The new classification categories include: measured at amortised cost, FVTOCI ("Fair Value Through Other Comprehensive Income") and FVTIS ("Fair Value Through Income Statement"). Changes to classification and measurement of financial instruments are detailed in Note 14.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed; and
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

The Solely Payments of Principal and Profit ("SPPP") test

As a second step of its classification process the Group assesses the contractual terms of financial assets to identify whether they meet the SPPP test.

The Principal is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. The most significant elements of the profit from a financing arrangement are typically the consideration for the time value of money and credit risk. To make the SPPP assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the profit rate is set.

Changes to impairment calculation

IFRS 9 replaces the "incurred loss" model under IAS 39 with a forward looking "expected credit loss" (ECL) model. Assets are classified under the three stage impairment model (Stage 1- credit risk has not increased; Stage 2 – credit risk has increased and Stage 3 – credit impaired financial asset). Where credit risk is deemed not to have increased significantly since initial recognition a loss allowance is calculated based on an amount equal to 12-month ECL (Expected Credit Loss). Where credit risk is deemed to have increased significantly since initial recognition a loss allowance based on lifetime expected losses is calculated. An asset is deemed to have moved to Stage 3 where management consider the asset to be impaired in accordance with the Group's credit risk management policies. For stage 3 assets the Group recognises the lifetime expected credit losses.

ECL measurement

The Group's portfolio is split into three asset classes Treasury (placements and Liquid Asset Buffer ("LAB") Sukuk), Real Estate Finance ("REF") and residential finance book (HPPs and Buy To Let). ECL is based on a separate estimation of PDs, LGDs and EADs for each exposure and which are determined based on a combination of internal and external data.

Quantitative modelling is used in conjunction with internal and external credit grades and ratings in assessing whether credit risk has significantly increased. The Group will monitor the effectiveness of the criteria used to identify any increase through regular reviews.

2. Adoption of new and revised standards (continued)

REF and residential financing portfolios under IFRS 9 will consider a financial asset to be in default when either the customer is unlikely to pay its credit obligations or the customer is more than 90 days past due. Treasury assets are considered in default immediately if they are not settled on the due date or when there is evidence that the counterparty is unlikely to pay its credit obligations on the contractual due date.

Forward-looking information

Under IFRS 9, the Group has incorporated the Bank of England forward-looking forecasts for UK unemployment and UK residential property price index into the IFRS 9 model.

Capital planning

The Group has taken advantage of the transitional guidelines issued by the Prudential Regulation Authority (PRA) of phasing in the full impact of IFRS 9 adoption over a five year period.

These financial statements illustrate the adoption of new standards and amendments which are applicable to reporting periods with a year end of 31 December 2018.

IFRS 15 Revenue from contracts with customers

The Group's revenue streams are predominantly not within scope of IFRS 15 and the Group has determined that a retrospective financial adjustment to retained earnings as of 1 January 2018 is not necessary as the Group's corresponding accounting policies are compliant with the principles of IFRS 15.

New and revised IFRSs:		Effective date
IFRS 9	Financial Instruments	1 January 2018
IFRS 15 (and the related Clarifications)	Revenue from Contracts with Customers (and the related clarifications)	1 January 2018
IFRIC 22	Foreign Currency Transactions and Advanced Consideration	1 January 2018
IFRS 16	Leases	1 January 2019
IFRS 17	Insurance Contracts	1 January 2021
IFRS 2 (amendments)	Classification and Measurement of Share-based Payment Transactions	1 January 2018
IFRS 4 (amendments)	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018
IAS 28 (amendments)	Long-term Interests in Associates and Joint Ventures	1 January 2019
IAS 19 (amendments)	Plan Amendment, Curtailment or Settlement	1 January 2019
IFRS 10 and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	TBC
IAS 40 (amendments)	Transfers of Investment Property	1 January 2018
IFRS 9 (amendments)	Prepayment features with negative compensation	1 January 2019

Annual Improvements to IFRSs:		Effective date
2014-2016 Cycle	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IFRS 28 Investments in Associates and Joint Ventures	1 January 2018
2015-2017 Cycle	Annual Improvements to IFRSs: 2015-17 Cycle	1 January 2019
Amendments to IAS 1 and IAS 8	Definition of Material	1 January 2020
IFRIC 22	Foreign Currency Transactions and Advanced Consideration	1 January 2018
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to IFRS 3	Definition of Business	1 January 2020

Earlier application is permitted in all instances.

At the time of writing, some of the above standards and amendments had not been endorsed by the EU. They cannot therefore be adopted for use by UK companies to the extent that they conflict with current standards until they are endorsed by the EU.

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

The Group has adopted the amendments to IAS 12 for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.

2. Adoption of new and revised standards (continued)

The application of these amendments has had no impact on the Group's consolidated financial statements.

New and revised IFRSs in issue but not yet effective

At the date of authorisation of these financial statements, The Group has not applied the new and revised IFRSs on page 25 that have been issued but are not yet effective and had not yet been adopted by the EU.

IFRS 16 Leases

IFRS 16 'Leases' introduces a single, on-balance sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces existing leases guidance including IAS 17 'Leases', IFRIC 4 'Determining whether an arrangement contains a Lease', SIC-15 'Operating Leases – Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. An entity applies IFRS 16 for annual reporting periods beginning on or after 1 January 2019.

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

3. Basis of preparation and significant accounting policies

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance as well as the financial position of the Group, its cash flows, liquidity position and obtaining financing facilities are described in this annual report and accounts. In addition, note 38 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposures to credit and liquidity risk.

The Group ensures it meets its capital and liquidity prudential limits and regulatory thresholds on a day-to-day basis by actively managing its cash, short-term treasury placements and longer dated exposures. This also includes stress testing the impact of one or more events that may adversely affect the amount of regulatory capital and positive liquidity of the Group. The Directors monitor the likelihood of such a stress event or combination of events happening on a forward looking basis regularly and take such preventive and detective actions as appropriate to ensure any stress event or events and their impact is mitigated on a timely basis. The Group's forecasts and projections take account of possible changes in future conditions and performance and the maintenance of planned capital and liquidity resources above the regulatory base requirements for the foreseeable future. In light of the above, the Directors continue to adopt the going concern basis in preparing the annual report and financial statements.

Basis of accounting

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial statements have been prepared under the historical cost accounting convention except for financial assets and liabilities stated at their fair value, comprising investment securities and derivative financial instruments.

Significant accounting judgements, estimates and assumptions

Judgements

Judgements in the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect in the amounts recognised in the consolidated financial statements.

Structured entities

The Group uses judgement in determining which entities are structured entities. If the voting or similar rights are not the dominant factor in deciding who controls the entity and such voting rights relate to the administrative tasks only and the relevant activities are directed by means of contractual arrangements, the Group identifies such entities as structured entities. After determining whether an entity is a structured entity, the Group determines whether it needs to consolidate this entity based on the consolidation principles of IFRS 10. The management of the Group has determined that it does not have any controlling interest in consolidated structured entities as at the reporting date.

Key estimates used by Management are as follows:

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. Fair value is estimated on the basis of historic cost less impairment and by reference to the net asset value of the underlying investment, where the net asset value is not based on observable market data (see note 38).

The adoption of IFRS 9 also requires consideration of a number of key assumptions. Refer to Note 2 for further information.

Basis of consolidation

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

3. Basis of preparation and significant accounting policies (continued)

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

The Company adopted IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities in 2012.

Foreign currencies

The financial statements are presented in sterling, which is the Group's functional and presentation currency, transactions in foreign currencies are initially recorded at the rate of exchange ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the balance sheet date. Non-monetary assets and liabilities are translated into sterling at the effective historical rate used on the date of initial recognition. Exchange differences arising on the settlements of monetary items and on the retranslation of monetary items are included in the profit or loss for the year.

Income from financial assets held at amortised cost

"Income from financial assets held at amortised cost" consists of profit derived from Shariah-compliant financing and advances under Diminishing Musharaka agreements and Murabaha placements. A Murabaha arrangement represents an agreement whereby the Group purchases a commodity and then sells it to a customer on a deferred settlement basis with an agreed mark-up. A Musharaka contract represents an agreement between the Group and the customer entering into a partnership in the ownership of a specific asset on ongoing basis or for a limited time, during which the Group enters in particular arrangements with the customer to sell to them its share in this partnership until they become the sole owner of the specific asset (Diminishing Musharaka).

Profit receivable on Murabaha placements and Diminishing Musharaka is recognised as income on a time-apportionment basis over the period of the contract, based on the principal amounts outstanding.

