ANNUAL REPORT AND FINANCIAL STATEMENTS 2017

GATEHOUSE
BANK

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Gatehouse Bank plc
Annual Report and
Financial Statements

For the year ended 31 December 2017

COMPANY INFORMATION

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Fahed Faisal Boodai
Andrew Gray
Gerald Gregory
Charles Haresnape
Danesh Mahadeva
Stephen Smith

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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 Bank plc ("the Bank"), I am pleased to present the 2017 Annual Report and Financial Statements.

Considerable progress was made in 2017 with the appointment of Charles Haresnape as CEO in May, at which time a revised strategy was approved by the Board to expand the focus of the Bank into personal financing, whilst retaining the Bank's real estate investment advisory platform and commercial financing lines of business. The Board is confident that the shift to personal financing will complement our existing business and will deliver sustainable value and growth to our shareholders. We remain committed wholeheartedly to Shariah finance principles, and our vision is to be the most admired Shariah-compliant bank in the UK.

The Executive team has been updated, bringing to the Bank an enhanced skill set, relevant to the new strategy. In addition, there have been changes at Board level, with Charles Haresnape (CEO) and Danesh Mahadeva (CFO) becoming Executive Directors to replace leavers during the year. I have been re-appointed to the position of Chairman following a period as interim CEO, and I would like to thank the Non-Executive Directors who left the Bank in 2017 – Craig Friedman, Mohamad Al-Tahawy and Lord Matthew Carrington of Fulham – all of whom have made significant contributions to the development of the Bank over several years, and I appreciate their support and skilful contributions. New to the Board, in Non-Executive roles, are Andrew Gray, previously Managing Director of Barclays Mortgages, who brings a wealth of experience of regulated personal finance and Abdulaziz AlBader who represents the Bank's largest shareholder, the Kuwait Investment Authority. I believe we have a Board and an Executive team with broad and relevant skills to oversee the Bank's future development.

2017 was a year of transition to the new strategy, and the Board guided the Bank through this period to establish the framework upon which the new strategy could be based. The Board was keen to ensure a strong capital position and with that mind-set the capital position has been strengthened through the year with £13m exits in non-core assets which released capital to support the strategic growth of our core business. Cost control remains paramount and, whilst costs will increase in 2018 to enable the new strategy to flourish, efficiency remains a key metric monitored by the Board, plus a forward trajectory of reducing the Bank's cost:income ratio. The Bank aims to achieve operational leverage through a simple business model focussing on niche product areas. In addition, the Bank will be investing and benefitting from the latest IT technology platforms with a focussed IT infrastructure programme which will help drive a low cost:income ratio.

The Bank has continued to grow its Private Rented Sector (PRS) Fund and this remains a key element of the Bank's strategy with the total number of homes built or approved for near term build exceeding 1,600 units across two funds. The Board has been monitoring closely the potential impacts from Brexit but, to date, no material impact has been experienced in the sectors we serve. This will continue to be monitored at a board and management level. Assets on the balance sheet continue to be resilient with no significant losses experienced. The Bank has now opened a new Customer Service Centre in Milton Keynes and new, bespoke personal finance systems launched. This marks a significant milestone for the Bank.

I would like to conclude by thanking our Shareholders for their continued support and wisdom as the Bank and the Group continue to grow sustainably. I also wish to express my appreciation to the Shariah Supervisory Board for their valued guidance, and to the Bank's employees, without whom the Bank would not be as successful as it has been.

Fahed Faisal Boodai
Chairman
11 April 2018

CHIEF EXECUTIVE OFFICER'S STATEMENT

I was delighted to be appointed CEO by the Board in May 2017. Prior to being formally appointed I presented a revised strategy to the Board which was approved in April 2017 and upon joining I commenced an implementation programme.

2017 was a year of consolidating existing business lines whilst developing new customer segments, which over the next few years will drive significant income for the Bank.

The Board and Executive Teams

Following my appointment I established a new Executive Team with new recruits of Chief Risk Officer, Chief Operating Officer, Chief Commercial Officer and Head of HR. I also promoted a new Chief Financial Officer from within the Bank and retained our experienced General Counsel and Company Secretary. A significant period of change at Executive Committee level but designed to bring into the Bank broader and more relevant experience for the revised strategy. This team has worked well together and I am confident that the team will achieve the objectives of setting the right culture, being cautious in implementing risk appetite but working at pace to achieve key goals.

The Chairman was supportive in bringing in a new Non-Executive Director, Andrew Gray, who has a wealth of experience in regulated personal finance and will assist with oversight of our fast growing personal finance segment.

The focus in 2017 has been to implement the groundwork to provide a strong base to deliver the new strategy. This progress has not yet been reflected in the 2017 financial performance with the Bank recording a loss of £351k. This was largely driven by £75m of successful repayments of financing ,contributing to a 16% reduction in operating income, and a £1.2m increase in impairments on legacy unquoted equities. In line with the strategy, the Bank is achieving an orderly exit of non-core assets, which will prevent the Bank from being subject to large impairments in the future.

I am pleased to report our capital has strengthened during the year with exits in non-core business contributing to an improved Core Equity Tier 1 (CET1) ratio by the end of 2017 of 37% (2016: 28%). The improved capital position bodes well for 2018 and provides a robust platform to build the personal financing business.

Progress of the new strategy

Our vision is: To be the most admired Shariah-compliant bank in the UK.

To achieve this we will focus on 3 core elements - Customer; Capability; Community.

Customer

Our customers are at the heart of everything we do.

Financing UK and overseas resident customers to purchase residential property in the UK is a key element of the new strategy. An excellent start was made in 2017 with new intermediary facing expert teams recruited, to build partnerships with specialised intermediaries. This will be supplemented in the first half of 2018 with a team of qualified advisers who can talk directly to customers and give regulated financing advice.

Gatehouse Bank continues to provide commercial real estate finance, via specialised intermediaries, on UK investment properties. This business line will be grown further in 2018 with the recruitment of additional expert real estate relationship managers. This is supplemented by a Real Estate Investment Advisory team who, working with our sister company Gatehouse Capital in Kuwait, locate and facilitate UK commercial real estate investments for overseas investors.

A significant business area, and one where we see considerable growth potential, is the Build To Rent/PRS institutional sector. Gatehouse advises two funds, with combined residential property assets totalling 1,600 new build family homes, being built or in the pipeline. This sector provides investor returns, excellent quality homes for tenants and assists with the government's objective of encouraging greater new build volumes.

Our liquidity is supported by our excellent online Milestone Savings proposition, offering Shariah-compliant and competitive savings products. Looking forward to 2018, we are keen to ensure we offer a range of savings products for our customers and will be introducing further product ranges to meet customer needs.

These areas of growth are carefully managed to a cautious Risk Appetite, approved and closely monitored by the Board.

Capability
Our collective capability determines our success.

At all levels of the Bank, competence is key to providing the excellent service our customers rightly expect. We have implemented a Board Skills Matrix and all colleagues have actively managed development plans. In addition, the capability of our systems has been reviewed and in 2017 we started implementation of a bespoke home finance processing system which will be delivered in 2018. This will supplement existing systems and enable customers and brokers to benefit from a modern, flexible service.

Community
Our community approach benefits all.

We will have experts in local communities to assist access to relevant products and services and in order to be customer centric, we will treat our workplace as a community where our people feel valued and are developed.

Cost control remains paramount and whilst we invested in our new strategy during 2017, these costs will be more than offset by enhanced income in the future. Our 4 year business plan assumes a continuing improvement in our cost:income ratio. In 2017 the cost: income ratio was 106% (2016: 94%). The increase was driven by a lower year-on-year operating income following the significant amount of financing repaid during the year.

The Board continues to monitor for potential Brexit impacts on the Bank, to date no material adverse impacts are anticipated, and the Board continues to scrutinise closely our development against the approved Risk Appetite.

In 2017, we decided to develop a new home finance customer service centre in Milton Keynes, a location with good transport connections and a pool of local suitably qualified staff, at competitive costs. This centre was opened by His Worship Councillor David Hopkins, The Mayor of Milton Keynes in January 2018.

I would like to conclude by thanking our Shareholders for their continued support and wisdom during this exciting growth period and I also wish to give my appreciation to our Shariah Supervisory Board, whose guidance is gratefully appreciated. Finally I wish to thank my colleagues for their commitment and hard work during this development phase.

Charles Haresnape
Chief Executive Officer
11 April 2018

CORPORATE GOVERNANCE REPORT

THE BOARD OF DIRECTORS ("The Board")

Non-Executive Directors

Fahed Faisal Boodai, Chairman

Mr Boodai is the co-founder and Chairman of Gatehouse Financial Group, Chairman of Gatehouse Bank plc and the founder and Chairman of Gatehouse Capital. Mr. Boodai is also the Vice Chairman and CEO of Securities House, one of the largest shareholders of Gatehouse Financial Group. With more than 20 years' investment banking experience specifically within the global real-estate market, he has presided over diverse real estate acquisitions and exits totalling more than US$3 billion. Mr Boodai holds an MBA with a concentration in Finance from Loyola Marymount University in Los Angeles, California and a Bachelor of Science degree in International Business from the University of San Diego. He also occupies a number of external board and director positions. Mr Boodai's family maintains overall control of the Boodai Corporation, a Kuwait-based holding company with diverse interests including construction, engineering and global real estate.

Gerald Gregory, Deputy Chairman and Chairman of the Board Risk and Compliance Committee and Audit Committee

Mr Gregory is a retired Managing Director of a diverse portfolio of businesses, he has significant strategic and operational experience in large (equivalent FTSE top 100) mutual retail financial services companies. He has extensive experience in strategy development and implementation, risk management, treasury and structured finance operations, marketing and sales. He retired from his executive career in March 2008 and since then has worked in a variety of Non-Executive Director roles mainly, but not exclusively, in financial services. He is very familiar with the UK liquidity and capital regimes and has been approved by the UK Regulator under the Senior Managers and Certification.

Abdulaziz AlBader, Vice Chairman

Mr AlBader joined the Board of Gatehouse Bank in February 2017. He has been employed by the Kuwait Investment Authority (KIA) since 1989 and is currently Executive Director for Operations and Administration. Mr. AlBader has held other senior roles at the KIA including Executive Vice President, Human Resources & Administration at the Kuwait Investment Office, London. Prior to joining the KIA, he served as Director of the Minister's Office, Ministry of Finance; and Director, Public Warehousing Company and Kuwait Fund for Arab Economic Development, Kuwait. He represented the KIA on the Board of Directors of Warba Bank from February 2014 to March 2016, where he was Chairman of the Risk Committee; Vice Chairman of the Audit Committee; and member of the Governance Committee. Mr AlBader graduated from Kuwait University in 1980 with a BA in Accounting; holds an MBA in Finance from the University of Scranton Pennsylvania, USA; and is a member of the Kuwait Accounting Society.

Stephen Smith, Chairman of the Board Credit and Investment Committee and Remuneration and Nominations Committee

Mr Smith joined the board of Gatehouse Bank after serving as Chief Investment Officer at British Land Co. plc for three years. Prior to British Land, Mr Smith served as Global Head of Asset Management at AXA Real Estate Investment Managers Ltd. In that role, he was responsible for the asset management of a portfolio exceeding €40 billion on behalf of life funds, listed property vehicles, unit-linked and closed-end funds at AXA. Mr Smith has also served as Managing Director at Sun Life Properties for five years.

Andrew Gray

Mr Gray joined the board of Gatehouse Bank in July 2017. With more than 30 years' experience in the UK banking sector, Mr Gray is a well-respected figure in the industry and was previously Managing Director of Mortgages at Barclays, Deputy Chairman of the Council of Mortgages Lenders and a member of its executive committee. In 2015, he received the Lifetime Achievement Award at the British Mortgage Awards.

Executive Directors

Charles Haresnape, Chief Executive Officer

Mr Haresnape joined Gatehouse Bank as Chief Executive Officer in May 2017. Prior to joining the Bank, he was Group Managing Director at Aldermore Bank from January 2011, where he was responsible for residential and commercial mortgages, plus property development. Before joining Aldermore, Charles was with Connells, one of the UK's largest estate agency groups, where he was Group Mortgage Services Director. Prior to Connells, he was responsible for intermediary mortgage lending at both NatWest and RBS, plus the branch mortgage sales force within NatWest. He has worked for a number of other household names in the banking and building society sectors, including Nationwide and HBOS where he was a senior executive, responsible for mortgage sales and portfolio acquisitions. Charles has been Deputy Chairman of the Council of Mortgage Lenders (CML) and Chairman of the Intermediary Mortgage Lenders Association (IMLA).

Danesh Mahadeva, Chief Financial Officer

Mr Mahadeva was appointed Chief Financial Officer of Gatehouse Bank in July 2017. Danesh began his career at the Bank as Vice President, Head of Finance in September 2013 and was responsible for managing the finance function. He has been an active member of key governing committees of the Bank and has worked closely with the Board in developing the Bank's strategy and financial planning. Prior to joining the Bank, Danesh's previous roles have included working for Barclays Bank Plc across financial and product control and Ernst & Young specialising in audit in the banking and capital markets division. Danesh graduated with a BSc degree in Management Sciences from London School of Economics and Political Science and is a member of the Institute of Chartered Accountant for England & Wales (ICAEW).

Compliance with the UK Corporate Governance Code

The Bank is not required to comply with the UK Corporate Governance Code ("the Code") but it recognises that the Code is seen as a benchmark for best practice and therefore seeks to apply the Code's principles where appropriate and commensurate with its size and operations.

Further explanation of how the principles have been applied is set out overleaf.

CORPORATE GOVERNANCE REPORT CONTINUED...

LEADERSHIP

Role of the Board

At the start of each year the Board approves a meeting schedule for the remainder of that year. At least four quarterly regular meetings are scheduled. The Board has a schedule of matters reserved for its decision which are captured in the Company's Corporate Governance Framework ("CGF") and reviewed on an annual basis. The matters include the approval of the annual business plan, delegation of authority to approve credit and market risk limits, changes to capital structure, raising of external finance and approval of the annual report and financial statements. The Board's agenda is determined against a pre-planned template to ensure that all relevant issues come to the Board for review at appropriate intervals.

