Annual Report and Financial Statements

For the year ended 31 December 2019

gatehousebank

WELCOME

Company Information

Directors

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

Secretary

Mohaimin Chowdhury

Auditor

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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 2019 Annual Report and Financial Statements.

I am pleased with the significant further progress made by the Gatehouse Bank team during 2019. The transformation into an agile, challenger-style bank continues in accordance with the Board approved five-year Strategic Plan. The Executive has successfully managed a small number of legacy issues and I believe the Bank has an excellent growth trajectory ahead.

Our new sector of Residential Home Finance has appealed to specialised brokers and direct customers alike, resulting in a portfolio exceeding £400m.

I am delighted that we have the ability to raise sufficient liquidity via our award-winning digital savings platform and am pleased that we continue to have a prudent capital management plan.

Our Build to Rent activity remains strong with the two high-performing funds enduring and work commencing on the origination of a third fund. Our majority acquisition of Ascend Estates Limited continues to develop into an excellent investment.

The Bank's 2019 net financial result was largely impacted by a one-off provision for legacy activities and the delay in completion of real estate advisory transactions. I am pleased with the downward trajectory of the cost:income ratio* moving from 167% to 112% (excluding one-off revaluations) and this will continue to improve as the Bank leverages on its scale and growth in its financing portfolio.

The Board continues to monitor closely the impact of the COVID-19 crisis and the speed and scale of the global economic downturn. The Bank's ethical stance leaves it well positioned to fully support our customers and clients during this turbulent time and we will continue to review and ensure our Risk Appetite Statement is aligned to market conditions.

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.

The Bank has adjusted well to remote working during the Coronavirus pandemic, which gives me increased confidence that we can use technology to work smartly to the benefit of our customers and staff with the consequential benefit of an improved cost:income ratio.

Finally, I would like to thank our Shareholders and the Board of Directors for their support and guidance, and all our staff for their continuing hard work and dedication.

Fahed Faisal Boodai
Chairman
18 May 2020

*Cost:income ratio is calculated by dividing the total operating expenses by the total operating income excluding one-off revaluations on financing assets and unquoted equity securities presented in Note 7.

Chief Executive Officer's Statement

2019 was a significant year in Gatehouse Bank's strategic development, and resulted in major milestones being achieved.

	£	Year-on-Year change
Gross Assets	685m	+57%
Total Savings	565m	+77%
Home Finance Portfolio	405m	+169%

I am delighted to report our investors are pleased with the progress our teams have made this year.

We made huge strides in the development of the Bank's cultural standing, our product offering and our innovative Build to Rent funds.

In addition, we committed to playing our part in building a sustainable future for all, becoming a founding signatory of the UN Principles for Responsible Banking. This commitment will provide an anchor for our Corporate and Social Responsibility activity going forward and enable us to both track and continuously improve the positive impact we have on the communities we serve the wider society and the environment.

Colleagues

As the number of colleagues employed by the Bank continues to grow, we have also undertaken further work with them around our Cultural Values. These are:

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

We continue to operate with an entrepreneurial and challenger style whilst, of course, meeting regulatory standards.

Our commitment to well-being remains at the forefront of our minds.

Business Progress

Our strategy continues to be focused in three core markets:

1. Home and Commercial Finance

- Home Purchase Plans
- Buy-to-Let
- Commercial Real Estate

2. Savings

- Retail customers
- Corporate customers

3. Build to Rent

- Two established funds producing high and sustainable returns to investors.

In 2019, we continued to broaden out our Home Finance offering for UK, UK expat and international landlords and homebuyers, enhancing our Buy-to-Let proposition and launching our first range of fixed rental rate Home Purchase Plan products.

The UK home finance market was flat for most of the year due to Brexit uncertainties but, nevertheless, Home Finance balances were up 169% year on year to over £400m and our focus on specialist sectors resulted in a net profit margin for total financing of 180bps.

Importantly, we continued to establish relationships with new intermediaries - we now have over 1,000 brokers registered to introduce clients to Gatehouse Bank. In addition, we have a Direct to Consumer finance advisory team which accounted for 20% of our total 2019 originations.

We have plans to further increase the home finance product range with the development of innovative products, as well as considering a move into different UK jurisdictions. This will be dependent upon when the global Coronavirus pandemic eases on the economic environment.

It is pleasing to note our total balance sheet assets now exceed £685m, an increase of 57% compared to 2018.

Supporting the Bank's financing businesses, our award-winning savings proposition also went from strength to strength in 2019, with total deposits now exceeding £0.5bn. Our customer satisfaction remains high with customers valuing our combination of competitive products and a fully digital platform.

In addition we made strong improvements to the Build to Rent Funds we advise and we maintained high tenant occupancy levels at 98% and lease renewal levels exceeding 80% (2018: 96% and 76%, respectively).

2019 saw the launch of a fund raising campaign for a significant third Build to Rent Fund and this is anticipated to close in 2020.

Our year-on-year loss reduced considerably, with the 2019 results largely driven by a provision for a financial liability to cover the possibility of any adverse findings relating to the Company's historic activities and delays in the completion of forecast real estate advisory transactions. I remain confident we have successfully closed the last of our legacy issues and the Bank is well positioned to move forward in 2020.

Gatehouse Bank won several awards in recognition of its product design, customer service and ethical stance.

These included:

Arabian Business Award Winner 2019
Award for Business

Islamic Retail Banking Award (IRBA) Winner 2019
Best Islamic Home Financing Platform

Global Islamic Finance Award (GIFA) Winner 2019
Best Islamic Savings Products

Moneyfacts 2019 Highly Commended
Best Internet Account Providers

Moneynet Award Winner 2019
Best New Savings Provider.

Chief Executive Officer's Statement (continued)

Future growth

In accordance with our five-year plan we raised additional Tier 2 capital in early 2020.

The Bank plans to raise further Tier 1 equity capital to support our future growth plans.

Our cost:income ratio* (excluding one-off revaluations) has shown strong year-on year improvement and is predicted to fall further over the course of the Bank's business plan. The speed at which this continues to fall will be driven by the easing of the Coronavirus pandemic. The Bank's near-term aim is to increase our Home Finance portfolio in excess of £1bn.

The long-term growth projections are, in my view, realistic as our specialist focus means we need to attract a modest proportion of UK finance and savings to achieve our planned expansion.

The Board continues to review the global impact of the Coronavirus pandemic. It is foreseen that Covid-19 will have a negative impact on the Bank's financial performance in 2020 and contingency measures will be put in place to mitigate this impact. The Bank remains fully supportive to our customers who may need additional support during these uncertain times.

Finally, I would like to thank our employees for their continued hard work and dedication, the Board and the Chairman for their strategic advice and direction, and our Shareholders for their continued support.

Charles Haresnape
Chief Executive Officer
18 May 2020

*Cost:income ratio is calculated by dividing the total operating expenses by the total operating income excluding one-off revaluations on financing assets and unquoted equity securities presented in Note 7.

2019 Key Highlights

Home Finance balances increased

169% to £405m

(2018: £151m)

UN Principles for Responsible Banking

We have committed to aligning our business strategy with society's goals, as expressed in the United Nations sustainable development goals and the Paris Climate Agreement.

In the Community

Our colleagues chose to support Macmillan Cancer Support as our Charity of the Year for 2019/2020. Macmillan Cancer Support provides specialist health care and advice for those suffering from cancer.

