Annual Report and Financial Statements

For the year ended 31 December 2018

gatehouse bank

WELCOME

Company Information

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

Secretary
Mohaimin Chowdhury

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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 2018 Annual Report and Financial Statements.

I am delighted with the progress made with our new strategy by our executive team and all colleagues across the Bank.

We have invested significantly in attracting additional expert staff who are, and will continue to, provide excellent customer service as our product range develops.

As a Board we are committed to ensuring an appropriate culture and to this end we have led an enhanced articulation and promotion of the Bank's cultural imperatives. I have also been delighted with the updated brand and new website which, whilst continuing to promote a professional approach, is more retail focussed and fitting for our enriched product offering.

With the generous support of the Shariah Supervisory Board, in 2018 we agreed the important acquisition of a majority shareholding in a property management platform, which will enhance our proposition into the institutional Build To Rent sector.

With the support of our non-executive directors, excellent progress was made in 2018 on regulatory matters and I am pleased with the relationship we have developed with our regulators.

I am pleased to also report that the Bank's associate investment, Gatehouse Capital, has continued to contribute strongly to the Gatehouse Bank group financials with a £1.9m share of profits contribution.

Our promise

For savvy savers looking for a better return, aspiring homeowners prepared to think differently and businesses driving for growth, we offer a genuine alternative to conventional banks.

This has been driven by significant fee income from the acquisition of additional assets to its portfolio under management and the exiting of several US and UK portfolios during the year. I am confident that Gatehouse Capital will continue to deliver strong returns to the Gatehouse group as it has done historically and it is fully aligned to our business strategy.

Whilst it was necessary to take some significant negative revaluations from historic business during 2018, I am confident that the executive team has focussed on resolving any remaining legacy issues and that, as a Board, we have a very positive outlook for the Bank over the next five year horizon.

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 have such a positive outlook.

Fahed Faisal Boodai
Chairman
17 April 2019

Chief Executive Officer's Statement

2018 was a momentous year for Gatehouse Bank, as we successfully embedded our new strategy to become the most admired UK Shariah-compliant bank, broadening the products and services the Bank offers to individuals and businesses.

In order to ensure we achieve our strategic targets, we invested considerable time in our culture during 2018 to ensure colleagues feel the Bank is a positive place to work. Driven by colleagues, we developed our core values, which each member of the team is expected to embrace.

Our core values are:

- **R**esponsible
- **O**pen
- **C**an-do

Customers

Gatehouse Bank continues to put our customers at the heart of everything we do.

During 2018, we completed a rebranding exercise, ensuring that our brand design fits with our growing reputation in the UK banking sector. In addition, we launched a new website making it even easier for prospective customers, and other interested parties, to find out more about the growing range of services available from the Bank.

Providing finance, enabling UK and overseas residents to purchase residential property in the UK, remains a key element of our new strategy. Excellent progress was achieved in 2018 with the Bank investing in a team of qualified advisers, who speak directly with customers, providing regulated financial advice. This team has opened an additional channel through which potential customers can access the Bank's products, supplementing our established intermediary facing teams, who build partnerships with specialised intermediaries.

During the year we extended our Buy-to-Let finance offering, attracting considerable interest amongst UK landlords and expat / overseas investors. In addition, following regulatory approval in Q3, we launched the Bank's first Home Purchase Plan product in December, with initial feedback proving to be very positive. This product range will be expanding during 2019.

Gatehouse Bank also established a new commercial property finance team in the fourth quarter of 2018, for funding of up to £2million per deal, complementing our established expertise in commercial real estate finance, via specialised intermediaries, on UK investment properties for deals over £2million. Our expertise in commercial real estate achieved strong growth in 2018 with more than £100million of financing provided during the year across a range of sectors.

Our specialist real estate offering is supplemented by a Real Estate Investment Advisory team which, working with our sister company in Kuwait, locates and facilitates UK commercial real estate investment for overseas investors.

A significant business area, and one which has seen continued success in 2018, is the Build To Rent/Private Rented Sector (PRS) institutional sector. Gatehouse advises two funds, with combined residential property assets totalling more than 1,600 new build family homes. This sector provides investor returns, excellent quality homes for tenants and assists with government objectives of encouraging greater new build volumes. In October 2018, the Bank extended its expertise in the Build To Rent sector with the acquisition of a majority stake in Ascend Properties, a leading property management company based in the North West of England.

Our liquidity is supported by our award-winning online Savings proposition, offering Shariah-compliant and competitive savings products. During the year we saw a significant increase in the number of UK savers choosing Gatehouse Bank to manage their savings, with balances increasing almost 80 per cent year on year. This growth was, in part, driven by new relationships we established with cash management platforms.

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 a Board Skills Matrix and all colleagues have actively managed Training and Development Plans.

As a growing Bank, we recruited over 50 new employees during the year, adding a significant amount of additional expertise to the Bank. Gatehouse Bank is committed to helping all colleagues to develop their careers and our 2018 new recruits included six apprentices, who are taking their first step in their financial services career, thanks to the launch of our Gateway Apprenticeship Scheme.

Our rebranding exercise also led to the development of our new strapline, ‘A different way’, which links to both the Shariah principles that the Bank follows and our commitment to offering high quality products and service to our customers.

During the year, we extended our reach across the UK with the opening of two new offices. In January we opened our Customer Service Centre in Milton Keynes. We then opened a regional office in Wilmslow, Cheshire in the North West of England, where our Build To Rent properties are largely based. The acquisition of a majority stake in Ascend Properties further extends our presence across the UK. Ascend will also bring additional expertise to the Bank’s offering, due to their expertise in offering clients a ‘one stop shop’ service for property investment, management and sale.

In addition the capability of our systems improved significantly in 2018 with the full implementation of a bespoke home finance processing system. This new system enables us to manage increasing demand for our home finance products and ensures our customers and brokers benefit from a modern, flexible process.

Community

Our community approach to banking benefits all.

We have experts located across England to assist specialist intermediaries on the range of products and services we offer. In addition, we sponsored a number of community events across the regions in 2018 to raise awareness of Gatehouse Bank’s growing proposition for savers, home buyers, landlords and investors.

The growing reputation of the Bank amongst the financial service community was recognised during the year by two global award providers. In October, the Global Islamic Finance Awards 2018 (GIFA) named Gatehouse ‘Best Islamic Investment Bank 2018’ for its successful Build to Rent schemes and Real Estate Investment Advisory capabilities. This was followed by the Capital Finance International (CFI) Awards presenting the Bank with the title of ‘Best Shariah-Compliant Home Finance Bank UK’ 2018 in November.

2018 saw Gatehouse Bank put in place the foundations to build future growth which enabled the Bank’s gross assets to increase by 55% to £436million. The five-year

Chief Executive Officer's Statement (continued)

budget approved in December by the Board anticipates the Bank reaching £1billion gross assets by the end of 2020 driven by continued growth in our home finance and commercial financing portfolios.

During the year, we also continued to work through legacy positions and our 2018 results reflect the tough decisions we have made. The 2018 financials have been significantly impacted by a specific legacy position which resulted in a negative revaluation of £12m on a financing position provided in 2013. The financing was provided on an office building located in France which has experienced a significant downturn in 2018. We do not foresee any further impacts in our legacy positions and, whilst this has had a significant impact on our 2018 income statement, I am confident that we have sufficient capital to continue our growth strategy.

The Board continues to monitor the potential impacts of Brexit. Whilst it remains difficult to have any clarity on Brexit, to date no material adverse impacts for the Bank are anticipated in light of the conservative leverage of our property exposures and the Board continues to scrutinise closely our development against the approved Risk Appetite. The Bank's financials have been reviewed in light of the uncertainty around Brexit and we believe there are no changes that need to be made to our underlying asset values and that our exposures are appropriately measured.

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. I would also like to thank the Board, especially the Chairman, for the strategic advice and direction provided.

Finally I wish to thank colleagues for their ongoing commitment and hard work during the development phase of our new strategy.

Charles Haresnape
Chief Executive Officer
17 April 2019

Our purpose

We exist to help more people realise their dreams and aspirations.

With an alternative, balanced approach to banking, we offer **a different way**.

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

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 also served as Managing Director at Sun Life Properties for five years.

Andrew Gray, Chairman of the Audit Committee

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.

Andrew Gray took over the role of Chairman of the Audit Committee in place of Gerald Gregory on 9 April 2019.

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 Accountants 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. These 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 Prudential Regulation Authority ('PRA') and Financial Conduct Authority's ('FCA') 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; and 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 proposed by the Executive team, 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.

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 2018, training sessions were provided by external consultants on the Regulatory Horizon, GDPR, Brexit and the UK Economy, and Bank Culture. In addition, development plans were implemented for individual Directors in accordance with the Board Skills Matrix that evaluated the Directors' skills, capabilities, experience and personal characteristics against the 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.

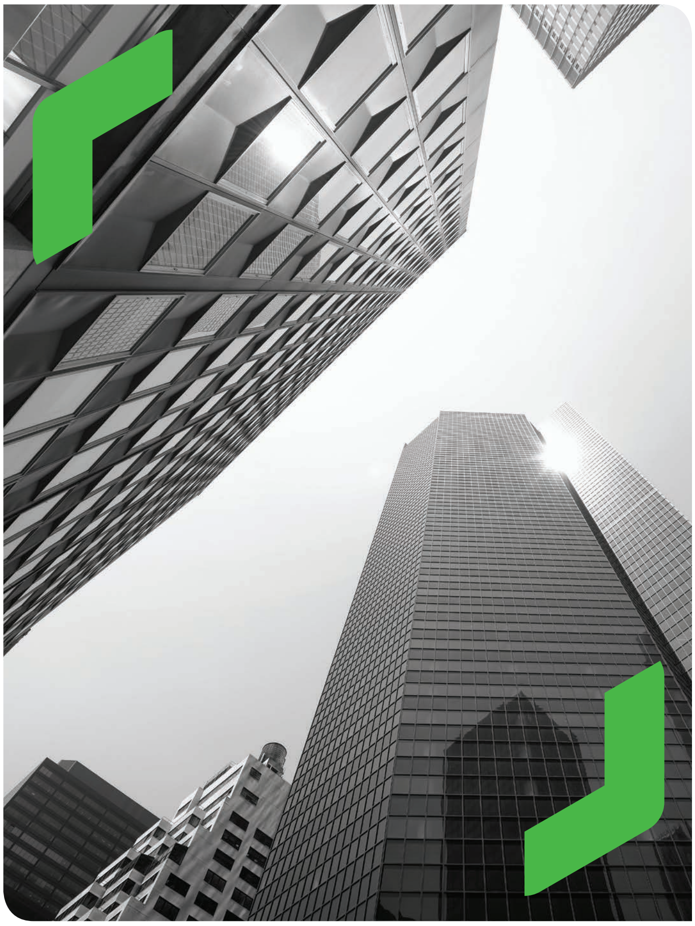
In addition, the Bank provides access, at its expense, to the services of independent professional advisers in order to assist the Directors in their role, whenever this is deemed necessary. The Bank also provides insurance cover and indemnities for all Directors and Officers.