Charges to financial institutions and customers

"Charges to financial institutions and customers" consists of profit payable from Shariah-compliant deposits including Murabaha deposits and Wakala arrangements. A Wakala arrangement represents an agreement whereby the Group accepts a deposit of funds on behalf of a customer to perform an investment activity and endeavours to pay a return based on a pre agreed rate.

Profit payable on Murabaha deposits and Wakala arrangements is recognised as income on a time-apportionment basis over the period of the contract, based on the principal amounts outstanding.

Fees and commissions

Fees and commissions are recognised on an accruals basis as the service is provided. Fees and commissions arising from transactions for third parties, such as the acquisition of securities or the purchase or sale of other assets, are recognised when right to receive the income has been established. Management advisory and service fees are recognised based on applicable service contracts or over the period the service is provided.

Financial Assets and Liabilities

Recognition/de-recognition

A financial asset or a financial liability is recognised when the Group becomes a party to the contractual provisions of the instrument. A financial asset (in whole or in part) is derecognised when the contractual rights to receive cash flows from the financial asset has expired or the Group has transferred substantially all risks and rewards of ownership and has not retained control. If the Group has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same financier on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and recognition of a new liability.

All purchase and sale of financial assets are recognised using settlement date accounting. Changes in fair value between the trade date and settlement date are recognised in the consolidated statement of income or in the consolidated statement of comprehensive income in accordance with the policy applicable to the related instrument. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the marketplace.

Investment in associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

3. Basis of preparation and significant accounting policies (continued)

The results and net assets of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of the investment. Losses of an associate in excess of the Group's interest in that associate are not recognised. Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at date of acquisition is recognised as goodwill. Goodwill is included within the carrying amount of the investment.

Ijara

The Group accounts for the Ijara as a finance lease in accordance with IAS 17 and records the investment in the lease as the gross investment discounted at the rate implicit in the lease which at inception causes the aggregate present value of the minimum lease payments to be equal to the sum of the fair value of the leased asset and any initial direct costs of the lessor. The Group recognises finance income and expense so as to reflect a constant periodic rate of return on its net investment in the finance lease.

Financing and advances at amortised cost

Financing and advances at amortised cost include financial assets that are held to collect contractual cash flows that are SPPP. They are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost less impairment losses.

Financial assets held at fair value through the income statement

Financial assets held at value through income statement include financing advanced to corporate customers and unquoted equity securities. Financing advanced to corporate customers has been classified in this caption as it has failed to meet all the requirements set out in the SPPP test indicating that its cash flows are not solely payments of principal and profit, irrespective of the business model. Unquoted equity securities are not held for trading and therefore the Group has the irrevocable election at initial recognition to classify the instruments as FVTOCI, which has not been taken. This election is available for each separate investment.

Financial assets classified under this caption are carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement.

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income include quoted funds, unquoted equity securities which the Group has elected to hold under FVTOCI and quoted sukuk. Gains and losses arising from changes in the fair value of these financial instruments are never recycled to the income statement. Dividends on such investments are recognised in the income statement unless the dividend represents a recovery of part of the cost of the investment. For debt instruments and equity securities, gains and losses arising from changes in the fair value are recognised in FVTOCI reserve of equity. Upon disposal, the cumulative gain or loss previously recognised in other comprehensive income is not reclassified from equity to the income statement.

Fair Value Hedge Accounting

IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting, which the Group has exercised. The Group applies fair value hedge accounting to hedge the foreign exchange risk on its financial asset held at FVTOCI and FVTIS and also Profit Rate Swaps ("PRS") to hedge the exposure in fixed rate mortgages in the residential and commercial financing books. At the inception of a hedging relationship, the Group documents the relationship between the hedging instruments and the hedged items, its risk management objective and its strategy for undertaking the hedge. The Group also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments that are used in hedging transactions are highly effective in offsetting the changes attributable to the foreign exchange risks in the fair values of the hedged items.

To qualify for hedge accounting, IAS 39 requires that at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness), and demonstrate actual effectiveness (retrospective effectiveness) on an ongoing basis; GHB assesses this at inception (prospective effectiveness) and on a monthly basis (retrospective effectiveness). The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in achieving offsetting changes in fair value attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness to be achieved, the changes in fair value must offset each other in the range of 80 per cent to 125 per cent, for the hedge to be deemed effective.

Derivative Financial Instruments

Derivative financial instruments include Shariah-compliant forward foreign exchange agreements based on the Wa'ad principle and commitment to investment securities and PRS instruments.

Derivative financial instruments are recognised initially, and are subsequently remeasured at fair value. Fair values of PRS instruments are obtained using discounted cash flow models. The valuation of derivative financial instruments held at fair value through the income statement is recognised in the balance sheet under derivative financial instruments on either the asset or liability side of the balance sheet dependent on whether the valuation is positive or negative respectively. The valuation of one class of derivative financial instruments is not offset against the valuation of another class of derivative financial instruments.

3. Basis of preparation and significant accounting policies (continued)

Cash and balances with banks

The caption Cash and Balances with Banks represents cash and current account balances with banks, all held in interest-free accounts.

An item of property, plant or equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Property, Plant and Equipment

Plant and equipment is stated at cost, which includes direct and incremental acquisition costs less accumulated depreciation and impairment losses if any. Depreciation is provided on a straight-line basis over estimated useful life as follows:

Leasehold Property	Over life of lease
Leasehold Improvements	Minimum of life of lease or 10 years
Computer and Office Equipment	3 years
Fixtures and Fittings	5 years

Costs include all incremental, directly attributable external costs incurred in bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Intangible assets

Intangible assets other than goodwill are accounted for in accordance with IAS 38 Intangible Assets. Intangible assets are initially recognised when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, where it is probable that future economic benefits attributable to the assets will flow from their use. Intangible assets are stated at cost (which is, in the case of assets acquired in a business combination, the acquisition date fair value) less accumulated amortisation and provisions for impairment, if any, and are amortised over their useful lives in a manner that reflects the pattern to which they contribute to future cash flows, generally using the amortisation periods set out below:

- Goodwill – not amortised;
- Software development costs – 5 years;
- Licence fees – 5 years; and
- Customer lists – 15 years.

Intangible assets are reviewed for impairment when there are indications that impairment may have occurred.

Goodwill

Goodwill arises on the acquisition of subsidiary and associated entities and represents the excess of the fair value of the acquisition over the identifiable net assets acquired. Goodwill is capitalised and reviewed annually for impairment, or more frequently when there are indications that an impairment has occurred. Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. At the acquisition date the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously-held equity interest (if any) in the acquiree over the fair value of the identifiable net assets recognised. Goodwill is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. The recoverable amount is the higher of fair value less cost to sell and value in use. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss is recognised immediately in profit or loss and is not subsequently reversed.

Impairment of non-financial assets

The Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered permanent diminution in value. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects a current market assessment of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than the carrying amount, the asset is written down to its recoverable amount. An impairment loss is recognised as an expense in the income statement.

Contracted Revenue

Contracted Revenue of a subsidiary refers to specific intangible assets that were obtained on acquisition of Gatehouse Capital Economic and Financial Consultancy K.S.C.C ("Gatehouse Capital") pertaining to fee agreements that will exist until 2019. This asset is amortised on a proportionate basis of the contracted revenue, from 2015 to 2019.

3. Basis of preparation and significant accounting policies (continued)

Share-based payments

The Group accounts for its share option scheme in accordance with IFRS 2. At each balance sheet date, the Group revises its estimate of the number of equity options expected to vest. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions.

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 shareholders' equity, in which case it is recognised in shareholders' equity.

Current tax is provided on taxable profits at the current rate.

Deferred tax is provided in full using the liability method on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. 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 for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised.

No deferred tax assets are recognised at 31 December 2018 as management believe that it is improbable that the related tax benefit will be realised due to tax losses brought forward.

Operating leases

Operating lease rentals are charged to the income statement on a straight-line basis over the period of the lease.

Pension costs

The Group operates a defined contribution pension scheme for all staff. The cost of the scheme is equal to the contributions payable to the scheme for the accounting period and is recognised within "Staff costs" in the income statement. The Group has no further obligation once the contributions have been paid.

