



Pillar 3 Disclosures
31 December 2018
Approved by the Board on 10 July 2019



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I. SCOPE OF PILLAR 3 APPLICATION

Purpose

This document comprises Gatehouse Bank plc's ("Gatehouse", "Gatehouse Bank" or the "Bank") Pillar 3 disclosures on capital and risk management at 31 December 2018. It has two principal purposes:

- To meet the regulatory disclosure requirements under CRD IV, Part 8 – Disclosure by Institutions, and the rules the United Kingdom ("UK") Prudential Regulation Authority ("PRA") set out in the PRA Rulebook, and as the PRA has otherwise directed, including Remuneration Code disclosures;
- To provide further useful information on the capital and risk management of Gatehouse.

Additional relevant information may be found in the Bank's 2018 Annual Report and Financial Statements.

Business Profile

Gatehouse Bank is a fully Shariah compliant bank based in London, authorised by the Prudential Regulation Authority and regulated by the Prudential Regulation Authority and the Financial Conduct Authority ("FCA"). The philosophy of Shariah in relation to finance does not seek to prohibit or restrict economic activity, but rather direct it towards responsible behaviour and strongly encourages that financial resources should be put to good use.

The main business lines of the Bank are currently Shariah compliant Residential Property Finance, Commercial Real Estate Finance and Real Estate Investment Advisory. Key sources of funding for the Bank are shareholder funding and retail internet based deposit product funding. Effective risk management is central to Gatehouse and in accordance with the disclosure requirements under CRD IV Basel III (as defined below), this document provides an overview of how the Bank's risk management framework operates and describes the key risks which the Bank faces.

Overview

The European Union ("EU") Capital Requirements Directive ("Basel II") came into force from 1st January 2007 and applies to all United Kingdom ("U.K.") based banks. Basel II implemented improvements on the original Basel Accord, agreed in 1988 by the Basel Committee on Banking Supervision, and aims to make the capital requirements framework more risk sensitive and representative of modern banks' risk management practices. The Directive was updated by the CRD IV Basel III requirements which became effective from 1 January 2014.

The Basel framework consists of three pillars:

- **Pillar 1:** defines the minimum capital requirements that banks are required to hold for credit, market and operational risk.
- **Pillar 2:** builds on Pillar 1 and incorporates the Bank's own assessment of additional capital resources needed in order to cover specific risks faced by the Bank that are not covered by the minimum regulatory capital resources requirement set out under Pillar 1. The amount of any additional capital requirement is also assessed by the PRA during its Supervisory Review and Evaluation Process ("SREP") and is used to determine the overall capital resources required by the Bank. Pillar 2A considers capital requirements for those risks that are not adequately covered within Pillar 1. Pillar 2B consists of guidance from the PRA on the Capital buffer and relates to risks which firm may be exposed over a forward-looking planning horizon.
- **Pillar 3:** requires banks to publish information on their principal risks, capital structure and risk management.

The Directives are enforced in the U.K. by the PRA. The Pillar 3 disclosure requirements are contained in Articles 431 – 455 of the Capital Requirements Regulation ("CRR"). Gatehouse adopts the



Standardised Approach to credit risk and market risk and the Basic Indicator Approach (“BIA”) to operational risk. This document outlines the capital required for Pillar 1 and, in accordance with Pillar 3, details specific risks which the Bank faces and how these risks are managed. The below table provides key metrics as at 31/12/2018:

Key Metrics

	31-Dec-18
Common Equity Tier 1 (CET1) ratio	24.5%
Tier 1 ratio	24.5%
Total Capital Ratio	24.5%
Leverage Ratio	18.4%
Liquidity Coverage Rate (LCR)	381.6%

Frequency

The Board of Directors (the “Board”), after due consideration of the size and complexity of the Bank, do not feel it is necessary to produce Pillar 3 disclosures any more frequently than annually unless there is a material change in the business plan or permissions from the Regulator. The Board believes that the separate publication of these disclosures on the Bank’s website is more appropriate than including them in the Bank’s annual report and accounts and considers the dynamics between the two reports to be different due to the differing requirements.

The disclosures will therefore be made annually on Gatehouse’s website (www.gatehousebank.com) as soon as practicable after the approval of the annual report and accounts of the Bank.

Unless otherwise stated, the disclosures in this document are based on the financial position as at 31 December 2018. The quantitative disclosures in this document in respect of the current risk management policies and procedures of the Bank are a function of the balance sheet and the asset portfolio of the Bank as at 31 December 2018.

Scope

Gatehouse Bank is not part of a UK consolidation sub-group and as such the Pillar 3 disclosures as at 31 December 2018 have been prepared on an individual basis.

Verification

The disclosures included in this document are not subject to audit. These disclosures explain how the Board has calculated certain capital requirements and information about risk management generally. They do not constitute financial statements.

This document, being the Pillar 3 disclosures at 31 December 2018, was approved by the Board Risk and Compliance Committee on 9 July 2019 and by the Board on the 10 July 2019.

Enquiries

Enquiries on any disclosures related to Pillar 3 should be directed to the CFO.