Division of Responsibilities

There is a clear division of responsibilities across the Board, separating out the Executive from the Non-Executive functions, in line with the PRA and FCA's Senior Managers and Certification Regime and which are captured in the CGF.

The Chairman

The responsibilities of the Chairman are identified and documented in the CGF. These responsibilities include leading the Board and ensuring that the Board effectively discharges its responsibilities; promoting the highest standards of corporate governance in the Bank; overseeing the Board agendas to ensure that the Board devotes appropriate time and attention to important matters; ensuring the integrity of the Bank's internal control framework and the robustness of key management processes including strategic planning, financial control, risk management, resource allocation and performance management; encouraging open dialogue between Executive and non-Executive directors. The Chairman is assisted in his role by the Company Secretary who acts as secretary to the Board and all Board Committees.

Non-Executive Directors

The Non-Executive Directors are actively involved with setting the Bank's strategy. Strategy and business plan proposals are made by the Executive which are then considered by the Board. Once approved, the performance of management is measured against the approved business plans and budget.

EFFECTIVENESS

Composition of the Board

The Board comprises Non-Executive Directors; Independent Non-Executive Directors, and Executive Directors. The Board is sufficient in size and diversity to reflect a broad range of views, whilst allowing all Directors to participate effectively.

The Bank has chosen its Independent Directors on the basis of the experience and skill sets that they contribute to the Board. These factors are considered alongside the provisions of the Code which helps determine whether the Director is independent in character and judgement and if there are any relationships or circumstances that could affect his or her judgement.

The Board considers Gerald Gregory, Stephen Smith and Andrew Gray to be independent within the meaning of the Code. None of these Directors have any executive or other role or material relationship with the Bank that, in the Board's view, would affect their objectivity and all have proven to be independent in character and judgement.

Appointments to the Board

The appointment of Directors is considered by the Remuneration and Nominations Committee and approved by the Board. In 2017 the Board's size, skills and experience were assessed in the context of the new strategy agreed by the Board and changes made to streamline the Board and add a new Independent Non-Executive Director, Andrew Gray, with experience of the UK retail residential property finance market.

Time Commitment

The time commitment expected of the Non-Executive Directors is stated in their individual letters of appointment.

Development

Upon appointment to the Board, new Directors receive a detailed induction. This includes an introduction to and overview of the Bank; its strategy and risks; operational structure and individual meetings and presentations from senior executives responsible for key areas of the business. If required, follow up sessions are also arranged.

The Directors receive ongoing training throughout the year to address current business or emerging issues. In 2017, training sessions were provided by external consultants on Cyber Security and Designing and Implementing Effective Corporate Governance. In addition, development plans have been agreed for individual Directors following completion of a Board Skills Matrix that evaluated the Directors' skills, capabilities, experience and personal characteristics against desired Board composition.

Information and Support

The Chairman is responsible for ensuring the Board receives information in a form and of a sufficient quality to enable it to discharge its duties. Under the direction of the Chairman, the Company Secretary's responsibilities include ensuring good information flows within the Board and its Committees and between senior management and the Non-Executive Directors. Senior management provide the Board with the information necessary to enable the Board to perform its duties; this is provided principally in dashboard reports, summaries of activities from the CEO and in comprehensive quarterly meeting papers. All Directors have access to the services of the Company Secretary.

In addition, the Bank provides access, at its expense, to the services of independent professional advisers in order to assist the Directors in their role, whenever this is deemed necessary. The Bank also provides insurance cover and indemnities for all Directors and Officers.

Evaluation

The Board completes an annual evaluation process, which is implemented at the beginning of each year in respect of the previous calendar year. The process includes completion by the Directors of a self-assessment questionnaire. The results of these are considered by the Remuneration and Nominations Committee (RNC) and reported to the Board with any recommendations. The Board acts on the results of the evaluation by addressing any weaknesses of the Board and considering, where appropriate, memberships of the Board and its Committees.

Re-election of Directors

In accordance with the provisions in the Articles of Association, all Directors who have been appointed by the Board must stand for election at the first Annual General Meeting following their appointment and then for re-election every subsequent three years.

CORPORATE GOVERNANCE REPORT CONTINUED...

DELEGATION OF AUTHORITY

Management Committees
The Board has delegated to the Executive Committee (comprising both Executive Directors and other senior management) authority to execute the Board strategy and to manage the Bank on a day to day basis.

Board Committees
The Board establishes sub-Committees as ad hoc or standing Committees to which certain powers and authority of the Board are delegated. The standing sub-Committees operate under terms of reference approved by the Board that set out the delegation of powers and authority to them.

The following standing Committees are currently established:

Board Risk and Compliance Committee ("BRCC") – The BRCC's responsibilities include ensuring 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 Board and the nature and scale of the Bank's activities and aids managing relationships with external parties, including the Prudential Regulation Authority and the Financial Conduct Authority. The BRCC comprises two Independent Directors and one other Non-Executive Director. The BRCC met fifteen times in 2017.

Audit Committee ("AC") – The AC oversees financial reporting, the internal and external audit functions and ensures appropriate actions are taken with regard to internal and external audits. It also oversees relationships with relevant external parties including the external auditors. The AC comprises two Independent Directors and one other Non-Executive Director. The AC met five times in 2017..

Remuneration and Nominations Committee ("RNC") – The RNC's responsibilities include determining the remuneration of the CEO, CFO and Chairman, approving the design of any performance related pay or share incentive scheme operated by the Bank, and ensuring the Bank has remuneration policies that are consistent with sound risk management and do not expose the Bank to excessive risk. No Director is involved in deciding their own remuneration. The Committee's responsibilities also include reviewing the structure, size and composition of the Board and making recommendations to the Board, succession planning, identifying and nominating candidates to fill Board vacancies, and reviewing results of the Board evaluation process. The RNC comprises two Independent Directors and one other Non-Executive Directors. The RNC met four times in 2017

Board Credit and Investment Committee ("BCIC") – The BCIC's responsibilities include approving transactions beyond authorities delegated to management Committees and approving off-balance sheet proposals relating to the Bank's advisory business. The BCIC comprises two Independent Directors, two other Non-Executive Directors and one Executive Director. The BCIC met 8 times during 2017..

Below is a table of Director appointments, resignations and committee memberships in 2017:

Director	Date of Appointment	Date of Resignation	Committee Memberships (as at 31 December 2017)
Fahed Faisal Boodai	25.5.2007	-	BRCC, BCIC
Gerald Gregory	10.12.2015	-	AC, BRCC
Abdulaziz AlBader	15.2.2017	-	AC, RNC, BCIC
Stephen Smith	11.6.2013	-	AC, RNC, BCIC
Andrew Gray	12.7.2017	-	BRCC, RNC, BCIC
Charles Haresnape	8.5.2017	-	BCIC
Danesh Mahadeva	17.8.2017	-	-
Twalha Dhunnoo	1.7.2011	18.8.2017	-
Matthew Carrington	9.9.2007	23.5.2017	-
Mohamad Al-Tahawy	25.5.2007	23.5.2017	-
Craig Friedman	31.12.2013	31.7.2017	-

CORPORATE GOVERNANCE REPORT CONTINUED...

ACCOUNTABILITY

Financial and Business Reporting

The Board has delegated to the Executive Committee (comprising both Executive Directors and other senior management) authority to execute Board strategy and to manage the Bank on a day to day basis.

Risk Management and Internal Control

The Board establishes sub-Committees as ad hoc or standing Committees to which certain powers and authority of the Board are delegated. The standing sub-Committees operate under terms of reference approved by the Board that set out the delegation of powers and authority to them.

The following standing Committees are currently established:

Audit Committee and Auditor

The Board's monitoring covers all material controls, including financial, operational and compliance controls. The monitoring is based principally on reviewing reports from internal and external audit and management to consider whether significant risks are identified, evaluated, managed and controlled plus whether any significant weaknesses are promptly remedied.

The Board has delegated this role to the Audit Committee to ensure independent oversight. The Audit Committee's role and responsibilities are set out in its terms of reference, which include:

- Ensuring that appropriate risk mitigation is in place;
- Ensuring the Bank's control environment is commensurate to its needs and based upon the strategy adopted by the Bank's Board; and
- Ensuring that appropriate actions are taken with regard to the internal and external audits.

Further disclosures on Risk Management are provided in Note 33 to the financial statements.

REMUNERATION

Level and Components of Remuneration

Executive Directors' remuneration is designed to promote the long-term success of the Bank and benchmarked to industry pay guides.

Procedure

The RNC is responsible for determining and agreeing with the Board the framework or broad policy for the remuneration of the Chief Executive Officer. The remuneration of the Non-Executive Directors are a matter for the Chairman and Executive Directors of the Board.

Further disclosures on Directors' remuneration are provided in Note 6 to the financial statements statements.

RELATIONS WITH SHAREHOLDERS

Dialogue with Shareholders

The Bank is a wholly owned subsidiary of Gatehouse Financial Group Limited ("GFGL"). The Bank is committed to ongoing dialogue with its immediate shareholder, and ultimate shareholders through GFGL, and the Chief Financial Officer is responsible for co-ordinating the communication of financial result announcements. The membership of Mr Boodai, Mr AlBader and Mr Haresnape on the Bank's Board, who are also Directors of GFGL, ensures the view of the immediate shareholder and of the ultimate shareholders is shared with the Board of the Bank.

Constructive use of Annual General Meeting

In addition to the Bank and GFGL having some common Directors, the Annual General Meeting provides an opportunity for the shareholder to communicate with the Bank and encourage their participation in the Bank.

STRATEGIC REPORT

Cautionary statement

This strategic report has been prepared solely to provide additional information to shareholders to assess the Bank's strategy and the potential for the strategy to succeed.

The strategic report contains certain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them, up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

The Directors, in preparing this strategic report, have complied with s414C of the Companies Act 2006.

This strategic report, which incorporates the Chairman's statement and Chief Executive Officer's statement, has been prepared for Gatehouse Bank plc as a whole and therefore gives greater emphasis to those matters which are significant to the Bank when viewed as a whole.

The Chairman's and Chief Executive Officer's statements (page 6 and 8 respectively) provide a review of business over the reporting period and highlight the relevant key performance indicators (KPI) of the Bank, which include the Core Equity Tier 1 (CET1) ratio and cost:income ratio. The strategic report discusses the following areas:

- The business model
- Financial results
- Principal changes in the group
- Strategy and objectives
- Principal risks and uncertainties
- Corporate Social Responsibility
- Going concern

The Business Model

Gatehouse Bank plc is a Shariah compliant bank based in London and Milton Keynes, authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA. As at 31 December 2017, the Bank had an interest of 35.6% in Gatehouse Capital, an advisory firm incorporated in Kuwait.

The Bank aims to be a leader in the Islamic Finance sector by striving to become the most admired UK Shariah compliant Bank. The Bank will look to achieve this through a simplified business model with a more diverse, lower risk profile supported by a new senior management team with skills and experience appropriate for the new strategy.

Financial Results

The financial statements for the year ended 31 December 2017 are shown on pages 34 to 40. The loss before tax for the year amounted to £344,521 (2016; profit before tax of £1,599,760). The Chief Executive Officer's and Chairman's statements provide a review of business over the reporting period.

Strategy and Objectives

The Bank's business lines can be described as follows:

Residential Property Financing

Residential Property Financing products help facilitate ownership of residential property to clients from single residential property investment finance to more complex company structures including property portfolios. The Bank offers Buy to Let Finance and Expat/International home financing and is in the process of securing regulatory permission changes to offer Home Purchase Plans (HPP). The Bank uses common forms of Shariah financing structures including Diminishing Musharaka, which are essentially co-ownership agreements.

Real Estate Finance

The Real Estate Finance team originate and participate in secured and first ranking Shariah compliant financing for real estate investment assets in the UK for a range of clients that includes investors, asset managers, Real Estate Investment Trusts (REITs) and developers.

Real Estate Investment Advisory

The Real Estate Investments team specialises in sourcing, structuring, advising on and delivering high quality, real estate investment opportunities sourced from the UK.

Private Rented Sector

The Bank successfully completed its initial £100m Private Rented Sector (PRS) scheme between November 2014 and February 2017. This created a portfolio of 918 new rental homes, which are let, across 15 sites in Greater Manchester and Merseyside.

Treasury

The Treasury team's primary function is to ensure that the Bank's balance sheet remains robust and profitable through prudent and efficient management of liquidity by using the short and medium term money markets, retail deposit products and foreign exchange products. They also ensure that the Bank maintains liquidity in accordance with its internal and regulatory requirements and manage investments in sukuk and funds.

Milestone Savings

Milestone Savings is an online provider of personal deposit accounts that provides a diversification of existing funding sources with products with up to five year terms to spread out balance sheet maturity. Milestone Savings customer interfacing infrastructure is managed by a specialised outsourced provider. Milestone Savings is a brand of Gatehouse Bank.

In 2018, the Bank will be looking to re-brand the savings platform under the Gatehouse Bank brand

Principal Risks and Uncertainties

The Bank's principal risks and uncertainties have been highlighted and discussed in detail in Note 33.

Corporate Social Responsibility

The Bank fulfils its corporate and social responsibilities through an ethical approach in support of a range of not-for-profit organisations. Corporate social responsibility is viewed as an integral component of the Bank's corporate governance framework.

The Bank's business objectives and operations are conducted in a manner that calls for fair dealing with business partners, customers and employees and a sense of corporate responsibility in all business dealings. This approach dovetails with the requirements of Shariah principles, which underpin the Bank's operations and form the basis of its product offerings.

The Bank also believes in the importance of supporting a range of not-for-profit endeavours. It aims to work with organisations in the local community with a focus on education and social welfare in order to create sustainable and long-term social enhancements. In this regard and given our Shariah construct, the Bank has an opportunity to provide training and guidance on Shariah finance.

During 2017, the Bank continued to work in partnership with Mosaic, a charity founded by HRH The Prince of Wales, to supply mentors on a voluntary basis to work with pupils at local schools. The Bank's employees are encouraged to invest time to support children from local communities.