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 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. The committee also 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 six times in 2018.

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 four times in 2018.

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 the results of the Board evaluation process. The RNC comprises two Independent Directors and one other Non-Executive Directors. The RNC met four times in 2018.

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 6 times in 2018.

Below is a table of Director appointments, resignations and committee memberships in 2018.

Director	Date of Appointment	Date of Resignation	Committee Memberships (as at 31 December 2018)
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	-	AC, BRCC, RNC, BCIC
Charles Haresnape	8.5.2017	-	BCIC
Danesh Mahadeva	17.8.2017	-	-

Corporate Governance Report (continued)

Accountability

Financial and Business Reporting

The Board ensures the maintenance of proper accounting records which disclose, with reasonable accuracy, the financial position of the Bank and that the financial statements present a fair view for each financial period.

Risk Management and Internal Control

The Board regularly reviews the effectiveness of the Bank's risk management and internal control systems. The Bank is committed to the ongoing sustainability of its business lines and has a comprehensive risk management framework to ensure that the risks faced by the Bank to achieve its strategic objectives are identified and managed prudently.

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 34 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 is 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 is a matter for the Chairman and Executive Directors of the Board.

Further disclosures on Directors' remuneration are provided in Note 7 to the financial statements.

Relations With Shareholders

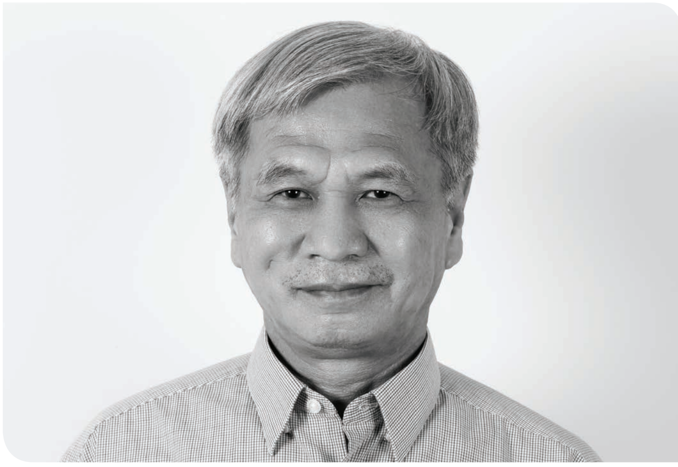
Dialogue with Shareholders

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 coordinating 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 its 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 4 and 6 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. This strategic report discusses the following areas:

- The business model;
- Financial results;
- Strategy and objectives;
- Principal risks and uncertainties;
- Corporate social responsibility; and
- Going concern.

The Business Model

Gatehouse Bank plc is a Shariah compliant bank based in London, Milton Keynes and Wilmslow, authorised by the PRA and regulated by the FCA and the PRA. As at 31 December 2018, the Bank had an interest of 35.6% in Gatehouse Capital – Economic and Financial Consultancy KSC (Closed), an advisory firm incorporated in Kuwait and an interest of 50.1% in Ascend Estates Limited ('Ascend Properties'), a property sales and management company operating in the North West of England.

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 an expert senior management team with skills and experience appropriate for the new strategy.

Financial Results

The financial statements for the year ended 31 December 2018 are shown on pages 38 to 47. The loss before tax for the year amounted to £15,842,285 (2017; loss before tax of £344,521). The Chief Executive Officer's and Chairman's statements provide a review of business over the reporting period. The below table highlights the relevant key performance indicators for 2018:

	2018	2017
Gross financing	£251m	£25m
Leverage ratio	19%	38%
Average risk weight	70%	93%
CET1 ratio	26%	37%
Total number of Gatehouse savings depositors	2,602	1,445

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. The Bank uses common forms of Shariah financing structures including Diminishing Musharaka, which are essentially co-ownership agreements.

The Bank offers Buy-to-Let finance for UK landlords and Expat/International residential property investors, from single residential property investment finance to more complex company structures including property portfolios. During 2018, we achieved cumulative completions of £151million of Buy-to-Let finance, from a standing start. This has helped contribute to the average risk-weight falling to 70% in 2019 and improving the Bank's capital efficiency.

In September 2018, Gatehouse Bank received regulatory permission to offer Home Purchase Plans (HPPs). This led to the Bank launching an initial test product in December 2018 for UK, Expat and International home buyers and in Q1 2019 we rolled out a full range of products, bringing additional competition to the UK home finance market.

Furthermore, we expect our acquisition of a majority stake in Ascend Properties, a leading UK property sales and management company, to lead to additional opportunities in 2019. Ascend has significant experience and is able to offer as a 'one-stop-shop' service helping clients to:

- Locate properties to specification;
- Assist with purchase;
- Find tenants, credit, and approve them;
- Manage tenants and properties for remote landlords;
- Negotiate discounts with housebuilders; and
- Manage the sale of properties.

Real Estate Finance

The Real Estate Finance team originate and participate in secured and first ranking Shariah compliant financing for commercial real estate investment assets in the UK for a range of clients that includes investors, asset managers and developers. In 2018, the Real Estate Finance team provided more than £100million of Senior debt finance facilities for deals over £2million.

In November 2018, the Bank extended its support for commercial investors with the launch of its extended commercial property finance proposition, for funding of between £500,000 and £2million, complementing our established expertise for deals over £2million in real estate finance, via specialised intermediaries, on UK investment properties.

We believe that the broader range of support we now provide will prove to be attractive to both UK and international investors in 2019.

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.

Since December 2009, we have successfully advised on c.a. £1bn of acquisitions, and c.a. £375m of realisations. The REIA Team has worked on acquisitions in the office, logistics, and retail sectors. In addition to alternative sectors including student accommodation, data sectors, and PRS.

In 2018, the team managed the successful exit of a 139,079 sq. ft. Grade A office in Leeds on behalf of an investor, delivering strong returns.

Private Rented Sector / Build to Rent

Gatehouse has completed two PRS transactions to develop more than 1,600 family homes across 22 sites predominately in North West England.

Locations are well connected with accessibility to the City Centre and/or to local and national transport links, within catchment areas for good local schools and educational institutions.

Strategic Report (continued)

Following on from its proven track record and the continued institutional investor appetite for the sector, Gatehouse plans to raise a third fund, during the first half of 2019, which will hopefully deliver over 5,000 additional units.

Treasury

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

Savings

Gatehouse rebranded its savings franchise from Milestone Savings to Gatehouse Savings in 2018. The Bank provides online personal deposit accounts offering diversification of existing funding sources with products offered up to a five year term.

Gatehouse Savings customer interfacing infrastructure is managed by a specialised outsourced provider.

In 2018, our individual savings offering was supplemented by new relationships with cash management platforms.

The Bank experienced strong demand for its competitive savings products in 2018, with total deposits increasing by 80% to £130 million.

During 2019, the Bank is considering further extending its range of retail savings products. In addition, the Bank will look to launch deposit accounts for UK small and medium-sized businesses, a market which we have identified as underserved.

Principal Risks and Uncertainties

The Bank's principal risks and uncertainties have been highlighted and discussed in detail in Note 34.

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 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.

During 2018, 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.

In 2019, the Bank plans to support a 'Charity of the Year', which will be supported by a number of fundraising activities to be carried out throughout the year.

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
17 April 2019

Shariah Supervisory Board Report

بسم الله الرحمن الرحيم

To the Shareholders of Gatehouse Bank plc
Assalaam A'laikum Wa Rahmat Allah Wa Barakatuh

In compliance with our terms of appointment with Gatehouse Bank plc (the '**Bank**'), we, the Shariah Supervisory Board of the Bank (the '**SSB**'), are required to submit the following report of Shariah compliance to you in connection with the business activities and the operations of the Bank.

Pursuant to our mandate, we have reviewed the activities of the Bank and material transaction documents entered into and material agreements with third parties for supply of services to facilitate the operations of the Bank. This report relates to the period 1 January 2018 to 31 December 2018 (the '**Period**').

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

Management is responsible for ensuring that the Bank conducts its business in accordance with Shariah. It is our responsibility to form an independent opinion on that 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 and carried out its role in directing the Bank to comply with Shariah.

Bank's Contracts

The Bank has entered into contracts for its operations and financing agreements. These include obtaining services from third parties to manage the Bank and providing financing to clients in a Shariah-compliant manner to generate income. The SSB has reviewed the contracts and agreements presented during the year and conveyed its pronouncements. The Bank has followed the pronouncements and, where necessary, amended the relevant documents in order to comply with Shariah.

Shariah Audit

The SSB has received a report from the Bank's management in relation to the systems and controls in place to ensure the Bank's business activities for the Period were in accordance with Shariah. The SSB has reviewed internal Shariah audit reports and made an assessment of systems and controls in place for the processing of related expenses incurred by employees of the Bank.

Annual Report

The SSB has perused the Bank's draft Annual Report and Accounts and the statements and notes therein.

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 its Shariah Supervisory Board. The Zakaat payable for GFGL's paid up capital is the responsibility of GFGL's shareholders.

Conclusion

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 a reasonable assurance that the Bank has not breached Shariah during the Period.

In our opinion, the Bank was, in all material respects, in compliance with Shariah during the Period.

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

17 April 2019

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 2018. The Corporate Governance Report set out on pages 10 to 16 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 (2017: £nil). The Directors do not recommend a final dividend on ordinary shares to be paid in respect of the year (2017: £nil).

Directors and Directors' Interests in Shares

The names of the Directors and Company Secretary at the date of this report are shown on page 2. 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 (2017: £nil) and no charitable donations (2017: £nil) 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
17 April 2019

Our values

Responsible

We believe in a transparent, fair and socially responsible system of finance, based on Shariah principles. Through the sharing of both risk and reward in an equitable way, we offer an alternative, balanced approach to banking for our customers.

Open

We encourage an open and transparent dialogue with our customers and colleagues, welcoming different ideas and perspectives. We recognise the value of listening and the progress that comes from freedom of thought and permission to fail.

Can-do

We embrace opportunity and are resourceful in the face of challenge. By looking beyond accepted conventions, being willing to adapt, and always working as a team, we move forward where others stand still. Our attitude is refreshingly can-do.