4. Income from financial assets held at amortised cost

	2018	2017
	£	£
Income from financial institutions	670,204	156,705
Income from financing arrangements	5,816,662	4,951,557
	6,486,866	**5,108,262**

5. Net losses on financial assets at fair value through income statement

	2018	2017
	£	£
Negative revaluation on financing asset	(12,312,585)	-
Profit income of financing assets	684,690	(11,118)
Positive revaluation on unquoted equity securities	829,226	-
Gain on disposal of unquoted securities	34,174	-
Dividend income	476,477	155,127
	(10,288,018)	**144,009**

6. Fees and commission income

	2018	2017
	£	£
Management fees	5,451,904	6,834,697
Structuring fees	2,415,487	2,335,817
Placement fees	368,498	633,481
Incentive fees	2,868,309	2,350,725
	11,104,198	**12,154,720**

7. Staff costs, Directors' emoluments and number of employees

	2018	2017
	£	£
Staff costs		
Directors' salaries and fees	1,374,479	1,435,027
Directors' pensions	52,813	11,562
	1,427,292	**1,446,589**
Staff salaries	7,124,094	6,465,634
Staff pension contributions	408,213	311,136
Social security costs	964,042	604,234
Other staff costs	2,390,583	1,453,681
	12,314,224	**10,281,274**

	2018	2017
	£	£
Highest paid Director		
Emoluments	641,250	503,164
Pension contribution	-	-
	641,250	**503,164**

	2018 No.	2017 No.
Number of employees at year end	189	88
Average number of employees	166	79

8. Other operating expenses

	2018	2017
	£	£
Legal and professional fees	1,695,823	1,187,408
Rent and other occupancy costs	1,498,205	1,346,811
Travel and accommodation	378,075	621,724
Other tax payable	933,283	130,721
Other operating charges	776,244	371,504
IT and communication costs	984,425	687,308
Recruitment costs	288,428	413,410
Consultancy	360,479	326,567
Shariah Supervisory Board fees	78,872	90,029
Advertising and marketing	232,704	110,885
	7,226,538	**5,286,367**

9. Impairment charge

	2018	2017
	£	£
Bad debt on trade receivable	125,000	-
Impairment of Murabaha receivable	225,147	-
Expected credit losses	800,593	-
Financial assets at fair value through other comprehensive Income	-	1,670,730
	1,150,740	**1,670,730**

10. Loss before tax

	2018	2017
Loss before tax is stated after charging:	£	£
Net foreign exchange (gains)/losses	(679,761)	224,370
Auditor's remuneration	229,500	274,831
Rentals paid under operating leases: premises	977,154	893,027
Depreciation and amortisation	684,837	583,335

	2018	2017
Auditor's remuneration can be analysed as follows:	£	£
Audit of the Bank's accounts	179,000	187,668
Other services:		
Other audit-related services	50,500	87,163
	229,500	**274,831**

11. Taxation

	2018	2017
	£	£
Analysis of tax charge for the year		
Current tax		
UK Corporation tax based on the profit for the year	-	-
Other corporation tax – GHB Properties Limited	12,549	6,571
Adjustments in respect of prior years	-	-
Total current tax charge	**12,549**	**6,571**
Deferred tax		
Origination and reversal of timing differences	-	-
Effect on changes in tax rates	-	-
Tax on profits on ordinary activities	**12,549**	**6,571**

As per the Finance Act 2015 the headline rate of UK corporation tax reduced from 20% to 19% on 1 April 2017. The standard rate of corporation tax applied to reported profit is 19% (2017: 19.25%). Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The unrecognised deferred tax asset on a gross basis is £46,453,502 (2017: £28,250,359). There is no expiry date on the tax losses.

The tax expense in the income statement for the year was £12,549 (2017: £6,571). The tax expense can be reconciled to the loss per the income statement as follows:

	2018	2017
	£	£
Loss/profit after tax from continuing operations	(15,334,319)	277,241
Adjusting items subject to UK corporation tax	(507,966)	(621,762)
Loss before tax subject to UK corporation tax	**(15,842,285)**	**(344,521)**

11. Taxation (continued)

Tax at the UK corporation tax rate of 19% (2017: 19.25%)	(3,010,034)	(66,320)
Effects of:		
Results from associates and subsidiaries	(352,292)	(346,312)
Expenses not deductible for tax purposes	173,679	96,324
Adjustments to opening and closing deferred tax to average rate of 19.25%	356,673	39,120
Deferred Tax Asset not recognised	3,031,710	296,022
Fixed asset differences	1,888	27,456
Income tax not taxable for tax purposes	(305,752)	(34,758)
Other permanent differences	4	651
Other corporation tax charge-GHB Properties limited	12,549	-
Other	104,124	(5,612)
Tax charge in the consolidated income statement	**12,549**	**6,571**

12. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding.

The weighted average number of ordinary shares outstanding is as follows:

	Number of shares	
	2018	**2017**
Weighted average number of ordinary shares outstanding	**15,800,000,100**	**15,800,000,100**

13. Profit Rate Swap

In 2018 the Group entered into Shariah compliant derivatives, profit rate swaps ("PRS") to hedge the exposure in fixed rate mortgages in the residential and commercial financing books.

At the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. The hedge is expected to be highly effective in achieving offsetting changes in fair value attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship. The effectiveness of the hedge can be reliably measured, i.e. the fair value of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured. The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

Hedge ineffectiveness for the Group's PRS can be explained by:

- Floating leg of the PRS will have a value on any day other than the reset date. The floating leg only exists in the hedging instrument and not the hedged item so ineffectiveness will result;
- Prepayments of the hedged items will cause an over-hedged position and ineffectiveness will result; and
- Maturity dates of the hedged items and the hedging instruments differ so ineffectiveness will result.

Fair value of PRS designated as fair value hedges:

	2018	**2017**
	£	**£**
Fair value adjustment to hedged item	358,894	-
Accrued profit of hedged item	73,564	-
Carrying Value of hedged item	**432,458**	**-**
Fair value adjustment to hedging item	(362,178)	-
Accrued profit of hedging item	(114,502)	-
Carrying Value of hedging instrument	**(476,680)**	**-**
Net Profit Rate Swaps Fair Value Hedges	(3,284)	-
Net Profit Rate Swaps Accrued interest	(40,938)	-
Net carrying Value of hedged item and hedging instrument	**(44,222)**	**-**

The closing value of the Profit Rate Swaps represents the fair value movement on all swaps as they were all entered into during the financial year.

14. Effects of reclassification upon adoption of IFRS 9

Classification of financial assets and liabilities

IFRS 9 contains three principal classification categories for financial assets: Amortised cost, fair value through other comprehensive income (FVTOCI) and fair value through income statement (FVTIS). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows.

			31 Dec 2017		01 Jan 2018
			£		£
Financial Assets	**Original Classification under IAS 39**	**New classification under IFRS 9**	**Carrying value amount under IAS 39**	**Re-measurement ECL**	**Carrying value amount under IFRS 9**
Cash and balances with banks	Loans and receivables	Amortised cost	16,452,273	-	16,452,273
Due from financial institutions	Loans and receivables	Amortised cost	77,251,048	(7,934)	77,243,114
Financing arrangements	Loans and receivables	Amortised cost	45,363,539	(265,867)	45,097,672
Financing arrangements - Mezzanine financing	Loans and receivables	FVTIS	10,707,920	-	10,707,920
Investment securities- Sukuk	AFS	FVTOCI	42,151,243	(1,847)	42,149,396
Investment securities- Equity	AFS	FVTOCI	5,545,881	-	5,545,881
Investment securities- Unquoted equity securities - FVTOCI	AFS	FVTOCI	23,110,486	-	23,110,486
Investment securities- Unquoted equity securities - FVTIS	AFS	FVTIS	17,753,145	-	17,753,145
Investment securities- Unquoted funds	AFS	FVTOCI	262,195	-	262,195
Total financial assets			**238,597,730**	**(275,648)**	**238,322,082**
Financial Liabilities					
Due from financial institutions	Loans and payables	Amortised cost	76,742,889	-	76,742,889
Due to Customers	Loans and payables	Amortised cost	73,334,272	-	73,334,272
Derivative financial liabilities	FVTIS	FVTIS	506,336	-	506,336
Total financial liabilities			**150,583,497**	**-**	**150,583,497**

Impact on retained earnings and other reserves

	Retained deficits	FVTOCI reserve
	£	£
Closing balance under IAS 39 (31 December 2017)	(25,720,748)	(394,901)
Fair value changes recognised on reclassification of financial assets:		
Unquoted Equity reclassed from AFS to FVTIS	82,958	(82,958)
Recognition of expected credit losses under IFRS 9	(275,648)	-
Opening balance under IFRS 9 (1 January 2018)	**(25,913,438)**	**(477,859)**

Financial Instruments subject to impairment

The Group has not restated the carrying values of financial instruments in the scope of IFRS 9 for 2017, however the presentation of comparative information for 2017 has been changed in line with the presentation adopted for 2018 balances. The accounting policies complying with IAS 39 can be found in the Financial Statements for the year ended 31 December 2017. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018.