Savings Deposits grew by

77% to £565m

(2018: £319m)

Cost Income Ratio reduced to

112%

(2018: 167%)

Our Awards

- Arabian Business Award Winner 2019
- Islamic Retail Banking Award (IRBA) Winner 2019
- Global Islamic Finance Award (GIFA) Winner 2019
- Moneyfacts 2019 - Highly Commended
- Moneynet Award Winner 2019

Corporate Governance Report

The Board of Directors ('the Board')

Non-Executive Directors

Fahed Faisal Boodai, Chairman

Mr Boodai is the co-founder and Chairman of Gatehouse Financial Group, Chairman of Gatehouse Bank plc and the founder and Chairman of Gatehouse Capital. Mr. Boodai is also the Vice Chairman and CEO of Securities House, one of the largest shareholders of Gatehouse Financial Group. With more than 20 years' investment banking experience specifically within the global real-estate market, he has presided over diverse real estate acquisitions and exits totalling more than US$3 billion.

Mr Boodai holds an MBA with a concentration in Finance from Loyola Marymount University in Los Angeles, California and a Bachelor of Science degree in International Business from the University of San Diego. He also occupies a number of external board and director positions. Mr Boodai's family maintains overall control of the Boodai Corporation, a Kuwait-based holding company with diverse interests including construction, engineering and global real estate.

Gerald Gregory, Deputy Chairman and Chairman of the Board Risk and Compliance Committee and Senior Independent Director

Mr Gregory is a retired Managing Director of a diverse portfolio of businesses and 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.

Andrew Gray, Chairman of the Audit Committee and Remuneration and Nominations 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.

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 the 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 below.

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's) Senior Managers and Certification Regime and which are captured in the CGF.

The Chairman

The responsibilities of the Chairman are identified and documented in the CGF. These responsibilities include leading the Board and ensuring that the Board effectively discharges its responsibilities; promoting the highest standards of corporate governance in the Bank; overseeing the Board agendas to ensure that the Board devotes appropriate time and attention to important matters; ensuring the integrity of the Bank's internal control framework and the robustness of key management processes including strategic planning, financial control, risk management, resource allocation and performance management; 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 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.

The Board has appointed Gerald Gregory as Senior Independent Director to provide a sounding board for the Chairman and serve as an intermediary for the other directors and shareholders.

The Board acknowledges the Chairman's extended appointment but, given his areas of expertise, contacts and contribution to the Board and the wider group from which the Company benefits, believes his appointment continues to be appropriate and promotes the success of the Company.

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 2019, training sessions were provided on Leadership Development and IT and Operations. In addition, Directors completed a suite of online compliance training modules and have individual development plans.

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, and 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 nine times in 2019.

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 auditor. The AC comprises two Independent Directors and one other Non-Executive Director. The AC met five times in 2019.

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 2019.

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 one Independent Director, two other Non-Executive Directors and one Executive Director. The BCIC met once in 2019.

Below is a table of Director appointments, resignations and committee memberships in 2019.

Director	Date of Appointment	Date of Resignation	Committee Memberships (as at 31 December 2019)
Fahed Faisal Boodai	25.5.2007	-	BRCC, BCIC
Gerald Gregory	10.12.2015	-	AC, BRCC, RNC
Abdulaziz AlBader	15.2.2017	-	AC, RNC, BCIC
Stephen Smith	11.6.2013	13.6.2019	N/A
Andrew Gray	12.7.2017	-	AC, BRCC, RNC, BCIC
Charles Haresnape	8.5.2017	-	BCIC
Danesh Mahadeva	17.8.2017	-	-

Below: Charles Haresnape, CEO, at the United Nations in New York, where Gatehouse Bank signed up to the UN Principles for Responsible Banking.

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 36 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 8 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.

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**.

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 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 this report highlights the relevant key performance indicators (KPI's) 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 Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA. As at 31 December 2019, the Bank had an interest of 35.6% in Gatehouse Capital – Economic and Financial Consultancy KSC, an advisory firm incorporated in Kuwait and a shareholding of 50.1% in Ascend Estates Limited ('Ascend Properties'), a UK property sales and management company (the Group structure remained the same since 31st December 2018).

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 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. This involves skilled-manual underwriting dovetailed with modern technology, thereby ensuring scalability.

Financial Results

The financial statements for the year ended 31 December 2019 are shown on pages 42 to 51. The loss before tax for the year amounted to £1,910,111 (2018: loss before tax of £15,842,285).

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 2019:

	2019	2018	Year-on-year change
Gross financing	£530m	£251m	£279m
Leverage ratio	11%	19%	-8%
Average risk weight	58%	70%	-12%
Cost:income*	112%	167%	-55%
CET1 ratio	19%	26%	-7%
Total number of Gatehouse savings depositors	**8,859**	**2,602**	**6,257**

*Cost:income ratio is calculated by dividing the total operating expenses by the total operating income excluding one-off revaluations on financing assets and unquoted equity securities presented in Note 7.

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 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. All finance is secured on UK residential property. During 2019, total Buy-to-Let financing increased by 155% to £385million. This has helped contribute to the average risk-weight falling to 58% in 2019 and improving the Bank's capital efficiency.

In 2019, we brought additional competition to the UK Home Finance Market, with the launch of our 2-year and 5-year fixed rental rate Home Purchase Plan (HPP) products for those looking to acquire or refinance a home to live in. From a standing start, we achieved over £20million of new HPP finance during 2019. We will look to further broaden our offering in 2020 with new products suited to first time home buyers.

We expect our majority stake in Ascend Properties, a leading UK property sales and management company, to lead to additional opportunities in 2020. Ascend Properties, has significant experience and offers 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.

Ascend has ambitious plans to grow its assets under management.

Gatehouse has also agreed a referral process for two Kuwait-based banks to refer their clients who are looking to finance UK properties.

Strategic Report (continued)

Real Estate Finance

The Real Estate Finance team continues to originate secured and first ranking Shariah-compliant financing for commercial real estate investment assets in the UK for a range of clients, including investors, asset managers and developers. In 2019, total Real Estate Finance facilities increased 7% year on year to £127million.

As our Home Finance portfolio has grown significantly, we took the decision to reduce our appetite for large commercial financing. To this end our maximum facility is typically c£7.5million.

This has enabled a more efficient use of our capital.

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. These transactions are generally financed for overseas investors.

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 (Private Rented Sector)..

In 2019, the team managed the successful acquisition of a modern, ca 120,000 sq. ft. Grade A office building in Leeds on behalf of real estate investors.

Private Rented Sector / Build to Rent

Gatehouse has completed two BTR funds and developed more than 1,600 family homes across 22 sites predominately in North West England.

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

The BTR sector is one of the fastest growing housing segments in the UK.

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 2020, which is planned to deliver over 5,000 additional units.

We remain committed to the single-family home types of properties, rather than large apartment blocks.

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

The Bank provides online personal deposit accounts offering diversification of existing funding sources with products up to a five-year term.

Our Savings platform is managed by a specialised outsourced provider and we have also developed strong relationships with cash management platforms. This strategy has resulted in a successful diversification and incremental liquidity.

The Bank continued to experience strong demand for its competitive savings products in 2019, with total deposits increasing by 244% to £447 million.

During 2020, the Bank is considering further extending its range of retail savings products to include a range of Cash ISA products.

Principal Risks and Uncertainties

The Bank's principal risks and uncertainties have been highlighted and discussed in detail in Note 36.

Brexit

As the outcome of trade negotiations following Brexit remains unclear, there continues to be elevated levels of macroeconomic uncertainty. The Bank's financing activity is solely focused in the United Kingdom and, as such, will be impacted by any risks emerging from changes in the macroeconomic environment. On a structural note, the Bank does not anticipate Brexit to impact operational continuity of staff and systems due to its UK centric footprint.

Corporate Social Responsibility

We take our responsibility to society and the environment seriously. Our Shariah principles ensure our business and operations are conducted in a fair manner and that our products are transparent, fair and socially responsible.

We prohibit the use of our funds to support the arms industry, alcohol, tobacco, adult entertainment and gambling. Our principles encourage trading and enterprise that generates wealth for the benefit of the whole community.