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
17 April 2019

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 of Gatehouse Bank plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 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 which comprise:

- The consolidated income statement;
- The consolidated statement of comprehensive income;
- The consolidated and parent company statements of financial position;
- The consolidated and parent company statements of changes in equity;
- The consolidated and parent company cash flow statement; and
- The related notes 1 to 36.

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.

Summary of our audit approach

Key audit matters	**The key audit matters that we identified in the current year were:** • Valuation of expected credit losses on financing assets; and • Valuation of unquoted investments at fair value. Within this report, any new key audit matters are identified with ⌃ and any key audit matters which are the same as the prior year are identified with »
Materiality	The materiality that we used for the group financial statements in the current year was £350k which was determined on the basis of 5.0% of total revenue.
Scoping	Our audit scope included the full audit of all significant components of the Group.
Significant changes in our approach	There were no significant changes in our approach this year.

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 Financial Reporting Council's (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.

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 misstatement (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.

Valuation of expected credit losses on financing assets

Key audit matter description	The group has implemented in the current period the new accounting standard IFRS 9: Financial Instruments, which resulted in a change from incurred to expected in the basis for recognition of credit losses. To implement the new standard, the group has developed a set of new models. The design of these models represented an area where a high level of management judgement was applied. As at 31 December 2018, the total provision for expected credit losses on financing assets was £38k (2017 on incurred loss basis: £Nil). We focused our risk on the methodology used in determination of probabilities of default for the diminishing musharakah portfolio. Brexit introduces additional uncertainty for the UK economy. This impacts the expected credit losses in many ways, including through changes to house price forecasts, which are used as an input in the Group's models. We considered that a risk of potential fraud lies within valuation of expected credit losses on financing assets due to the inherent potential for management bias in the valuation of expected credit losses. Management have disclosed information about credit risk within Note 34 and provision for expected credit losses in Note 13 to the financial statements. 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 independently reviewed and assessed management's impairment policy and models against the requirements of IFRS 9: Financial Instruments with involvement of our technical accounting experts; • Utilised our credit modelling experts to test whether the model code was developed in line with the methodology; • We assessed the design and tested the implementation of the controls over measurement of expected credit losses; • Performed a retrospective assessment of observed default rates against modelled probabilities of default; • We evaluated whether the macroeconomic uncertainty associated with Brexit could materially impact the expected credit losses; and • We tested the data used in expected credit loss models by tracing them on a sample basis to underlying internal sources, which have been audited, or to third party reports, where appropriate.
Key observations	Expected credit losses have been appropriately valued.

Valuation of unquoted investments at fair value

Key audit matter description	The Group holds a portfolio of unquoted investments in real estate investment structures held at fair value. The valuations of these investments are dependent on a number of judgemental inputs with the most significant being valuations of underlying property assets. We considered that a risk of potential fraud lies within the valuation of unquoted investments, due to the inherent potential for management bias in determining the judgemental inputs to the valuation calculation, including valuations of underlying properties. As at 31 December 2018, the fair value of unquoted investments in real estate investment structures at fair value were £17.5m (2017: £24.1m) – see Notes 16 and 17 to the financial statements. The accounting policy can be found within Note 3. Management also disclosed information about market risk in Note 34.
How the scope of our audit responded to the key audit matter	• Evaluated whether the valuation methodology was consistent with the requirements of the accounting standards; • We assessed the design and tested the implementation of the key internal controls implemented by management around the valuation process; • We recalculated the net asset value of the investment structures based on their accounts and third party property valuations; • We engaged our real estate valuation experts to review these property valuations, including the assumptions and the methodologies used for appropriateness; • We obtained and reviewed legal documents evidencing the ownership and existence of properties; and • We tested other material inputs in valuation of unquoted investments by tracing them to appropriate audit evidence.
Key observations	Unquoted investments in real estate investment structures held at fair value are valued appropriately.

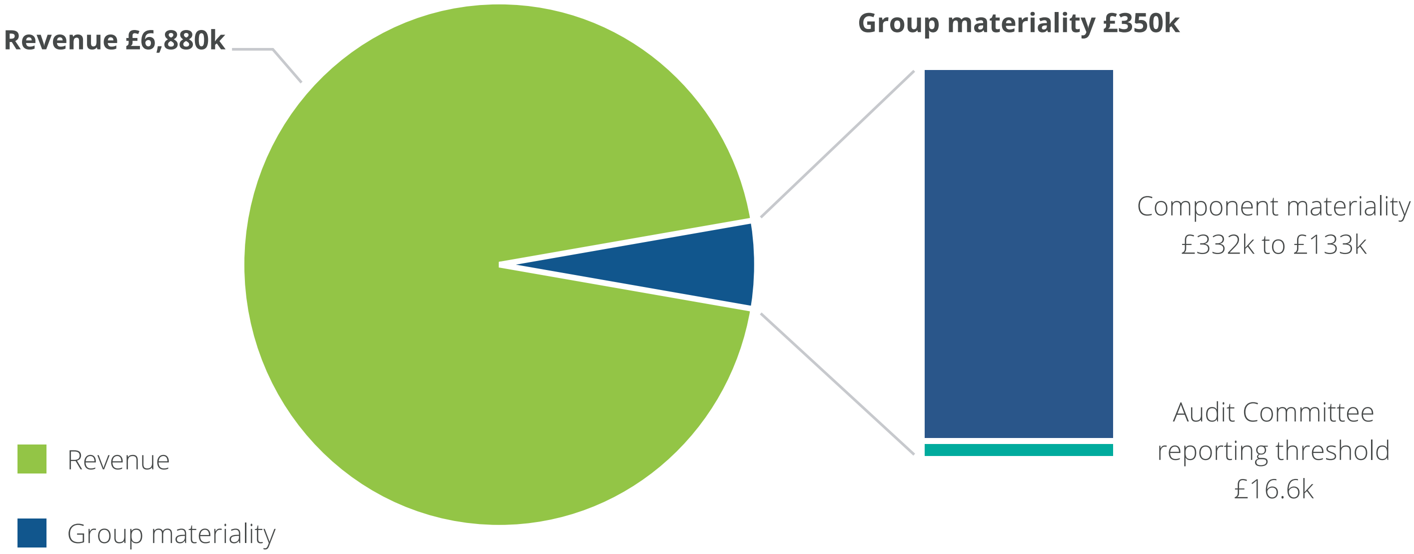
Independent Auditor's Report to the Members of Gatehouse Bank PLC (continued)

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 financial statements	Parent company financial statements
Materiality	£350k (2017: £199k)	£332k (2017: £188k)
Basis for determining materiality	5% of revenue defined as income on financial assets held at amortised cost. (2017: 2.2% of income from investment and financing activities).	4.8% of revenue defined as income on financial assets held at amortised cost. (2017: 2% of income from investment and financing activities).
Rationale for the benchmark applied	Revenue 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 0.5% 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 £16.6k (2017: £9.9k), 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, one in the UK 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 all subsidiaries, including work on consolidation entries, with the exception of the associate where a component audit team in Kuwait was involved. Component materiality levels were set in the range from £133k to £332k.

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.

Independent Auditor's Report to the Members of Gatehouse Bank PLC (continued)

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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- Enquiring of management, internal audit and the audit committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- Discussing among the engagement team and involving relevant internal specialists including tax, valuations, IT, and analytics specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: valuation of expected credit losses on financing assets and valuation of unquoted investments at fair value; and
- Obtaining an understanding of the legal and regulatory framework that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this

context included the UK Companies Act, PRA and FCA regulations, pensions legislation, tax legislation.

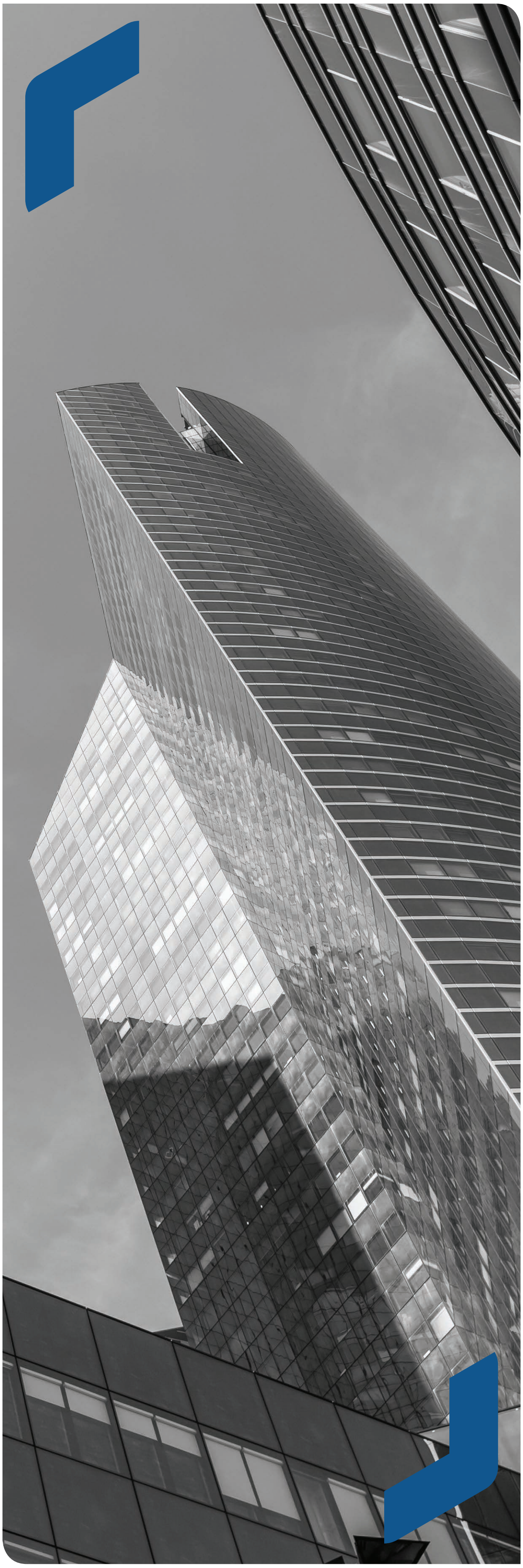
Audit response to risks identified

As a result of performing the above, we identified valuation of expected credit losses on financing assets and valuation of unquoted investments held at fair value as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- Reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- Enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- Reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the PRA, the FCA, and HMRC; and
- In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.



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 35 to the financial statements for the financial year ended 31 December 2018 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 this matter.

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 Group for the period ending 31 December 2007 and subsequent financial periods. Following a competitive tender process, we were reappointed as auditor of the Group for the period ending 31 December 2012 and subsequent financial periods.

Our total uninterrupted period of engagement is 12 years, covering periods from our initial appointment through to the period ending 31 December 2018.

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).

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.