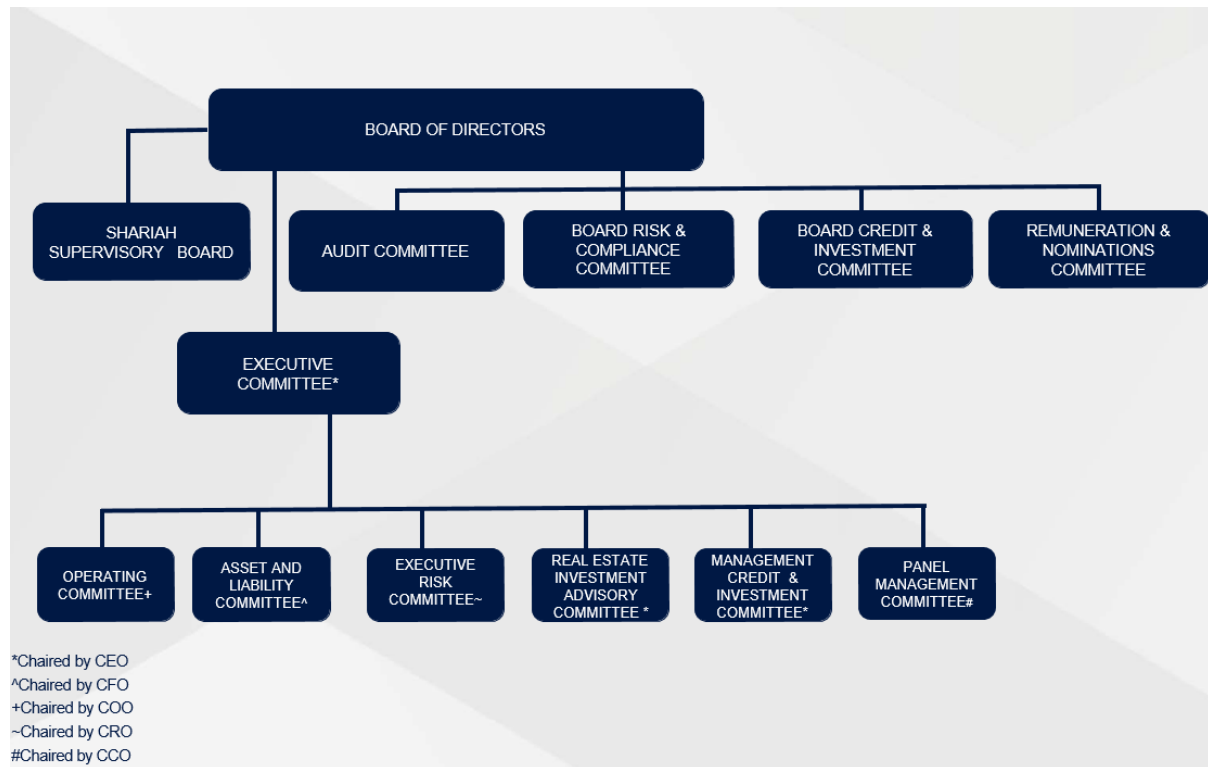


2. CORPORATE GOVERNANCE FRAMEWORK

The Bank is committed to the ongoing sustainability of its business lines and has established a comprehensive corporate governance and risk management framework to ensure that the risks faced by the Bank are managed prudently.

The risk control and governance framework is approved and governed by the Board, and managed on a day-to-day basis by the Board’s delegated Committees and the Executive Committees.

The Gatehouse Corporate Governance Framework



The Board of Directors

The Board is the primary governing body and has ultimate responsibility for setting the Bank’s strategy, corporate objectives and risk appetite. The strategy and risk appetite take into consideration the interests of depositors, customers and shareholders as well as ensuring that the business activities remain within the regulatory boundaries at all times.

The Board approves the level of risk which the Bank is willing to accept through the Risk Appetite Statement (“RAS”); the Board is responsible for maintaining a sufficiently controlled environment to manage these risks. The Board is also responsible for ensuring that capital and liquidity resources are adequate to support the Bank’s business plans whilst remaining within both the regulatory requirements and the Bank’s own internal risk appetite. The Board maintains close oversight of current and future activities, through a combination of Board reports including financial results, management reports, budgets and forecasts and assessments of the main risks set out in the Internal Capital Adequacy Assessment Process (“ICAAP”), Internal Liquidity Adequacy Assessment Processes (“ILAAP”) and Recovery Plan and Resolution Pack (“RRP”).

The Board comprises non-executive directors and executive directors. The Board meets formally at least four times a year.



The Shariah Supervisory Board (“SSB”)

The SSB comprises three individual Shariah scholars that specialise in Islamic commercial jurisprudence and is responsible for ensuring that the Bank’s activities are in compliance with the requirements of Shariah.

In this regard the SSB reviews contracts, new deal structures and legal documentation and confirms whether or not a transaction is in compliance with Shariah principles. The SSB works closely with the internal Shariah Department. The SSB meets periodically with the Bank’s representatives and on an annual basis it reports to the Shareholders via the inclusion of a Shariah Supervisory Report in the annual accounts. The SSB is appointed by the Bank’s Board.

Audit Committee (“AC”)

The Board has delegated to the AC responsibility to oversee financial reporting; ensure appropriate actions are taken with regard to internal and external audit; and aid in managing relationships with relevant external parties including the external auditors. The AC is required to meet at least quarterly.

The AC is chaired by an Independent Non-Executive Director with invitees as required from the Bank’s Executive Management Team. This usually includes the Chief Executive Officer and the Chief Financial Officer.

The Internal Audit function reports directly to the AC under the terms of reference for the committee. The AC approves the term of appointment of internal and external auditors and receives reports from the internal and external auditors. Both the internal and external auditors attend AC meetings when required.

Board Risk and Compliance Committee (“BRCC”)

The Board has delegated responsibility to the BRCC to ensure that an appropriate risk management framework is in place; the Bank’s control environment is commensurate to its needs, based on the strategy adopted by the Bank’s Board and the nature and scale of the Bank’s activities; and aid in managing relationships with relevant external parties including the Financial Conduct Authority and the Prudential Regulation Authority.

The BRCC meets at least four times a year and is chaired by an Independent Non-Executive Director with invitees as required from the Bank’s Executive Management Team. This usually includes the Chief Risk Officer, the Chief Executive Officer, the Chief Financial Officer and the MLRO.

The BRCC receives reports from the Compliance and Risk functions of the Bank.

Remuneration and Nominations Committee (“RNC”)

The RNC reviews remuneration matters, employee benefits and performance related pay structures for the Bank. It is also responsible for considering and determining the Bank’s remuneration policy, reviewing its adequacy and effectiveness and ensuring that the remuneration policy and process complies with the FCA Remuneration Code.

In addition, the RNC is also responsible for reviewing the structure, size and composition of the Board and arranging the Board’s annual performance review alongside formulating plans for succession for both non-executive and executive directors and reviewing Board committee memberships.

The RNC is chaired by a Non-Executive Director and meets at least quarterly, with the Chief Executive Officer, Chief Financial Officer and Head of HR usually in attendance.



Board Credit and Investment Committee (“BCIC”)

The BCIC takes decisions on issues pertaining to transactions that fall outside the delegated authority given to management committees. For this purpose, the BCIC meets on an ad-hoc basis when business needs dictate. Every transaction to be reviewed by the BCIC must have been considered and recommended for approval by the management committee from which it is escalated. The BCIC will not consider any individual transaction except in cases where they exceed the authority delegated to management committees.

The Chairperson of the BCIC reports to the Board on a quarterly basis.

Executive Committee (“EXCO”)

The EXCO takes day-to-day responsibility for the running of the business. The EXCO implements the strategy which is approved by the Board and ensures the performance of the business is conducted in accordance with the Board’s instructions.