14. Effects of reclassification upon adoption of IFRS 9 (continued)

Financing and advances at amortised cost

	2018					2017
	Stage 1 12m ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased Credit impaired	Total	
	£	£	£	£	£	£
Gross carrying value	293,384,888	2,446,351	-	-	295,831,239	122,614,587
Loss allowance	(11,312)	(1,082,554)	-	-	(1,093,866)	-
Carrying value under IFRS 9	**293,373,576**	**1,363,797**	-	-	**294,737,373**	**122,614,587**

Financial assets at fair value through other comprehensive income - Debt Assets

	2018					2017
	Stage 1 12m ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased Credit impaired	Total	
	£	£	£	£	£	£
Gross carrying value	25,754,364	-	-	-	25,754,364	47,697,124
Loss allowance	(1,589)	-	-	-	(1,589)	-
Carrying value under IFRS 9	**25,752,775**	**-**	-	-	**25,752,775**	**47,697,124**

Unquoted equity securities classified as FVTOCI are excluded from ECL impairment calculations as the Group assesses the fair value of these assets using a NAV model and is therefore excluded from the balances above.

Financing and advances at amortised cost

	Stage 1 12m ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased Credit impaired	Total
	£	£	£	£	£
Loss allowance as at 1 January 2018	(70,759)	(203,042)	-	-	(273,801)
New financial assets originated or purchased	(908,543)	-	-	-	(908,543)
Transfers					
Transfer from stage 1 to stage 2	879,825	(879,825)	-	-	-
Changes in PD's/ LGD's / EAD's	87,870	(489)	-	-	87,381
FX and other movements	295	802	-	-	1,097
Loss allowance as at 31 December 2018	**(11,312)**	**(1,082,554)**	**-**	**-**	**(1,093,866)**

Financial assets at fair value through other comprehensive income

	Stage 1 12m ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased Credit impaired	Total
	£	£	£	£	£
Loss allowance as at 1 January 2018	(1,847)	-	-	**-**	(1,847)
New financial assets originated or purchased	-	-	-	-	-
Changes in PD's/ LGD's / EAD's	121	-	-	-	121
FX and other movements	137	-	-	-	137
Loss allowance as at 31 December 2018	**(1,589)**	**-**	**-**	**-**	**(1,589)**

Reclassification of income statement

The presentation of comparative information within the income statement for 2017 has been changed in line with the presentation adopted for 2018 balances. A reconciliation of the reclassification is given below.

14. Effects of reclassification upon adoption of IFRS 9 (continued)

CONSOLIDATED INCOME STATEMENT	Prior Year 31 Dec 2017 £	Reclass £	Comparative 01 Jan 2018 £
Income			
Income from investment and financing activities	7,662,748	(7,662,748)	-
Realised gains/(losses) on investments	1,019,024	(1,019,024)	-
Impairment charge	(2,257,974)	2,257,974	-
Income from financial assets held at amortised cost	-	5,108,262	5,108,262
Dividend income on financial assets at FV through OCI	-	2,046,348	2,046,348
Impairment of financial assets	-	(1,670,730)	(1,670,730)
Net (losses)/gains from financial assets at fair value through income statement	-	144,009	144,009
Other Income	600,785	795,909	1,396,694
	7,024,583	-	**7,024,583**

15. Company profit attributable to equity shareholders

£15,446,106 of the company loss for the financial year (2017: £277,241 profit) has been dealt with in the accounts of the Group.

16. Financing and advances at amortised cost

Financing and advances to customers, corporates and financial institutions are held at amortised cost.

That is, the initial fair value (which is normally the amount advanced or financed) is adjusted for repayments and fees to represent the effective finance rate of the asset.

	Avg. Yield	2018 £	*Avg. Yield*	2017 £
Gross financing and advances at amortised cost		295,831,239		122,614,587
Less: allowances for impairment		(1,093,866)		-
Financing and advances at amortised cost	*3.84%*	**294,737,373**	*2.92%*	**122,614,587**

17. Financial assets held at fair value though the income statement

	Avg. Yield	2018 £	*Avg. Yield*	2017 £
Gross financing and advances		21,903,272		13,931,402
Less: Negative revaluations		(12,001,123)		-
Total financing and advances		9,902,149		13,931,402
Unquoted equity securities		15,085,431		14,529,663
	2.58%	**24,987,580**	*5.71%*	**28,461,065**

All finance receivables are bilateral financial arrangements with corporate entities accounted for as Loans and Receivables in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

18. Financial assets at fair value through other comprehensive income

	Avg. Yield	2018 £	*Avg. Yield*	2017 £
Quoted sukuk		21,635,010		26,956,969
Unquoted sukuk		-		15,194,274
Unquoted equity securities		29,350,880		23,108,640
Unquoted funds		228,207		262,195
Quoted funds		4,117,763		4,278,905
Quoted equity securities		-		1,266,975
	1.66%	**55,331,860**	*2.65%*	**71,067,958**

19. Investment in subsidiaries

The Group consists of a parent company, Gatehouse Financial Group Limited, incorporated in Jersey and a number of subsidiaries and associates held directly and indirectly by Gatehouse Financial Group Limited, which operate and are incorporated around the world. Information about the composition of the Group at the end of the reporting period is as follows:

Subsidiaries	**Principal Activity**	**Place of business & Country of incorporation**	**GFG consolidated interest**
Directly held:			
Gatehouse Bank plc	Banking and Investment Advisory	England & Wales	100.0%
Gatehouse Capital Economic and Financial Consultancy K.S.C.C	Investment and Real Estate Investment Advisory	Kuwait	100.0%
Gatehouse UK PRS Manager Limited	Investment and real estate activities	Cayman Islands	100.0%
Ascend Estates Limited	Management of real estate	England & Wales	50.1%
Indirectly held:			
Held through Gatehouse Bank plc			
Gate Holdings Limited	Investment holding company	Jersey	100.0%
GHB Properties Limited	Investment holding company	Jersey	100.0%
Held through Gatehouse Capital Economic and Financial Consultancy K.S.C			
Dhow Holdings Corporation (“DHC”)	Investment and real estate activities	Cayman Islands	100.0%
Global Securities House France S.A.S.	Investment and real estate activities	France	100.0%
Held through DHC			
Global Securities House USA, Inc.(“GSH”)	Investment and real estate activities	USA	100.0%

All subsidiaries are included in the consolidated accounts. The statutory financial year end of Ascend Estates Limited does not coincide with the financial year end of the Group as it falls on 31 October as opposed to 31 December.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed for Ascend Estates Limited are as set out below:

	2018
	£
Cash and Balances with banks	340,522
Intangible assets	245,376
Property, Plant and Equipment	67,083
Other Assets	93,593
Financial Liabilities	(207,315)
Total identifiable assets on acquisition	**539,259**
Goodwill	**2,166,370**
Total Consideration	**2,705,629**

20. Disclosure of interests in other entities

The Group has investments in a number of special purpose vehicles (SPVs) that have an interest in UK property. The Group provides investment advisory services in relation to the investments. The investment SPVs have two classes of equity: management shares which carry voting rights; and participating shares which represent economic interests in the SPVs. None of the SPVs are consolidated by the Group as the Group holds only a small percentage of the participating shares and acts as agent in its capacity as investment advisor for the SPVs. Typically the Group receives a fixed annual advisory fee for its services which is not linked to the performance of the SPV and a performance fee of 20% of profits achieved over a specified rate of return. The Group cannot be removed as investment advisor except by the board of the SPV which is controlled by the holders of the management shares. In most cases the Bank does not own a majority of the management shares.

The Group also has investments in a number of US property special purpose vehicles (SPVs) which are included in investment securities. Gatehouse Capital is the sponsor of these SPVs and provides investment advisory services to them. None of the SPVs are consolidated by the Group as the Group holds only a small percentage of the participating shares and has no involvement in the management or control of the SPVs.

The Group's gross investment in property SPVs is £21,199,246 which is included in financial assets held at fair value through the income statement and financial assets held at fair value through other comprehensive income. The Group has also provided funding through fixed term Murabaha contracts as bridge financing to these SPVs. The Group's maximum loss relating to these SPVs is equal to the exposure in the SPVs. The primary risk to which the Group is exposed is the risk of changes in the valuation of the Group's investment in the SPV due to changes in the valuation of the property held by each SPV or changes in the cash flows generated by the property.