Sustainability

The Bank encourages all staff to operate in a sustainable manner and we aim to minimise any harmful effects on the environment

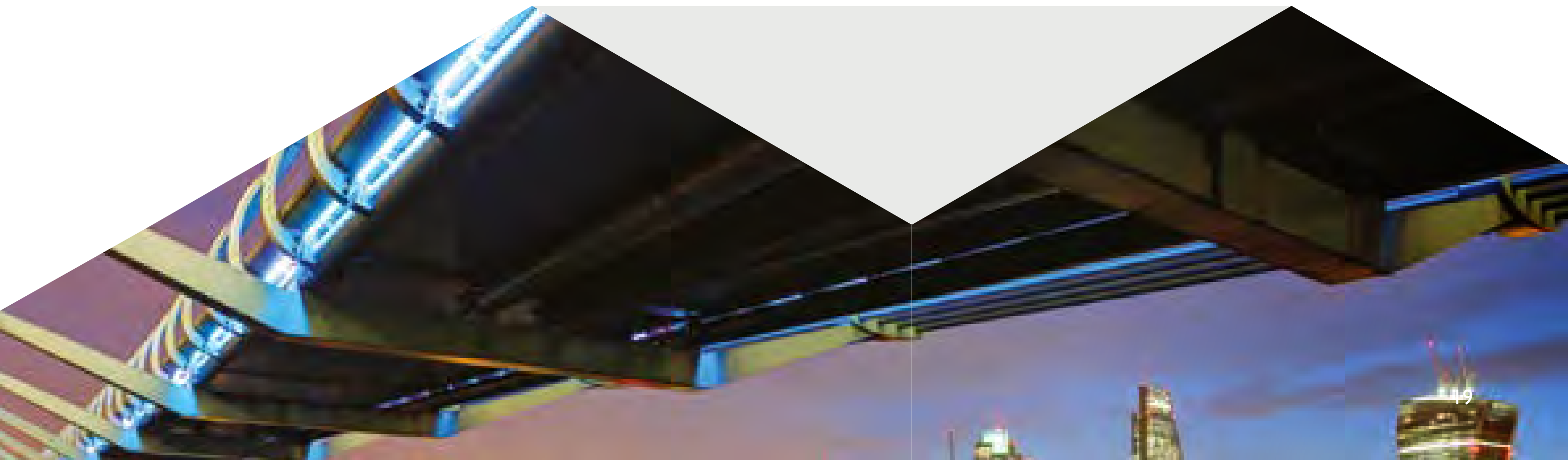
Going Concern

As at the date of signing this report and after making all reasonable and appropriate enquiries and taking into account the Bank's regulatory capital and liquidity, its forecasts and stress tests and scenario analyses, the Directors have a reasonable expectation that the Bank has adequate financial resources to continue in operational existence for the foreseeable future. The Directors are satisfied that the going concern basis remains appropriate in preparing these financial statements of the Bank. Further disclosures on the going concern basis can be found in Note 3 to the financial statements.

Approval

This strategic report was approved by the Board of Directors and signed on its behalf by.

Charles Haresnape
Chief Executive Officer
11 April 2018



SHARIAH SUPERVISORY BOARD REPORT

بسم الله الرحمن الرحيم

To the Shareholders of Gatehouse Bank plc
As-salaamu A'laikum Wa Rahmatuallahi Wa Barakatuh.

In compliance with our terms of appointment with Gatehouse Bank plc ("the Bank"), we, the Shariah Supervisory Board ("the SSB"), are required to submit the following report of Shariah compliance to you.

We have reviewed all material transaction documents and contracts signed with third parties for the purpose of obtaining their services in order to facilitate the proper operation of the Bank. This report relates to the period from 1 January 2017 to 31 December 2017.

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

Please note the management is responsible for ensuring that the Bank conducts its business in accordance with Islamic Shariah rules and principles and guidance provided by the Shariah Supervisory Board. It is our responsibility to form an independent opinion and report to you, based on our review of the operations of the Bank.

Supervision

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

Bank's Contracts

The Bank has entered into various contracts and financing agreements, which include obtaining services from third parties to efficiently manage the Bank and providing financing to clients in a Shariah-compliant manner to generate an income through Murabaha, advisory agreements, treasury Murabaha and Wakala and more recently through home purchase plans based on Diminishing Musharakah. The SSB has reviewed the contracts and agreements presented during the year and conveyed their pronouncements which the Bank implemented and, where necessary, amended the relevant documents in order to comply with Shariah principles.

Shariah Audit

The SSB has carried out regular Shariah Audits of the Bank's business activities for the period from 1 January 2017 to 31 December 2017. The Shariah audits included (i) a review, on a sample basis, of some transaction documents executed by various departments of the Bank and (ii) an audit of all business related expenses incurred by employees of the Bank. The SSB identified some minor discrepancies in its findings in relation to business expenses, which the Bank has addressed through further internal controls and systems. In all material respects, the SSB found all matters of the Bank to be in compliance with the principles of Shariah and thanks the management for their efforts in maintaining the Shariah compliant status of the Bank.

Balance Sheet

The SSB has perused the Bank'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 Bank's management representing the Bank's Assets and Liabilities.

Zakaat

The Bank's parent company, Gatehouse Financial Group Limited ("GFGL"), 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 Zakaat payable for GFGL's paid up capital is the responsibility of its shareholders.

Conclusions

We performed our review so as to obtain material information and explanations which we considered necessary in order to provide us with sufficient evidence to give assurance that the Bank continues to maintain its status as a Shariah compliant Bank. In our opinion, the contracts and agreements, transactions and dealings entered into by the Bank during the year ended 31 December 2017 are in compliance with the Islamic principles of Shariah.

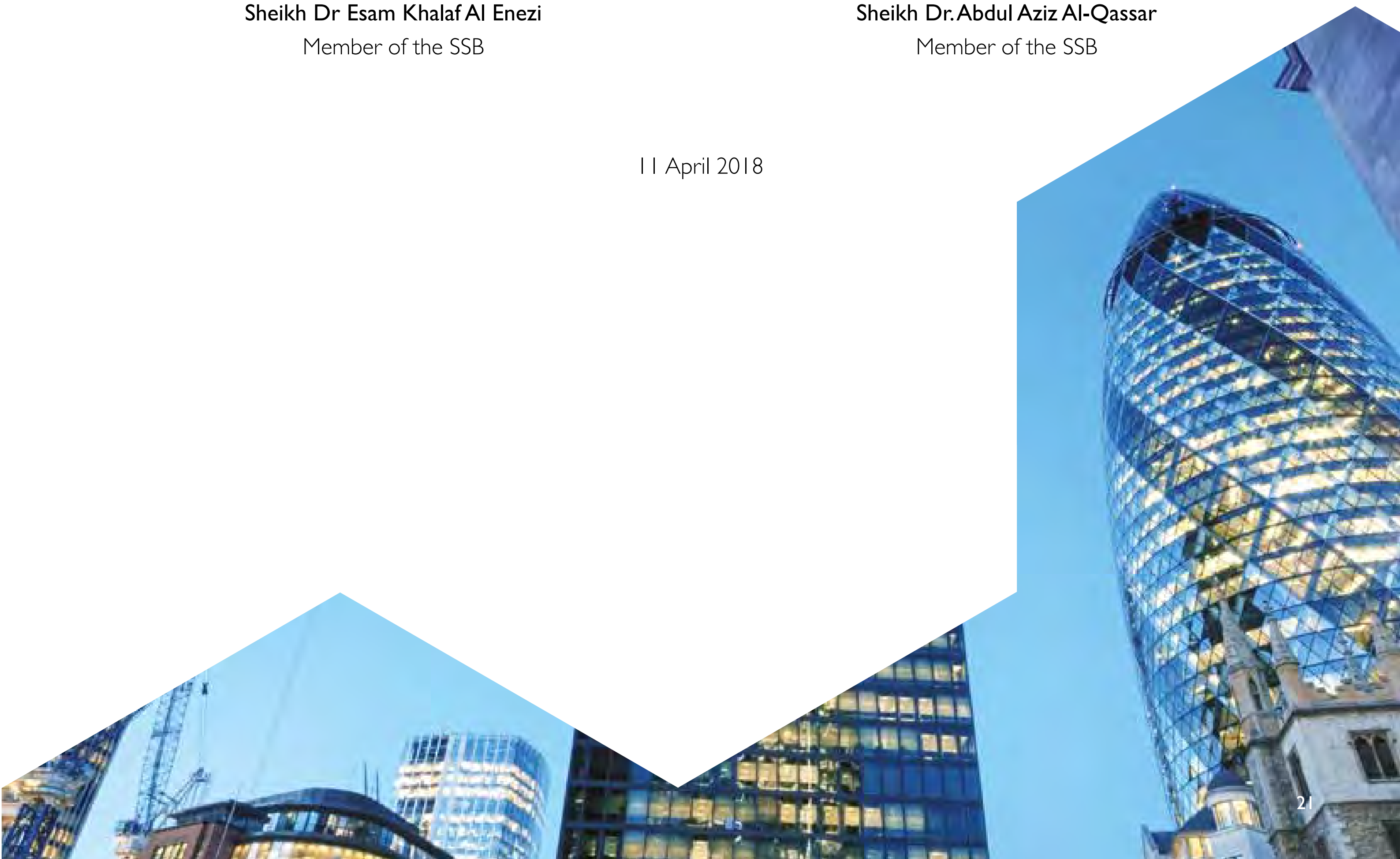
Members of the Shariah Supervisory Board

Sheikh Dr Nizam Yaquby
Chairman of the SSB

Sheikh Dr Esam Khalaf Al Enezi
Member of the SSB

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

11 April 2018



DIRECTORS' REPORT

The Directors present their annual report on the affairs of the Bank, together with the financial statements and auditor's report, for the year ended 31 December 2017. The Corporate Governance Statement set out on pages 10 to 17 forms part of this report.

Information about the use of financial instruments by the company and its subsidiaries is given in note 3 to the financial statements.

Dividend

No dividends were paid during the year (2016: £nil). The Directors do not recommend a final dividend on ordinary shares to be paid in respect of the year (2016: £nil)

Directors and Directors' Interests in Shares

The names of the Directors and Company Secretary at the date of this report are shown on page 3. None of the Directors who held office at the end of the financial year has any interest in the shares of the Bank

Directors' Indemnities

The Bank has made qualifying third party indemnity provisions for the benefit of its Directors that were in post during the year and remain in force at the date of this report.

Employee Consultation

The Bank places considerable value on the involvement of its employees and keeps them informed on matters affecting them as employees and on the various factors affecting the performance of the Bank.

Policy on Payment of Creditors

The Bank's policy is to agree terms of payment with suppliers and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated. It is the policy of the Bank to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract.

Auditor

Deloitte LLP has expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Political Contributions and Charitable Donations

The Bank made no political contributions (2016: £nil) and no charitable donations (2016: £6,249) during the year.

Directors' Statement as to Disclosure of Information to Auditor

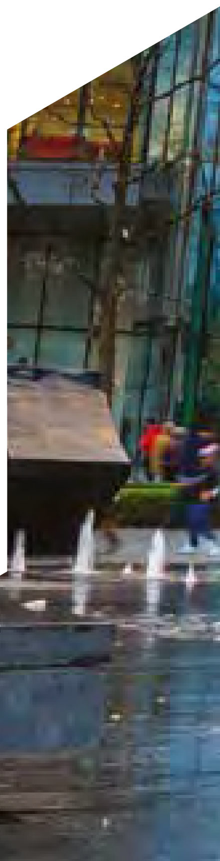
Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Bank's auditor is unaware; and
- each of the Directors has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Bank's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with s418 of the Companies Act 2006.

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

Danesh Mahadeva
Chief Financial Officer
11 April 2018



DIRECTORS' RESPONSIBILITIES

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

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 adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent company and of their profit or loss for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- 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 company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

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

Directors' Responsibility 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 loss of the Bank and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report together with the Chairman and CEO statements include a fair review of the development and performance of the business and the position of the Bank and the undertakings included, together with a description of the principal risks and uncertainties that they face; 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 company's performance, business model and strategy.

By order of the Board.

Danesh Mahadeva
Chief Financial Officer
11 April 2018


INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GATEHOUSE BANK PLC

Report on the audit of the financial statements

Opinion

In our opinion

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Gatehouse Bank plc (the 'parent company') and its subsidiaries (the 'group') which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company cash flow statement; and
- the related notes 1 to 34.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities 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 and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