The EXCO meets monthly and reviews all aspects of business performance, including reviewing the financial performance, allocation of resources and management of principal risks. The EXCO implements the framework for risk management assisted by its various sub-committees.

Asset & Liability Committee (“ALCO”)

The EXCO has delegated responsibility for managing and overseeing the Bank’s exposure to liquidity, profit rate and market risk to ALCO.

The ALCO meets monthly and ensures that the Bank adheres to the market risk, balance sheet management and liquidity policies and objectives set out by the Board. It also has responsibility for ensuring that the policies are adequate to meet prudential and regulatory targets. The ALCO oversees the effective management of the Bank’s balance sheet and the impact on capital and liquidity of future business activity and management actions.

Operating Committee (“OPCO”)

The OPCO meets monthly and is the operational management forum responsible for delivery of the Gatehouse operating plan. The OPCO duties include ensuring there is effective implementation of appropriate policies and governance arrangements across the lines of business and functions, efficiencies are identified and implemented and projects are managed according to relevant standards and within timescales and budgets.

Real Estate Investment Advisory Committee (“REIAC”)

The REIAC is the forum for approval of real estate investment advisory proposals. The Committee meets as required and its duties include approval of proposals to originate, sponsor or secure advisory mandates in respect of investment transactions; client fundraising related decisions to ensure alignment between a given investment opportunity and the client base; the approval of proposed monetary drawdowns on invested funds; and any advice or recommendations to be given by the Bank to investment advisory clients.



Executive Risk Committee (“ERC”)

The ERC is responsible for oversight of the key risks to the Bank inherent in the business strategy on an aggregate basis. It is also responsible for the review and approval of Treasury credit applications and ensuring the Bank’s aggregate risk profile remains within agreed Risk Appetite limits. The ERC also has responsibility for reviewing and, where appropriate, making recommendations for changes to the Bank’s provisioning, financing and watchlist policies and monitoring the health of the overall credit and investment portfolio.

Management Credit and Investment Committee (“MCIC”)

The MCIC considers all requests for credit or investments from the business lines of the Bank. In addition, MCIC is also responsible for the oversight of annual and any ad hoc reviews of Real Estate credit and investment exposures. The MCIC is responsible for approving transactions within its delegated approval authority from the Board.

Exposures in excess of the agreed limits are considered by the MCIC who then make a recommendation to the BCIC. All proposals or topics for discussion must be vetted by the Risk Department. Where possible, the Chief Risk Officer and the Heads of Business Units co-operate and resolve all outstanding issues prior to bringing the proposal to the MCIC. Any additional queries are discussed at the MCIC meeting.

Panel Management Committee (“PMC”)

The PMC provides oversight of third party relationships as they related to financing operations, assists in managing any risks the Bank may be exposed to arising from third party activity and ensures third parties are working in compliance with service standards set by the Bank.



3. RISK MANAGEMENT FRAMEWORK

Risk Management Philosophy at Gatehouse

Risk management is at the core of Gatehouse's philosophy and plays a vital role in the prudent management of the growth of the Bank's business. Gatehouse's risk appetite identifies two sets of constraints which determine the risks that we are willing to take in pursuit of our strategy and the development of a sustainable business:

- **Risk appetite** is defined by the Bank and approved by the Board. It is the maximum amount and type of risk that the Bank is willing to assume in pursuit of its strategy. Risk appetite is prudently set within the maximum levels of risk the Bank can assume
- **Risk tolerance** is the outer constraint defined by the Bank for each risk type via metrics and thresholds. Risk tolerance is set within the risk appetite and is a buffer, determined by management, within the Board approved risk appetite

The Bank's Risk Appetite is in accordance with ethical principles reflected in Shariah finance that inform our overall approach to risk management and our risk culture. We seek to ensure a fair outcome for our customers, while at the same time meeting expectations of stakeholders including regulators. We set our risk appetite to enable us to grow sustainably.

Gatehouse only engages in activities where it possesses the expertise to identify, quantify and manage the risks inherent to the underlying transaction.

Gatehouse regularly reviews the processes and procedures within the risk management function to ensure that they remain effective and appropriate for the current and future activities of the Bank.

Overview of Risk Management Framework

The Risk Management function maintains the Risk Management Framework, ensuring it remains appropriate to the Bank's activities and is effectively implemented across the Bank. It also upholds the integrity of the Bank's risk appetite, ensuring risks are properly assessed and controlled in accordance with relevant policies. The risk function provides regular updates to the Board on the aggregate risk profile of the Bank together with recommended actions should exposures reach a certain level or in unexpected situations where tolerances are breached.

Ongoing risk identification, assessment and monitoring remain at the forefront of the Bank's growth strategy along with adherence to PRA and FCA regulatory requirements. The Bank's risk management principles and approach are outlined within the Risk Management Framework (RMF). The RMF is the overarching framework that enables the Board and senior management to manage the Bank's risk-reward profile within the boundaries of the Bank's risk appetite. The RMF allows informed decision making and articulated the Bank's risk principles, culture policies and procedures, whilst ensuring the Board, senior management and all stakeholders have unanimous view of the Bank's risk management approach and practices. The RMF is structured to align with the Board's objectives and to allow for the Board to articulate its tolerance and level of risk with regards to the strategic and business objectives. The RMF is subject to periodic review and approval by Board and management committees, to effectively capture the evolving nature of the business.

The independence of the Risk function is to ensure that the necessary balance in risk/return decisions is not compromised by short-term pressures to generate revenues.



The ERC, ALCO, OPCO and EXCO collectively are responsible for providing oversight to ensure that the Bank's risk profile is managed in compliance with the risk appetite set by the Board. The Risk Management function is managed by the Chief Risk Officer (CRO). The CRO has a joint reporting line to the Chief Executive Officer (CEO) and the Chairman of the BRCC.

Gatehouse Bank operates under a 3 lines of defence risk governance model with primary ownership of risks lying with front office (1st line of defence) and some support staff within the Bank who have the responsibility of identifying and managing inherent risks associated with the activities they carry out, in order to fulfil the Bank's strategic plan.

The Risk Management and Compliance functions represent the Bank's 2nd line of defence. The Risk functions role is to assess, measure and monitor risks against established limits and in accordance with good practice for risk management throughout the Bank. The Compliance function acts to assure the quality and level of compliance to prevailing laws and regulation applicable to the Bank, chiefly through advice and testing of business activities. Collectively, these functions provide assurance to the Board that the control environment of the Bank is adequate, robust and commensurate with its activities so as to mitigate all risks such that they are maintained within the risk appetite expressed by the Board.