This year we deepened our commitment to ethical banking and sustainability by becoming one of the Founding Signatories to the United Nations (UN) Principles for Responsible Banking. Launched in September 2019, the UN Principles provide a framework for a sustainable banking system and help the financial sector demonstrate how it makes a positive contribution to society.

We accept our shared responsibility for shaping a more sustainable future. As a Founding Signatory to the UN Principles we have committed to further aligning our business strategy to be consistent with and contribute to society's goals - as expressed in the UN Sustainable Development Goals, the Paris Climate Agreement and other relevant national and regional frameworks.

In 2020 we will begin a robust assessment of the environmental, social and economic impacts of our business activities. This assessment will help inform clearly defined objectives and targets that appropriately address the sustainability risks and opportunities facing our business and all of our stakeholders. We will continuously review our performance against our commitments, and we will publish regular and transparent progress reports on our website.

We take a strategic and governed approach to managing risks due to climate change, in line with regulatory requirements and our internal Risk Management Framework. We expect to formalise ambitious sustainability criteria into our policies and practices in 2020 as well as fully integrating climate risk and sustainability disclosure requirements into our public reporting.

Strategic Report (continued)

***Above:** Throughout the year, our staff participated in a number of events to raise money for Macmillan Cancer Support.*

Illustrating our growing commitment to the community we launched our Charity of the Year programme in April 2019. Colleagues from across the Bank chose Macmillan Cancer Support as our first official Charity of the Year for 2019/2020. Macmillan offer emotional, physical and financial support to the more than 360,000 people in the UK who are diagnosed with cancer every year.

At Gatehouse we believe that no one should have to face cancer alone and we spent the second half of 2019 running, baking, counting our steps and even golfing to help raise much needed funds for Macmillan's vital work. We expect to further broaden our community support through expanded fundraising, corporate philanthropy and employee volunteering in 2020.

Climate Risk Management

We take a strategic and governed approach to managing risks due to climate change, in line with prevailing regulatory guidance and requirements and our internal Risk Management Framework. We continue to develop processes and practices to assess and manage the risks to the bank and our customers arising from climate change.

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. Disclosures on impact of Covid-19 pandemic on Bank's business can be found in Note 3 and Note 38.

Approval

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

Charles Haresnape
Chief Executive Officer
18 May 2020

Our Ethical Approach

Balanced Banking

Grounded in Shariah principles, our products are transparent, fair and socially responsible. We prohibit the use of our funds to support the arms industry, alcohol, tobacco, adult entertainment and gambling.

UN Principles for Responsible Banking

We have committed to aligning our business strategy with society's goals, as expressed in the UN SDGs and the Paris Climate Agreement – frameworks that identify the most pressing societal, environmental and economic needs of our time. In doing so we demonstrate that our business and the products and services we provide can support a sustainable future while achieving long term business benefits.

In the Community

As a UK based bank, we wanted to tackle an issue that is close to the hearts of many UK families. Every two minutes someone in the UK is diagnosed with cancer. This is why our colleagues chose to support Macmillan Cancer Support as our Charity of the Year for 2019/2020. Macmillan Cancer Support provides specialist health care and advice for those suffering from cancer.

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 2019 to 31 December 2019 (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 rules and principles 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

18 May 2020

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 2019. The Corporate Governance Statement set out on pages 10 to 17 forms part of this report.

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

Dividend

No dividends were paid during the year (2018: £nil). The Directors do not recommend a final dividend on ordinary shares to be paid in respect of the year (2018: £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 jointly with its parent for the benefit of their Directors and directors of subsidiaries that were in post during the year and remain in force at the date of this report.

Events after the reporting date

Details of events occurring after the reporting date are discussed in Note 38 to the Financial statements.

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 (2018: £nil) and no charitable donations (2018: £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/she ought to have taken as a Director to make himself/herself 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.

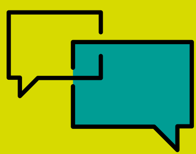
Approved by the Board of Directors and signed on behalf of the Board.

Danesh Mahadeva
Chief Financial Officer
18 May 2020

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 the 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
18 May 2020

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 2019 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 39.

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; • Valuation of unquoted investments at fair value; • Going concern assessment; and • Impairment of goodwill. 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 £569k (2018: £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	Two additional key audit matters were identified in the current period. The first one relates to potential impairment of goodwill. It was identified due to the materiality of the goodwill balance and the level of judgement involved in assessing goodwill for impairment. The second key audit matter related to going concern assessment and was driven by the impact of the Covid-19 pandemic on the economy and by the increased complexity of considerations related to going concern in the current environment. There were no other 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	Valuation of expected credit losses on financing assets requires a significant degree of judgement. During the period the total amount of financing assets has grown considerably primarily due to the continuing growth in the Buy-to-Let residential property financing portfolio leading to the total gross amount of financing and advances at amortised cost reaching £559m (2018: £303m). As at 31 December 2019, the total provision for expected credit losses on financing assets was £150k (2018: £38k). We focused our risk on: • Determination of probabilities of default ('PDs') for the diminishing Musharaka portfolio; • Identification of significant increase in credit risk ('SICR') since origination for the Real Estate Finance portfolio; • Completeness of overlays; and • Valuation of collateral for exposures in Stage 2 and Stage 3. 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 ('ECL'). Management have disclosed information about credit risk within Note 36 and provision for expected credit losses in Note 16 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	As part of our audit work we: • Independently reviewed and assessed management's impairment policy and models against the requirements of IFRS 9: Financial Instruments; • Working with our credit modelling experts, tested whether the implemented model code remained in line with the methodology; • Obtained an understanding of the controls over measurement of expected credit losses; • Performed a retrospective assessment of observed default rates against modelled PDs; • Challenged whether additional material overlays may be required based on the characteristics of the portfolio, macroeconomic environment, and the ECL models; • Tested collateral values for exposures in Stage 2 and Stage 3; and • Performed testing across the Stage 1 population to assess whether there are other exposures where indications of SICR may exist, triggering classification into Stage 2 and recognition of lifetime expected credit losses, but have not been identified by management.
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 2019, the fair value of unquoted investments in real estate investment structures at fair value was £15.8m (2018: £17.5m) – see Notes 17 and 18 to the financial statements. The accounting policy can be found within Note 3. Management also disclosed information about market risk in Note 36.
How the scope of our audit responded to the key audit matter	As part of our audit work we: •Obtained an understanding of the key internal controls implemented by management around the valuation process; •Evaluated whether the valuation methodology was consistent with the requirements of the accounting standards; •Independently recalculated the net asset value of the investment structures based on their accounts and third party property valuations; •Working with our real estate valuation experts, reviewed these property valuations, including the assumptions and the methodologies used for appropriateness; and •Obtained and reviewed audited accounts of the investment entities. Where accounts are not audited, we substantiated key balances by agreeing them to supporting documentation.
Key observations	Unquoted investments in real estate investment structures held at fair value have been valued appropriately.