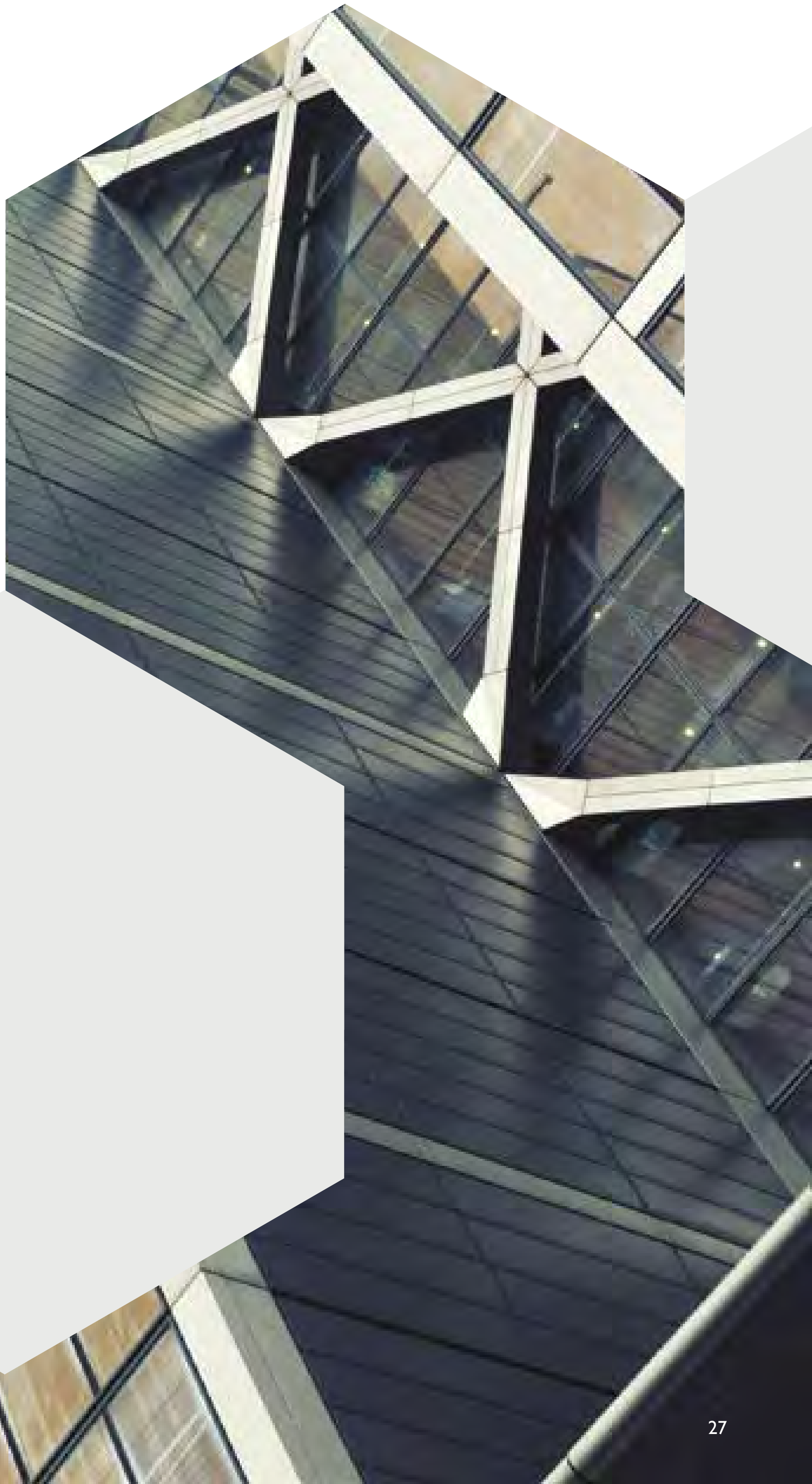
Key audit matters	The key audit matters that we identified in the current year were: • Loan loss provisioning on Murabaha assets; and • Valuation of unquoted equity investments.
Materiality	The materiality that we used for the group financial statements in the current year was £199k which was determined on the basis of 2.2% of Income from investment and financing activities. The materiality that we used for the company financial statements in the current year was £188k which was determined on the basis of 2% of Income from investment and financing activities.
Scoping	Audit work to respond to the risks of material mis-statement was performed directly by the audit engagement team.

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 or the parent company'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.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GATEHOUSE BANK PLC CONTINUED...

Key audit matters:
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material mis-statement (whether or not due to fraud) that we identified.

These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Loan loss provisioning on Murabaha assets

Key audit matter description

Loan provisioning is an area where a high level of management judgement is applied in determining the necessity for, and estimation of, a provision for non-performing loans. The loans are reviewed for potential impairment indicators in accordance with IAS 39: "*Financial Instruments: Recognition and Measurement*". As at 31 December 2017, the total loan loss provisions on Murabaha assets was £Nil (2016: £Nil).

We considered that a risk of potential fraud lies within loan provisioning, due to the inherent potential for management bias and significant judgement involved, such as the nature, timing and likelihood of future cash flows, the valuation of collateral and the selling and legal costs attributable to the sale of collateral.

Management have disclosed information about Credit Risk within Note 33 and Provision for loan losses in Note 12 of this report. The accounting policy and information about judgements and estimation can be found within Note 3.

How the scope of our audit responded to the key audit matter

- We assessed the design and implementation of key controls over the loan provisioning cycle.
- We assessed the completeness of the provisions balance by reviewing a list of all loans held by the company where no specific provision was made. We tested all loans and reviewed key characteristics such as contracts, collateral valuations and coverage, payment delinquencies, customer financials and loan covenant compliance to assess for potential impairment indicators under IAS 39.
- We reviewed and challenged management on key inputs and judgements made for loans against which specific provisions were held, by comparing their judgements against our expectations based upon review of supporting evidence such as communications, legal opinions, and financial information.
- We reviewed the financial statement disclosures relating to the provisions to assess whether they were compliant with the requirements of the IFRSs.

Key observations

We concluded that the loan provisioning amount and related disclosures are appropriate.

Valuation of unquoted equity investments

Key audit matter description

The Group holds a portfolio of unquoted investments in property special purpose vehicles ("SPVs") and an unquoted fund. These investments are accounted for as available for sale (AFS) and are recorded at fair value with changes in fair value recorded in equity. Any impairments (to be assessed on an annual basis) are recorded directly in profit or loss.

The valuations of these investments are dependent on SPV financial statements and third party property valuations. We considered that a risk of potential fraud lies within the valuation of unquoted equity investments, due to the inherent potential for management bias in calculating the net asset value (NAV) of the SPV, where a number of SPV financial statements are unaudited and there are a large number of data inputs in the manual calculation performed by management.

Further, the properties held by the SPV are geographically and commercially diverse and there is a risk that property valuations obtained from third parties and used in the NAV calculation are inappropriate.

As at 31 December 2017, the fair value of unquoted equity investments were £24.1m (2016: £32.3m). The total impairment against these investments were £1.670m (2016: £495k) – see Note 8. The accounting policy can be found within Note 3.

How the scope of our audit responded to the key audit matter

- We assessed the design and implementation of key controls over the AFS unquoted investment valuation process and its review.
- We recalculated the net asset value of the SPVs based on SPV financial statements and third party property valuations.
- We engaged our real estate specialists in the UK and USA to assist us in reviewing the third party property valuations and the methodologies used for appropriateness in line with UK standards.
- We obtained audited SPV financial statements and reconciled amounts to management's NAV calculation. Where SPV financial statements were not audited, we audited material balances to supporting evidence.
- We obtained legal documents evidencing the ownership and existence of properties. We also obtained share certificates and share registers to confirm the investment by the Group in the SPVs.
- We obtained supporting legal documentation and reviewed cash transactions for investments sold in the year.

Key observations

We concluded that the valuation of unquoted equity investments is appropriate.

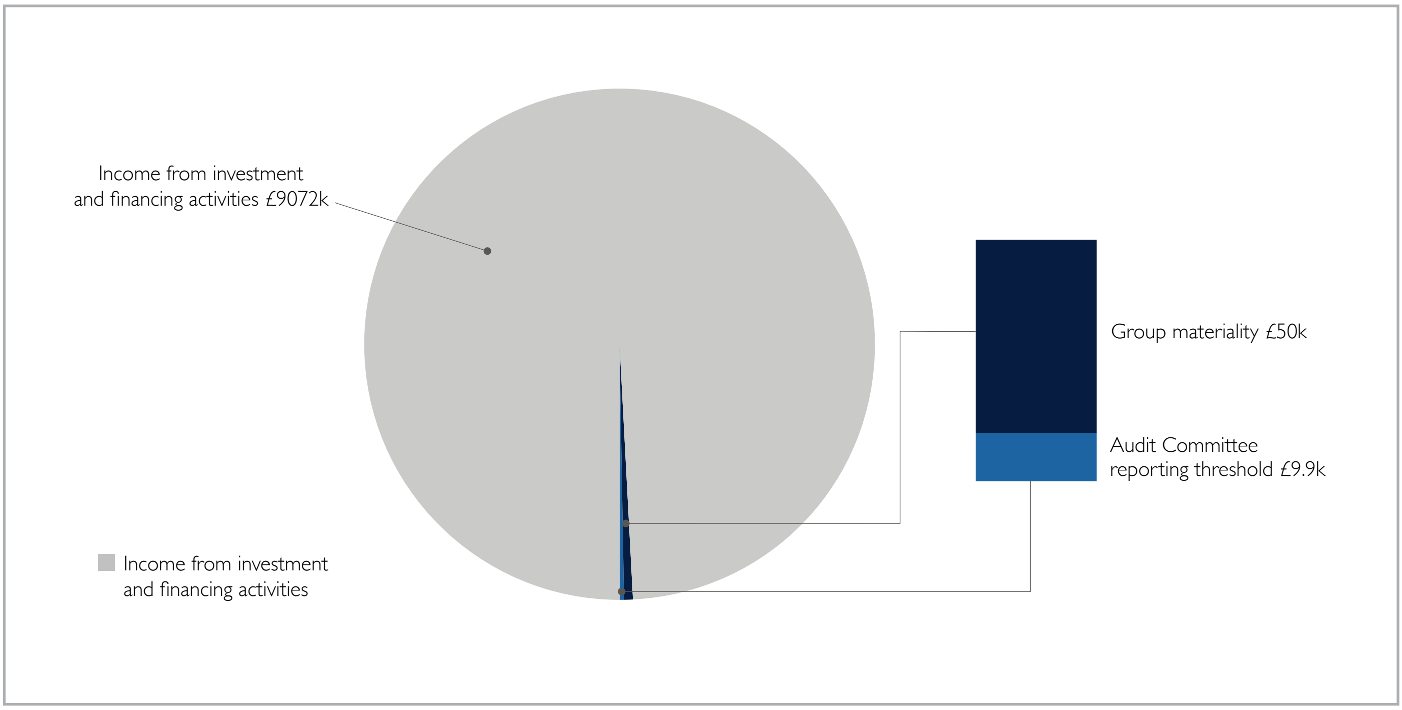
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GATEHOUSE BANK PLC CONTINUED...

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group company financial statements	Parent company financial statements
Materiality	£199k	£188k
Basis for determining materiality	2.2% of Income from investment and financing activities.	2% of Income from investment and financing activities.
Rationale for the benchmark applied	Income from investment and financing activities has been chosen a benchmark as it provides a more stable measure year on year than profit before tax against which to scope our audit. The parent company's principal activities are the same as the Group's because it holds the majority of the operations. The materiality set is less than 0.2% of Equity attributable to the Bank's equity holders and total equity.	



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £9.9k for the group and £9.4k for the parent company, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the parent and its environment, including internal control, and assessing risks of material misstatements. The parent has two subsidiaries located in Jersey and one an associate located in Kuwait. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team in the UK for both subsidiaries with the exception of the associate where a component audit team in Kuwait was involved.

The UK audit engagement team included the component audit team in the team briefing and held regular dialogues with them throughout the audit. We also issued a set of instructions to the component audit team setting out the audit procedures we requested them to undertake. We also involved the component audit team in the planning meeting to discuss their risk assessment, and reviewed documentation of the findings from their work

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, except to the extent otherwise explicitly stated in our report, 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 directors' responsibilities statement, 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 and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities 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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GATEHOUSE BANK PLC CONTINUED...

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006:

In our opinion, based on the work undertaken in the course of the audit

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and;
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements;

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given in note 34 to the financial statements for the financial year ended 31 December 2017 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

We were appointed by the Company at its Board of Directors meeting on 5 November 2007 to audit the financial statements of the Company for the period ending 31 December 2007 and subsequent financial periods. Following a competitive tender process, we were reappointed as auditor of the Company for the period ending 31 December 2012 and subsequent financial periods.

Our total uninterrupted period of engagement is 11 years, covering periods from our initial appointment through to the period ending 31 December 2017.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Alastair Morley
(Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
11 April 2018

Consolidated income statement	Notes	Year ended 31 December 2017 £	Year ended 31 December 2016 £
Income			
Income from investment and financing activities	4	9,072,061	12,317,728
Charges to financial institutions and customers		(3,424,915)	(3,843,852)
Fees and commission income		4,061,792	3,798,116
Fees and commission expense		(341)	(95,499)
Foreign exchange (losses)/gains	5	(275,961)	562,465
Realised gains/(losses) on investments		769,459	(126,038)
Net Ijara loss		-	(157,113)
Other income		559,560	353,865
Total operating income		**10,761,655**	**12,809,672**
Expenses			
Staff costs	6	(6,790,102)	(6,917,809)
Depreciation and amortisation	20 & 21	(583,335)	(1,070,793)
Other operating expenses	7	(4,007,740)	(4,030,850)
Total operating expenses		**(11,381,177)**	**(12,019,452)**
Operating (Loss)/Profit		**(619,522)**	**790,220**
Net share of profit of associate	16	1,945,731	1,304,635
Impairment charge	8	(1,670,730)	(495,095)
(Loss)/Profit before tax	9	(344,521)	1,599,760
Tax	10	(6,571)	(27,109)
(Loss)/Profit for the year from continuing operations		**(351,092)**	**1,572,651**

Consolidated statement of comprehensive income	Notes	Year ended 31 December 2017 £	Year ended 31 December 2016 £
(Loss)/Profit for the year from continuing operations		**(351,092)**	**1,572,651**
Gain on available-for-sale investments		1,040,757	2,392,624
Accumulated reserve movement on disposal of available-for-sale		(771,093)	97,901
Foreign currency translation (losses)/gains from investment in associate		(1,301,230)	2,593,136
Other comprehensive gains for the year		**(1,031,566)**	**5,083,661**
Comprehensive (loss)/gains for the year		**(1,382,658)**	**6,656,312**
Earnings per share from continuing operations			
Basic	**11**	**(0.01) pence**	**0.04 pence**

Notes 1 to 34 form an integral part of the financial statements.