The 3rd line of defence is an internal audit function who provide independent assurance to the Board as to the effectiveness of the 1st and 2nd line functions as well as the overall control environment of the Bank.

Gatehouse adopts the Standardised approach to calculate its credit and market risk capital components. For calculating the operational risk capital component, the Bank operates under the Basic Indicator Approach.

Another inherent risk in managing the Bank's balance sheet is liquidity risk. Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due. The ALCO is responsible to provide oversight of liquidity risk management. To limit this risk the Bank maintains an adequate portfolio of liquid assets which consists of cash (Nostro balances), short-term bank deposits and investment grade sukuk and listed equities. Liquidity adequacy is monitored on a daily basis by the Finance Department who circulates reports to relevant members of senior management and the Board. Liquidity adequacy is discussed at monthly ALCO meetings with key issues being escalated to EXCO. The ILAAP and supporting liquidity stress test scenarios are reported on a regular basis to BRCC.

The section below describes the Bank's policies and processes which identify, manage and control the above risks. These essentially cover all transactions, including those which do not utilise the Bank's balance sheet. A full risk analysis is completed for each transaction and presented to the relevant committees for approval. In addition, a risk analysis of the Bank's overall portfolio is presented to the monthly ALCO and at least three times per year to the BRCC.

Internal Audit

Internal audit is responsible for reviewing all business lines and support functions. The function is outsourced, however, Gatehouse retains overall oversight and accountability. Internal audit provides Executive Management and the AC with independent assurance that the Bank's policies and procedures have been implemented effectively. Internal audit also ensures that there are adequate controls in place to mitigate significant risks so that the exposure is within acceptable tolerance levels. The internal auditors report directly to the Chairman of the AC with an additional reporting line to the CRO.

The Bank's Internal Audit function provides the following:

- risk-based internal audit reviews and concentrates on key risk areas;



- special investigations on behalf of the AC;
- monitoring of management implementation of audit recommendations; and
- advice to management regarding systems, controls and procedures.

The audit plan is risk-based and formulated and agreed by the AC. The AC also monitors the adequacy of the work and sets out the process for the timely follow-up of reported issues. The Internal Audit function ensures that business activities are conducted in a controlled and efficient manner and achieve results consistent with planned objectives and goals. It also makes sure that information used for measuring performance and managing risks as well as preparing financial statements is reliable and has integrity, that compliance requirements are adhered to, and that the decisions made by those authorised are based on adequate and sound information. Other key roles performed by Internal Audit include ensuring that transactions, income, expenditure, liabilities and assets are completely and accurately recorded, that assets are safeguarded, and that operational activities and the use of resources are efficient and effective. Internal Audit has the responsibility to provide management with an independent view / assurance on matters addressed, and report to management any breakdowns, failures or weaknesses with appropriate recommendations for remedial action.



4. REMUNERATION

The members of Remuneration and Nominations Committee are selected non-executive Directors. Regular attendees include the CEO, CFO and the Head of HR. Meetings are held on a quarterly basis and written terms of reference as approved by the Board include:

- consideration and periodic recommendation to the Board of the remuneration policy (including incentives linked to the Company’s performance measured, amongst other things, by financial results adjusted for risks) relating to the executive directors and other senior executive managers that it is designated to consider and ensuring that such policy attracts and retains high calibre directors and senior executive management whilst ensuring this is consistent with sound risk management; and
- the review of performance related pay schemes and incentive plans and to consider and make recommendations in respect of their rationale, structure and aggregate cost.

Remuneration Policy (the “Policy”)

Gatehouse’s Remuneration Policy incorporates a total reward package comprising:

- Fixed Pay (Salary);
- Variable Pay (Bonus and LTIP Awards);
- Benefits;
- Non-financial rewards.

Material Risk Takers

The schedule of Material Risk Takers (“All staff who have a material impact on the firm’s risk profile, including a person who performs a significant influence function for a firm, a senior manager and risk takers”) is approved by the RNC on an annual basis.

2018 Aggregate Remuneration in respect of Senior Management and Other Material Risk Takers

	Senior management	Other material risk-takers	Total
Number of employees	13	20	33
	£'m	£'m	£'m
Fixed Remuneration¹	1.8	1.6	3.4
Variable remuneration	0.2	0.1	0.3
Total	2.0	1.7	3.7

¹Fixed remuneration consists of base salary.



5. CAPITAL RESOURCES

As at 31 December 2018

<u>Core Tier I Capital</u>	£'m
Share capital	150.0
Retained losses	(41.7)
Other Reserves - AFS	(2.5)
Total CET I Capital	105.8
<u>Deductions from CETI due to Prudential Filters</u>	
Intangible assets ¹	(0.8)
Goodwill ²	(6.0)
Subtotal	99.0
<u>Deductions from CETI Capital</u>	
Significant Investments (Investment in GC)	(21.7)
Total regulatory capital	77.3

¹ Intangible assets represent software costs and IT licences to the extent these are not amortised. There is no additional CETI capital held.

² The goodwill relates to the Bank's direct equity interest of 35.6% in Gatehouse Capital (GC) and includes goodwill accounted in conjunction with financing to GFGL. The latter is in relation to a connected funding of capital nature ("CFCN") entered into for the purpose of the Group owning the entire 100% of Gatehouse Capital.