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

Going concern assessment

Key audit matter description	The rapid spread and ongoing uncertainty surrounding the impact of Covid-19 has increased complexity associated with the Directors' assessment of the Group's and Company's ability to continue as a going concern over a period of at least 12 months from the date of approval of the Financial Statements. In particular, the Group is impacted by risks of increase in expected credit losses, reductions in asset values, decrease in originations of new lending and outflows of customers' funds. The key considerations in relation to going concern are associated with the assessment of the Group's capital solvency and liquidity positions. In making their assessment, the Directors consider that the going concern basis of accounting is appropriate and that there is no material uncertainty related to going concern. The Directors' assessment of going concern was included in the Strategic report on page 22. Management's associated consideration of the impact of Covid-19 on the Company's and Group's ability to continue as a going concern is detailed in Note 3.
How the scope of our audit responded to the key audit matter	In response to the significant economic disruption associated with the Covid-19 pandemic we performed enhanced risk assessment procedures, and increased audit effort to challenge whether there was a material uncertainty over the Group's and Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the Financial Statements. We considered the Group's and Company's performance in 2020 to date. Working with our prudential and regulatory experts, we challenged and assessed management's evaluation of the Group's and Company's profitability, solvency, liquidity and funding forecast position. We reviewed and challenged by evaluating the appropriateness of underlying assumptions: • The scenario adopted by the Directors to capture potential downside risks, including the associated assumptions; • The subsequent stress testing output, with a particular focus on the headroom available against minimum regulatory requirements, under a severe but plausible scenario; • The 12 month liquidity forecast; • Severity of internal stress testing assumptions; • Management's business continuity plans and subsequent changes to those plans as a consequence of a prolonged impact from the Covid-19 pandemic; and • Where key operational services have been outsourced to third parties, management's assessment of those service providers' operational and financial resilience, or where necessary, the contingency plans in place where a supplier has been deemed at risk. We also reviewed and evaluated the disclosure of the going concern assessment in the financial statements.
Key observations	We concurred with management's conclusion that the going concern assumption was appropriate.

Impairment of goodwill

Key audit matter description	The Group acquired Ascend Estates Limited, in prior year. According to IAS 36 'Impairment of assets', goodwill acquired in a business combination is required to be tested for impairment at least annually. The goodwill impairment assessment is a complex area and requires management to exercise a significant degree of judgement, in particular in relation to the forecasting of the future performance of the Ascend business. The total amount of goodwill as at 31 December 2019 was £3.8m. Management have disclosed information about goodwill within Note 20. The respective accounting policy can be found within Note 3.
How the scope of our audit responded to the key audit matter	As part of our audit work we: • Obtained an understanding of the key internal controls implemented by management around the goodwill impairment assessment; • Obtained, reviewed and challenged management's paper on goodwill impairment performed as at 31 December 2019 and assessed whether the review performed by management is consistent with the requirements of IAS 36 'Impairment of assets'; and • As part of our challenge, we assessed the reasonableness of Ascend Properties, business forecasts that were used by management in their impairment assessment, which involved a retrospective assessment of accuracy of historical forecasts prepared by management for Ascend. We also assessed the discount rate used to calculate the recoverable value based on our independent research.
Key observations	We concurred with management's assessment that no impairment of goodwill is required.

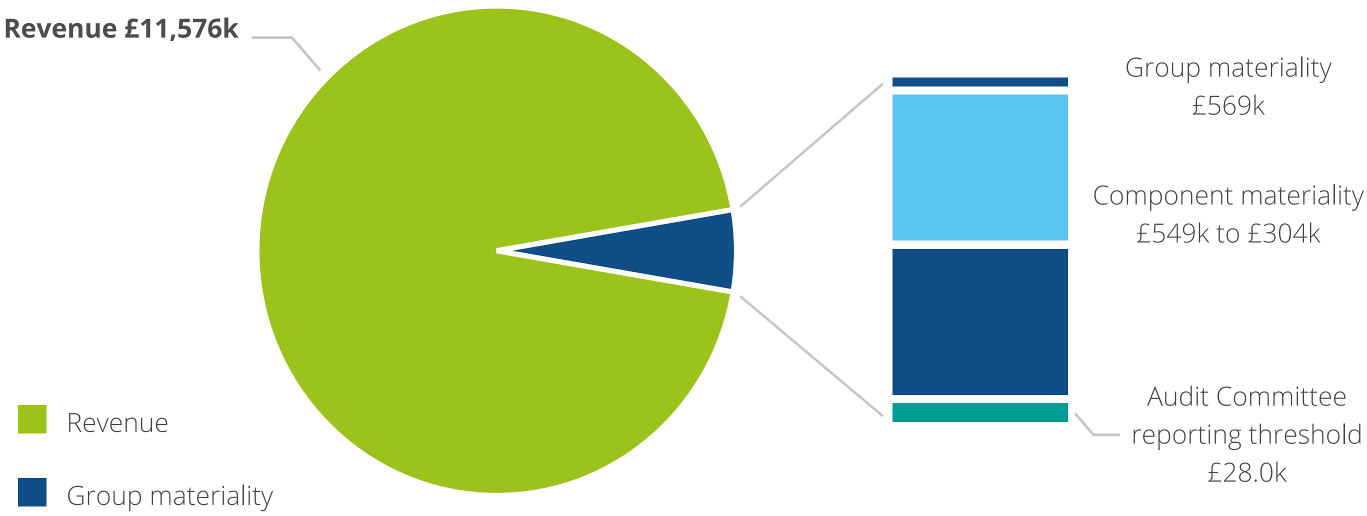
Independent Auditor's Report to the Members of Gatehouse Bank PLC (continued)

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	£569k (2018: £350k)	£549k (2018: £332k)
Basis for determining materiality	5% of revenue defined as income on financial assets held at amortised cost plus net fee and commission income. (2018: 5% of income on financial assets held at amortised cost plus net fee and commission income).	4.8% of revenue defined as income on financial assets held at amortised cost. (2018: 4.8% income on financial assets held at amortised cost plus net fee and commission income).
Rationale for the benchmark applied	Revenue has been chosen as 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 Group's equity holders and total equity.	



We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered the quality of the control environment and whether we were able to rely on controls and the level of audit adjustments identified in the prior period.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £28k (2018: £17k), 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 Group and its environment, including internal control, and assessing risks of material misstatements. The parent company 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 £304k to £549k.

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 here.

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, Prudential Regulation Authority ('PRA') and Financial Conduct Authority ('FCA') regulations, pensions legislation, tax legislation.

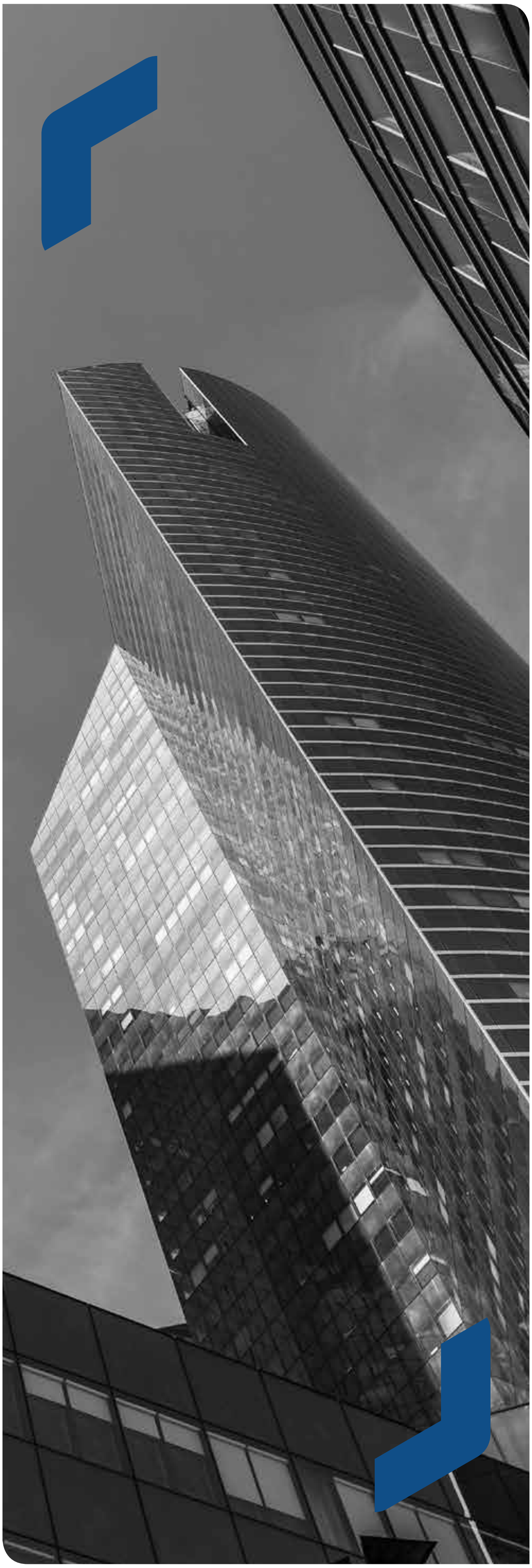
Audit response to risks identified

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 37 to the financial statements for the financial year ended 31 December 2019 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 13 years, covering periods from our initial appointment through to the period ending 31 December 2019.