Alastair Morley (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
17 April 2019

Consolidated Income Statement

	Notes	Year ended 31 Dec 2018 £	Year ended 31 Dec 2017* £
Income			
Income from financial assets held at amortised cost	4	6,879,804	5,108,262
Charges to financial institutions and customers		(5,464,056)	(3,424,915)
Fees and commission income		3,257,203	4,061,792
Fees and commission expense		(12,243)	(341)
Foreign exchange gains/(losses)	5	614,602	(275,961)
Net (losses)/gains from financial assets at fair value through income statement	6	(8,276,853)	1,986,961
Other income		1,445,039	3,305,857
Impairment charge	9	(113,839)	(1,670,730)
Total operating (losses)/income		**(1,670,343)**	**9,090,925**
Expenses			
Staff costs	7	(9,579,522)	(6,790,102)
Depreciation and amortisation	22 & 23	(673,431)	(583,335)
Other operating expenses	8	(5,800,061)	(4,007,740)
Total operating expenses		**(16,053,014)**	**(11,381,177)**
Operating Loss		**(17,723,357)**	**(2,290,252)**
Net share of profit of associate	18	1,881,072	1,945,731
Loss before tax	10	**(15,842,285)**	**(344,521)**
Tax	11	(12,549)	(6,571)
Loss for the year from continuing operations		**(15,854,834)**	**(351,092)**
Attributable to:			
Loss attributable to the Bank's equity holders		(15,846,763)	(351,092)
Non-controlling interest		(8,071)	-
		(15,854,834)	**(351,092)**

* Presentation of comparative information for 2017 has been changed in line with the presentation adopted for 2018 balances. Please refer to Note 13 for more information.

Consolidated Statement of Comprehensive Income

	Year ended 31 Dec 2018 £	Year ended 31 Dec 2017 £
Loss for the year from continuing operations	**(15,854,834)**	**(351,092)**
Items that may be reclassified subsequently to income statement if specific conditions are met:		
(Loss)/gain on FVTOCI investments	(1,808,170)	1,040,757
Accumulated reserve movement on disposal of FVTOCI investments	(195,163)	(771,093)
Foreign currency translation gains/(losses) from investment in associate	1,055,839	(1,301,230)
	(947,494)	**(1,031,566)**
Items that will not be reclassified subsequently to income statement:		
(Loss)/gain on FVTOCI investments	-	-
Other comprehensive losses for the year	**(947,494)**	**(1,031,566)**
Comprehensive loss for the year	**(16,802,328)**	**(1,382,658)**
Attributable to:		
Loss attributable to the Bank's equity holders	(16,794,257)	(1,382,658)
Non-controlling interest	(8,071)	-
	(16,802,328)	**(1,382,658)**

Notes 1 to 36 form an integral part of the financial statements.

Consolidated Statement of Financial Position

	Notes	31 Dec 2018 £	31 Dec 2017* £
Assets			
Cash and balances with banks		15,669,222	11,900,028
Financing and advances at amortised cost	15	302,494,372	122,614,587
Financial assets held at fair value through the income statement	16	50,095,977	55,069,416
Financial assets at fair value through other comprehensive income	17	28,376,167	57,565,445
Investment in associate	18	16,441,441	15,379,498
Goodwill	19	2,166,370	-
Derivative financial instruments	21	1,943,199	-
Intangible assets	22	1,287,111	339,243
Property, plant and equipment	23	12,913,030	13,031,076
Other assets	24	4,235,289	4,626,932
Total assets		**435,622,178**	**280,526,225**
Liabilities			
Financial liabilities measured at amortised cost	25	318,846,691	150,077,160
Derivative financial instruments	21	1,854,165	506,336
Other liabilities	26	3,844,237	2,481,082
Total liabilities		**324,545,093**	**153,064,578**
Net assets		**111,077,085**	**127,461,646**
Shareholders' equity			
Share capital	31	150,049,301	150,049,301
Foreign currency translation reserve		2,626,632	1,570,793
Fair value through other comprehensive income reserve		(2,480,279)	(393,988)
Retained deficits		(39,658,811)	(23,764,460)
Equity attributable to the Bank's equity holders		110,536,843	127,461,646
Non-controlling interest		540,242	-
Total Equity		**111,077,085**	**127,461,646**

* Presentation of comparative information for 2017 has been changed in line with the presentation adopted for 2018 balances. Please refer to Note 13 for more information.

Notes 1 to 36 form an integral part of the financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 17 April 2019. 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	FVTOCI reserve	Foreign currency translation reserve	Retained deficit	Equity attributable to the Bank's equity holders	Non-controlling interest	Total
	£	£	£	£	£	£	£
Balance at 1 January 2017	150,049,301	(663,652)	2,872,023	(23,413,368)	128,844,304	-	128,844,304
Other comprehensive gains/(losses) for the year							
Unrealised gain on instruments at FVTOCI	-	1,040,757	-	-	1,040,757	-	1,040,757
Accumulated reserve movement on disposal of instruments at FVTOCI	-	(771,093)	-	-	(771,093)	-	(771,093)
Foreign currency translation gain from associate investments	-	-	(1,301,230)	-	(1,301,230)	-	(1,301,230)
Total other comprehensive gains/(losses) for the year	150,049,301	(393,988)	1,570,793	(23,413,368)	127,812,738	-	127,812,738
Loss for the year	-	-	-	(351,092)	(351,092)	-	(351,092)
Balance at 31 December 2017	**150,049,301**	**(393,988)**	**1,570,793**	**(23,764,460)**	**127,461,646**	**-**	**127,461,646**

	Share capital	FVTOCI reserve	Foreign currency translation reserve	Retained deficit	Equity attributable to the Bank's equity holders	Non-controlling interest	Total
	£	£	£	£	£	£	£
Balance at 1 January 2018	150,049,301	(393,988)	1,570,793	(23,764,460)	127,461,646	-	127,461,646
Transition adjustment on adoption of IFRS 9 at 1 January 2018	-	-	-	(130,546)	(130,546)	-	(130,546)
Fair value changes recognised on reclassification of financial assets	-	(82,958)	-	82,958	-	-	-
Balance at 1 January 2018 (restated)	150,049,301	(476,946)	1,570,793	(23,812,048)	127,331,100	-	127,331,100
Other comprehensive (losses)/gains for the year							
Unrealised loss on instruments at FVTOCI	-	(1,808,170)	-	-	(1,808,170)	-	(1,808,170)
Accumulated reserve movement on disposal of instruments at FVTOCI	-	(195,163)	-	-	(195,163)	-	(195,163)
Foreign currency translation gain from associate investments	-	-	1,055,839	-	1,055,839	-	1,055,839
Total other comprehensive (losses)/gains for the year	-	(2,003,333)	1,055,839	-	(947,494)	-	(947,494)
Acquisition of subsidiary	-	-	-	-	-	548,313	548,313
Loss for the year	-	-	-	(15,846,763)	(15,846,763)	(8,071)	(15,854,834)
Balance at 31 December 2018	**150,049,301**	**(2,480,279)**	**2,626,632**	**(39,658,811)**	**110,536,843**	**540,242**	**111,077,085**

Consolidated Statement of Cash Flows

Cash flows from operating activities	Year ended 31 Dec 2018 £	Year ended 31 Dec 2017* £
Operating loss on ordinary activities after tax	(15,854,834)	(351,092)
Adjusted for:		
Impairment charge	113,839	1,670,730
Negative revaluation of financial assets held at FVTIS	12,120,619	-
Share of operating profit from associate	(1,881,072)	(2,019,250)
Fair value movement in derivative financial instruments	(595,370)	783,327
Depreciation and amortisation	673,431	583,335
Foreign exchange losses	(498,245)	(22,730)
Gains on financial assets held at FVTIS	(863,401)	-
Gains on financial assets held at FVTOCI	-	(769,459)
Taxation	12,549	6,571
Net decrease/(increase) in operating assets:		
Coupons receivable for financial assets held at FVTOCI	93,320	2,118,523
Net investment in financial assets held at FVTIS	(6,317,954)	-
Changes in financing and advances at amortised cost	(179,879,785)	8,874,720
Net decrease in other assets	562,496	2,218,608
Net increase/(decrease) in operating liabilities:		
Changes in financial liabilities measured at amortised cost	168,769,531	(18,346,250)
Net increase in other liabilities	839,217	214,457
Net cash outflow from operating activities	**(22,705,659)**	**(5,038,510)**
Cash flow from investing activities		
Dividend received from associate	1,854,167	1,799,343
Proceeds from sale of financial assets	35,680,625	14,094,934
Purchases of financial assets at FVTOCI	(8,161,808)	(7,141,373)
Net investment in subsidiary	(1,893,451)	-
Purchase of plant and equipment	(207,526)	(378,355)
Purchase of intangible assets	(680,797)	(140,437)
Net cash inflow from investing activities	**26,591,210**	**8,234,112**
Cash flows from financing activities		
Net cash inflow from financing activities	-	-
Net inflow in cash and cash equivalents	**3,885,551**	**3,195,602**
Cash and cash equivalents at the beginning of the year	11,900,028	8,405,735
Effect of foreign exchange rate changes	(116,357)	298,691
Cash and cash equivalents at the end of the year	**15,669,222**	**11,900,028**

* Presentation of comparative information for 2017 has been changed in line with the presentation adopted for 2018 balances. Please refer to Note 13 for more information.

Company Statement of Financial Position

Notes 1 to 36 form an integral part of the financial statements.

	Notes	31 Dec 2018 £	31 Dec 2017* £
Assets			
Cash and balances with banks		14,764,131	11,753,562
Financing and advances at amortised cost	15	309,530,482	129,650,696
Financial assets held at fair value through the income statement	16	50,095,977	55,069,416
Financial assets at fair value through other comprehensive income	17	28,376,167	57,565,445
Investment in associate	18	11,307,937	11,307,937
Investment in subsidiaries	19	8,043,929	5,338,200
Derivative financial instruments	21	1,943,199	-
Intangible assets	22	797,338	339,243
Plant and equipment	23	1,125,694	1,254,929
Other assets	24	4,062,960	4,882,062
Total assets		**430,047,814**	**277,161,490**
Liabilities			
Financial liabilities measured at amortised cost	25	318,806,228	150,044,138
Derivative financial instruments	21	1,854,165	506,336
Other liabilities	26	3,539,205	2,874,362
Total liabilities		**324,199,598**	**153,424,836**
Net Assets		**105,848,216**	**123,736,654**
Shareholders' Equity			
Share capital	31	150,049,301	150,049,301
Fair value through other comprehensive income reserve		(2,540,603)	(394,901)
Retained deficits		(41,660,482)	(25,917,746)
Equity attributable to the Bank's equity holders and total equity		**105,848,216**	**123,736,654**

During the financial year the Bank has made standalone losses of £15,775,360 (2017: £407,879 loss).