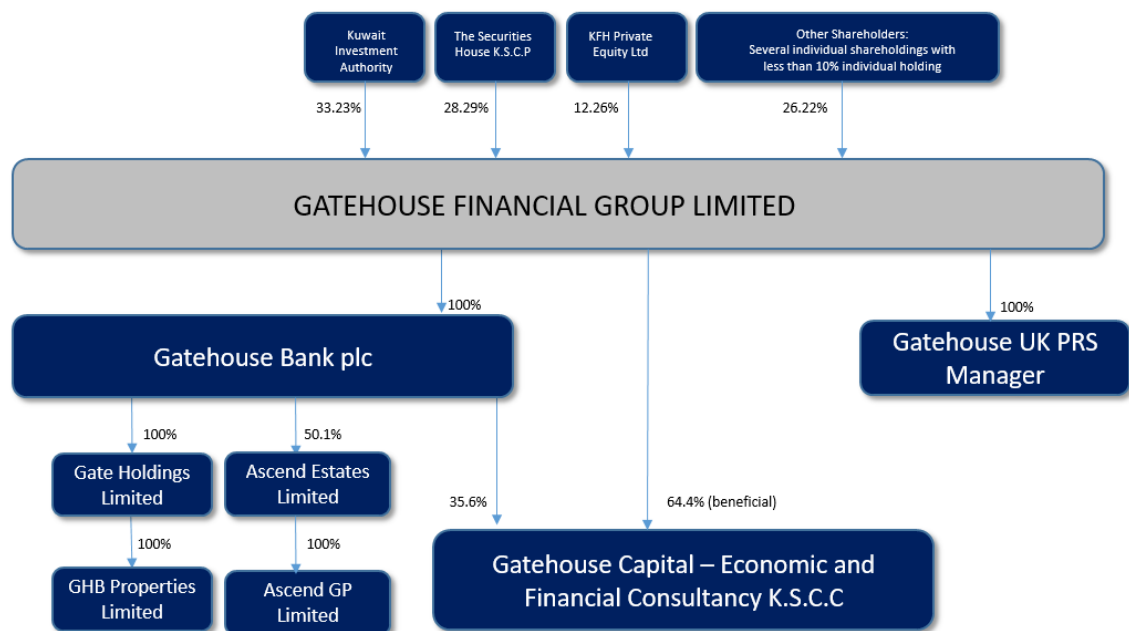
6. CAPITAL AND LIQUIDITY ADEQUACY

Capital Position

Gatehouse was incorporated in May 2007 with an authorised capital of £200 million. This was increased to £225 million in March 2008. Start-up capital of £10 million was injected by The Securities House K.S.C.C. in 2007. Paid-up capital was increased to £50 million in April 2008 as part of the FSA authorisation.

On 28 July 2011, Gatehouse Bank successfully raised an additional £100 million capital through a rights issue resulting in paid-up capital being increased to £150 million.

Gatehouse Bank plc ownership structure as at 31 December 2018



Capital Resources

Capital resources as at 31 December 2018 amounted to £77.3m. Total Risk Weighted assets as at 31 December 2018 amount to £316.0m resulting in a Pillar I capital requirements of £25.3m. Pillar I and Pillar 2 capital requirements are explained in further details below.

CRD IV requires institution to hold capital buffers which can be drawn down in times of economic stress for absorbing losses. In addition to minimum capital requirements under CRD IV, the Bank held capital conservation buffer of 1.875% as at 31 December 2018.

As at 31 December 2018, the Bank has an institution specific countercyclical buffer, (CCyB), requirement of 1.0%.

The capital adequacy of the Bank is calculated on a daily basis and circulated to the executive management of the Bank. The capital adequacy is also formally reviewed and approved once a month through the Bank's monthly management accounts.



On an annual basis, the Bank produces a 12 month Budget incorporating the income statement, balance sheet and capital requirements. This is presented to and approved by the Board. The 12 month forecast is monitored on a monthly basis and reported in the management accounts of the Bank.

The 12 month forecast prepared for the year-ended 31 December 2019 shows that the Bank will operate comfortably within its current and planned capital resources.

The Bank continues to monitor regulatory developments which may impact its Capital, Liquidity or increased reporting requirements.

Pillar 1 - Compliance with CRD IV capital requirements

The current Basel III requirements have not changed the minimum capital requirements ratio of 8% for Pillar 1 purposes. The significant changes are related to calculation of Risk Weighted Assets (“RWA”) where the calculation is now based on a more sophisticated approach to measuring the risk exposures of the Bank.

Credit and Operational risks comprise over 96% of the Bank’s capital requirement; and they are also the two key risk types to which the Bank is exposed, in addition to liquidity risk. The Bank has no material exposure to market risk as it is not the nature of a Shariah compliant bank to engage in speculative and derivative-based market trading.

As a UK regulated bank, the minimum capital requirement of Gatehouse for Pillar 1 purposes is the base capital resources requirement of €5,000,000.

The table below shows the approach currently used by Gatehouse to comply with Basel III regulations for the calculation of Pillar 1 capital requirements:

Type of Risk	Approach
Credit Risk	Standardised approach
Operational Risk	Basic indicator approach
Market Risk	Standardised approach

Pillar 2 - Internal Capital Adequacy Assessment Process

The UK regulator has prescribed obligations under Pillar 2 of the Capital Requirements Directive (“CRD”) which require all firms within the scope of CRD to have an Internal Capital Adequacy Assessment Process.

Not all material risks can be mitigated by Pillar 1 capital requirements, hence, the Bank has adopted a “Pillar 1 plus” approach to determine the level of capital that needs to be held in accordance with the Individual Capital Guidance. This method takes the Pillar 1 capital formula calculations (for credit, market and operational risk) as a starting point and then provides for additional capital in Pillar 2A. As at 31 December 2018, the Bank’s Pillar 2A requirements was 5.55%.



Liquidity Risk – Internal Liquidity Adequacy Assessment Processes

The Bank also approves a formal ILAAP annually in line with requirements of the PRA Rulebook 'Internal Liquidity Adequacy Assessment'. The key function of the Internal Liquidity Adequacy Assessment Process ("ILAAP") is to inform senior management and the Board on an ongoing basis of the risks affecting the Bank's available liquid resources and of the need to implement any pre-agreed contingency plans to deal with risks should they materialise.

The key liquidity risks the Bank models are:

- Franchise viability risk;
- Cyber-attack risk;
- Non-marketable assets risk; and
- Funding concentration risk.

The Bank was in compliance with all liquidity regulatory requirements during 2018. The below table provides Liquidity Coverage Ratio (LCR) as at 31 December 2018:

	(£'m)
Liquidity Buffer	21.6
Total net cash outflows	5.7
Liquidity Coverage Ratio (LCR)	381.6%

Recovery Plan and Resolution Pack ("RRP")

The Board regards the RRP as a key component of the Bank's risk management framework as it enables the Board to understand and monitor the indicators and events that have the potential to cause the Bank to fail due to a lack of capital and/ or liquidity.

The development of the RRP identified a range of metrics (referred to as Early Warning Indicators and Invocation Trigger Points) that may impact the Bank's available liquidity and / or capital, and various recovery options. Performance relative to Early Warning Indicators is monitored daily and reported monthly to ALCO and regularly to the BRCC.