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
19 May 2020

Consolidated Income Statement

	Notes	Year ended 31 Dec 2019 £	Year ended 31 Dec 2018* £
Income			
Income from financial assets held at amortised cost	5	18,640,627	6,879,804
Charges to financial institutions and customers		(12,365,556)	(5,464,056)
Fees and commission income		5,370,584	3,257,203
Fees and commission expense		(69,874)	(12,243)
Foreign exchange gains/(losses)	6	2,009,104	614,602
Net gains/ (losses) from financial assets at fair value through income statement	7	3,659,805	(8,276,853)
Net gains/ (losses) from financial assets at fair value through other comprehensive income		692,656	1,161,983
Other income		2,267	283,056
Impairment charge	10	(112,297)	(113,839)
Total operating (losses)/income		**17,827,316**	**(1,670,343)**
Expenses			
Staff costs	8	(12,990,608)	(9,579,522)
Depreciation and amortisation	23 & 24	(1,059,042)	(673,431)
Other operating expenses	9	(5,463,862)	(5,800,061)
Total operating expenses		**(19,513,512)**	**(16,053,014)**
Operating Loss		**(1,686,196)**	**(17,723,357)**
Other provisions	11	(1,250,000)	-
Net share of profit of associate	19	1,026,085	1,881,072
Loss before tax	12	**(1,910,111)**	**(15,842,285)**
Tax	13	(161,414)	(12,549)
Loss for the year from continuing operations		**(2,071,525)**	**(15,854,834)**
Attributable to:			
Loss attributable to the Bank's equity holders		(2,368,732)	(15,846,763)
Non-controlling interest		297,207	(8,071)
		(2,071,525)	**(15,854,834)**

* Presentation of comparative information for 2018 has been changed in line with the presentation adopted for 2019 balances. Please refer to Note 4 for more information.

Consolidated Statement of Comprehensive Income

	Year ended 31 Dec 2019 £	Year ended 31 Dec 2018 £
Loss for the year from continuing operations	**(2,071,525)**	**(15,854,834)**
Items that may be reclassified subsequently to income statement if specific conditions are met:		
Losses on FVTOCI investments	(291,833)	(1,808,170)
Reclassification of gains/ (losses) on FVTOCI debt instruments included in the profit or loss	148,967	(195,163)
Foreign currency translation (losses)/gains from investment in associate	(539,285)	1,055,839
	(682,151)	**(947,494)**
Items that will not be reclassified subsequently to income statement:		
(Losses)/ gains on FVTOCI investments	(232,112)	-
Other comprehensive losses for the year	**(914,263)**	**(947,494)**
Comprehensive loss for the year	**(2,985,788)**	**(16,802,328)**
Attributable to:		
Loss attributable to the Bank's equity holders	(3,282,995)	(16,794,257)
Non-controlling interest	297,207	(8,071)
	(2,985,788)	**(16,802,328)**

Notes 1 to 39 form an integral part of the financial statements.

Consolidated Statement of Financial Position

	Notes	31 Dec 2019 £	31 Dec 2018 £ (restated)*
Assets			
Cash and balances with banks		11,659,288	15,669,222
Financing and advances at amortised cost	16	559,115,475	302,494,372
Financial assets held at fair value through the income statement	17	49,099,024	50,095,977
Financial assets at fair value through other comprehensive income	18	22,963,601	28,376,167
Investment in associate	19	14,693,072	16,441,441
Goodwill	20	3,805,020	3,805,020
Derivative financial instruments	22	6,571,752	1,943,199
Intangible assets	23	1,326,049	1,287,111
Property, plant and equipment	24	1,430,883	12,913,030
Other assets	27	2,449,470	4,235,289
		673,113,635	437,260,828
Property held for sale	26	11,555,998	-
Total assets		**684,669,633**	**437,260,828**
Liabilities			
Financial liabilities measured at amortised cost	28	564,742,230	318,846,691
Derivative financial instruments	22	4,977,556	1,854,165
Other liabilities	29	6,858,551	5,482,887
Total liabilities		**576,578,337**	**326,183,743**
Net assets		**108,091,296**	**111,077,085**
Shareholders' equity			
Share capital	33	150,049,301	150,049,301
Foreign currency translation reserve		2,087,347	2,626,632
Fair value through other comprehensive income reserve		(2,855,257)	(2,480,279)
Retained deficits		(42,027,543)	(39,658,811)
Equity attributable to the Bank's equity holders		107,253,848	110,536,843
Non-controlling interest		837,448	540,242
Total Equity		**108,091,296**	**111,077,085**

*The certain balances for the year 2018 have been restated. Please refer to Note 4 for more information.
Notes 1 to 39 form an integral part of the financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 18 May 2020. 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 2019	150,049,301	(2,480,279)	2,626,632	(39,658,811)	110,536,843	540,242	111,077,085
Other comprehensive (losses)/gains for the year							
Unrealised loss on instruments at FVTOCI	-	(523,945)	-	-	(523,945)	-	(523,945)
Accumulated reserve movement on disposal of instruments at FVTOCI	-	148,967	-	-	148,967	-	148,967
Foreign currency translation gain from associate investments	-	-	(539,285)	-	(539,285)	-	(539,285)
Total other comprehensive (losses)/gains for the year	-	(374,978)	(539,285)	-	(914,263)	-	(914,263)
Loss for the year	-	-	-	(2,368,732)	(2,368,732)	297,206	(2,071,526)
Balance at 31 December 2019	**150,049,301**	**(2,855,257)**	**2,087,347**	**(42,027,543)**	**107,253,848**	**837,448**	**108,091,296**

	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

	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Cash flows from operating activities	£	£
Operating loss on ordinary activities after tax	(1,910,111)	(15,854,834)
Adjusted for:		
Impairment charge	112,297	113,839
Other provisions	1,250,000	-
(Positive)/negative revaluation of financial assets held at fair value through income statement	(816,591)	12,120,619
Share of operating profit from associate	(1,026,085)	(1,881,072)
Fair value movement in derivative financial instruments	235,328	(595,370)
Depreciation and amortisation	1,059,042	673,431
Foreign exchange (gains)/ losses	(2,009,104)	(498,245)
(Gains)/ losses on financial assets held at fair value through income statement	352,648	(863,401)
Taxation	161,414	12,549
Net decrease/(increase) in operating assets:		
Net investment in financial assets held at fair value through other comprehensive income	1,089,694	93,320
Net investment in financial assets held at fair value through income statement	3,903,809	(6,317,954)
Changes in financing and advances at amortised cost	(256,733,400)	(179,879,785)
Net decrease in other assets	1,105,661	562,496
Net increase/(decrease) in operating liabilities:		
Changes in financial liabilities measured at amortised cost	243,511,346	168,769,531
Net increase in other liabilities	128,013	839,217
Net cash outflow from operating activities	**(9,586,039)**	**(22,705,659)**
Cash flow from investing activities		
Dividend received from associate	1,811,705	1,854,167
Proceeds from sale of financial assets	12,374,352	35,680,625
Purchases of financial assets	(6,989,325)	(8,161,808)
Investment in subsidiary	-	(1,893,451)
Purchase of plant and equipment	(103,659)	(207,526)
Purchase of intangible assets	(387,102)	(680,797)
Net cash inflow from investing activities	**6,705,971**	**26,591,210**
Cash flows from financing activities		
Cash outflow for lease liabilities	(325,180)	-
Net cash outflow from financing activities	**(325,180)**	**-**
Net (outflow)/ inflow in cash and cash equivalents	**(3,205,248)**	**3,885,551**
Cash and cash equivalents at the beginning of the year	15,669,222	11,900,028
Effect of foreign exchange rate changes	(804,686)	(116,357)
Cash and cash equivalents at the end of the year	**11,659,288**	**15,669,222**