Consolidated statement of financial position	Notes	Year ended 31 December 2017 £	Year ended 31 December 2016 £
Assets			
Cash and balances with banks		11,900,028	8,405,735
Due from financial institutions	13	77,251,048	38,695,969
Financing arrangements	14	85,903,292	135,748,446
Investment securities	15	72,095,108	79,681,188
Investment in associate	16	15,379,498	16,533,428
Derivative financial instruments	19	-	276,991
Intangible assets	20	339,243	379,399
Property, Plant and Equipment	21	13,031,076	13,055,579
Other assets	22	4,626,932	7,130,873
Total assets		**280,526,225**	**299,907,609**
Liabilities			
Due to financial institutions	23	76,742,889	110,156,617
Due to customers	24	73,334,272	58,239,327
Derivative financial instruments	19	506,336	-
Other liabilities	25	2,481,082	2,667,361
Total liabilities		**153,064,578**	**171,063,305**
Net assets		**127,461,646**	**128,844,304**
Shareholders' equity			
Share capital	30	150,049,301	150,049,301
Foreign currency translation reserve		1,570,793	2,872,023
Available-for-sale reserve		(393,988)	(663,652)
Retained deficits		(23,764,460)	(23,413,368)
Equity attributable to the Bank's equity holders and total equity		**127,461,646**	**128,844,304**

Notes 1 to 34 form an integral part of the financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 11 April 2018. They were signed on its behalf by:

Charles Haresnape

Chief Executive Officer

Danesh Mahadeva

Chief Financial Officer

Consolidated statement of changes in equity	Share capital £	Available-for-Sale reserve £	Foreign currency translation reserve £	Retained deficit £	Total £
Balance at 1 January 2016	150,049,301	(3,154,177)	278,887	(24,986,019)	122,187,992
Unrealised gain on available-for-sale investments	-	2,392,624	-	-	**2,392,624**
Accumulated reserve movement on disposal of available-for-sale investments	-	97,901	-	-	**97,901**
Foreign currency translation gain from associate investments	-	-	2,593,136	-	**2,593,136**
Profit for the year	-	-	-	1,572,651	**1,572,651**
Balance at 31 December 2016	**150,049,301**	**(663,652)**	**2,872,023**	**(23,413,368)**	**128,844,304**
Balance at 1 January 2017	150,049,301	(663,652)	2,872,023	(23,413,368)	128,844,304
Unrealised gain on available-for-sale investments	-	1,040,757	-	-	1,040,757
Accumulated reserve movement on disposal of available-for-sale investments	-	(771,093)	-	-	**(771,093)**
Foreign currency translation losses from associate investments	-	-	(1,301,230)	-	**(1,301,230)**
Loss for the year	-	-	-	(351,092)	**(351,092)**
Balance at 31 December 2017	**150,049,301**	**(393,988)**	**1,570,793**	**(23,764,460)**	**127,461,646**

Consolidated statement of cashflows	Year ended 31 December 2017 £	Year ended 31 December 2016 £
Cash flows from operating activities		
Operating (loss)/profit on ordinary activities after tax	(351,092)	1,572,651
Adjusted for:		
Impairment of investments	1,670,730	495,095
Share of operating profit of associate	(2,019,250)	(1,304,635)
Fair value movement in derivative financial instruments	783,327	898,253
Depreciation and amortisation	583,335	1,070,793
Taxation	6,571	28,095
Realised (gains)/losses on investments	(769,459)	126,038
Changes in financing arrangements	47,457,980	(29,480,144)
Changes in due from financial institutions	(38,544,549)	8,434,690
Changes in financing activities	8,050,167	8,766,016
Changes in accrued profit received from investment activities	(8,088,878)	(12,630,303)
Returns to financial institutions	2,753,883	2,111,167
Returns to customers	671,032	1,732,685
Changes in Due from customers	15,132,948	45,866,786
Net decrease/(increase) in other assets	2,495,569	(3,599,872)
Net (decrease)/increase in other liabilities	214,457	(839,005)
Net cash inflow/ (outflow) from operating activities	**30,045,771**	**23,248,309**
Cash flow from investing activities		
Dividend received from associate	1,799,343	1,251,161
Proceeds from the sale of Ijara	-	6,972,833
Changes in investment activities	824,840	1,540,358
Proceeds from sale of investment securities	14,094,934	5,096,047
Purchases of investment securities	(7,141,373)	(4,029,508)
Dividends received	1,293,683	2,100,811
Purchase of property, plant and equipment	(378,355)	(6,544)
Purchase of intangible assets	(140,437)	(75,727)
Net cash inflow from investing activities	**10,352,635**	**12,849,431**
Cash flows from financing activities		
Proceeds from financial institutions	(33,479,965)	(31,605,024)
Profit paid in respect of financing arrangements	(3,424,148)	(2,808,143)
Net cash inflow from financing activities	**(36,904,113)**	**(34,413,167)**
Net inflow in cash and cash equivalents	**3,494,292**	**1,684,573**
Cash and cash equivalents at the beginning of the year	8,405,735	6,721,162
Cash and cash equivalents at the end of the year	**11,900,028**	**8,405,735**

Company statement of financial position		Year ended 31 December 2017 £	Year ended 31 December 2016 £
Assets			
Cash and balances with banks		11,753,562	8,179,034
Due from financial institutions	13	77,251,048	38,695,969
Financing arrangements	14	92,939,401	142,806,145
Investment securities	15	72,095,108	79,681,188
Investment in associate	16	11,307,937	11,307,937
Investment in subsidiaries	17	5,338,200	5,338,200
Derivative financial instruments	19	-	276,991
Intangible assets	20	339,243	379,399
Plant and equipment	21	1,254,929	1,169,255
Other assets	22	4,882,062	7,091,958
Total assets		**277,161,490**	**294,926,076**
Liabilities			
Due to financial institutions	23	76,709,866	110,129,512
Due to customers	24	73,334,272	58,260,876
Derivative financial instruments	19	506,336	-
Other liabilities	25	2,874,362	2,659,906
Total liabilities		**153,424,836**	**171,050,294**
Net Assets		**123,736,654**	**123,875,782**
Shareholders' equity			
Share capital	30	150,049,301	150,049,301
Available-for-sale reserve		(394,901)	(663,652)
Retained deficits		(25,917,746)	(25,509,867)
Equity attributable to the Bank's equity holders and total equity		**123,736,654**	**123,875,782**

Notes 1 to 34 form an integral part of the financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 11 April 2018. They were signed on its behalf by:

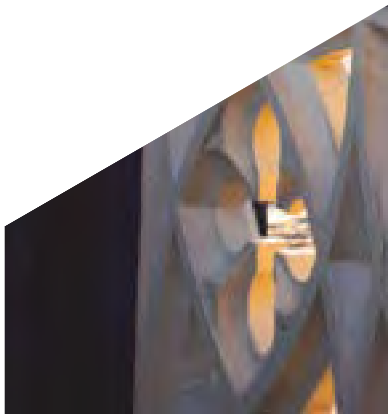
Charles Haresnape
Chief Executive Officer

Danesh Mahadeva
Chief Financial Officer

Company statement of changes in equity

	Share capital £	Available-for-Sale reserve £	Retained deficit £	Total £
Balance at 1 January 2016	150,049,301	(3,154,177)	(27,277,138)	**119,617,986**
Unrealised gain on available-for-sale investments	-	2,392,624	-	**2,392,624**
Accumulated reserve movement on disposal of available-for-sale investments	-	97,901	-	**97,901**
Profit for the year (Note 12)	-	-	1,767,271	**1,767,271**
Balance at 31 December 2016	**150,049,301**	**(663,652)**	**(25,509,867)**	**123,875,782**
Balance at 1 January 2017	150,049,301	(663,652)	(25,509,867)	123,875,782
Unrealised gain on available-for-sale investments	-	1,040,757	-	**1,040,757**
Accumulated reserve movement on disposal of available-for-sale investments	-	(772,006)	-	**(772,006)**
Profit for the year (Note 12)	-	-	(407,879)	**(407,879)**
Balance at 31 December 2017	**150,049,301**	**(394,901)**	**(25,917,746)**	**123,736,654**

Company statement of cashflows **Cash flows from operating activities**	**Year ended 31 December 2017 £**	**Year ended 31 December 2016 £**
Operating (loss)/profit on ordinary activities after tax	(407,879)	1,767,271
Adjusted for:		
Impairment of investments	1,670,730	495,095
Fair value movement in derivative financial instruments	783,327	898,253
Depreciation and amortisation	473,271	960,729
Taxation	-	21,972
Realised (gains)/losses on investments	(769,459)	126,038
Dividends receivable	(1,293,683)	(2,006,840)
Changes in financing arrangements	49,562,303	(29,501,693)
Changes in due from financial institutions	(38,544,549)	8,434,691
Changes in financing activities	7,544,507	8,766,016
Changes in accrued profit received from investment activities	(9,888,202)	(11,874,624)
Returns to financial institutions and corporates	2,753,883	2,111,167
Returns to customers	671,032	1,732,685
Proceeds from Customers	15,132,948	45,866,786
Net decrease/(increase) in other assets	2,223,335	(3,577,960)
Net decrease/(increase) in other liabilities	214,457	(839,005)
Net cash inflow/(outflow) from operating activities	**30,126,021**	**23,380,581**
Cash flow from investing activities		
Changes in investment activities	824,840	1,540,358
Proceeds from sale of investment securities	14,094,934	11,996,047
Purchases of investment securities	(7,141,373)	(4,029,508)
Dividends received	3,093,026	3,351,971
Purchase of plant and equipment	(378,390)	(6,543)
Purchase of intangible assets	(140,437)	(75,727)
Net cash inflow from investing activities	**10,352,600**	**12,776,598**
Cash flows from financing activities		
Proceeds from Financial Institutions	(33,479,945)	(31,605,024)
Profit paid in respect of financing arrangements	(3,424,148)	(2,808,143)
Net cash inflow from financing activities	**(36,904,093)**	**(34,413,167)**
Net inflow in cash and cash equivalents	**3,574,528**	**1,744,012**
Cash and cash equivalents at the beginning of the year	8,179,034	6,435,022
Cash and cash equivalents at the end of the year	**11,753,562**	**8,179,034**



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 December 2017

1. General Information

The Bank was incorporated as a public limited company in the United Kingdom on 25 May 2007 under the Companies Act 1985 and received authorisation from the FSA on 21 April 2008 to carry out regulated activities as a deposit-taking institution. The address of the registered office is given on page 3.

2. Adoption of new and revised standards

IAS 8 requires that an entity applies its accounting policies consistently. Changes in accounting policies can only be made if the change is required by a new or revised standard or an interpretation, or results in providing more reliable and relevant information.

These financial statements illustrate the adoption of new standards and amendments which are applicable to reporting periods with a year end of 31 December 2017.

New and revised IFRSs:		Effective date
IFRS 9	Financial Instruments	01 January 2018
IFRS 15 (and the related Clarifications)	Revenue from Contracts with Customers (and the related clarifications)	01 January 2018
IFRS 16	Leases	01 January 2019
IFRS 17	Insurance Contracts	01 January 2021
IFRS 2 (amendments)	Classification and Measurement of Share-based Payment Transactions	01 January 2018
IFRS 4 (amendments)	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	01 January 2018
IAS 7 (amendments)	Statement of cash flows	01 January 2017
IAS 12 (amendments)	Income taxes	01 January 2017
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	01 January 2018

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 2018/1 January 2017**
IFRIC 22	Foreign Currency Transactions and Advanced Consideration	01 January 2018
IFRIC 23	Uncertainty over Income Tax Treatments	01 January 2019

* The effective date of the amendments has yet to be set by the IASB.

** The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 for annual periods beginning on or after 1 January 2017.

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 2017. 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.

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 42 that have been issued but are not yet effective and had not yet been adopted by the EU.

IFRS 15 Revenue from contracts with customers

IFRS 15 'Revenue from contracts with customers' effective 1 January 2018 and endorsed by the EU on 22 September 2016. The standard replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31. It applies to contracts with customers but does not apply to insurance contracts, financial instruments or lease contracts, which fall under the scope of other IFRSs. The standard introduces a new revenue recognition model that recognises revenue either at a point in time or over time. The model features a contract-based-5-step analysis of transactions to determine whether, how much, and when revenue is recognised.

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, except as noted overleaf:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED...

2. Adoption of new and revised standards (continued)

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. It replaces IAS 39 Financial Instruments: Recognition and Measurement.

The Group will apply IFRS 9 on 1 January 2018. The Group has elected not to restate comparatives on initial application of IFRS 9. Based on assessments undertaken to date, the total estimated adjustment of the adoption of IFRS 9 on the opening balance of the Group's capital at 1 January 2018 will be approximately in the range of £200k - £500k reflecting mainly changes in impairment levels. Controls and governance over IFRS 9 impairment are currently being embedded and the methodology is being refined and enhanced. Future changes in accounting processes, assumptions, judgements and controls may affect these assessments.

Impact assessment

Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets. New classification categories include: measured at amortised cost, FVOCI (Fair Value Through Other Comprehensive Income) and FVTPL (Fair Value Though Profit and Loss).

The standard will affect the classification and measurement of financial assets as follows;

- Loans and advances to banks and customers previously classified as loans and receivables and measured at amortised cost will in general also be measured at amortised cost under IFRS 9.
- Held to maturity investment securities previously measured at amortised cost will in general also be measured at amortised cost under IFRS9.
- Assets previously classified as available–for-sale, may, under IFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on the circumstances and is done on an instrument- by-instrument basis (i.e. share by share basis)

Impairment

IFRS 9 replaces the "incurred loss" model under IAS 39 with a forward looking "expected credit loss" (ECL) model. Depending on the asset's classification under the three stage impairment model (Stage 1- credit risk has not increased; Stage 2 – credit risk has increased & 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 either 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 Bank's credit risk management policies.

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

Under IFRS 9 the Bank will consider a financial asset to be in default when either the borrower is unlikely to pay its credit obligations or the borrower is more than 90 days past due.

Forward looking

Under IFRS 9, the Bank will incorporate forward-looking information and scenarios into both its assessment of any significant increase in credit risk and its measurement of ECLs.

Capital planning

The Bank will take advantage of the transitional guidelines issued by the Prudential Regulation Authority (PRA) of phasing in the full impact of IFRS 9 adoption over a 5 year period.

3. Basis of preparation and significant accounting policies

Going concern

The Bank's business activities, together with the factors likely to affect its future development, performance as well as the financial position of the Bank, its cash flows, liquidity position and obtaining financing facilities are described in this annual report and accounts. In addition, note 33 to the financial statements includes the Bank'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 Bank 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 Bank. 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 Bank'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 judgments, estimates and assumptions

Judgements

Judgments in the process of applying the Group's accounting policies, management has made the following judgments, 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 Company determines whether it needs to consolidate this entity based on the consolidation principles of IFRS 10. The management of the Company has determined that it does not have any interest in consolidated structured entities as at the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED...

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

Impairment losses on loans and advances
Assets accounted for at amortised cost are evaluated for impairment.

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about each counterparty's financial situation and the realisable value of any underlying collateral.

Each impaired asset is assessed on its merits, and the estimates of cash flows considered recoverable are approved by the Risk function.

References to 'loan loss provisioning' refer to provisioning in respect of receivables due.

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 33).

Basis of consolidation

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

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 Bank'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 investment and financing activities

"Income from investment and financing activities" consists of profit derived from Shariah-compliant financing including Murabaha placements, participation in sukuk or syndicated financing transactions and equity holdings. A Murabaha arrangement represents an agreement whereby the Bank purchases a commodity and then sells it to a customer on a deferred settlement basis with an agreed mark-up.