Liquidity Contingency Plan ("LCP")

The LCP sets out the strategies, policies and actions that senior management and the Board have identified as being necessary to improve and enhance the Bank's liquidity in crisis situations and periods of market stress. In line with regulatory expectations each LCP action establishes a clear allocation of roles and clear lines of management responsibility, and is aligned and integrated into the liquidity component of the Bank's RRP.



Capital Adequacy and Liquidity Assessment Process

Gatehouse considers ICAAP and ILAAP to be working documents that are continually being updated to reflect current business activities. The ICAAP and ILAAP are standing items on the monthly ALCO meeting agenda and are discussed at quarterly BRCC meetings. The ICAAP and ILAAP are presented formally to the Board for approval once a year.

Through the ICAAP and ILAAP, Gatehouse completes an annual assessment of the key risks to capital and liquidity, based on scenario analysis as well as sensitivity and reverse stress testing.

The key sources of risk to capital and liquidity that the Bank assesses are:

- Credit Risk;
- Market Risk;
- Operational Risk;
- Liquidity Risk;
- Concentration Risk;
- PRRBB Risk;
- Group Risk; and
- Business Risk.



7. CREDIT RISK

Credit risk is the risk of suffering financial loss in the event that one or more of Gatehouse's clients or market counterparties fails to fulfil their contractual obligations. Credit risk may also arise where the downgrading of an entity's credit rating causes the fair value of the Bank's investment in that entity's financial instruments to fall. The credit risk that Gatehouse faces arises mainly from Treasury activities, real estate commercial finance, real estate residential finance and legacy real estate investments.

Gatehouse's Credit Risk functions covers three key areas:

- The overall management and implementation of the risk management framework and risk appetite as determined by the Board; determining mandate and scale limits as set by the Board;
- Assessment of investment and financing activities via the provision of comprehensive credit risk assessments and recommendations for appropriate decision making forums. This includes monitoring of portfolio composition; and
- The monitoring of exposures to ensure compliance with approved limits and to ensure that the credit quality of the counterparty or collateral 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.

A comprehensive control framework is in place. This incorporates:

- Maximum credit guidelines relating to exposure to an individual counterparty or transaction and where appropriate, the minimum level of collateral;
- Geographical location limits to avoid excessive concentration of credit risk in individual regions; and
- Sector specific limits to avoid excessive concentration of credit risk in individual economic sectors.

A range of analysis methodologies are used to determine the credit quality of a counterparty, such as quantitative analysis, qualitative analysis, external rating agency research, industry specific research and for wholesale assets, market information such as credit spreads.

As at 31 December 2018, credit risk capital requirements arose on treasury assets, financial assets held at fair value through income statement, financial assets held through OCI and non-trading financial assets.

Moody's Analytics

The Bank has a rating system as part of its credit assessment and review process for real estate finance transactions. This system provides the Bank with a probability of default and loss given default evaluation for secured real estate finance transactions, and assigns a transaction rating on a scale equating to that used by the major rating agencies.

This model also provides the necessary Probability of Default's (PD's), Loss Given Default's (LGD's) and Expected Credit Losses (ECL's) for Real Estate finance transactions to assist the Bank in its IFRS9 calculations and reporting.



Treasury Assets

The Bank has exposures to a range of banks and financial institutions in its portfolio of mainly short-term treasury placements. These exposures arise mainly due to the placement of surplus capital in the market. Current exposures are to counterparties ranging from unrated institutions to those categorised under credit quality step 1 with a recognised external credit assessment institution. Exposure sanctioning authorities are agreed by the Board. Counterparty exposures are monitored against limits by the Risk and Treasury Departments on a daily basis and by the ERC on a monthly basis.

Assets held at fair value through income statement and assets held at fair value through OCI (Sukuk, Quoted and unquoted funds and Equity securities):

As at 31st December 2018, the Bank had a portfolio of quoted and unquoted funds, unlisted equity securities and Sukuk. Sukuk yields offer attractive returns relative to money market deposits. Maximum limits per Sukuk are in place and being monitored daily.

Non-trading financial assets

Gatehouse Bank maintains a non-trading (or banking) book of investments in Shariah-compliant investment vehicles and bilateral financing transactions. These take the form of secured or unsecured financing and are usually funded by external treasury liabilities in the same currency to minimise any foreign exchange risk.

Treasury assets, assets held at fair value through income statement and assets held at fair value through OCI and non-trading financial assets are monitored by Treasury, Risk and Finance on a daily basis in respect of capital requirements, liquidity mismatch and large exposures.

Exposure

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

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

	Exposure £'m	RWA £'m
Assets		
Cash and balances with banks	14.8	3.0
Financing and advances at amortised cost	309.5	160.9
Financial assets held at fair value through the income statement	50.1	52.4
Financial assets held at fair value through other comprehensive income	28.4	8.1
Derivative financial instruments	1.9	0.4
Investment in Subsidiaries	8.0	12.0
Investment in Associates	11.3	24.8
Total	424.0	261.6



Analysis of Balance Sheet Assets

The Bank's exposures are distributed in the following geographical regions as at 31 December 2018:

	Exposure £'m	RWA £'m
GCC countries	77.5	44.4
<i>Kuwait</i>	53.3	36.6
<i>Saudi Arabia</i>	9.1	2.6
<i>UAE</i>	11.8	4.1
<i>Qatar</i>	1.7	0.6
<i>Oman</i>	0.9	0.3
<i>Bahrain</i>	0.7	0.2
Europe	265.8	167.6
North America	38.9	36.3
Asia	33.8	10.5
Africa	6.7	2.3
Australasia	1.3	0.5
	424.0	261.6

Exposures by counterparty type as at 31 December 2018:

	Exposure £'m	RWA £'m
Counterparty Type		
Institution	49.4	18.5
MDB	10.7	-
Sovereign	10.9	-
High Risk Item	25.0	37.5
Secured by mortgage	274.9	142.8
Exposure in default	6.8	28.1
Equity	42.2	30.6
CIU	4.1	4.1
Total	424.0	261.6



The residual maturity breakdown of exposures as at 31 December 2018:

	Less than 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Total
	£'m	£'m	£'m	£'m	£'m	£'m
Assets						
Fixed rate items	50.2	10.8	0.2	29.8	275.3	366.2
Non rate sensitive items	14.9	1.6	0.1	-	39.8	57.8
Total assets	65.1	12.3	0.3	29.8	316.5	424.0

Credit quality

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

	Investment grade £'m	Non-investment grade £'m	Non-rated £'m	Total £'m
Assets				
Cash and balances with banks	14.8	-	-	14.8
Financing and advances at amortised cost	22.0	-	287.5	309.5
Financial assets held at fair value through the income statement	-	-	51.5	51.5
Financial assets held at fair value through other comprehensive income	21.6	-	6.8	28.4
Derivative financial instruments	1.9	-	-	1.9
Investment in Subsidiaries	-	-	8.0	8.0
Investment in Associates	-	-	9.9	9.9
Total assets	60.3	-	363.7	424.0

The Bank has adopted the standardised approach to credit risk and it follows the standard mapping of credit quality steps to ratings provided by recognised external credit assessment institutions.