* Presentation of comparative information for 2017 has been changed in line with the presentation adopted for 2018 balances. Please refer to Note 13 for more information.

The financial statements were approved by the Board of Directors and authorised for issue on the 17 April 2019. 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	FVTOCI reserve	Retained deficit	Total
Balance at 1 January 2017	150,049,301	(663,652)	(25,509,867)	**123,875,782**
Other comprehensive losses for the year				
Unrealised gain on instruments at FVTOCI	-	1,040,757	-	**1,040,757**
Accumulated reserve movement on disposal of instruments at FVTOCI	-	(772,006)	-	**(772,006)**
Total Other comprehensive losses for the year	-	(394,901)	(25,509,867)	**124,144,533**
Loss for the year (Note 14)	-	-	(407,879)	**(407,879)**
Balance at 31 December 2017	**150,049,301**	**(394,901)**	**(25,917,746)**	**123,736,654**
Balance at 1 January 2018	150,049,301	(394,901)	(25,917,746)	123,736,654
Transition adjustment on adoption of IFRS 9 at 1 January 2018			(50,334)	(50,334)
Fair value changes recognised on reclassification of financial assets		(82,958)	82,958	-
Balance at 1 January 2018 (restated)	150,049,301	(477,859)	(25,885,122)	123,686,320
Other comprehensive losses for the year				
Unrealised loss on instruments at FVTOCI	-	(1,888,382)	-	(1,888,382)
Accumulated reserve movement on disposal of instruments at FVTOCI	-	(174,362)	-	(174,362)
Total Other comprehensive losses for the year	-	(2,062,744)	-	(2,062,744)
Loss for the year (Note 14)	-	-	(15,775,360)	(15,775,360)
Balance at 31 December 2018	**150,049,301**	**(2,540,603)**	**(41,660,482)**	**105,848,216**

Company Statement of Cash Flows

	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Cash flows from operating activities	£	£
Operating loss on ordinary activities after tax		
Adjusted for:	(15,775,360)	(407,879)
Impairment charge	113,839	1,670,730
Negative revaluation of financial assets held at FVTIS	12,120,619	-
Fair value movement in derivative financial instruments	(595,370)	783,327
Depreciation and amortisation	558,463	473,271
Foreign exchange (gains)/losses	(498,245)	(22,730)
Gains on financial assets held at FVTIS	(863,401)	-
Gains on financial assets held at FVTOCI	-	(769,459)
Net decrease/(increase) in operating assets:		
Coupons receivable for financial assets held at FVTOCI	93,320	2,624,183
Net investment in financial assets held at FVTIS	(6,283,781)	-
Changes in financing and advances at amortised cost	(179,879,786)	8,674,059
Net decrease in other assets	819,102	1,947,374
Net increase/(decrease) in operating liabilities:		
Changes in financial liabilities measured at amortised cost	168,762,090	(18,346,230)
Net increase in other liabilities	532,250	214,457
Net cash outflow from operating activities	**(20,896,260)**	**(3,158,897)**
Cash flow from investing activities		
Proceeds from sale of financial assets	35,646,453	14,094,934
Purchases of financial assets	(8,161,808)	(7,141,373)
Investment in subsidiary	(2,573,136)	-
Purchase of plant and equipment	(207,526)	(378,390)
Purchase of intangible assets	(680,797)	(140,437)
Net cash inflow from investing activities	**24,023,186**	**6,434,734**
Cash flows from financing activities		
Net cash inflow from financing activities	**-**	**-**
Net inflow in cash and cash equivalents	**3,126,926**	**3,275,837**
Cash and cash equivalents at the beginning of the year	11,753,562	8,179,034
Effect of foreign exchange rate changes	(116,357)	298,691
Cash and cash equivalents at the end of the year	**14,764,131**	**11,753,562**

* Presentation of comparative information for 2017 has been changed in line with the presentation adopted for 2018 balances. Please refer to Note 13 for more information.

Notes to the Consolidated Financial Statements

1. General Information

The Bank was incorporated as a public limited company in the England and Wales on 25 May 2007 under the Companies Act 1985 and received authorisation from the Financial Standards Authority (the FSA, now known as the FCA) on 21 April 2008 to carry out regulated activities as a deposit-taking institution. The address of the registered office is given on page 2.

2. Adoption of new and revised standards

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

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

The transition provisions of IFRS 9 allows an entity not to restate comparatives. The Bank has elected not to restate comparatives in respect of the classification and measurement of financial instruments, however the Bank has had to reclassify 2017 comparatives to allow for a true like for like comparison. The comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. The accounting policies complying with IAS 39 can be found in the Financial Statements for the year ended 31 December 2017. The nature and impact of the changes as a result of the adoption are detailed in Note 13.

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces key changes with regards to the classification and measurement of financial instruments, requiring asset classification and measurement based upon both business model and product characteristics. The new classification categories include: measured at amortised cost, FVTOCI ('Fair Value Through Other Comprehensive Income') and FVTIS ('Fair Value Through Income Statement'). Changes to classification and measurement of financial instruments are detailed in Note 13.

Business model assessment

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

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

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

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

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

Changes to impairment calculation

IFRS 9 replaces the 'incurred loss' model under IAS 39 with a forward looking 'expected credit loss' (ECL) model. Assets are classified under the three stage impairment model (Stage 1- credit risk has not increased; Stage 2 – credit risk has increased and Stage 3 – credit impaired financial asset). Where credit risk is deemed not to have increased significantly since initial recognition a loss allowance is calculated based on an amount equal to 12-month ECL (Expected Credit Loss). Where credit risk

is deemed to have increased significantly since initial recognition a loss allowance based on lifetime expected losses is calculated. An asset is deemed to have moved to Stage 3 where management consider the asset to be impaired in accordance with the Bank's credit risk management policies. For stage 3 assets the Bank recognises the lifetime expected credit losses.

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

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

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

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

Capital planning
The Bank has taken advantage of the transitional guidelines issued by the PRA of phasing in the full impact of IFRS 9 adoption over a 5 year period.

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

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

Notes to the Consolidated Financial Statements (continued)

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

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

Earlier application is permitted in all instances.

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

Amendments to IFRSs that are mandatorily effective for the current year

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

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

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

IFRS 16 Leases

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

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

3. Basis of preparation and significant accounting policies

Going concern

The 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 34 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.

Notes to the Consolidated Financial Statements (continued)

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

Basis of accounting

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

Significant accounting judgements, estimates and assumptions

Judgements

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

Structured entities

The Group uses judgement in determining which entities are structured entities. If the voting or similar rights are not the dominant factor in deciding who controls the entity and such voting rights relate to the administrative tasks only and the relevant activities are directed by means of contractual arrangements, the Group identifies such entities as structured entities. After determining whether an entity is a structured entity, the 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 controlling interest in consolidated structured entities as at the reporting date.

Key estimates used by Management are as follows:

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data. Fair value is estimated on the basis of historic cost less impairment and by reference to the net asset value of the underlying investment, where the net asset value is not based on observable market data (see note 34).

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

Basis of consolidation

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

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

Charges to financial institutions and customers
'Charges to financial institutions and customers' consists of profit payable from Shariah-compliant deposits including Murabaha deposits and Wakala arrangements. A Wakala arrangement represents an agreement whereby the 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.

Notes to the Consolidated Financial Statements (continued)

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

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.

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

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

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

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

Fair Value Hedge Accounting
IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting, which the Bank has

exercised. The Bank applies fair value hedge accounting to hedge the foreign exchange risk on its financial asset held at FVTOCI and FVTI and also Profit Rate Swaps ('PRS') to hedge the exposure in fixed rate mortgages in the residential and commercial financing books. At the inception of a hedging relationship, the 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.

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

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

Derivative Financial Instruments

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

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

Notes to the Consolidated Financial Statements (continued)

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

Cash and balances with banks

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

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

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

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

Goodwill

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

Impairment of non-financial assets

The 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 2018 as management believe that it is improbable that the related tax benefit will be realised due to tax losses brought forward.

Operating leases

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

Pension costs

The 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 financial assets held at amortised cost	2018	2017
	£	£
Income from financial institutions	670,204	156,705
Income from financing arrangements	6,209,600	4,951,557
	6,879,804	**5,108,262**

5. Foreign exchange gains/(losses)	2018	2017
	£	£
Net gains on translation of balances denominated in foreign currency	481,344	230,375
Net gains/(losses) on translation of derivative financial instruments	133,258	(506,336)
Net gains/ (losses) in foreign exchange	**614,602**	**(275,961)**

6. Net losses on financial assets at fair value through income statement	2018	2017
	£	£
Negative revaluation on financing asset	(12,120,619)	-
Profit income of financing assets	2,503,889	1,831,834
Positive revaluation on unquoted equity securities	829,226	-
Gain on disposal of unquoted securities	34,174	-
Dividend income	476,477	155,127
	(8,276,853)	**1,986,961**

The negative revaluation relates to the fair value change of a single legacy asset as disclosed in the CEO statement.

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

	2018	2017
	£	£
Staff costs		
Directors' salaries and fees	1,275,016	1,102,884
Directors' pensions	52,813	41,408
	1,327,829	**1,144,292**
Staff salaries	5,889,794	3,677,547
Staff pension contributions	408,213	311,136
Social security costs	874,040	520,468
Other staff costs	1,079,646	1,136,659
	9,579,522	**6,790,102**
Highest paid Director		
Emoluments	641,250	415,308
	641,250	**415,308**

	2018	2017
	No.	**No.**
Number of employees at year end	155	53
Average number of employees	133	44

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 in issue were 365,000,000 (2017: 315,000,000).