Profit receivable on Murabaha placements and participation in sukuk or syndicated financing transactions is recognised as income on a time-apportionment basis over the period of the contract, based on the principal amounts outstanding. Income received from equity holdings as distribution or dividends is recognised when the Bank's right to receive payment has been established.

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 Bank 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 recognize 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 market place.

Investment in subsidiaries (for standalone)

The investments in subsidiary undertakings in the Bank's financial statements are stated at cost less impairment. Investments in subsidiary undertakings are assessed for impairment where there is an indication of impairment. Where impairment exists, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss recognised in the statement of comprehensive income.

Investment in associate

An associate is an entity over which the Bank 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.

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 the date of acquisition is included within the carrying amount of the investment.

Ijara

The Bank 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 Bank recognises finance income and expense so as to reflect a constant periodic rate of return on its net investment in the finance lease.

Investment Securities

Investment securities includes investments as available-for-sale investments (AFS). Participation in sukuk or equity investments where the Bank has an intention to sell-down so as to rebalance the portfolio of assets, reduce exposures to concentration risk or where it believes market conditions would merit a sale are best classed as AFS investments. AFS investments included in investment securities are initially recognised at fair value plus any directly related transaction costs and are subsequently measured at fair value. Changes in fair value of AFS investments are recognised directly in equity in the accounting period in which they arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED...

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

Fair Value Hedge Accounting

The Bank applies fair value hedge accounting to hedge the foreign exchange risk on its AFS portfolio. At the inception of a hedging relationship, the Bank documents the relationship between the hedging instruments and the hedged items, its risk management objective and its strategy for undertaking the hedge. The Bank 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.

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.

Derivative financial instruments are recognised initially, and are subsequently re-measured, at fair value. 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.

Due from financial institutions, Financing Arrangements, Due to financial institutions and Due to customers

These balance sheet captions comprise non-derivative financial assets and liabilities with fixed or determinable repayments that are not quoted in an active market. Financial assets and liabilities included under these captions are initially recognised at fair value plus any directly related transaction costs. They are accounted for as Loans and Receivables and measured at amortised cost using the effective interest rate method less any impairment losses.

Provision for impairment of financial assets

At each reporting date, the Bank reviews the carrying value of its financial assets. A financial asset is said to be impaired if there is objective evidence of events since the last reporting date that will adversely affect the amount and the timing of future cash flows from the asset. The amount of the impairment losses is the extent by which the carrying value of the financial asset is less than the present value of the estimated future cash flows. The amount of the impairment losses is recognised in the income statement and the carrying value of the financial asset is written down.

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.

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.

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.

Intangible assets

Intangible assets consist of capitalised software development costs and licence fees. Costs include all incremental, directly attributable external costs incurred in bringing the software to the condition necessary for it to be capable of operating in the manner intended by management. Intangible assets are amortised on a straight-line basis over a useful economic life of five years from the date they are brought into full operational use.

Impairment of non-financial assets

The Bank 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.

Share-based payments

The Bank accounts for its share-option scheme in accordance with IFRS 2. At each balance sheet date, the Bank 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 2017 as management believe that it is improbable that the related tax benefit will be realised due to tax losses brought forward.

Operating leases

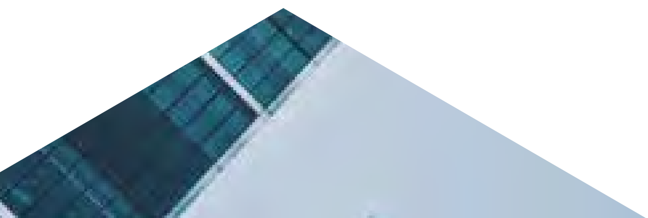
Operating lease rentals are charged to the income statement on a straight line basis over the period of the lease.

Pension costs

The Bank 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 Bank has no further obligation once the contributions have been paid.

Segmental reporting

The Bank has one class of business and carries out its activity only in the UK and accordingly no segmental reporting is provided.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED...

4. Income from investment and financing activities

	2017 £	2016 £
Income from financial institutions	1,988,539	2,002,669
Income from financing arrangements	4,951,557	6,668,142
Income from sukuk investments	838,282	1,546,106
Income from other investment securities	1,293,683	2,100,811
	9,072,061	**12,317,728**

5. Foreign exchange (losses)/gains

	2017 £	2016 £
Net gains on translation of balances denominated in foreign currency	230,375	285,474
Net (losses)/gains on translation of forward foreign exchange agreements	(506,336)	276,991
	(275,961)	**562,465**

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

	2017 £	2016 £
Staff costs		
Directors' salaries and fees	1,102,884	932,087
Directors' pensions	41,408	23,125
Staff salaries	3,677,547	3,955,866
Staff pension contributions	311,136	346,563
Social security costs	520,468	614,875
Other staff costs	1,136,659	1,045,293
	6,790,102	**6,917,809**

	2017 £	2016 £
Highest paid Director		
Emoluments	415,308	366,260
Pension contribution	-	-
	415,308	**366,260**

	2017 No.	2016 No.
Number of employees at year end	53	48
Average number of employees	44	49

In July 2017 the Bank adopted the Gatehouse Long Term Incentive Plan (LTIP) for the purposes of granting options to eligible employees to incentivise and reward the delivery of the Bank's long term strategy and growth over a sustained period. The options provide a conditional right to acquire a specified number of ordinary shares in Gatehouse Bank plc subject to an exit event occurring which includes the acquisition of more than 50% ordinary shares of the Bank or a successful completion of an initial public offering (IPO). The exercise price is set at £0.01p per share. The option period is the period beginning on the date on which the option first becomes exercisable and ending on the tenth anniversary of the date of grant. During the year the total number of options issued were 315,000,000 (2016: nil).

7. Other operating expenses

	2017	2016
	£	£
Legal and professional fees	1,107,541	886,030
Rent and other occupancy costs	988,673	873,427
Other operating charges	636,279	930,336
IT and communication costs	612,354	639,686
Recruitment costs	413,410	150,542
Consultancy	128,390	211,414
Shariah Supervisory Board fees	65,961	55,160
Advertising and marketing	55,132	284,255
	4,007,740	**4,030,850**

8. Impairment charge

	2017	2016
	£	£
Investment securities	1,670,730	495,095
	1,670,730	**495,095**

The Bank impaired two UK unquoted equity investments and three US unquoted equity investments by £1,670,730 (2016: £495,095).

Note 15 reflects the impact of these impairments on the statement of financial position.

9. Loss)/Profit before tax

	2017	2016
(Loss)/Profit before tax is stated after charging:	£	£
Net foreign exchange losses/(gains)	275,961	(562,465)
Auditor's remuneration	148,200	127,844
Rentals paid under operating leases: premises	534,899	165,294
Depreciation and amortisation	583,335	1,070,793

	2017	2016
Auditor's remuneration can be analysed as follows:	£	£
Audit of the Bank's accounts	138,000	110,000
Other services:		
Tax advisory services	-	15,844
IFRS 9 services	10,200	-
Other services	-	2,000
	148,200	**127,844**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED...

10. Taxation

	2017 £	2016 £
Analysis of tax charge for the period		
Current tax		
UK Corporation tax based on the profit for the year	-	20,986
Other corporation tax – GHB Properties Limited	6,571	6,123
Adjustments in respect of prior periods	-	-
Total current tax charge	**6,571**	**27,109**
Deferred tax		
Origination and reversal of timing differences	-	-
Effect on changes in tax rates	-	-
Tax on profits on ordinary activities	**6,571**	**27,109**

The standard rate of corporation tax applied to reported profit is 19.25% (2016: 20%). Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The unrecognised deferred tax asset on a gross basis is £28,250,359 (2016: £27,962,239). There is no expiry date on the tax losses.

The tax expense in the income statement for the period was £6,571 (2016: £27,109). The tax expense can be reconciled to the loss or profit per the income statement as follows:

	2017 £	2016 £
(Loss)/Profit before tax from continuing operations	(344,521)	1,599,760
	(344,521)	**1,599,760**
Tax at the UK corporation tax rate of 19.25% (2016: 20%)	(66,310)	319,952
Effects of:		
Results from associates and subsidiaries	(346,312)	(188,495)
Expenses not deductible for tax purposes	96,324	81,776
Tax losses utilised but previously not recognised	-	(192,247)
Adjustments to opening and closing deferred tax to average rate of 19.25%	39,120	-
Deferred Tax Asset not recognised	296,022	-
Foreign ownership of Kuwaiti income tax on associate	-	-
Fixed asset differences	27,456	-
Income tax not taxable for tax purposed	(34,758)	-
Other permanent differences	651	-
Other	(5,622)	6,123
Tax charge in the consolidated income statement	**6,571**	**27,109**

11. Earnings per share

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

	Number of shares 2017	 2016
Weighted average number of ordinary shares outstanding	**15,800,000,100**	**15,800,000,100**

12. Company profit/(loss) attributable to equity shareholders of the Bank

£407,879 of the company loss for the financial year (2016: £1,767,271 profit) has been dealt with in the accounts of the Bank.

As permitted by section 408 of the Companies Act 2006, a separate profit and loss account of the Bank has not been presented.

13. Due from financial institutions

Group and Company

	Avg. Yield	2017 £	*Avg. Yield*	2016 £
Treasury placements	0.49%	**77,251,048**	0.36%	**38,695,969**

The Bank impaired two UK unquoted equity investments and three US unquoted equity investments by £1,670,730 (2016: £495,095).

Note 15 reflects the impact of these impairments on the statement of financial position.

14. Financing arrangements

Group

	Avg. Yield	2017 £	*Avg. Yield*	2016 £
Finance receivables	5.24%	**85,903,292**	4.47%	**135,748,446**

Company

	Avg. Yield	2017 £	*Avg. Yield*	2016 £
Finance receivables	5.24%	**92,939,401**	4.47%	**142,806,145**

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.

Included within the Company finance receivables is an intercompany wakala of £6,900,000 (2016: £6,900,000) with the bank's wholly owned subsidiary, GHB Properties.

Included within the Company finance receivables is an intercompany wakala of £28,000,000 (2016: £28,619,637) with the bank's parent company, Gatehouse Financial Group Limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED...

15. Investment securities

Group and Company

	Avg. Yield	**2017** **£**	*Avg. Yield*	**2016** **£**
Quoted sukuk		26,956,969		27,521,806
Unquoted sukuk		15,194,274		14,923,277
Quoted equity securities		1,266,976		4,597,450
Unquoted equity securities		24,135,789		32,284,206
Unquoted funds		262,195		354,449
Quoted funds		4,278,905		-
	2.79%	**72,095,108**	*1.99%*	**79,681,188**

Investments in all equity securities and sukuk are measured in line with the guidance in *IAS 39 Financial Instruments: Recognition and Measurement.*

Unquoted funds are stated net of £1,670,730 provision (2016: £131,097).

16. Investment in associate

The Bank has one associate, Gatehouse Capital Economic and Financial Consultancy KSCC ("Gatehouse Capital"), where the Bank has 35.6% (2016: 35.6%) ownership in the underlying legal and/or beneficial interests.

Foreign currency translation losses from associate investments of £1,301,230 (2016: £2,593,136) during the period have been recorded in reserves.

The consolidated statement of financial position reflects an investment in associate of £15,379,498 (2016: £16,533,428), and a share of profit for the year ended 31 December 2017 of £2,019,250 (2016: £1,304,635).

	2017 £	2016 £
Aggregated amounts relating to associate		
Total assets	36,282,595	39,543,143
Total liabilities	(2,023,200)	(2,246,007)
Net assets	**34,259,395**	**37,297,135**
Group's share of net assets of associates	**12,196,345**	**13,277,780**
Total revenue	10,394,993	8,450,936
Profit	5,672,051	3,664,706
Share of profit of associate	**2,019,250**	**1,304,635**
Amortisation of intangibles of associate	(73,519)	-
Net share of profit of associate	**1,945,731**	**1,304,635**

Details of the Bank's associate at 31 December 2017 are as follows:

Name	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %
Gatehouse Capital Economic and Financial Consultancy KSCC	Kuwait	35.6%	35.6%

17. Investment in subsidiaries

The Bank has two wholly-owned subsidiaries all incorporated in Jersey: Gate Holdings Limited and GHB Properties Limited as at 31 December 2017. All subsidiaries are included in the consolidated accounts.

18. Disclosure of interests in other entities

The Bank has investments in a number of UK property special purpose vehicles (SPVs). The Bank sponsors the SPVs and provides investment advisory services to them. The property 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 Bank as the Bank holds only a small percentage of the participating shares and acts as agent in its capacity as investment advisor for the SPVs. Typically the Bank 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 Bank 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 Bank 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 Bank as the Bank holds only a small percentage of the participating shares and has no involvement in the management or control of the SPVs.

The Bank's gross investment in property SPVs is £29,736,184 which is included in investment securities. The Bank has also provided funding through fixed term Murabaha contracts as bridge financing to these SPVs. The Bank's maximum loss relating to these SPVs is equal to the exposure in the SPVs. The primary risk to which the Bank is exposed is the risk of changes in the valuation of the Bank'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.

19. Derivative financial instruments

	Assets £	Liabilities £	National amount £
2017			
Maturing in 0-3 months	-	506,336	42,151,243
2016			
Maturing in 0-3 months	276,991	-	42,555,503

The Bank uses foreign currency agreements for matching currency exposures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED...