21. Investment in Associate

This represents the Group's 65% share of investment in Weaver Point Capital Advisors, LLC ("Weaver Point"), incorporated in the United States and has Real Estate advisory as principal activities. The Group accounts for the investment in Weaver Point as an associate in accordance with IAS 28: Investment in Associates and Joint Ventures, as the Group does not have power over Weaver Point and the ability to use its power over Weaver Point to affect its returns and hence does not have control over Weaver Point under IFRS 10.

Movement on the investment in associate is shown below:

	2018	2017
	£	£
At the beginning of the year	**10,800,956**	**12,042,951**
Share of profit	2,640,614	2,163,191
Foreign currency translation adjustment	693,431	(1,072,196)
Dividends received	(2,128,273)	(1,948,225)
Amortisation of intangibles	(375,647)	(384,765)
At the end of the year	**11,631,081**	**10,800,956**

The following table illustrates summarised financial information of investment in associates:

	2018	2017
	£	£
Aggregated amounts relating to associate		
Total assets	7,247,578	5,701,736
Total liabilities	(2,364,675)	(119,581)
Net assets	**4,882,903**	**5,582,155**
Total revenue	9,369,480	8,423,686
Profit	**4,243,314**	**5,056,472**

	2018	2017
	£	£
Group's share of net assets of associate	2,998,999	2,304,077
Goodwill and intangibles	8,632,082	8,496,879
Carrying amount of interest in associates	**11,631,081**	**10,800,956**

22. Derivative financial instruments

	Assets £	Liabilities £	Notional amount £
2018			
Maturing in 0-3 months	1,819,256	1,854,165	185,501,903
Maturing in 3-6 months	123,943	-	44,472,215
	1,943,199	**1,854,165**	**229,974,118**
2017			
Maturing in 0-3 months	-	506,336	42,151,243
	-	**506,336**	**42,151,243**

The Group uses foreign currency agreements for matching currency exposure. The Group also uses derivatives to prudently manage its profit rate risk, which allows the Group to hedge against risks arising from deposits of certain short-term maturities and longer-term financing.

23. Intangible assets

Intangible assets:	**2018 £**	**2017 £**
Software costs and licence fees	797,338	339,243
Customer List	489,773	-
Contracted Revenue of a subsidiary	1,034,929	1,958,864
Total Balance at 31 December	**2,322,040**	**2,298,107**

Software costs and license fees	**2018 £**	**2017 £**
Cost		
At 1 January	2,127,394	1,986,957
Additions	680,797	140,437
Disposals	-	-
At 31 December	**2,808,191**	**2,127,394**
Amortisation		
At 1 January	1,788,151	1,607,558
Charge for the year	222,702	180,593
On disposal	-	-
At 31 December	**2,010,853**	**1,788,151**
Net book value		
At 1 January	**339,243**	**379,399**
At 31 December	**797,338**	**339,243**

Customer lists	**2018 £**	**2017 £**
Cost		
At 1 January	-	-
Additions	489,773	-
Disposals	-	-
At 31 December	**489,773**	**-**
Amortisation		
At 1 January	-	-
Charge for the year	-	-
On disposal	-	-
At 31 December	**-**	**-**
Net book value		
At 1 January	**-**	**-**
At 31 December	**489,773**	**-**

23. Intangible assets (continued)

Contracted Revenue of a subsidiary	2018	2017
	£	£
Balance as at 1 January	1,958,864	3,176,014
Amortisation	(997,100)	(1,173,448)
FX retranslation	73,165	(43,702)
Balance as at 31 December	**1,034,929**	**1,958,864**

24. Property, plant and equipment

	Property	Computer equipment	Fixtures and fittings	Leasehold improvement	Vehicles	Total
	£	£	£	£	£	£
Cost						
At 1 January 2018	12,216,511	1,303,451	818,349	2,962,670	39,220	17,340,201
Additions	-	211,154	97,362	37,197	-	345,713
Disposals	-	-	-	-	-	-
FX retranslation	-	23,180	34,287	-	1,877	59,344
At 31 December 2018	**12,216,511**	**1,537,785**	**949,998**	**2,999,867**	**41,097**	**17,745,258**
Depreciation						
At 1 January 2018	440,364	1,200,110	768,873	1,852,598	39,220	4,301,165
Charge for the year	109,950	123,929	52,640	176,792	-	463,311
On disposal	-	-	-	-	-	-
FX retranslation	-	23,352	34,189	-	1,877	59,418
At 31 December 2018	**550,314**	**1,347,391**	**855,702**	**2,029,390**	**41,097**	**4,823,894**
Net book value						
At 1 January 2018	11,776,147	103,341	49,476	1,110,072	-	13,039,036
At 31 December 2018	**11,666,197**	**190,394**	**94,296**	**970,477**	**-**	**12,921,364**

	Property	Computer equipment	Fixtures and fittings	Leasehold improvement	Vehicles	Total
	£	£	£	£	£	£
Cost						
At 1 January 2017	12,216,511	1,312,614	867,391	2,656,849	42,055	17,095,420
Additions	-	75,662	-	305,821	-	381,483
Disposals	-	(47,940)	-	-	-	(47,940)
FX retranslation	-	(36,885)	(49,042)	-	(2,835)	(88,762)
At 31 December 2017	**12,216,511**	**1,303,451**	**818,349**	**2,962,670**	**39,220**	**17,340,201**
Depreciation						
At 1 January 2017	330,187	1,197,027	774,704	1,669,794	30,326	4,002,038
Charge for the year	110,177	86,455	42,442	192,575	2,139	433,788
On disposal	-	(46,867)	-	-	-	(46,867)
FX retranslation	-	(36,505)	(48,273)	(9,771)	6,755	(87,794)
At 31 December 2017	**440,364**	**1,200,110**	**768,873**	**1,852,598**	**39,220**	**4,301,165**
Net book value						
At 1 January 2017	11,886,324	115,587	92,687	987,055	11,729	13,093,382
At 31 December 2017	**11,776,147**	**103,341**	**49,476**	**1,110,072**	**-**	**13,039,036**

25. Investment properties

	2018 £	2017 £
Cost		
At 1 January	1,995,580	1,828,679
Additions on acquisition of subsidiary	-	-
Unrealised gain on revaluation	6,251	314,924
FX retranslation	113,074	(148,023)
At 31 December	2,114,905	1,995,580
Net book value		
At 1 January	**1,995,580**	**1,828,679**
At 31 December	**2,114,905**	**1,995,580**

Investment properties are located at the Sultanate of Oman and are stated at fair value. The fair value of the property is based on lower of two external valuations carried out by accredited independent valuators using market comparable approach.

26. Goodwill

On 29 June 2015, the Group completed the step-up acquisition of Gatehouse Capital to be the 100% owner. On 31 October 2018 the Group also purchased a 50.1% controlling interest on a subsidiary incorporated in England and Wales: Ascend Estates Limited. The reconciliation of Goodwill balances at 31 December 2018 are provided below:

	2018 £	2017 £
Balance as at 1 January	8,080,314	8,914,906
Ascend goodwill	2,166,370	
FX re-measurement	457,849	(834,592)
Balance as at 31 December	**10,704,533**	**8,080,314**

27. Other Assets

	2018 £	2017 £
Other debtors	2,649,699	3,629,036
Prepayments	594,056	733,219
Accrued income receivable	940,928	1,540,974
	4,184,683	**5,903,229**

28. Financial liabilities measured at amortised cost

	Avg. Yield	£
Financial liabilities measured at amortised cost at 1 January 2018	*1.96%*	150,077,161
Net proceeds from financial institutions and customers		163,787,669
Net increase in profit payable		1,194,997
FX Movement		3,786,864
Financial liabilities measured at amortised cost at 31 December 2018	*2.55%*	**318,846,691**

29. Other liabilities

	2018 £	2017 £
Trade creditors	-	-
Other taxes and social security costs	278,065	529,978
Deferred income	2,713,163	693,362
Other creditors	2,318,965	3,257,973
	5,310,193	**4,481,313**

30. Maturity analysis of financial assets and liabilities

The table shows an analysis of assets and liabilities analysed between those expected to be recovered or settled within more or less than 12 months of the balance sheet date:

2018	Less than 12 months	More than 12 months	Total
	£	£	£
Assets			
Cash and balances with banks	16,804,748	-	16,804,748
Financing and advances at amortised cost	47,617,324	247,120,049	294,737,373
Financial assets held at fair value through the income statement	-	24,987,580	24,987,580
Financial assets held at fair value through other comprehensive income	10,937,629	44,394,233	55,331,862
Investment in Associates	-	11,631,082	11,631,082
Goodwill	-	2,166,370	2,166,370
Derivative financial instruments	1,943,199	-	1,943,199
Total financial assets	**77,302,900**	**330,299,314**	**407,602,214**
Liabilities			
Financial liabilities measured at amortised cost	273,115,846	45,730,845	318,846,691
Derivative financial instruments	1,854,165	-	1,854,165
Total financial liabilities	**274,970,011**	**45,730,845**	**320,700,856**

2017	Less than 12 months	More than 12 months	Total
	£	£	£
Assets			
Cash and balances with banks	16,452,273	-	16,452,273
Due from financial institutions	45,579,328	1,831,831	47,411,159
Financing arrangements	15,608,348	70,294,944	85,903,292
Investment securities	55,889,149	32,940,010	88,829,159
Investment in associate	10,800,956	-	10,800,956
Total financial assets	**144,330,054**	**105,066,785**	**249,396,839**
Liabilities			
Due to financial institutions	76,742,889	-	76,742,889
Due to customers	41,835,457	31,498,815	73,334,272
Fair value of foreign contracts	506,336	-	506,336
Total financial liabilities	**119,084,682**	**31,498,815**	**150,583,497**

31. Assets and liabilities in foreign currency

The Group manages its exposure to foreign exchange rate fluctuations by matching assets with liabilities in the same currency as far as possible.

	2018	2017
	£	£
Assets		
Denominated in Sterling	324,578,360	192,392,089
Denominated in other currencies	113,105,006	88,321,016
	437,683,366	**280,713,105**

	2018	2017
	£	£
Liabilities		
Denominated in Sterling	168,792,897	87,714,842
Denominated in other currencies	157,218,152	67,349,968
	326,011,049	**155,064,810**

32. Pension Commitments

Within the Group, only Gatehouse Bank plc provides a defined contribution pension scheme for all staff. The assets of the scheme are held separately from those of the Bank in independently administered funds. During the year, pension costs of £408,213 were charged to the income statement (2017: £311,136). The pension creditor outstanding at the balance sheet date amounted to £48,560 (2017: £67,834).

33. Commitments under Operating Leases

Operating lease commitments

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

	2018	2017
	£	£
Within one year	274,645	588,098
One to five years	244,615	510,928
	519,260	**1,099,026**

34. Share Capital

	2018	2017
Authorised:	£	£
22,500,000,000 ordinary shares of 1 pence each	225,000,000	225,000,000
Issued and paid :		
15,000,000,100 ordinary shares of 1 pence each	150,000,001	150,000,001
Issued and partly paid :		
Ordinary shares of 1 pence each paid up by 0.01 pence per share	4,930,000	4,930,000
Issued but not paid :		
Ordinary shares of 1 pence each	3,070,000	3,070,000
Total issued share capital	158,000,001	158,000,001

35. Own shares

The Own Shares reserve represents the shares issued as part of the Group's Employee Incentive Plan, held by the Employee Benefit Trust on behalf of participating employees and the Trustee. 800,000,000 ordinary shares of £0.01 each (2017: 800,000,000 ordinary shares) were held by the Employee Benefit Trust at 31 December 2018 of which 493,000,000 were partly paid up to £0.0001 per share (2017: 493,000,000).

36. Off balance sheet items

Financing commitments

At the balance sheet date, the Group has outstanding financing commitments related to Gatehouse Bank as follows:

	2018	2017
	£	£
Within one year	51,135,172	6,467,150
	51,135,172	**6,467,150**

Other commitments

At the balance sheet date, the Group has outstanding other commitments as follows:

	2018	2017
	£	£
Within one year	4,830,819	12,069,181
	4,830,819	**12,069,181**

37. Related party transactions

During the reporting year, the Group entered into separate transactions with related counterparties. Kuwait Investment Authority is a shareholder of the Group and has a year-end balance of £150,294,947 (2016: £59,778,144).

Amounts outstanding with related parties as at 31 December 2018 were as follows:

2018	**Shareholder**
	Kuwait Investment Authority
	£
Profit income	-
Profit expense	2,226,981
Assets	-
Financial liabilities measured at amortised cost	150,294,947
Other liabilities	-

2017	**Shareholder**
	Kuwait Investment Authority
	£
Profit income	-
Profit expense	1,451,452
Assets	-
Financial liabilities measured at amortised cost	59,778,144
Other liabilities	-

The disclosure requirement in respect of remuneration to key management personnel has been met by providing Directors' emoluments details in note 7.

38. Risk Management

The Risk Management function is primarily at the Bank level and forms an integral part of the Bank's three lines of defence governance model and is structured to enable risk management and control across the principal risks the bank is exposed to. Its role is to establish arrangements, processes and mechanisms to manage the risk relating to the firm's activities, processes and systems, in light of the level of risk appetite. Key processes for managing risk include monitoring performance against pre-set metrics, through various validation and exception reports, stress testing and sensitivity analysis of the risks to the business posed by the macroeconomic environment.

The Risk Management Function provides the day-to-day monitoring of these risks to ensure that the Group's activities remain within the risk appetite parameters set by the Board. It is also responsible for operating the control and oversight function that considers all risks on a consolidated basis.

Credit Risk

Credit risk is the risk of suffering financial loss in the event that one of the Group's clients or market counterparties fail to fulfil their contractual obligations. Credit risk may also arise where the downgrading of an entity's credit rating causes the fair value of an investment in that entity's financial instruments to fall. The credit risk that the Bank faces arises mainly from Treasury activities, real estate equity investment and senior real estate financing.

The Group's Credit and Market Risk function covers three key areas:

- the overall management and implementation of the risk appetite framework as determined by the Board; determining mandate and scale limits and implementing the risk appetite as set by the Board;
- assessment of existing and potential Treasury counterparties, and Sukuk and listed equities issuers by undertaking comprehensive credit risk assessments and making recommendations to the appropriate decision making forums. This includes monitoring of portfolio composition; and
- the monitoring of exposures to ensure compliance with approved limits and that the credit quality of the counterparty has not deteriorated or circumstances changed. Monitoring provides a picture of the portfolio as a whole and its inherent risks, including concentrations and capital allocation.

In view of the strategic focus on real estate business, the Risk function also covers the following:

- assessment of real estate equity investments and senior and mezzanine financing activities via the provision of comprehensive credit risk assessments making recommendations to appropriate decision making forums. This includes monitoring of portfolio composition; and
- the ongoing monitoring and review of credit risk for real estate equity investment and finance exposures to ensure compliance with covenants and early identification of changes to the credit risk profile and composition of the portfolio.

38. Risk Management (continued)

Credit Risk (continued)

A comprehensive control framework is in place. This incorporates:

- maximum exposure guidelines relating to exposure to an individual counterparty or transaction;
- country specific limits to avoid excessive concentration of credit risk in individual countries; and
- industry specific limits to avoid excessive concentration of credit risk in individual economic sectors.

A range of analysis methodologies is used to determine the credit quality of a counterparty, such as quantitative analysis, qualitative analysis, internal credit rating model, external rating agency research, industry specific research and for wholesale assets, market information such as credit spreads. The current Internal Capital Adequacy Assessment Process (ICAAP) is based on Gatehouse Bank plc adopting the Standardised approach.

Note 2 refers to the basis by which the Group reviews for impairment of its financial assets. Note 9 details the impairment provisions taken in the year to the income statement.