Notes to the Consolidated Financial Statements (continued)

8. Other operating expenses

	2018	2017
	£	£
Legal and professional fees	1,369,102	1,107,541
Rent and other occupancy costs	1,091,185	988,673
Travel and accommodation	286,475	234,724
Other tax payable	544,778	-
Other operating charges	890,471	401,555
IT and communication costs	845,053	612,354
Recruitment costs	288,428	413,410
Consultancy	278,551	128,390
Shariah Supervisory Board fees	55,250	65,961
Advertising and marketing	150,768	55,132
	5,800,061	**4,007,740**

9. Impairment charge

	2018	2017
	£	£
Bad debt on trade receivable	125,000	-
Reversal of expected credit losses	(11,161)	-
Financial assets at fair value through other comprehensive income	-	1,670,730
	113,839	**1,670,730**

10. Loss before tax

	2018	2017
Loss before tax is stated after charging:	£	£
Net foreign exchange (gains)/losses	(614,602)	275,961
Auditor’s remuneration	190,500	148,200
Rentals paid under operating leases: premises	638,421	534,899
Depreciation and amortisation	673,431	583,335

	2018	2017
Auditor’s remuneration can be analysed as follows:	£	£
Audit of the Bank’s accounts	179,000	138,000
Other services:		
Other audit-related services	11,500	10,200
	190,500	**148,200**

11. Taxation

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

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

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

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

	2018	2017
	£	£
Loss before tax from continuing operations	(15,842,285)	(344,521)
	(15,842,285)	**(344,521)**
Tax at the UK corporation tax rate of 19% (2017: 19.25%)	(3,010,034)	(66,310)
Effects of:		
Results from associates and subsidiaries	(352,292)	(346,312)
Expenses not deductible for tax purposes	173,679	96,324
Adjustments to opening and closing deferred tax to average rate of 19.25%	356,673	39,120
Deferred Tax Asset not recognised	3,031,710	296,022
Fixed asset differences	1,888	27,456
Income tax not taxable for tax purposes	(305,752)	(34,758)
Other permanent differences	4	651
Other corporation tax charge-GHB Properties limited	12,549	-
Other	104,124	(5,622)
Tax charge in the consolidated income statement	**12,549**	**6,571**

Notes to the Consolidated Financial Statements (continued)

12. Profit Rate Swap

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

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

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

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

Fair value of PRS designated as fair value hedges:

Group and Company	**2018**	**2017**
	£	**£**
Fair value adjustment to hedged item	358,894	-
Accrued profit of hedged item	73,564	-
Carrying Value of hedged item	**432,458**	**-**
Fair value adjustment to hedged item	(362,178)	-
Accrued profit of hedged item	(114,503)	-
Carrying Value of hedging instrument	**(476,681)**	**-**
Net Profit Rate Swaps Fair Value Hedges	(3,284)	-
Net Profit Rate Swaps Accrued interest	(40,938)	-
Net carrying Value of hedged item and hedging instrument	**(44,222)**	**-**

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

13. Effects of reclassification upon adoption of IFRS 9

Classification of financial assets and liabilities

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

Financial Assets	Original Classification under IAS 39	New classification under IFRS 9	31 Dec 2017 £ Carrying value amount under IAS 39	Remeasurement ECL	01 Jan 2018 £ Carrying value amount under IFRS 9
Cash and balances with banks	Loans and receivables	Amortised cost	11,900,028	-	11,900,028
Due from financial institutions	Loans and receivables	Amortised cost	77,251,048	(7,934)	77,243,114
Financing arrangements	Loans and receivables	Amortised cost	45,363,539	(40,553)	45,322,986
Financing arrangements - intercompany	Loans and receivables	FVTIS	29,831,833	-	29,831,833
Financing arrangements - Mezzanine financing	Loans and receivables	FVTIS	10,707,920	-	10,707,920
Investment securities - Sukuk	AFS	FVTOCI	42,151,243	(1,847)	42,149,396
Investment securities - Equity	AFS	FVTOCI	5,545,881	-	5,545,881
Investment securities Unquoted equity securities - FVTOCI	AFS	FVTOCI	9,343,933	-	9,343,933
Investment securities - Unquoted equity securities - FVTIS	AFS	FVTIS	14,529,662	-	14,529,662
Investment securities - Unquoted funds	AFS	FVTOCI	262,195	-	262,195
Total financial assets			**246,887,282**	**(50,334)**	**246,836,948**
Financial Liabilities					
Due from financial institutions	Loans and payables	Amortised cost	76,742,889	-	76,742,889
Due to Customers	Loans and payables	Amortised cost	73,334,272	-	73,334,272
Derivative financial liabilities	FVTIS	FVTIS	506,336	-	506,336
Total financial liabilities			**150,583,497**	**-**	**150,583,497**

Notes to the Consolidated Financial Statements (continued)

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

Impact on retained earnings and other reserves

Group	Retained deficits £	FVTOCI reserve £
Closing balance under IAS 39 (31 December 2017)	(23,764,460)	(393,988)
Fair value changes recognised on reclassification of financial assets:		
Unquoted Equity reclassed from AFS to FVTIS	82,958	(82,958)
Recognition of expected credit losses under IFRS 9	(130,546)	-
Opening balance under IFRS 9 (1 January 2018)	**(23,812,048)**	**(476,946)**

Company	Retained deficits £	FVTOCI reserve £
Closing balance under IAS 39 (31 December 2017)	(25,917,746)	(394,901)
Fair value changes recognised on reclassification of financial assets:		
Unquoted Equity reclassed from AFS to FVTIS	82,958	(82,958)
Recognition of expected credit losses under IFRS 9	(50,334)	-
Opening balance under IFRS 9 (1 January 2018)	**(25,885,122)**	**(477,859)**

Financial Instruments subject to impairment

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

Financing and advances at amortised cost

	2018					2017
Financial Assets	Stage 1 12m ECL £	Stage 2 Lifetime ECL £	Stage 3 Lifetime ECL £	Purchased Credit impaired £	Total £	£
Gross carrying value	300,085,605	2,446,351	-	-	302,531,956	122,614,587
Loss allowance	(30,021)	(7,563)	-	-	(37,584)	-
Carrying value under IFRS 9	**300,055,584**	**2,438,788**	**-**	**-**	**302,494,372**	**122,614,587**

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

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

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

Financing and advances at amortised cost

	Stage 1 12m ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased Credit impaired	Total
	£	£	£	£	£
Loss allowance as at 1 January 2018	(40,627)	(7,860)	-	-	(48,487)
New financial assets originated or purchased	(28,735)	-	-	-	(28,735)
Transfers					
Transfer from stage 1 to stage 2	17	(17)	-	-	-
Changes in PD's/ LGD's / EAD's	39,029	(489)	-	-	38,540
FX and other movements	295	803	-	-	1,098
Loss allowance as at 31 December 2018	**(30,021)**	**(7,563)**	**-**	**-**	**(37,584)**

Financial assets at fair value through other comprehensive income

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

Notes to the Consolidated Financial Statements (continued)

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

Reclassification of income statement

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

Consolidated Income Statement	Prior Year 31 Dec 2017 £	Reclass	Comparative 31 Dec 2018 £
Income			
Income from investment and financing activities	9,072,061	(9,072,061)	-
Realised gains/(losses) on investments	769,459	(769,459)	-
Income from financial assets held at amortised cost	-	5,108,262	5,108,262
Net (losses)/gains from financial assets at fair value through income statement	-	1,986,961	1,986,961
Other Income	559,560	2,746,297	3,305,857
	10,401,080	**-**	**10,401,080**

14. Company loss attributable to equity shareholders of the Bank

£15,775,360 of the company loss for the financial year (2017: £407,879 loss) 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.

15. Financing and advances at amortised cost

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

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

Group

	Avg. Yield	2018 £	*Avg. Yield*	2017 £
Gross financing and advances at amortised cost		302,531,956		122,614,587
Less: allowances for impairment		(37,584)		-
Financing and advances at amortised cost	*3.95%*	**302,494,372**	*2.92%*	**122,614,587**

Company

	Avg. Yield	2018 £	*Avg. Yield*	2017 £
Gross financing and advances at amortised cost		309,568,066		129,650,696
Less: allowances for impairment		(37,584)		-
Financing and advances at amortised cost	*3.97%*	**309,530,482**	*3.00%*	**129,650,696**

Included within the Company financing and advanced at amortised cost is an intercompany wakala of £6,900,000 (2017: £6,900,000) with the bank's wholly owned subsidiary, GHB Properties.

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

Group and Company

	Avg. Yield	2018 £	*Avg. Yield*	2017 £
Gross financing and advances		47,011,669		40,539,753
Less: Negative revaluations		(12,001,123)		-
Total financing and advances		35,010,546		40,539,753
Unquoted equity securities		15,085,431		14,529,663
	4.78%	**50,095,977**	*5.71%*	**55,069,416**

Included within the Company financing and advances is an intercompany wakala of £26,500,000 (2017: £28,000,000) with the Bank's parent company, Gatehouse Financial Group Limited.

Notes to the Consolidated Financial Statements (continued)

17. Financial assets at fair value through other comprehensive income

Group and Company

	Avg. Yield	2018 £	Avg. Yield	2017 £
Quoted sukuk		21,635,012		26,956,969
Unquoted sukuk		-		15,194,274
Unquoted equity securities		2,395,185		9,606,127
Unquoted funds		228,207		262,195
Quoted funds		4,117,763		4,278,905
Quoted equity securities		-		1,266,975
	1.66%	**28,376,167**	*2.65%*	**57,565,445**

18. Investment in associate

The Bank has one associate, Gatehouse Capital Economic and Financial Consultancy KSCC ('Gatehouse Capital'), where the Bank has 35.6% (2017: 35.6%) ownership in the underlying legal and/or beneficial interests. The Company's registered address is 15th Floor, Al Dhow Tower, Sharq, Khalid Bin Al Waleed Street, P. O. Box 29120, Safat 13150, Kuwait.

Foreign currency translation gains from associate investments of £1,055,839 (2017: £1,301,230 loss) during the period have been recorded in reserves.

The consolidated statement of financial position reflects an investment in associate of £16,441,441 (2017: £15,379,498), and a net share of profit for the year ended 31 December 2018 of £1,881,072 (2017: £1,945,731).

Aggregated amounts relating to associate	**2018 £**	**2017 £**
Total assets	48,882,950	36,282,595
Total liabilities	(12,147,216)	(2,023,200)
Net assets	**36,735,734**	**34,259,395**
Group's share of net assets of associates	**13,077,921**	**12,196,345**
Total revenue	8,852,573	10,394,993
Profit	5,283,910	5,672,051
Share of profit from associate	**1,881,072**	**2,019,250**
Amortisation of intangibles of associate	-	(73,519)
Net share of profit from associate	**1,881,072**	**1,945,731**

Details of the Bank's associate at 31 December 2018 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%

19. Investment in Subsidiaries

The Bank has two wholly-owned subsidiaries all incorporated in Jersey: Gate Holdings Limited and GHB Properties Limited. On 31 October 2018 the Bank also purchased a 50.1% controlling interest on a subsidiary incorporated in England and Wales: Ascend Estates Limited. Information about the composition of the Group at the end of the reporting period is as follows.