Whilst the Bank uses credit risk mitigation techniques where suitable, these are not used in the calculation of the Pillar I capital requirements. Hence, the exposure values and exposure values after credit risk mitigation are the same.



Exposures to institutions with effective original maturity of 3 months or less

Credit quality step	Risk weight	Exposure (£'m)	Exposure after credit risk mitigation
1	20%	0.1	0.1
2	20%	38.2	38.2
2	50%	-	-
3	20%	-	-
3	100%	-	-
NR	20%	0.4	0.4
NR	100%	10.7	10.7
Total		49.4	49.4



8. MARKET RISK

Market risk is a measure of potential change in the value of a portfolio of instruments as a result of changes in market factors (such as interest rates, equity indices, bond prices, commodity markets, exchange rates and volatilities) during a specified time horizon. Gatehouse is exposed to market risk via the management of the balance sheet (i.e. banking book). The role of Treasury as first line and the Risk Management function as second line is to identify, quantify and manage the potential effects of those potential changes on the value of the portfolio.

The BRCC reviews market risk exposures on a quarterly basis and delegates responsibility for monitoring adherence to market risk limits to the Risk Management team with oversight from the ALCO.

The Risk Management function implements a 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 available to all the senior executive members of the Bank.

Day-to-day responsibility for market risk lies with the Treasury Department with oversight from the Risk Department. A detailed market risk presentation is produced monthly and discussed at the ALCO. Gatehouse Treasury manages treasury market risk.

Market Risk Measurement

The Bank's strategic plan limits its exposure to market risk as it does not run an active trading portfolio. Nonetheless through the course of its business activities it will incur equities, FX and Profit rate exposure, and its Sukuk positions also require monitoring as they are subject to market based price variations.

Market risk is measured using a combination of whole portfolio measures such as Value at Risk ("VaR") and maximum loss, and product specific factors such as maturity mismatch for money market funding, VaR for FX, DV01 for Sukuk, and Beta for Equities.

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. This sensitivity is monitored on a daily basis and indicates that, should yield curves increase by 200bps (with all other variables remaining constant), the economic value of the Bank's balance sheet would decrease by c. £8.0m at 31 December 2018. Conversely a shift in yield curves of the same size in the opposite direction would result in an economic gain for the Bank. The Bank, therefore, only applies risk limits to negative changes in economic value of the balance sheet. The effect of changes in market interest rates are discussed further under *Profit Rate Risk*.

In order to meet internal and client demand, Gatehouse 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 and Islamic FX forwards, Profit Rate Swaps, Exchange of Deposits or a combination of these instruments.



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 exposures due to the imperfect matching of margins and re-pricing date differences between assets and liabilities.

Gatehouse manages profit rate risk by matching as far as possible the maturity and re-pricing profiles of assets and liabilities and in addition hedges its exposure by undertaking Profit Rate Swaps (PRS) to reduce the impact of long-dated fixed retail assets on the balance sheet.

VaR and maximum loss are used to monitor the risk arising from open profit rate positions.

As at 31 December 2018, the market value of nominal positions generating profit rate risk was £111.5m 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 and maximum loss are used to monitor the risk arising from open foreign currency positions. The Bank's Pillar I minimum capital requirement allows for foreign exchange risk through the foreign exchange risk requirement PRR.

As at 31 December 2018, the net market value of nominal foreign exchange exposure was £0.07m which generated Foreign Exchange VaR and maximum loss estimates of:

£	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

Gatehouse Treasury invests in selected Sukuk. As at 31 December 2018, the Bank has not used derivatives to hedge Sukuk investments.

VaR and maximum loss are used to monitor the risk arising from the available for sale Sukuk investment portfolio.

As at 31 December 2018, the market value of nominal AFS Sukuk investment exposure was £21.6m which generated estimated Price Risk VaR and maximum loss of:

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

Capital Resource Requirement for Market Risk

During the period ended 31 December 2018, the Bank entered into FX derivative transactions and PRS in order to hedge its exposures to exchange rates and profit rate risk. A Pillar I charge arises



from its notional foreign currency position and profit rate risk requirement and its counterparty credit risk component.

Pillar I capital resources requirements for each of the market risks below as at 31 December 2018 were:

Market risk type	Trading Book (£'m)	All activities (£'m)
Profit rate PRR	-	-
Equity position PRR	-	-
Option PRR	-	-
Collective investment schemes PRR	-	-
Counterparty risk capital component	-	0.6
Concentration risk capital component	-	-
Foreign currency PRR	-	0.90
Commodity PRR	-	-



9. OPERATIONAL RISK

Operational risk is the risk of losses resulting from human factors, inadequate or failed internal processes and systems or from external events. Operational risks are inherent in the Bank's business activities and are typical of any financial enterprise. It is not cost effective to attempt to eliminate all operational risks and in any event it would not be possible to do so. Those of material significance have historically been rare and the Bank seeks to reduce the likelihood of these crystallising in accordance with its risk appetite.

Major sources of operational risk include: operational process reliability, IT security, outsourcing of activities, dependence on key suppliers, dependence on key staff, implementation of strategic change, fraud, customer service quality, regulatory compliance, recruitment, training and retention of staff, and social and environmental impacts.

The Bank's ICAAP document details the capital that the Bank regards as adequate to guard against losses that would potentially be incurred should these risks crystallise.

Operational risk oversight is the responsibility of the Chief Risk Officer, who reports directly to the Chief Executive Officer and the Chairman of the BRCC. The Chief Risk Officer is also a member of all management committees.

The role of the Chief Risk Officer within the 3 lines of defence model in this capacity is to assist the first line in analysing the operational risks faced by the Bank. Ongoing assessment of operational risks is recorded in a dashboard that is prepared and presented to the ERC and regularly to the BRCC. The dashboard captures and rates the significance of key 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.