Exposure

The table below shows the maximum exposure to credit risk for financial assets on the balance sheet at 31 December 2018:

	2018	2017
	£	£
Cash and balances with banks	16,804,748	16,452,273
Financing and advances at amortised cost	294,737,373	122,614,587
Financial assets held at fair value through the income statement (debt assets)	6,801,615	10,707,920
Financial assets held at fair value through other comprehensive income (debt assets)	25,752,775	47,697,124
Derivative financial instruments	1,943,199	-
	346,039,710	**197,471,904**

Geographical region

The Group's credit exposure can be analysed into the following geographical regions:

	2018	2017
	£	£
GCC countries	28,413,909	13,320,438
Kuwait	4,256,816	4,560,830
Saudi Arabia	9,066,515	6,521,446
UAE	11,750,562	21,202
Qatar	1,672,138	2,216,960
Oman	958,174	-
Bahrain	709,704	-
Europe	249,721,022	163,054,349
North America	26,059,171	17,123,706
Asia	33,843,819	3,672,579
Africa	6,678,990	300,832
Australasia	1,322,799	-
	346,039,710	**197,471,904**

Credit quality

The table below shows the credit quality of financial assets on the balance sheet at 31 December 2018, based on the Group's credit rating system:

2018	**Investment grade**	**Non-investment grade**	**Non-rated**	**Total**
	£	£	£	£
Assets				
Cash and balances with banks	14,762,276	-	2,042,472	16,804,748
Financing and advances at amortised cost	14,238,901	-	280,498,472	294,737,373
Financial assets held at fair value through the income statement (debt assets)	-	-	6,801,615	6,801,615
Financial assets held at fair value through other comprehensive income (debt Assets)	21,635,012	-	4,117,763	25,752,775
Derivative financial instruments	1,943,199	-	-	1,943,199
Total assets	**52,579,388**	**-**	**293,460,322**	**346,039,710**

38. Risk Management (continued)

Credit Risk (continued)

2017	Investment grade	Non-investment grade	Non-rated	Total
	£	£	£	£
Assets				
Cash and balances with banks	11,898,544	-	4,553,729	16,452,273
Financing and advances at amortised cost	25,005,502	-	97,609,085	122,614,587
Financial assets held at fair value through the income statement (debt assets)	-	-	10,707,920	10,707,920
Financial assets held at fair value through other comprehensive income (debt Assets)	28,223,945	-	19,473,179	47,697,124
Total assets	**65,127,991**	**-**	**132,343,913**	**197,471,904**

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due. Liquidity risk management is the responsibility of the Asset and Liability Committee. To manage this risk the Group maintains an adequate portfolio of liquid assets which consists of cash and short-term bank deposits by monitoring forecast and actual cash flows and matching the maturity profiles of assets and liabilities. Within the Group, Gatehouse Bank plc is subject to and complies with the systems and control requirements of the PRA and CRD IV liquidity regime.

<u>Liquidity and rate profile</u>

The following table details the Group's contractual maturities for its financial assets and financial liabilities based on undiscounted cash flows. The table includes all contractual cash flows.

	Less than 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Total
	£	£	£	£	£	£
2018						
Assets						
Fixed rate items	50,293,330	40,984	150,975	22,784,057	247,072,667	320,342,013
Non-rate sensitive	16,972,791	4,483,200	123,943	-	4,117,763	25,697,697
Total assets	**67,266,121**	**4,524,184**	**274,918**	**22,784,057**	**251,190,430**	**346,039,710**
Liabilities						
Fixed rate items	58,522,003	56,731,547	95,805,003	64,002,464	45,639,839	320,700,856
Non-rate sensitive	-	-	-	-	-	-
Total liabilities	**58,522,003**	**56,731,547**	**95,805,003**	**64,002,464**	**45,639,839**	**320,700,856**
Net	**8,744,118**	**(52,207,363)**	**(95,530,085)**	**(41,218,407)**	**205,550,591**	**25,338,854**

	Less than 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Total
	£	£	£	£	£	£
2017						
Assets						
Fixed rate items	67,338,370	-	-	3,633,790	58,015,566	**128,987,726**
Non-rate sensitive	16,452,273	-	-	-	52,031,905	**68,484,178**
Total assets	**83,790,643**	**-**	**-**	**3,633,790**	**110,047,471**	**197,471,904**
Liabilities						
Fixed rate items	28,434,246	15,762,213	37,549,993	36,581,893	31,748,816	**150,077,161**
Non-rate sensitive	506,336	-	-	-	-	**506,336**
Total liabilities	**28,940,582**	**15,762,213**	**37,549,993**	**36,581,893**	**31,748,816**	**150,583,497**
Net	**54,850,061**	**(15,762,213)**	**(37,549,993)**	**(32,948,103)**	**78,298,655**	**46,888,407**

38. Risk Management (continued)

Market risk

Market risk is the risk of loss arising from a potential change in the value of an instrument or portfolio of instruments as a result of changes in market parameters (such as interest rates, equity indices, bond prices, commodity markets and exchange rates) during a specified time horizon. Gatehouse Bank is exposed to market risk in the management of its balance sheet. The role of the Risk function is to identify, quantify, manage and monitor the potential effects of those potential changes on the value of the portfolio, and broader balance sheet.

The Board sets and approves the market risk appetite for the Group's activities. The Group's Treasury department generally manages market risk. The Risk function implements a quantitative and qualitative limit framework within the context of the approved market risk appetite. A daily market risk report summarises market risk exposures against agreed limits. This daily report is circulated to the Treasurer for review.

A detailed market risk presentation is produced monthly and discussed at the Asset and Liability Committee.

Market risk measurement

The techniques used to measure and control market risk include:

- Nominal exposure limits: overnight and intraday limits;
- Value at Risk: an estimate of potential changes in the fair value or market value of the Bank's portfolio due to changes in market risk factors;
- Maximum loss: an estimate of the potential loss the Bank would have made on its portfolio had it held the same portfolio every day for the last 12 months;
- Sensitivity Analysis: an estimate of the potential loss incurred due to a specified change in a specified market risk factor; and
- Stress Testing and Scenario Analysis: used to estimate vulnerability to exceptional but plausible events. Stress testing ensures the adequacy of capital and liquidity, the viability of strategy and assesses the risks impacting Gatehouse Bank across a range of market conditions.

Although the Bank only trades in Shariah-compliant products, the carrying value of financial instruments held by the Bank is sensitive to movement in interest rates. If interest rates had been 200 basis points higher/lower and all other variables were held constant, the Bank's profit for the year ended 31 December 2018 would decrease/increase £8,955,000 (2017: £1,246,000).

In order to meet internal and client demand, the Bank maintains access to market liquidity by using all reasonable endeavours to quote bid and offer prices with other market makers and carries an inventory of approved capital market and treasury instruments, including a range of cash, securities and treasury products. These include Commodity Murabaha, Wakala, Islamic foreign exchange forwards and Profit Rate Swaps or a combination of these instruments.

Value at Risk

Profit Rate Risk (equivalent to Interest Rate Risk)

The varying profit share features and maturities of products, together with the use of Treasury products create Profit Rate Risk ('PRR') exposures due to the imperfect matching of margins and maturity differences between assets and liabilities.

The Group uses derivatives to prudently manage its PRR. In 2018 the Group undertook profit rate derivatives (swaps) totalling £101,700,000 in the form of fixed for floating rate, which allowed the Group to tactically hedge against risks arising from deposits of certain short-term maturities and longer-term financing.

Overarching PRR limits are set by the Board and articulated accordingly within the Risk Management Framework (RMF). The Board have further delegated oversight of PRR to the Bank's Executive Committee who mandate the Bank's Asset and Liability Committee (ALCO) to monitor and assess PRR. Basis Point Value (BPV) and Value at Risk (VaR) is used to monitor the risk arising from open profit rate positions. The Bank's Pillar 1 minimum capital requirement allows for profit rate risk through the profit rate risk requirement.

As at 31 December 2018, the market value of nominal positions generating profit rate VaR was £111,543,814 (2017: £125,109,936) which generated profit rate VaR and maximum loss estimates of:

	95% VaR (£)	Maximum loss (£)
One day	**(3,868)**	**(67,628)**
One week	(13,803)	(89,055)

Foreign Exchange Risk

A proportion of treasury funding and investment activity is undertaken in foreign currencies, mainly US dollars, Euros and Kuwaiti Dinar. Foreign currency exposure is hedged on the balance sheet to reduce currency exposures to acceptable levels. VaR is used to monitor the risk arising from open foreign currency positions. The Group's Pillar 1 minimum capital requirement allows for foreign exchange risk through the foreign exchange risk requirement.

As at 31 December 2018, the net market value of nominal foreign exchange exposure was £66,027 (2017: £1,523,620) which generated Foreign Exchange VaR maximum loss estimates of:

38. Risk Management (continued)

Foreign Exchange Risk (continued)

	95% VaR	Maximum Loss (£)
One day	**(592)**	**(2,125)**
One week	(3,159)	(10,221)

Financial assets at fair value through other comprehensive income - Sukuk Portfolio Risk

As part of liquidity management, the Bank's Treasury department invests in selected sukuk. As at 31 December 2018, the Bank has not used derivatives to hedge sukuk investments. VaR is used to monitor the risk arising from the available-for-sale sukuk investment portfolio. The Group's Pillar 1 minimum capital requirement allows for investment risk through the equity position risk requirement.