Subsidiaries	Principal Activity	Place of business & Country of incorporation	GHB consolidated interest
Directly held:			
Gate Holdings Limited	Investment holding company	Jersey	100.0%
GHB Properties Limited	Investment holding company	Jersey	100.0%
Ascend Estates Limited	Management of real estate	England and Wales	50.1%

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

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

Aggregated amounts relating to associate	**2018** £
Cash and balances with banks	340,522
Intangible assets	245,376
Property, plant and equipment	67,083
Other Assets	93,593
Financial Liabilities	(207,315)
Total identifiable assets on acquisition	**539,259**
Goodwill	**2,166,370**
Total Consideration	**2,705,629**

Notes to the Consolidated Financial Statements (continued)

20. Disclosure of interests in other entities

The Bank has investments in a number of special purpose vehicles (SPVs) that have an interest in UK property. The Bank provides investment advisory services in relation to the investments. The investment SPVs have two classes of equity: management shares which carry voting rights; and participating shares which represent economic interests in the SPVs. None of the SPVs are consolidated by the 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 £21,199,246 which is included in financial assets held at fair value through the income statement and financial assets held at fair value through other comprehensive income. The 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.

21. Derivative financial instruments

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

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

Notes to the Consolidated Financial Statements (continued)

22. Intangible assets

Group & Company

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

Group

Customer lists	2018	2017
Cost	**£**	**£**
At 1 January	-	-
Additions	489,773	-
Disposals	-	-
At 31 December	**489,733**	**-**
Amortisation		
At 1 January	-	-
Charge for the period	-	-
On disposal	-	-
At 31 December	**-**	**-**
Net book value		
At 1 January	-	-
At 31 December	**489,773**	**-**

23. Property, plant and equipment

Group	Property	Computer equipment	Fixtures and fittings	Leasehold improvement	Total
Cost	£	£	£	£	£
At 1 January 2018	12,216,511	894,366	219,350	2,962,670	16,292,897
Additions	-	198,124	97,362	37,197	332,683
At 31 December 2018	**12,216,511**	**1,092,490**	**316,712**	**2,999,867**	**16,625,580**
Depreciation					
At 1 January 2018	440,364	797,255	171,604	1,852,598	3,261,821
Charge for the period	109,950	113,175	50,812	176,792	450,729
At 31 December 2018	**550,314**	**910,430**	**222,416**	**2,029,390**	**3,712,550**
Net book value					
At 1 January 2018	11,776,147	97,111	47,746	1,110,072	13,031,076
At 31 December 2018	**11,666,197**	**182,060**	**94,296**	**970,477**	**12,913,030**

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**

Notes to the Consolidated Financial Statements (continued)

23. Property, plant and equipment (continued)

Company	Computer equipment	Fixtures and fittings	Leasehold improvement	Total
Cost	£	£	£	£
At 1 January 2018	894,366	219,350	2,962,670	4,076,386
Additions	170,329	-	37,197	207,526
At 31 December 2018	**1,064,695**	**219,350**	**2,999,867**	**4,283,912**
Depreciation				
At 1 January 2018	797,255	171,604	1,852,598	2,821,457
Charge for the period	112,223	47,746	176,792	336,761
At 31 December 2018	**909,478**	**219,350**	**2,029,390**	**3,158,218**
Net book value				
At 1 January 2018	97,111	47,746	1,110,072	1,254,929
At 31 December 2018	**155,217**	**-**	**970,477**	**1,125,694**

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**

24. Other assets

Group	2018	2017
	£	£
Other debtors	2,240,204	1,747,992
Prepayments	502,897	539,341
Accrued income receivable	407,329	1,263,966
Intercompany receivable	1,084,859	1,075,633
	4,235,289	**4,626,932**

Company	2018	2017
	£	£
Other debtors	2,104,616	2,003,122
Prepayments	466,156	539,341
Accrued income receivable	407,329	1,263,966
Intercompany receivable	1,084,859	1,075,633
	4,062,960	**4,882,062**

25. Financial liabilities measured at amortised cost

Group	*Avg. Yield*	£
Financial liabilities measured at amortised cost at 1 January 2018	*1.96%*	150,077,160
Net proceeds from financial institutions and customers		163,787,669
Net increase in profit payable		1,194,997
FX Movement		3,786,865
Financial liabilities measured at amortised cost at 31 December 2018	*2.55%*	**318,846,691**

Company	*Avg. Yield*	£
Financial liabilities measured at amortised cost at 1 January 2018	*1.96%*	150,044,138
Net proceeds from financial institutions and customers		163,780,228
Net increase in profit payable		1,194,997
FX Movement		3,786,865
Financial liabilities measured at amortised cost at 31 December 2018	*2.55%*	**318,806,228**

Notes to the Consolidated Financial Statements (continued)

26. Other liabilities

Group	2018	2017
	£	£
Other taxes and social security costs	278,065	529,978
Deferred income	2,713,163	693,361
Other creditors	853,009	1,257,743
	3,844,237	**2,481,082**

Company	2018	2017
	£	£
Other taxes and social security costs	278,065	529,978
Deferred income	2,713,163	693,361
Other creditors	547,977	1,651,023
	3,539,205	**2,874,362**

27. 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 2018	Less than 12 months £	More than 12 months £	Total £
Assets			
Cash and balances with banks	15,669,222	-	15,669,222
Financing and advances at amortised cost	44,711,772	257,782,600	302,494,372
Financial assets held at fair value through the income statement	-	50,095,977	50,095,977
Financial assets held at fair value through other comprehensive income	10,937,629	17,438,538	28,376,167
Investment in Associates	-	16,441,441	16,441,441
Goodwill	-	2,166,370	2,166,370
Derivative financial instruments	1,943,199	-	1,943,199
Total financial assets	**73,261,822**	**343,924,926**	**417,186,748**
Liabilities			
Financial liabilities measured at amortised cost	273,115,846	45,730,845	318,846,691
Derivative financial instruments	1,854,165	-	1,854,165
Total financial liabilities	**274,970,011**	**45,730,845**	**320,700,856**

Company 2018	Less than 12 months £	More than 12 months £	Total £
Assets			
Cash and balances with banks	14,764,131	-	14,764,131
Financing and advances at amortised cost	51,747,882	257,782,600	309,530,482
Financial assets held at fair value through the income statement	-	50,095,977	50,095,977
Financial assets held at fair value through other comprehensive income	10,937,629	17,438,538	28,376,167
Investment in Subsidiaries	-	8,043,929	8,043,929
Investment in Associates	-	11,307,937	11,307,937
Derivative financial instruments	1,943,199	-	1,943,199
Total financial assets	**79,392,841**	**344,668,981**	**424,061,822**
Liabilities			
Financial liabilities measured at amortised cost	273,075,383	45,730,845	318,806,228
Derivative financial instruments	1,854,165	-	1,854,165
Total financial liabilities	**274,929,548**	**45,730,845**	**320,660,393**

Notes to the Consolidated Financial Statements (continued)

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

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**

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**

28. 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	**2018**	**2017**
Assets	**£**	**£**
Denominated in Sterling	365,096,294	216,291,460
Denominated in other currencies	70,525,884	64,234,765
	435,622,178	**280,526,225**
Liabilities		
Denominated in Sterling	168,792,897	87,737,810
Denominated in other currencies	155,752,196	65,326,768
	324,545,093	**153,064,578**

Company	**2018**	**2017**
Assets	**£**	**£**
Denominated in Sterling	376,321,631	212,926,727
Denominated in other currencies	53,726,183	64,234,763
	430,047,814	**277,161,490**
Liabilities		
Denominated in Sterling	168,447,536	88,098,068
Denominated in other currencies	155,752,062	65,326,768
	324,199,598	**153,424,836**

29. 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 £408,213 were charged to the income statement (2017: £311,136). The pension creditor outstanding at the balance sheet date amounted to £48,560 (2017: £67,834).

30. 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:

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

Notes to the Consolidated Financial Statements (continued)

31. Share capital

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

32. Off balance sheet items

As at the year end, the Bank reported £nil (2017: £nil) of cash as an off balance sheet item.

Financing commitments

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

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

Other commitments

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

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

33. 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 2018 year-end balance of £29,374,795 (2017: 30,910,637) which was used to purchase the remaining 64.4% share in Gatehouse Capital. The Bank also entered into £177,587 (2017: £123,069) of rechargeable expenses for professional fees incurred on behalf of GFGL.

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

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

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

2018	**Shareholder** Kuwait Investment Authority	**Shareholder** The Securities House K.S.C.C.	**Ultimate parent** Gatehouse Financial Group Limited	**Associate** Gatehouse Capital
	£	**£**	**£**	**£**
Profit income	-	-	1,818,137	-
Profit expense	2,226,981	-	-	-
Assets	-	-	29,374,795	-
Treasury liabilities	150,294,947	28	11,589	-
Other liabilities	-	-	-	7,175

2017	**Shareholder** Kuwait Investment Authority	**Shareholder** The Securities House K.S.C.C.	**Ultimate parent** Gatehouse Financial Group Limited	**Associate** Gatehouse Capital
	£	**£**	**£**	**£**
Profit income	-	-	1,831,834	-
Profit expense	1,451,452	-	-	-
Assets	-	-	30,910,637	-
Treasury liabilities	59,778,144	28	183,131	-
Other liabilities	-	-	-	21,464

Notes to the Consolidated Financial Statements (continued)

34. Risk Management

The Risk Management function forms an integral part of Gatehouse's three lines of defence. Its role is to provide the control functions (Risk and Compliance) 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 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 customers, 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 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 'watch list' process

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.

From 1 January 2018 the Bank adopted the new accounting standard IFRS 9 for measuring impairment allowances for financial assets, the classification and measurement of financial assets and hedge accounting. IFRS 9 introduced a new impairment model that requires the recognition of expected credit losses (ECL) on all financial assets. The expected credit loss considers forward looking information to recognise impairment allowances earlier in the lifecycle of the product. Consequently impairment allowances are more closely linked to changes in economic outlook than under the IAS 39 impairment allowance assessment.

The IFRS 9 model allows the assessment of the credit risk exposure to the Bank that is inherent in financial assets and commitments (Treasury assets (including LAB Sukuk), real estate finance and residential property finance). The model is jointly controlled by Risk and Finance functions, who also agree the nature of forward looking stress scenarios.

Note 3 refers to the basis by which the Bank reviews for impairments of its financial assets. Note 9 details the impairment provisions taken in the year to the income statement.