Company Statement of Financial Position

	Notes	31 Dec 2019 £	31 Dec 2018 £ (restated)
Assets			
Cash and balances with banks		10,096,036	14,764,131
Financing and advances at amortised cost	16	566,160,242	309,530,482
Financial assets held at fair value through the income statement	17	49,099,024	50,095,977
Financial assets at fair value through other comprehensive income	18	22,963,601	28,376,167
Investment in associate	19	11,307,937	11,307,937
Investment in subsidiaries	20	9,682,579	9,682,579
Derivative financial instruments	22	6,571,752	1,943,199
Intangible assets	23	868,928	797,338
Property, Plant and Equipment	24	1,072,099	1,125,694
Other assets	27	2,233,938	4,062,960
Total assets		**680,056,136**	**431,686,464**
Liabilities			
Financial liabilities measured at amortised cost	28	564,742,230	318,806,228
Derivative financial instruments	22	4,977,556	1,854,165
Other liabilities	29	6,199,353	5,177,855
Total liabilities		**575,919,139**	**325,838,248**
Net Assets		**104,136,997**	**105,848,216**
Shareholders' Equity			
Share capital	33	150,049,301	150,049,301
Fair value through other comprehensive income reserve		(2,492,098)	(2,540,603)
Retained deficits		(43,420,206)	(41,660,482)
Equity attributable to the Bank's equity holders and total equity		**104,136,997**	**105,848,216**

During the financial year the Bank has made standalone losses of £1,759,724 (2018: £15,775,360 loss).

*The certain balances for the year 2018 have been restated. Please refer to Note 4 for more information.

Notes 1 to 39 form an integral part of the financial statements. The financial statements were approved by the Board of Directors and authorised for issue on the 18 May 2020. 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 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**
Balance at 1 January 2019	150,049,301	(2,540,603)	(41,660,482)	**105,848,216**
Other comprehensive losses for the year				
Unrealised gain on instruments at FVTOCI	-	(100,462)	-	**(100,462)**
Accumulated reserve movement on disposal of instruments at FVTOCI	-	148,967	-	**148,967**
Total Other comprehensive losses for the year	-	48,505	-	**48,505**
Loss for the year (Note 15)	-	-	(1,759,724)	**(1,759,724)**
Balance at 31 December 2019	150,049,301	(2,492,098)	(43,420,206)	**104,136,997**

Company Statement of Cash Flows

	Year ended 31 Dec 2019 £	Year ended 31 Dec 2018 £
Cash flows from operating activities		
Operating loss on ordinary activities after tax	(1,759,724)	(15,775,360)
Adjusted for:		
Impairment charge	112,297	113,839
Other provisions	1,250,000	-
(Positive)/ negative revaluation of financial assets held at FVTIS	(816,591)	12,120,619
Fair value movement in derivative financial instruments	235,328	(595,370)
Depreciation and amortisation	744,440	558,463
Foreign exchange (gains)/losses	(2,009,104)	(498,245)
(Gains)/ losses on financial assets held at FVTIS	352,648	(863,401)
Net decrease/(increase) in operating assets:		
Net investment in financial assets held at FVTOCI	1,090,625	93,320
Net investment in financial assets held at FVTIS	3,903,809	(6,283,781)
Changes in financing and advances at amortised cost	(256,742,057)	(179,879,786)
Net decrease in other assets	17,317	819,102
Net increase/(decrease) in operating liabilities:		
Changes in financial liabilities measured at amortised cost	243,551,809	168,762,090
Net increase in other liabilities	(364,661)	532,250
Net cash outflow from operating activities	**(10,433,864)**	**(20,896,260)**
Cash flow from investing activities		
Dividends received from associate	1,811,705	-
Proceeds from sale of financial assets	12,374,352	35,646,453
Purchases of financial assets	(6,989,325)	(8,161,808)
Investment in subsidiary	-	(2,573,136)
Purchase of plant and equipment	(81,384)	(207,526)
Purchase of intangible assets	(387,102)	(680,797)
Net cash inflow from investing activities	**6,728,246**	**24,023,186**
Cash flows from financing activities		
Cash outflow for lease liabilities	(157,793)	-
Net cash outflow from financing activities	**(157,793)**	**-**
Net (outflow)/ inflow in cash and cash equivalents	**(3,863,411)**	**3,126,926**
Cash and cash equivalents at the beginning of the year	14,764,131	11,753,562
Effect of foreign exchange rate changes	(804,684)	(116,357)
Cash and cash equivalents at the end of the year	**10,096,036**	**14,764,131**

Notes to the Consolidated Financial Statements

1. General Information

The Bank was incorporated as a public limited company in 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

New and revised IFRSs in issue but not yet effective

The Bank has not applied the following new and revised IFRSs that have been issued but are not yet effective and had not yet been adopted by the EU. See table below.

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Bank 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 2019:

- IFRS 16 Leases;
- Amendments to IFRS 9 Prepayment Features with Negative Compensation;
- Amendments to IAS 28 Long-term interests in Associates and Joint Ventures;
- Annual Improvements to IFRS Standards 2015-2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements; IAS 12 Income Taxes and IAS 23 Borrowing Costs;
- Amendments to IAS 19 Employee Benefits Plan Amendment Curtailment or Settlement; and
- IFRIC 23 Uncertainty over Income Tax Treatments.

These standards or interpretations were considered by the management of the Bank but have not had a material impact on the Group's consolidated financial statements except for IFRS 16 Leases as described here.

Transition to IFRS 16

As of 1 January 2019, the Bank has adopted the accounting standard IFRS 16 Leases. IFRS 16, effective starting from 1 January 2019 which modifies the set of international accounting principles and interpretations on leases, in particular, IAS 17. IFRS 16 introduces a new definition for leases and confirms the distinction between two types of leases (operating and finance) with reference to the accounting treatment to be applied by the lessor.

With reference to the accounting treatment to be applied by the lessee, the new accounting standard sets, for all the leasing typologies, the recognition of right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments.

At the initial recognition such asset is measured on the basis of the lease contract cash flows. After the initial recognition the right of use is measured on the basis of the rules set for the assets by IAS 16, IAS 38 or by IAS 40 and therefore applying the cost model, less any accumulated depreciation and any accumulated impairment losses.

New or amended standard or interpretation	Effective date – for annual periods beginning on or after
IFRS 17 Insurance contracts	1 January 2021
Amendments to IFRS 10 and IAS 28 Sale on Contribution of Assets between an Investor and its Associate or Joint Venture	Date to be determined by IASB
Amendments to IFRS 3 Definition of business	1 January 2020
Amendments to IAS 1 and IAS 8 Definition to Material	1 January 2020

The Bank has decided, as allowed by the standard, not to apply IFRS 16 provisions to:

- Leases of intangible assets;
- Short-term leases, lower than 12 months; and
- Low value assets leases.

In order to calculate the lease liability and the related right-of-use asset, the Bank proceeds with discounting the future lease payments at a proper discount rate. In this respect, future lease payments to discount are determined based on contractual provisions.