As at 31 December 2018, the market value of nominal FVTOCI sukuk investment exposure was £21,635,012 (2017: £42,151,243) which generated Price Risk VaR and maximum loss of:

	95% VaR	Maximum Loss (£)
One day	**(5,142)**	**(24,118)**
One week	(16,004)	(38,357)

Fair value measurements recognised in the balance sheet

The following table provides an analysis of the financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1: Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities. As at 31 December 2018, Level 1 financial instruments are primarily investments in sukuk that are quoted in active markets and market bid prices have been applied to fair value these at year end;
- 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); As at 31 December 2018, Level 2 financial instruments were primarily legacy financing assets; 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. As at 31 December 2018, Level 3 financial instruments are investments in unquoted equity securities, funds and financing arrangements. Fair value is estimated on the basis of historic cost less impairment and by reference to the net asset value of the underlying investment, where the net asset value is not based on observable market data. The group splits its level 3 unquoted equity securities between US and UK assets. US assets are valued using the audited accounts of the underlying SPV's in order to arrive at a net asset value. UK assets are valued using confirmations of debt and cash balances held via the SPV and third party appraisal reports.

2018	**Level 1 £**	**Level 2 £**	**Level 3 £**	**Total £**
Derivative financial instruments				
Derivative financial instruments	1,943,199	-	-	1,943,199
Financial assets held at fair value through the income statement				
Unquoted equity securities	-	-	18,185,965	18,185,965
Financing arrangements	-	6,801,615	-	6,801,615
Financial assets at fair value through other comprehensive income				
Quoted sukuk	21,635,012	-	-	21,635,012
Quoted funds	4,117,763	-	-	4,117,763
Unquoted equity securities	-	-	29,350,878	29,350,878
Unquoted funds	-	-	228,207	228,207
Total	**27,695,974**	**6,801,615**	**47,765,050**	**82,262,639**

38. Risk Management (continued)

Fair value measurements recognised in the balance sheet (continued)

2017	Level 1 £	Level 2 £	Level 3 £	Total £
Investment securities				
Quoted equity securities	1,266,976	-	-	1,266,976
Quoted sukuk portfolio	26,956,969	-	-	26,956,969
Unquoted sukuk portfolio	-	-	15,194,274	15,194,274
Unquoted equity securities	-	-	40,869,840	40,869,840
Unquoted funds	-	-	262,195	262,195
Quoted funds	4,278,905	-	-	4,278,905
Total	**32,502,850**	**-**	**56,326,309**	**88,829,159**

There were no transfers between Level 1 and Level 2 during the year and no transfers between Level 2 and Level 3.

Level 3 asset	2018 Carrying value £	2017 Carrying value £	Valuation Technique	Significant unobservable inputs
UK Unquoted equity securities	43,816,225	21,498,090	Measurement of net assets as a proportion of participating shares in issue	Third party appraisal reports, cash and debt balances
US Unquoted equity securities	3,720,618	19,371,750	Measurement of net assets as a proportion of participating shares in issue	Third party appraisal reports, audited financial statements
Unquoted funds	228,207	262,195	Measurement of net assets as a proportion of participating shares in issue	Financial statements
Unquoted sukuk portfolio	-	15,194,274	Measurement of net assets as a proportion of participating shares in issue	Financial statements
Total	**47,765,050**	**56,326,309**		

A proportionate increase/(decrease) in the net asset value within the financial statements would result in an increase/(decrease) in the fair value of the level 3 instruments.

Reconciliation of Level 3 fair value measurements of financial assets:

2018	Fair Value Through Other Comprehensive Income			
	Unquoted equities	**Unquoted funds**	**Unquoted sukuk**	**Total**
Balance at 1 January 2018	**40,869,840**	**262,195**	**15,194,274**	**56,326,309**
Fair value changes recognised on reclassification of financial assets	(14,529,662)	-	-	(14,529,662)
Total gains or losses:				
In income statement	-	-	-	-
In FVTOCI	(1,541,892)	(33,988)	-	(1,575,880)
Purchases	12,499,348	-	-	12,499,348
Issues	-	-	-	-
Settlements	(5,480,300)	-	(15,194,274)	(20,674,574)
FX retranslation	(2,466,454)	-	-	(2,466,454)
Transfers out of Level 3	-	-	-	-
Transfers into Level 3	-	-	-	-
Balance at 31 December 2018	**29,350,880**	**228,207**	**-**	**29,579,087**

38. Risk Management (continued)

Fair value measurements recognised in the balance sheet (continued)

2017		**Available-for-sale**		
	Unquoted equities	**Unquoted funds**	**Unquoted sukuk**	**Total**
Balance at 1 January 2017	**46,842,917**	**354,449**	**14,923,277**	**62,120,643**
Total gains or losses:				
In profit or loss	(3,251,427)	(106,820)	270,997	(3,087,250)
In OCI	(4,525)	14,566	-	10,041
Purchases	6,526,252	-	-	6,526,252
Disposal	(2,521,109)	-	-	(2,521,109)
Issues	-	-	-	
Settlements	(6,722,268)	-	-	(6,722,268)
Transfers out of Level 3	-	-	-	-
Transfers into Level 3	-	-	-	-
Balance at 31 December 2017	**40,869,840**	**262,195**	**15,194,274**	**56,326,309**

2018	**Financial assets held at fair value through the income statement**		
	Financing arrangements	**Unquoted equities**	**Total**
Balance at 1 January 2018	-	17,944,306	17,944,306
Negative revaluations	-	(304,991)	(304,991)
Fair value uplifts	-	555,769	555,769
Net settlements	-	-	-
Balance at 31 December 2018	**-**	**18,195,084**	**18,195,084**

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes or systems, human factors, or from external events. Major sources of operational risk include: operational process reliability, IT security, outsourcing of operations, dependence on key suppliers, implementation of strategic change, integration of acquisitions, fraud, operational error, customer service quality, regulatory and legislative compliance, recruitment, training retention of staff and social and environmental impacts.

Ongoing assessment of operational risks occurs through the analysis of risk events, audit findings, external events and key operational risk indictors. Key functions across Gatehouse Bank periodically perform self-assessments of the risks and associated controls in operating their respective processes. Relevant operational risk management information is recorded in a dashboard that is prepared and presented monthly to the Executive Risk Committee, and quarterly to the Board Risk & Compliance Committee. The dashboard captures and ranks key inherent operational risks, along with an analysis of mitigating controls in place. The role also involves input into outsourcing arrangements and reviewing of any new products.

Pillar 3 Disclosures

Gatehouse Bank plc's Pillar 3 disclosures are presented in the "Pillar 3 Disclosures" document, available on request. The disclosures are made annually and are published as soon as practicable after the publication of the annual report and financial statements of the Group.

Capital Risk Management

Within the Group, Gatehouse Bank plc's capital requirements are set and monitored by the regulator. The Bank's policy in respect of capital adequacy is to maintain a strong capital base so as to retain investor, creditor and market confidence. During the year, capital has been maintained at a level above minimum regulatory requirements. Such levels have been established by reference to an Internal Capital Adequacy Assessment Process ("ICAAP") assessment.

The Bank's regulatory capital consists solely of Tier 1 capital, which includes ordinary share capital and retained earnings less intangible assets.

Gatehouse Bank plc's regulatory capital position was as follows:

	2018	**2017**
Core Tier 1 Capital	**£**	**£**
Share capital	150,049,301	150,049,301
Retained losses	(41,660,482)	(25,917,746)
Other Reserves – FVTOCI	(2,540,603)	(394,901)
Add back of IFRS 9 due to transitional arrangement	31,338	-
Total CET 1 Capital	**105,879,554**	**123,736,654**
Deductions from CET1	**(28,549,079)**	**(28,113,927)**
Total regulatory capital	**77,330,475**	**95,622,727**

GATEHOUSE
FINANCIAL GROUP

Gatehouse Financial Group Limited

44 Esplanade
St. Helier, Jersey
JE4 9WG
www.gatehousegroup.com

gatehousebank

Gatehouse Bank plc Head Office

14 Grosvenor Street
London, W1K 4PS
United Kingdom
T : +44 (0) 20 7070 6000
info@gatehousebank.com
www.gatehousebank.com

GATEHOUSE
CAPITAL

Gatehouse Capital K.S.C.C.

Sharq
Khaled Bin Waleed Street
Dhow Tower, Floor 15, Kuwait
T: +965 2233 2000
info@gc.com.kw
www.gc.com.kw