Exposure

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

Group	**2018**	**2017**
	£	**£**
Cash and balances with banks	15,669,222	11,900,028
Financing and advances at amortised cost	302,494,372	152,446,420
Financial assets held at fair value through the income statement (Debt Assets)	35,010,546	10,707,920
Financial assets held at fair value through other comprehensive income (Debt Assets)	25,752,775	47,697,124
Derivative financial instruments	1,943,199	-
	380,870,114	**222,751,492**

Notes to the Consolidated Financial Statements (continued)

34. Risk Management (continued)

Company	2018	2017
	£	£
Cash and balances with banks	14,764,131	11,753,562
Financing and advances at amortised cost	309,530,482	159,482,529
Financial assets held at fair value through the income statement (Debt Asset)	35,010,546	10,707,920
Financial assets held at fair value through other comprehensive income (Debt Assets)	25,752,775	47,697,124
Derivative financial instruments	1,943,199	-
	387,001,133	**229,641,135**

Geographical region

The Bank's credit exposure can be analysed into the following geographical regions based on the location of the obligor:

Group	2018	2017
	£	£
GCC countries	66,161,453	38,636,691
Kuwait	42,004,360	30,023,549
Saudi Arabia	9,066,515	6,521,446
UAE	11,750,562	21,202
Qatar	1,672,138	2,216,960
Oman	958,174	-
Bahrain	709,704	-
Europe	249,709,434	162,871,218
North America	23,153,619	17,123,706
Asia	33,843,819	3,672,579
Africa	6,678,990	300,832
Australasia	1,322,799	-
	380,870,114	**222,751,492**

Company	2018	2017
	£	£
GCC countries	66,161,453	38,636,691
Kuwait	42,004,360	29,877,083
Saudi Arabia	9,066,515	6,521,446
UAE	11,750,562	21,202
Qatar	1,672,138	2,216,960
Oman	958,174	-
Bahrain	709,704	-
Europe	255,840,453	177,129,070
North America	23,153,619	10,202,795
Asia	33,843,819	3,672,579
Africa	6,678,990	-
Australasia	1,322,799	-
	387,001,133	**229,641,135**

Credit quality

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

Group	Investment grade	Non-investment grade	Non-rated	Total
2018	£	£	£	£
Assets				
Cash and balances with banks	14,762,276	-	906,946	**15,669,222**
Financing and advances at amortised cost	21,995,900	-	280,498,472	**302,494,372**
Financial assets held at fair value through the income statement	-	-	35,010,546	**35,010,546**
Financial assets held at fair value through other comprehensive income	21,635,012	-	4,117,763	**25,752,775**
Derivative financial instruments	1,943,199	-	-	**1,943,199**
Total assets	**60,336,387**	**-**	**320,533,727**	**380,870,114**

34. Risk Management (continued)

Company	Investment grade	Non-investment grade	Non-rated	Total
2018	£	£	£	£
Assets				
Cash and balances with banks	14,762,275	-	1,856	**14,764,131**
Financing and advances at amortised cost	21,995,900	-	287,534,582	**309,530,482**
Financial assets held at fair value through the income statement	-	-	35,010,546	**35,010,546**
Financial assets held at fair value through other comprehensive income	21,635,012	-	4,117,763	**25,752,775**
Derivative financial instruments	1,943,199	-	-	**1,943,199**
Total assets	**60,336,386**	**-**	**326,664,747**	**387,001,133**

Group	Investment grade	Non-investment grade	Non-rated	Total
2017	£	£	£	£
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**

Company	Investment grade	Non-investment grade	Non-rated	Total
2017	£	£	£	£
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**

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 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.

The Bank has two principal sources of funding being i) funding from shareholder via the Kuwait Investment Authority ('KIA') and ii) retail deposit platform Gatehouse savings. As at 31 December 2018 the KIA has provided the Bank with a funding of £150,294,947 (2017: £59,778,144). The Bank has actively sought to reduce its reliance on shareholder funding and has concentrated its efforts in raising alternative funding via its retail savings platform, Gatehouse savings. As at 31 December 2018 Gatehouse savings deposits were £130,131,390 (2017: £72,267,157).

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.

Group	Less than 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Total
2018	**£**	**£**	**£**	**£**	**£**	**£**
Assets						
Fixed rate items	50,237,412	10,759,453	150,975	22,784,057	275,281,598	359,213,495
Non-rate sensitive	15,837,265	1,577,648	123,943	-	4,117,763	21,656,619
Total assets	**66,074,677**	**12,337,101**	**274,918**	**22,784,057**	**279,399,361**	**380,870,114**
Liabilities						
Assets						
Fixed rate items	58,522,003	56,731,547	95,805,003	64,002,464	45,639,839	320,700,856
Non-rate sensitive	-	-	-	-	-	-
Total assets	**58,522,003**	**56,731,547**	**95,805,003**	**64,002,464**	**45,639,839**	**320,700,856**
Net	**7,552,674**	**(44,394,446)**	**(95,530,085)**	**(41,218,407)**	**233,759,522**	**60,169,258**

Notes to the Consolidated Financial Statements (continued)

34. Risk Management (continued)

Company	Less than 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Total
2018	**£**	**£**	**£**	**£**	**£**	**£**
Assets						
Fixed rate items	50,237,411	10,759,453	150,975	29,820,167	275,281,598	366,249,604
Non-rate sensitive	14,932,175	1,577,648	123,943	-	4,117,763	20,751,529
Total assets	**65,169,586**	**12,337,101**	**274,918**	**29,820,167**	**279,399,361**	**387,001,133**
Liabilities						
Assets						
Fixed rate items	58,522,003	56,731,547	95,805,003	63,962,001	45,639,839	320,660,393
Non-rate sensitive	-	-	-	-	-	-
Total assets	**58,522,003**	**56,731,547**	**95,805,003**	**63,962,001**	**45,639,839**	**320,660,393**
Net	**6,647,583**	**(44,394,446)**	**(95,530,085)**	**(34,141,834)**	**233,759,522**	**66,340,740**

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						
Assets						
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 assets	**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	103,234,952	182,509,860
Non-rate sensitive	11,753,562	-	-	-	76,421,833	88,175,395
Total assets	**79,091,932**	**-**	**-**	**11,936,538**	**179,656,785**	**270,685,255**
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**	**120,134,781**

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.

Notes to the Consolidated Financial Statements (continued)

34. Risk Management (continued)

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

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

Value At Risk

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

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

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

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

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

Foreign Exchange Risk

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

34. Risk Management (continued)

Fair value measurements recognised in the balance sheet

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

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

Group and Company 2018	Level 1	Level 2	Level 3	Total
	£	£	£	£
Derivative financial instruments				
Derivative financial instruments	1,943,199	-	-	1,943,199
Financial assets held at fair value through the income statement				
Unquoted equity securities	-	-	15,085,431	15,085,431
Financing arrangements	-	6,801,615	28,208,931	35,010,546
Financial assets at fair value through other comprehensive income				
Quoted Sukuk	21,635,012	-	-	21,635,012
Quoted Funds	4,117,763	-	-	4,117,763
Unquoted equity securities	-	-	2,395,185	2,395,185
Unquoted funds	-	-	228,207	228,207
Total	**27,695,974**	**6,801,615**	**45,917,754**	**80,415,343**

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	**32,502,850**	**-**	**39,592,258**	**72,095,108**

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	2018 Carrying value	2017 Carrying value	Valuation Technique	Significant unobservable inputs
	£	£		
Financing arrangements	28,208,931	-	Measured using discounted cash flow models	Financial statements
UK Unquoted equity securities	16,869,651	18,266,552	Measurement of net assets as a proportion of participating shares in issue	Third party appraisal reports, cash and debt balances
US Unquoted equity securities	610,965	5,869,237	Measurement of net assets as a proportion of participating shares in issue	Third party appraisal reports, audited financial statements
Unquoted funds	228,207	262,195	Measurement of net assets as a proportion of participating shares in issue	Financial statements
Unquoted sukuk portfolio	-	15,194,274	Measurement of net assets as a proportion of participating shares in issue	Financial statements
Total	**45,917,754**	**39,592,258**		

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)

34. Risk Management (continued)

Reconciliation of Level 3 fair value measurements of financial assets

2018	Fair Value Through Other Comprehensive Income			
	Unquoted equities	Unquoted funds	Unquoted sukuk	Total
Balance at 1 January 2018	**24,135,789**	**262,195**	**15,194,273**	**39,592,257**
Fair value changes recognised on reclassification of financial assets	(14,529,662)			(14,529,662)
Total gains or losses:				
In income statement	-	-	-	-
In FVTOCI	(1,730,642)	(33,988)	-	(1,764,630)
Purchases	-	-	-	-
Issues	-	-	-	-
Settlements	(5,480,300)	-	(15,194,273)	(20,674,573)
Transfers out of Level 3	-	-	-	-
Transfers into Level 3	-	-	-	-
Balance at 31 December 2018	**2,395,185**	**228,207**	**-**	**2,623,392**

2017	Fair Value Through Other Comprehensive Income			
	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 income statement	(1,563,910)	(106,820)	270,996	(1,399,734)
In FVTOCI	137,760	14,566	-	152,326
Purchases	-	-	-	-
Issues	-	-	-	-
Settlements	(6,722,267)	-	-	(6,722,267)
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**

2018	Financial assets held at fair value through the income statement		
	Financing arrangements	Unquoted equities	Total
Balance at 1 January 2018	29,831,833	14,529,662	**29,831,833**
Negative revaluations	(101,149)	-	**(101,149)**
Fair value uplifts	-	555,769	**555,769**
Net settlements	(1,521,753)	-	**(1,521,753)**
Balance at 31 December 2018	28,208,931	15,085,431	**43,294,362**

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, internal 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.

There remains uncertainties relating to the UK departing from the EU ('Brexit') and the nature of any final agreement. The range of macro-economic effects of Brexit on the UK will depend on the mode of exit – 'hard' or 'soft', either way it will be some time before results become clear. The Bank expects in the near term uncertainty in the housing market to impact property values, which will have a direct consequence on new financing volume. On a structural note, the Bank does not anticipate Brexit to impact it operations – staff and systems - due to its UK centric footprint.

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.

Notes to the Consolidated Financial Statements (continued)

34. Risk Management (continued)

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:

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

35. 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 133 (2017: 44) for the year ended 31 December 2018.

Country by Country Breakdown
The Group received no public subsidies during 2018.

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	111,845	(15,775,360)	-	81
Jersey	Investment vehicles	87,748	32,410	6,260	-
United Kingdom	Management of real estate	192,901	(8,104)	-	52
Group Consolidated adjustments		(400,800)	(110,064)	-	-
Total	**-**	**(8,306)**	**(15,861,118)**	**6,260**	**133**

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 subsidiaries (GHB Holdings Limited, GHB Properties Limited and Ascend Estates Limited). These include rental income eliminations on the Mayfair office lease held between Bank and GHB Properties Limited.

36. Parent Company

As at 31 December 2018 the Bank's ultimate parent undertaking was Gatehouse Financial Group Limited, incorporated as a private company in Jersey on 5 March 2015 under the Companies (Jersey) Law 1991. The address of the registered office is Gatehouse Financial Group Limited, 44 Esplanade, St Helier, Jersey JE4 9WG.

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