The lease payments are discounted at the interest rate implicit in the contract or, if it is not available, at the incremental borrowing rate. The latter is determined on the basis of the cost funding for liabilities of similar duration and similar security of those implicit in the lease contract.

In determining the lease term, the Bank takes into consideration the non-cancellable period, established in the contract, in which the lessee is entitled to use the underlying asset also taking into account potential renewal options if the lessee is reasonably certain to renew. In particular, with regards to those contracts that allow the lessee to tacitly renew the lease contract after a first set of years, the lease term is determined taking into account factors such as the length of the first period, the existence of dismissal plans for the asset leased and any other circumstance indicating the reasonably certainty of the renewal.

The Bank has applied the modified retrospective approach that does not require the recalculation of comparative information, and has chosen, for first time adoption purposes, to put the value of right-of- use equal to the lease liability except for advance payments which are additionally included in the carrying amount of right-of-use. At the first-time adoption of IFRS 16 right of use were 686,832 pounds, lease liabilities comprised 686,832 pounds.

Right-of-use assets are disclosed within property, plant and equipment in the consolidated statement of financial position, lease liabilities are disclosed within other liabilities in the consolidated statement of financial position. Finance cost is disclosed within other operating expenses and similar changes in the consolidated income statement, depreciation of right-of-use assets is disclosed within depreciation and amortisation in the consolidated income statement. Cash outflow for lease liabilities is disclosed within cash flows from financing activities in the consolidated statement of cash flows.

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 36 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)

The Bank has made an assessment of going concern, taking into account both current performance of the Bank as well as the impact of Covid-19 pandemic, and including consideration of projections incorporating the impact of the Covid-19 pandemic for the Bank's capital and funding position. Specifically, the Bank considered:

- The adequacy and resilience of the Bank's capital base throughout the pandemic including revised macro-economic scenarios;
- The impact of negative valuations on the Bank's real estate and legacy assets;
- The adequacy of the Bank's liquidity taking into account the hardship policy offered to customers in financial stress, the strength of its retail deposit offering and the support it continues to receive from the Kuwait Investment Authority ('KIA');
- The regulatory and legal environment and any potential conduct risks.

Further information on impact of the Covid-19 is disclosed in Note 38.

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

In the process of applying the Bank'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 Bank 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 Bank 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 - Level 3 fair value measurements

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 36).

Credit losses

The calculation of expected credit losses involves a number of assumptions and assessments. The valuation of expected credit losses is inherently associated with a certain degree of uncertainty. Areas involving a high degree of assumptions include future-oriented information in macroeconomic scenarios and model-based calculations, assessment of significant increase in credit risk since initial recognition.

If a further 5% and 10% shift in accounts occurred moving from stage 1 to stage 2 for the Bank's financing portfolio and all other variables were held constant, the Bank's loss for the year ended 31 December 2019 would increase by £145,469 and £290,939 respectively.

A 10% relative reduction in the overall value of collateral realised in RPF business would increase the total impairment provisions for such financing by £107,094 as at 31 December 2019. A 20% relative reduction in the overall value of collateral realised in RPF business would increase the total impairment provisions for such financing by £314,517 as at 31 December 2019.

A 10% relative reduction in the overall value of collateral realised in REF business would increase the total impairment provisions for such financing by £9,091 as at 31 December 2019. A 20% relative reduction in the overall value of collateral realised in REF business would increase the total impairment provisions for such financing by £30,848 as at 31 December 2019.

Goodwill

Testing of goodwill for impairment requires a significant amount of judgement. Cash flow projections necessarily take into account changes in the market in which a business operates including the level of growth, competitive activity and the impacts of regulatory change. The Bank performed the annual goodwill impairment test in December 2019.

The calculation of value in use is the most sensitive to cost of equity and the projected growth rates used to extrapolate cash flows beyond the budget period.

Covid – 19

The estimate of expected credit losses at 18th May 2020 was based on the Bank's conclusion that the significant socioeconomic disruption, the necessity for large scale Government interventions and the related impact of the wider economy as a result of Covid-19 had a low probability of crystallising at 18th May 2020 based on the reasonable and supportable information available at that date. Further information on the impact of the Covid-19 pandemic on the Group is set out at Note 38

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 Bank. 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.

Financial Instruments

On 1 January 2018, IFRS 9 Financial instruments, which replaced IAS 39 Financial instruments, came into effect for application. The Bank has applied the new rules for classification and measurement as well as those for impairment. The Bank has applied the accounting policy choice to remain with IAS 39 for fair value hedge accounting.

Measurement categories of financial assets and liabilities

The Bank classifies all financial assets into one of the following categories:

1. Amortised cost;
2. Fair value thorough other comprehensive income (FVOCI); and
3. Fair value though profit or loss (FVTPL):

a. mandatory

b. fair value option.

Notes to the Consolidated Financial Statements (continued)

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

The starting point for classification of financial assets into respective measurement categories is the business model for managing the financial instruments, as well as whether the instrument's contractual cash flows only constitute solely payments of principal and interest. Financial liabilities are classified as follows:

1. Amortised cost; and
2. Fair value through profit or loss (FVTPL):
a. mandatory
b. fair value option.

As a general rule, financial liabilities are recognised at amortised cost. The exceptions are the financial liabilities required to be measured at fair value through profit or loss, such as derivatives and liabilities which, upon initial recognition, are irrevocably identified as being measured at fair value (fair value option).

Upon initial recognition, all financial assets and liabilities are measured at fair value. Directly attributable transaction costs are included in the acquisition cost.

All purchases and sales 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 timeframe generally established by regulations or conventions in the market place.

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; and
- 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.

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.

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.

The Bank may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination, in other comprehensive income. 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, 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 are recycled to the income statement.

Reclassification of financial instruments

As a general rule, financial assets are not reclassified after initial recognition. Reclassification is permitted in the rare case that the Bank changes the business model it applies for the management of financial asset. The reclassification of financial liabilities is not permitted after initial recognition.

No reclassifications have been made during the period covered in the financial statements.

Offsetting financial assets and liabilities

Financial assets and liabilities are set off on the balance sheet if the Bank has a contractual right to offset, in its operating activities and in the event of bankruptcy, and if the intention is to settle the items on a net basis or to simultaneously liquidate the asset and settle the liability.

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.

Notes to the Consolidated Financial Statements (continued)

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

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.

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 (Commercial real estate, Home Purchase Plans (HPP's) and Buy-to-Let). ECL is based on a separate estimation of probability of defaults ('PDs'), loss given defaults ('LGDs') and exposures at defaults ('EADs') for each exposure and which are determined based on a combination of internal and external data.

The assets to be tested for impairment are divided into the following three stages:

- Stage 1 comprises financial assets with no significant increase in credit risk since initial recognition;
- Stage 2 comprises financial assets with a significant increase in credit risk since initial recognition, but for which there is no objective evidence that the claim is credit-impaired at the time of reporting; and
- Stage 3 comprises financial assets for which objective circumstances have been identified indicating that the claim is impaired.

In Stage 1, provisions are to be recognised which correspond to the loss expected to occur within 12 months as a result of default. In Stage 2 and Stage 3, provisions are to be recognised corresponding to the loss expected to occur at some time during the whole of the remaining maturity of the asset as a result of default.

The significant increase in credit risk reflects the risk of default and is a measurement by which the agreement's relative change in credit risk is measured. The assessment is made up of three elements: quantitative, qualitative and the 30 days past due 'backstop' indicator whereby clients would move from Stage 1 to Stage 2 for RPF. The qualitative triggers for significant increase in credit risk differ between products:

- REF - commonly breach of covenants Finance To Value (FTV), Finance Service Cover Ratio (FSCR) or non-payment;
- RPF - non-payment or significant increase in FTV based on quarterly Home Price Index (HPI); and
- Treasury – non-payment.