20. Intangible assets

Group and Company

Software costs and licence fees	2017 £	2016 £
Cost		
At 1 January	1,986,957	1,911,230
Additions	140,437	75,727
Disposals	-	-
At 31 December	**2,127,394**	**1,986,957**
Amortisation		
At 1 January	1,607,558	1,357,480
Charge for the period	180,593	250,078
On disposal	-	-
At 31 December	**1,788,151**	**1,607,558**
Net book value		
At 1 January	**379,399**	**553,750**
At 31 December	**339,243**	**379,399**

21. Property, plant and equipment

Group	Property £	Computer Equipment £	Fixtures and fittings £	Leasehold Improvement £	Total £
Cost					
At 1 January 2017	12,216,511	821,948	219,350	2,656,849	15,914,658
Additions	-	72,418	-	305,821	378,239
At 31 December 2017	**12,216,511**	**894,366**	**219,350**	**2,962,670**	**16,292,897**
Depreciation					
At 1 January 2017	330,187	736,365	132,504	1,660,023	2,859,079
Charge for the period	110,177	60,890	39,100	192,575	402,742
At 31 December 2017	**440,364**	**797,255**	**171,604**	**1,852,598**	**3,261,821**
Net book value					
At 1 January 2017	**11,886,324**	**85,583**	**86,846**	**996,826**	**13,055,579**
At 31 December 2017	**11,776,147**	**97,111**	**47,746**	**1,110,072**	**13,031,076**

Group	Property £	Computer Equipment £	Fixtures and fittings £	Leasehold Improvement £	Total £
Cost					
At 1 January 2016	12,216,511	815,957	219,350	2,656,296	15,908,114
Additions	-	5,991	-	553	6,544
At 31 December 2016	**12,216,511**	**821,948**	**219,350**	**2,656,849**	**15,914,658**
Depreciation					
At 1 January 2016	220,123	608,838	96,356	1,113,047	2,038,364
Charge for the period	110,064	127,527	36,148	546,976	820,715
At 31 December 2016	**330,187**	**736,365**	**132,504**	**1,660,023**	**2,859,079**
Net book value					
At 1 January 2016	11,996,388	207,119	122,994	1,543,249	13,869,750
At 31 December 2016	**11,886,324**	**85,583**	**86,846**	**996,826**	**13,055,579**

Company	Computer equipment £	Fixtures and fittings £	Leasehold improvement £	Total £
Cost				
At 1 January 2017	821,948	219,350	2,656,849	3,698,147
Additions	72,418	-	305,821	378,239
At 31 December 2017	**894,366**	**219,350**	**2,962,670**	**4,076,386**
Depreciation				
At 1 January 2017	736,365	132,504	1,660,023	2,528,892
Charge for the period	60,890	39,100	192,575	292,565
At 31 December 2017	**797,255**	**171,604**	**1,852,598**	**2,821,457**
Net book value				
At 1 January 2017	85,583	86,846	996,826	1,169,255
At 31 December 2017	**97,111**	**47,746**	**1,110,072**	**1,254,929**

Company	Computer equipment £	Fixtures and fittings £	Leasehold improvement £	Total £
Cost				
At 1 January 2016	815,957	219,350	2,656,296	3,691,603
Additions	5,991	-	553	6,544
At 31 December 2016	**821,948**	**219,350**	**2,656,849**	**3,698,147**
Depreciation				
At 1 January 2016	608,838	96,356	1,113,047	1,818,241
Charge for the period	127,527	36,148	546,976	710,651
At 31 December 2016	**736,365**	**132,504**	**1,660,023**	**2,528,892**
Net book value				
At 1 January 2016	207,119	122,994	1,543,249	1,873,362
At 31 December 2016	**85,583**	**86,846**	**996,826**	**1,169,255**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED...

22. Other assets

Group	2017 £	2016 £
Other debtors	1,747,992	3,862,139
Prepayments	539,341	515,139
Accrued income receivable	1,263,966	1,277,093
Intercompany receivable	1,075,633	1,476,502
	4,626,932	**7,130,873**

Company	2017 £	2016 £
Other debtors	2,003,122	3,823,224
Prepayments	539,341	515,139
Accrued income receivable	1,263,966	1,277,093
Intercompany receivable	1,075,633	1,476,502
	4,882,062	**7,091,958**

23. Due to financial institutions

Group	*Avg Yield*	2017 £	*Avg Yield*	2016 £
Amounts due to financial institutions	2.21%	76,742,889	1.87%	110,156,617

Company	*Avg Yield*	2017 £	*Avg Yield*	2016 £
Amounts due to financial institutions	2.21%	76,709,866	1.87%	110,129,512

These assets are accounted for as Loans and Receivables in accordance with *IAS 39 Financial Instruments: Recognition and Measurement*.

24. Due to customers

Group	*Avg Yield*	2017 £	*Avg Yield*	2016 £
Amounts due to customers		73,334,272		58,239,327
	2.10%	**73,334,272**	2.26%	**58,239,327**

Company	*Avg Yield*	2017 £	*Avg Yield*	2016 £
Amounts due to customers		73,334,272		58,260,876
	2.10%	**73,334,272**	2.26%	**58,260,876**

These assets are accounted for as Loans and Receivables in accordance with *IAS 39 Financial Instruments: Recognition and Measurement.*

25. Other liabilities

Group	2017 £	2016 £
Other taxes and social security costs	529,978	610,170
Deferred income	693,361	827,386
Other creditors	1,257,743	1,229,805
	2,481,082	**2,667,361**

Company	2017 £	2016 £
Other taxes and social security costs	529,978	610,170
Deferred income	693,361	827,386
Other creditors	1,651,023	1,222,350
	2,874,362	**2,659,906**

26. 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 from the balance sheet date.

Group

2017	Less than 12 months £	More than 12 months £	Total £
Assets			
Cash and balances with banks	11,900,028	-	11,900,028
Due from financial institutions	47,419,217	29,831,831	77,251,048
Financing arrangements	15,608,348	70,294,944	85,903,292
Investment securities	39,155,098	32,940,010	72,095,108
Investment in associate	-	15,379,498	15,379,498
Total financial assets	**114,082,691**	**148,446,283**	**262,528,974**
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 exchange contracts	506,336	-	506,336
Total financial liabilities	**119,084,682**	**31,498,815**	**150,583,497**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED...

26. Maturity analysis of financial assets and liabilities (continued)

Company

2017	Less than 12 months £	More than 12 months £	Total £
Assets			
Cash and balances with banks	11,753,562	-	11,753,562
Due from financial institutions	47,419,217	29,831,831	77,251,048
Financing arrangements	22,644,457	70,294,944	92,939,401
Investment securities	39,155,098	32,940,010	72,095,108
Investment in subsidiaries	-	5,338,200	5,338,200
Investment in associate	-	11,307,937	11,307,937
Total financial assets	**120,972,334**	**149,712,922**	**270,685,256**
Liabilities			
Due to financial institutions	76,709,866	-	76,709,866
Due to customers	41,835,457	31,498,815	73,334,272
Fair value of foreign exchange contracts	506,336	-	506,336
Total financial liabilities	**119,051,659**	**31,498,815**	**150,550,474**

Group

2016	Less than 12 months £	More than 12 months £	Total £
Assets			
Cash and balances with banks	8,405,735	-	8,405,735
Due from financial institutions	8,047,726	30,648,243	38,695,969
Financing arrangements	56,915,101	78,833,345	135,748,446
Investment securities	45,578,199	34,102,989	79,681,188
Investment in associate	-	16,533,428	16,533,428
Derivative financial instruments	276,991	-	276,991
Other debtors	6,615,734	-	6,615,734
Total financial assets	**125,839,486**	**160,118,005**	**285,957,491**
Liabilities			
Due to financial institutions	110,156,617	-	110,156,617
Due to customers	25,500,955	32,738,372	58,239,327
Total financial liabilities	**135,657,572**	**32,738,372**	**168,395,944**

26. Maturity analysis of financial assets and liabilities (continued)

Company

2016	Less than 12 months £	More than 12 months £	Total £
Assets			
Cash and balances with banks	8,179,034	-	8,179,034
Due from financial institutions	8,047,726	30,648,243	38,695,969
Financing arrangements	63,972,800	78,833,345	142,806,145
Investment securities	45,578,199	34,102,989	79,681,188
Investment in subsidiaries	-	5,338,200	5,338,200
Investment in associate	-	11,307,937	11,307,937
Derivative financial instruments	276,991	-	276,991
Other debtors	6,576,819	-	6,576,819
Total financial assets	**132,631,569**	**160,230,714**	**292,862,283**
Liabilities			
Due to financial institutions	110,129,511	-	110,129,511
Due to customers	25,522,504	32,738,373	58,260,877
Total financial liabilities	**135,652,015**	**32,738,373**	**168,390,388**

27. Assets and liabilities in foreign currency

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

Group Assets	2017 £	2016 £
Denominated in Sterling	216,291,460	214,873,801
Denominated in other currencies	64,234,766	85,033,808
	280,526,225	**299,907,609**
Liabilities		
Denominated in Sterling	87,737,810	86,711,622
Denominated in other currencies	65,326,768	84,351,683
	153,064,578	**171,063,305**

Company Assets	2017 £	2016 £
Denominated in Sterling	212,926,727	209,892,268
Denominated in other currencies	64,234,763	85,033,808
	277,161,490	**294,926,076**
Liabilities		
Denominated in Sterling	88,098,068	86,698,611
Denominated in other currencies	65,326,768	84,351,683
	153,424,836	**171,050,294**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED...

28. Pension commitments

The Bank 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 period, pension costs of £311,136 were charged to the income statement (2016: £346,563). The pension creditor outstanding at the balance sheet date amounted to £67,834 (2016: £30,765).

29. Commitments under operating leases

Operating lease commitments

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

	2017 £	2016 £
Within one year	588,098	557,260
One to five years	510,928	743,013
	1,099,026	**1,300,273**

30. Taxation

Authorised:	2017 £	2016 £
22,500,000,000 ordinary shares of 1 pence each	225,000,000	225,000,000
Issued and paid :		
One to five years	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
Total uncalled and unpaid share capital	(7,950,700)	(7,950,700)
	150,049,301	**150,049,301**

The uncalled and unpaid share capital relates to shares previously issued to the Bank's former Employee Benefit Trust (EBT). These shares were transferred to Gatehouse Financial Group Limited, following the share for share exchange in 2015.

31. Off balance sheet items

As at the year end, the Bank reported £nil (2016: £nil) of cash as an off balance sheet item.

Financing commitments

At the balance sheet date, the Bank has outstanding financing commitments as follows:

	2017 £	2016 £
Within one year	6,467,150	8,321,048
	6,467,150	**8,321,048**

31. Off balance sheet items (continued)

Other commitments

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

	2017 £	2016 £
Within one year	12,069,181	6,563,499
One to five years	-	-
	12,069,181	**6,563,499**

32. Related party transactions

The Bank is a wholly owned subsidiary of Gatehouse Financial Group Limited ("GFGL"). During 2015 the bank entered into a financing agreement with GFGL which has a 2017 year-end balance of £30,910,637 (2016: 32,124,746) which was used to purchase the remaining 64.4% share in Gatehouse Capital. The Bank also entered into £123,069 (2016: £125,618) of rechargeable expenses for professional fees incurred on behalf of GFGL.

The Kuwait Investment Authority is a shareholder of Gatehouse Financial Group Limited.

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

Included within: **Assets**	2017 £	2016 £
Gatehouse Financial Group Limited	30,910,637	32,124,746
Treasury liabilities		
The Securities House K.S.C.C.	28	28
Gatehouse Capital	-	26,238
Kuwait Investment Authority	59,778,144	77,435,152
Gatehouse Financial Group Limited	183,131	51,714
Other liabilities		
Gatehouse Capital	21,464	43,790

The disclosure requirement in respect of remuneration to key management personnel has been met by providing Directors' emoluments details in note 6.

During the year, the company received profit income and profit expense as follows:

Profit income	2017 £	2016 £
Gatehouse Financial Group Limited	1,831,834	1,889,882
Profit expense		
The Securities House K.S.C.C	-	45,103
Gatehouse Capital	-	9,057
Kuwait Investment Authority	1,451,452	1,242,511

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED...

33. Risk Management

The Risk Management function forms an integral part of Gatehouse Bank's three lines of defence and is divided into the key areas: credit risk, market risk and operational risk. Its role is to provide the control functions for the Board that are robust and commensurate to the business activities that the Bank undertakes. It discharges these responsibilities through monitoring performance against pre-set metrics, through various validation and exception reports, through the composition of prudential reports and through stress testing and sensitivity analysis.

The Risk Management Function provides the day-to-day monitoring of these risks to ensure that the Bank's activities remain within the risk appetite parameters set by the Board.

The Chief Risk Officer is responsible for providing an oversight function that considers all risks on a consolidated basis and, in this respect, chairs the main Executive Risk Committee.

Credit Risk

Credit risk is the risk of suffering financial loss in the event that one or more of the Bank'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 the Bank's 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 and mezzanine real estate financing.

The Bank's Risk function covers several areas in respect of assessing credit related exposures:

- 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 Bank's 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.

- Enhanced analysis of potentially deteriorating credit exposures through a 'watchlist' process.

33. Risk Management (continued)

A comprehensive control framework is in place. This incorporates:

- Maximum exposure guidelines relating to exposure to an individual counterparty or transaction;
- Country / Region 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 the Bank adopting the Standardised approach to credit risk quantification for capital purposes.

Note 3 refers to the basis by which the Bank reviews for impairments of its financial assets. Note 8 details the impairment provisions taken in the year to the income statement.

<u>Exposure</u>
The table below shows the maximum exposure to credit risk for financial assets on the balance sheet at 31 December 2017:

Group	2017 £	2016 £
Cash and balances with banks	11,900,028	8,405,735
Due from financial institutions	77,251,048	38,695,969
Financing arrangements	85,903,292	135,748,446
Investment securities	72,095,108	79,681,188
Investments in Associate	15,379,498	16,533,428
Derivative financial instruments	-	276,991
Other debtors	-	6,615,734
	262,528,974	**285,957,491**

Company	2017 £	2016 £
Cash and balances with banks	11,753,562	8,179,034
Due from financial institutions	77,251,048	38,695,969
Financing arrangements	92,939,401	142,806,145
Investment securities	72,095,108	79,681,188
Investment in subsidiary	5,338,200	5,338,200
Investments in Associate	11,307,937	11,307,937
Derivative financial instruments	-	276,991
Other debtors	-	6,576,819
	270,685,256	**292,862,283**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED...