Each business and functional area is required to report key indicators and the core risks facing their business. These are maintained in conjunction with the Chief Risk Officer, who provides challenge and oversight.

The Bank has put aside £4.3 million capital to cover Operational Risk events.



10. CREDIT RISK MITIGATION

The Bank's business model means that a significant portion of its credit and country risks fall within the upper range of its grading system. In order to mitigate its credit and country risks, the Bank employs a number of risk mitigants:

- As set out in Section 7 and further explained in the Bank's Risk Appetite, the Bank has a framework of concentration limits and guidelines to diversify the risk of excessive exposure concentrations
- Limits are established for single regions and counterparties based on their gradings
- Single counterparty limits govern quantum, nature and tenor of exposure.
- The majority of Gatehouse exposures are secured by tangible credit risk mitigants with an aim to decrease the credit risk associated with the exposure. This can take the form of property and other tangible or intangible assets, all of which must be Shariah compliant.
- Surplus liquidity is primarily placed with highly rated financial institutions.
- The Bank uses a credit grading system to facilitate the monitoring of the portfolio and individual exposures.
- Risk mitigation forms an important part of the credit assessment of a potential business proposal.
- It is Gatehouse's policy to ensure that credit risk mitigants are valued at the time a facility is approved. This is documented in the credit application. Once a transaction is drawn down the credit risk mitigant is revalued or reviewed as part of the annual review process to take into account current market conditions.



11. EXPOSURES TO EQUITIES NOT INCLUDED IN THE TRADING BOOK

The Bank had £21.8m non-trading book equity investments as at 31 December 2018 – the breakdown is provided in table below. Please also see note 16 and note 17 of the ‘Company Statement of Financial Position’ in 2018 annual accounts for non-trading book equity investments.

Exposures to equities not included in the trading book	31 December 2018 (£'m)
Unquoted equity securities - Fair value through OCI	2.4
Unquoted equity securities - Fair value through income statement	15.1
Unquoted Funds – Fair value through OCI	0.2
Quoted funds – Fair value through OCI	4.1
Total	21.8



12. LEVERAGE RATIO

Currently, the Bank is not within the scope of the UK Leverage Regime as its retail deposits are less than £50 billion. The Bank's leverage ratio as at 31 December 2018 was 18.4%. Appendix II provides breakdown of the Leverage ratio as at 31 December 2018.



13. ASSET ENCUMBRANCE

The Bank did not have any encumbered assets as at 31 December 2018. Appendix III provides breakdown of the asset encumbrance as at 31 December 2018.



APPENDIX I – OWN FUNDS DISCLOSURE

The following table shows the Bank's own funds disclosure made in accordance with the Commission implementing regulation (EU) No. 1423/2013. Any blank cells in the template have been removed from this disclosure.

		31 Dec 2018 (£'m)
Common Equity Tier I capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	150.0
	of which: ordinary shares	150.0
2	Retained earnings	(25.9)
3	Accumulated other comprehensive income (and any other reserves)	(0.4)
6	Common Equity Tier I (CETI) capital before regulatory adjustments	123.7
Common Equity Tier I (CETI) capital: regulatory adjustments		
8	Intangible assets (net of related tax liability) (negative amount)	(6.8)
19	Direct, indirect and synthetic holdings of the CETI instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	(21.7)
25a	Losses for the current financial year (negative amount)	(15.7)
28	Total regulatory adjustments to Common Equity Tier I (CETI)	(44.3)
29	Common Equity Tier I (CETI) capital	77.3
44	Additional Tier I (AT1) capital	-
45	Tier 1 capital (T1 = CETI + AT1)	77.3
58	Tier 2 (T2) capital	-
59	Total capital (TC = T1 + T2)	77.3
60	Total risk-weighted assets	316.0
Capital ratios and buffers		
61	Common Equity Tier I (as a percentage of total risk exposure amount)	24.4%
62	Tier I (as a percentage of total risk exposure amount)	24.4%
63	Total capital (as a percentage of total risk exposure amount)	24.4%
64	Institution specific buffer requirement	2.3%
65	of which: capital conservation buffer requirement	1.9%
66	of which: countercyclical buffer requirement	0.4%
68	Common Equity Tier I available to meet buffers (as a percentage of risk exposure amount)	16.4%
Amounts below the thresholds for deduction (before risk-weighting)		
73	Direct and indirect holdings of the CETI instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	9.9



APPENDIX II – ANALYSIS OF LEVERAGE RATIO

The following tables show the Bank's leverage ratio disclosure made in accordance with the Commission Implementing Regulation (EU) 2016/200. Any blank cells in the template have been removed from this disclosure.

		31 Dec 2018 (£'m)
Summary reconciliation of accounting assets and leverage ratio exposures		
1	Total assets as per published financial statements	430.0
4	Adjustments for derivative financial instruments	2.5
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	16.2
7	Other adjustments	(28.5)
8	Total leverage ratio exposure	420.3
Leverage ratio common disclosure, CRR leverage ratio exposures		
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	430.0
2	(Asset amounts deducted in determining Tier I capital)	(28.5)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	401.5
Derivative exposures		
EU-5a	Exposure determined under Original Exposure Method	2.5
11	Total derivative exposures	2.5
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	60.5
18	(Adjustments for conversion to credit equivalent amounts)	(44.3)
19	Other off-balance sheet exposures	16.2
Capital and total exposures		
20	Tier I capital	77.3
21	Total leverage ratio exposures	420.3
22	Leverage ratio	18.4%
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully Phased -in



31 Dec 2018
(£'m)

Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	430.0
EU-2	Trading book exposures	-
EU-3	Banking book exposures, of which:	430.0
EU-5	Exposures treated as sovereigns	10.9
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	10.7
EU-7	Institutions	49.4
EU-8	Secured by mortgages of immovable properties	274.9
EU-12	Other exposures	84.1



APPENDIX III – ASSET ENCUMBRANCE

The following table shows the analysis of asset encumbrance in accordance with the EBA Guidelines on disclosure of encumbered and unencumbered assets (EBA/GL/2014/03).

As at 31 Dec 2018	Carrying amounts of encumbered assets (£m)	Fair value of encumbered assets (£m)	Carrying amounts of unencumbered assets (£m)	Fair value of unencumbered assets (£m)
Assets of the reporting institution	-	-	430.0	-
Equity instruments	-	-	21.8	21.8
Debt securities	-	-	21.6	21.6
Other assets	-	-	24.4	-