33. Risk Management (continued)

Geographical region

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

Group	2017 £	2016 £
GCC countries	54,016,189	39,877,925
Kuwait	45,256,581	18,173,957
Saudi Arabia	6,521,446	13,769,564
UAE	21,202	5,478,488
Qatar	2,216,960	2,455,916
Jersey	28,730,623	71,353,547
Europe	144,398,391	129,975,984
USA	31,711,192	40,649,286
Asia	3,672,579	4,100,749
	262,528,974	**285,957,491**

Company	2017 £	2016 £
GCC countries	49,944,628	34,652,434
Kuwait	41,185,020	12,948,466
Saudi Arabia	6,521,446	13,769,564
UAE	21,202	5,478,488
Qatar	2,216,960	2,455,916
Jersey	40,958,466	83,483,830
Europe	144,398,391	129,975,984
USA	31,711,192	40,649,286
Asia	3,672,579	4,100,749
	270,685,256	**292,862,283**

Credit quality

The table below shows the credit quality of financial assets on the balance sheet at 31 December 2017, based on a credit rating system:

Group

2017	Investment grade £	Non-investment grade £	Non-rated £	Total £
Assets				
Cash and balances with banks	11,898,544	-	1,484	11,900,028
Due from financial institutions	25,005,502	-	52,245,546	77,251,048
Financing arrangements	-	-	85,903,292	85,903,292
Investment securities	36,298,639	125,307	35,671,162	72,095,108
Investment in Subsidiary	-	-	-	-
Investment in associate	-	-	15,379,498	15,379,498
Total assets	**73,202,685**	**125,307**	**189,200,982**	**262,528,974**

33. Risk Management (continued)

Credit Risk (continued)
Company

2017	Investment grade £	Non-investment grade £	Non-rated £	Total £
Assets				
Cash and balances with banks	11,752,078	-	1,484	11,753,562
Due from financial institutions	25,005,502	-	52,245,546	77,251,048
Financing arrangements	-	-	92,939,401	92,939,401
Investment securities	36,298,639	125,307	35,671,162	72,095,108
Investment in subsidiary	-	-	5,338,200	5,338,200
Investment in associate	-	-	11,307,937	11,307,937
Total assets	**73,056,219**	**125,307**	**197,503,730**	**270,685,256**

2016	Investment grade £	Non-investment grade £	Non-rated £	Total £
Assets				
Cash and balances with banks	8,136,353	-	42,681	8,179,034
Due from financial institutions	8,047,726	-	30,648,243	38,695,969
Financing arrangements	-	-	142,806,145	142,806,145
Investment securities	31,773,177	93,124	47,814,887	79,681,188
Ijara receivable	-	-	5,338,200	5,338,200
Investment in associate	-	-	11,307,937	11,307,937
Derivative financial instruments	276,991	-	-	276,991
Other debtors	-	-	6,576,819	6,576,819
Total assets	**48,234,247**	**93,124**	**244,534,912**	**292,862,283**

Liquidity Risk

Liquidity risk is the risk that the Bank will be unable to meet its short-term payment obligations when they fall due, without a loss of capital and/or income. Liquidity risk management on a day-to-day basis is the responsibility of the Treasury department which is overseen and monitored by the Risk function and the Asset and Liability Committee. To manage this risk, the Bank maintains an adequate portfolio of liquid assets which consists of cash and short-term bank deposits and sukuk's by monitoring forecast and actual cash flows and matching the maturity profiles of assets and liabilities. The Bank is subject to and complies with the systems and control requirements of the PRA and CRD IV liquidity regime.

Liquidity and rate profile

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED...

33. Risk Management (continued)

Group

	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	103,234,953	174,207,113
Non-rate sensitive	11,900,028	-	-	-	76,421,833	88,321,861
Total assets	**79,238,398**	**-**	**-**	**3,633,790**	**179,656,786**	**262,528,974**
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	**50,297,816**	**(15,762,213)**	**(37,549,993)**	**(32,948,103)**	**147,907,970**	**111,945,477**

Company

	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	-	-	11,936,538	103,234,953	182,509,860
Non-rate sensitive	11,753,562	-	-	-	76,421,833	88,175,395
Total assets	**79,091,932**	**-**	**-**	**11,936,538**	**179,656,786**	**270,685,256**
Liabilities						
Fixed rate items	28,434,246	15,762,213	37,549,993	36,548,870	31,748,816	150,044,138
Non-rate sensitive	506,336	-	-	-	-	506,336
Total liabilities	**28,940,582**	**15,762,213**	**37,549,993**	**36,548,870**	**31,748,816**	**150,550,474**
Net	**50,151,350**	**(15,762,213)**	**(37,549,993)**	**(24,612,332)**	**147,907,970**	**120,134,782**

33. Risk Management (continued)

Group

	Less than 1 month £	1-3 months £	3-6 months £	6-12 months £	1-5 years £	Total £
2016						
Assets						
Fixed rate items	25,064,039	20,008,811	3,551,678	24,957,386	112,936,333	186,518,247
Variable rate items	-	-	-	-	-	-
Non-rate sensitive	8,405,735	6,615,734	-	-	84,417,775	99,439,244
Total assets	**33,469,774**	**26,624,545**	**3,551,678**	**24,957,386**	**197,354,108**	**285,957,491**
Liabilities						
Fixed rate items	32,500,342	35,244,823	37,775,221	28,152,307	34,723,251	168,395,944
Variable rate items	-	-	-	-	-	-
Non-rate sensitive	-	-	-	-	-	-
Total liabilities	**32,500,342**	**35,244,823**	**37,775,221**	**28,152,307**	**34,723,251**	**168,395,944**
Net	**969,432**	**(8,620,278)**	**(34,223,543)**	**(3,194,921)**	**162,630,857**	**117,561,547**

Company

	Less than 1 month £	1-3 months £	3-6 months £	6-12 months £	1-5 years £	Total £
2016						
Assets						
Fixed rate items	25,064,040	20,008,811	3,551,678	32,015,085	112,936,332	193,575,946
Variable rate items	-	-	-	-	-	-
Non-rate sensitive	8,179,034	6,576,819	-	-	84,530,484	99,286,337
Total assets	**33,243,074**	**26,585,630**	**3,551,678**	**32,015,085**	**197,466,816**	**292,862,283**
Liabilities						
Fixed rate items	32,500,343	35,244,823	37,775,221	28,146,751	34,723,250	168,390,388
Variable rate items	-	-	-	-	-	-
Non-rate sensitive	-	-	-	-	-	-
Total liabilities	**32,500,343**	**35,244,823**	**37,775,221**	**28,146,751**	**34,723,250**	**168,390,388**
Net	**742,731**	**(8,659,193)**	**(34,223,543)**	**3,868,334**	**162,743,566**	**124,471,895**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED...

33. 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 Bank's activities. The Bank'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.

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 Bank manages PRR by matching as far as possible the maturity profile of assets and liabilities. As at 31 December 2017, the Bank has not to date used derivatives to hedge PRR.

Overarching PRR limits are set by the Board and articulated accordingly within the Enterprise Wide Risk Management Framework (EWRMF). 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.

33. Risk Management (continued)

As at 31 December 2017, the market value of nominal positions generating profit rate VaR was £125,109,936 (2016: £111,797,964) which generated profit rate VaR and maximum loss estimates of:

	95% VaR (£)	Maximum loss (£)
One day	(1,349)	(12,348)
One week	(5,479)	(10,046)

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 2017, the net market value of nominal foreign exchange exposure was £1,523,620 (2016: £489,850) which generated Foreign Exchange VaR maximum loss estimates of:

	95% VaR (£)	Maximum loss (£)
One day	(4,753)	(23,925)
One week	(26,970)	(84,919)

Sukuk Portfolio Risk

A proportion of treasury funding and investment activity is undertaken in foreign currencies, mainly US dollars, Euros and Kuwaiti As part of liquidity management, the Bank's Treasury department invests in selected sukuk. As at 31 December 2017, 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 2017, the market value of nominal AFS sukuk investment exposure was £42,151,243 (2016: £35,721,806) which generated Price Risk VaR and maximum loss of:

	95% VaR (£)	Maximum loss (£)
One day	(6,235)	(40,242)
One week	(18,200)	(52,063)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED...

33. Risk Management (continued)

Equity Portfolio Risk

The Bank has a legacy Listed Equities portfolio which the Board have expressed an appetite to actively reduce, whilst minimising loss on disposal. As at 31 December 2017, the Bank has not used derivatives to hedge Listed Equity investments.

VaR is used to monitor the risk arising from the Listed Equities portfolio. The Group's Pillar 1 minimum capital requirement allows for investment risk through the equity position risk requirement.

As at 31 December 2017, the market value of Listed Equities investment exposure was £1,266,976 (2016: £4,597,450) which generated Price Risk VaR and maximum loss of:

	95% VaR (£)	Maximum loss (£)
One day	**(11,464)**	**(82,639)**
One week	(29,557)	(119,981)

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 2017, Level 1 financial instruments are primarily investments in equity securities and 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 2017, Level 2 financial instruments are investments in sukuk securities that are quoted in inactive markets and indicative bid prices have been applied to fair value these at year end; 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 2017, Level 3 financial instruments are investments in unquoted equity securities, sukuks and funds. 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 assets 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.

Group and Company

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	-	-	24,135,789	24,135,789
Unquoted funds	-	-	262,195	262,195
Quoted Funds	4,278,905	-	-	4,278,905
Total assets	**32,502,850**	**-**	**39,592,258**	**72,095,108**

33. Risk Management (continued)

Group and Company

2016	Level 1 £	Level 2 £	Level 3 £	Total £
Derivative financial instruments	276,991	-	-	276,991
Derivative financial instruments subtotal	**276,991**	**-**	**-**	**276,991**
Investment securities				
Quoted equity securities	4,597,450	-	-	4,597,450
Quoted sukuk portfolio	27,521,806	-	-	27,521,806
Unquoted sukuk portfolio	-	-	14,923,277	14,923,277
Unquoted equity securities	-	-	32,284,206	32,284,206
Unquoted funds	-	-	354,449	354,449
Investment securities subtotal	**32,119,256**	**-**	**47,561,932**	**79,681,188**
Total	**32,396,247**	**-**	**47,561,932**	**79,958,179**

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

Group and Company

Level 3 asset	2017 Carrying value £	2016 Carrying value £	Valuation Technique £	Significant unobservable inputs £
UK Unquoted equity securities	18,266,552	16,436,242	Measurement of net assets as a proportion of participating shares in issue	Third party appraisal reports, cash and debt balances
UK Unquoted equity securities	5,869,237	15,847,962	Measurement of net assets as a proportion of participating shares in issue	Third party appraisal reports, audited financial statements
Unquoted funds	262,195	354,449	Measurement of net assets as a proportion of participating shares in issue	Financial statements
Unquoted sukuk portfolio	15,194,274	14,923,278	Measurement of net assets as a proportion of participating shares in issue	Financial statements
Total	**39,592,258**	**47,561,932**		

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED...

33. Risk Management (continued)

Reconciliation of Level 3 fair value measurements of financial assets

	Available-for-sale			
2017	**Unquoted equities**	**Unquoted funds**	**Unquoted sukuk**	**Total**
Balance at 1 January 2017	**32,284,206**	**354,449**	**14,923,277**	**47,561,932**
Total gains or losses:				
In profit or loss	(1,563,910)	(106,820)	270,996	(1,399,733)
In OCI	137,760	14,566	-	152,326
Purchases	-	-	-	-
Issues	-	-	-	-
Settlements	(6,722,267)	-	-	(6,722,268)
Transfers out of Level 3	-	-	-	-
Transfers into Level 3	-	-	-	-
Balance at 31 December 2017	**24,135,789**	**262,195**	**15,194,273**	**39,592,257**

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

Reconciliation of Level 3 fair value measurements of financial assets

	Available-for-sale			
2016	**Unquoted equities**	**Unquoted funds**	**Unquoted sukuk**	**Total**
Balance at 1 January 2016	**26,485,527**	**451,558**	**14,006,095**	**40,943,180**
Total gains or losses:				
In profit or loss	(397,986)	(97,109)	917,182	422,087
In OCI	861,972	-	-	861,972
Purchases	5,688,676	-	-	5,688,676
Issues	-	-	-	-
Settlements	(353,983)	-	-	(353,983)
Transfers out of Level 3	-	-	-	-
Transfers into Level 3	-	-	-	-
Balance at 31 December 2016	**32,284,206**	**354,449**	**14,923,277**	**47,561,932**

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. 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.

33. Risk Management (continued)

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

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 Bank.

Capital Risk Management

The Bank 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 PRA reviews the ICAAP assessment of its Pillar 2 capital requirement as part of the Total Capital Requirement (TCR) process.

The Bank holds its cash with a number of reputable financial institutions. All cash and cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash.

The Bank's capital requirements are set and monitored by the regulator. Regulatory capital consists solely of Tier 1 capital, which includes ordinary share capital and retained earnings less intangible assets.

The Bank's regulatory capital position was as follows:

Core Tier 1 Capital	2017 £	2016 £
Share capital	150,049,301	150,049,301
Retained losses	(25,917,746)	(25,509,867)
Other Reserves - AFS	(394,901)	(663,652)
Total CET 1 Capital	**123,736,654**	**123,875,782**
Deductions from CET1	**(28,113,927)**	**(28,806,626)**
Total regulatory capital	**95,622,727**	**95,069,156**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED...

34. Country by Country Disclosures

The Capital Requirements (Country-by-Country) Regulations came into effect on 1 January 2014 and places certain reporting obligations on financial institutions that are within the scope of the European Union's Capital Requirements Directive (CRD IV). The objective of the reporting requirements is to provide increased transparency regarding the activities of the institution.

Gatehouse Bank Plc and its subsidiaries are all UK or Channel Island registered entities.

Employees

The average number of permanent employees was 44 (2016: 49) for the year ended 31 December 2017.

Country by Country Breakdown

Country	Type of Operations	Net Income from Continuing operations (£)	Profit/(loss) before tax (£)	Corporation tax paid (£)	Average number of employees
United Kingdom	PRA and FCA regulated Bank	12,871,498	(407,879)	-	44
Jersey	Investment vehicles	90,300	27,034	6,604	-
Group consolidation adjustments	-	(400,800)	(110,064)	-	-
Total	**-**	**12,560,998**	**(490,909)**	**6,604**	**44**

The Group received no public subsidies during 2017.

Notes to Country by Country Breakdown

- Financial information is presented under IFRS
- The information is presented on a consolidated basis, inclusive of subsidiaries
- Group consolidation adjustments include accounting eliminations between Gatehouse Bank plc and its Jersey subsidiaries. These include rental income eliminations on the Mayfair office lease held between Bank and GHB Properties Limited.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