Quantitative modelling is used in conjunction with internal and external credit grades and ratings in assessing whether credit risk has significantly increased. The Bank monitors the effectiveness of the criteria used to identify significant increase through regular reviews. For each financial asset the Bank also compares the lifetime probability of default (PD) at the reporting date with the lifetime PD that was expected at the reporting date at initial recognition (PD thresholds) in order to identify whether the risk of default has increased significantly.

REF and residential financing portfolios under IFRS 9 consider a financial asset to be in default when either the customer is unlikely to pay its credit obligation, or the customer is more than 90 days past due. Treasury assets are considered to be 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 residential property price index into the IFRS 9 model.

Investment in subsidiaries (for standalone)

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

Investment in associate

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

The results and net assets of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Bank'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 Bank's interest in that associate are not recognised.

Any excess of the cost of acquisition over the Bank'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.

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
Leasehold Vehicles	Over life of lease
Property	Over life of lease
Computer 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.

Notes to the Consolidated Financial Statements (continued)

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

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.

Property held for sale

Property held for sale is measured at the lower of carrying amount and fair value less costs to sell. Impairment on property held for sale is recognised in profit and loss. Property held for sale is not depreciated.

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.

Income and expenses

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).

The calculation of profit on financial assets that are not impaired (Stage 1, Stage 2) is performed by applying the effective interest rate to the gross outstanding amount of asset. Once asset is impaired or classified as Stage 3, the effective interest rate is applied to amortised cost of the asset (i.e. gross amount less the expected credit losses).

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 applying the effective interest rate to the principal amounts outstanding.

Revenue from contracts with customers

The standard for revenue from contracts with customers, IFRS 15, is applied for different types of services which are mainly recognised under Fees and commission income in the income statement.

The income is recognised at the point in time when the performance obligation is satisfied, which corresponds to the transfer of control over the service to the customer. The total income is divided between the each service and recognition in income depends on whether the services are fulfilled at a specific point in time, or over time.

Notes to the Consolidated Financial Statements (continued)

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

The following principles apply to the time at which income is recognised:

- Income earned gradually as the services are performed, is recognised at the rate these services are delivered, i.e. on a straight-line basis over time. This is due to the fact that the customer receives and consumes the service simultaneously, meaning that the Bank's obligation is fulfilled in line with the rendering of the service.
- Income attributable to a specific service or action is recognised when the service has been performed, i.e. at a specific point in time. Examples of such income are brokerage and payment commissions.

The income recognised must reflect the anticipated income. When the income includes variable reimbursement, such as refund, bonus or performance-based element, the income is recognised when it is highly probable there that no repayment of the amount will take place. Payments are made on a regular basis as the services are performed and advance payments refer to a maximum of 12 months into the future. Accrued income is recognised for services that have been performed but have not been paid for. Deferred income is recognised for payments received for services which have not been performed. Income from contracts with customers constitutes an immaterial portion of the items including in Other income. Additional expenditure required to obtain a contract with a customer is not recognised as an asset (prepaid expense), and instead is recognised as an expense during the accounting period in which it arises.

Fees and commissions
Fees and commissions are recognised in line with the satisfaction of performance obligations. This can be either at a point in time or over time, in line of the provision of the service to the customer. 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.

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.

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 Bank'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 2019 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. Restatement of prior period and change in presentation

On 31 October 2018 the Company purchased a 50.1% controlling interest of a subsidiary incorporated in England and Wales: Ascend Estates Limited. The final payment to shareholders of subsidiary was contingent on its actual 2019 performance results and was determined inappropriately as at 31 December 2018.

The consolidated balance sheet as at 31 December 2018 has been restated as follows:

	31 December 2018 £	Adjustment £	31 December 2018 £ (restated)
Goodwill	2,166,370	1,638,650	3,805,020
Other liabilities	3,844,237	1,638,650	5,482,887

The Company balance sheet as at 31 December 2018 has been restated as follows:

	31 December 2018 £	Adjustment £	31 December 2018 £ (restated)
Investment in subsidiaries	8,043,929	1,638,650	9,682,579
Other liabilities	3,539,205	1,638,650	5,177,855

The presentation for 2018 consolidated income statement has been changed as follows:

	31 December 2018 £	Adjustment £	31 December 2018 £ (restated)
Other income	1,445,039	(1,161,983)	283,056
Net gains/ (losses) on financial assets at FVOCI	-	1,161,983	1,161,983

The presentation in the consolidated income statement has been changed to present Net gains/ (losses) on financial assets at FVOCI as a separate line.

5. Income from financial assets held at amortised cost

	2019 £	2018 £
Income from financing arrangements	15,698,638	6,209,600
Income from financial institutions	2,941,989	670,204
	18,640,627	**6,879,804**

6. Foreign exchange gains/(losses)

	2019 £	2018 £
Net gains on translation of derivative financial instruments	3,758,838	133,258
Net gains on translation of balances denominated in foreign currency	(1,749,734)	481,344
Net gains in foreign exchange	**2,009,104**	**614,602**

7. Net gains/(losses) on financial assets at fair value through income statement

	2019 £	2018 £
Profit income of financing assets	1,719,119	2,507,173
Dividend income	1,712,071	476,477
Positive/ (negative) revaluation on financing asset	816,591	(12,120,619)
Hedge ineffectiveness	(235,328)	(3,284)
Net revaluation on unquoted equity securities	(352,648)	829,226
Gain/(loss) on disposal of unquoted securities	-	34,174
	3,659,805	**(8,276,853)**

The negative revaluation in the year 2018 relates to the fair value change of a single legacy asset.

Notes to the Consolidated Financial Statements (continued)

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

	2019	2018
	£	£
Staff costs		
Directors' salaries and fees	1,259,756	1,275,016
Directors' pensions	54,064	52,813
	1,313,820	**1,327,829**
Staff salaries	8,524,548	5,889,794
Staff pension contributions	452,964	408,213
Social security costs	1,147,576	874,040
Other staff costs	1,551,700	1,079,646
	12,990,608	**9,579,522**
Highest paid Director		
Emoluments	615,839	641,250
	615,839	**641,250**

	2019	2018
	No.	No.
Number of employees at year end	211	155
Average number of employees	182	133

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 (2018: 365,000,000).

9. Other operating expenses

	2019	2018
	£	£
Financing expense on leases	1,622,969	1,091,185
IT and communication costs	1,059,221	845,053
Legal and professional fees	841,732	1,369,102
Travel and accommodation	457,561	286,475
Consultancy	244,610	278,551
Advertising and marketing	205,016	150,768
Other tax payable	130,713	544,778
Recruitment costs	90,280	288,428
Shariah Supervisory Board fees	57,649	55,250
Other operating charges	754,111	890,471
	5,463,862	**5,800,061**

10. Impairment charge

	2019	2018
	£	£
Bad debt on trade receivable	-	125,000
Charge/ (reversal) of expected credit losses	112,297	(11,161)
	112,297	**113,839**

11. Other provisions

A provision of £1.25m has been included in the financials to cover the possibility of any adverse findings relating to the Company's historic activities. This is expected to be known in 2020 and might result in a financial liability, the quantum of which is highly uncertain. The amount of any possible liability has been estimated based on the Company's best judgement.

Notes to the Consolidated Financial Statements (continued)

12. Loss before tax

	2019	2018
Loss before tax is stated after charging:	£	£
Net foreign exchange (gains)/losses	(1,910,111)	(15,842,285)
Auditor's remuneration	220,500	190,500
Rentals paid under leases	325,180	638,421
Depreciation and amortisation	1,059,042	673,431

	2019	2018
Auditor's remuneration can be analysed as follows:	£	£
Audit of accounts	209,000	179,000
Other services:		
Other audit-related services	11,500	11,500
	220,500	**190,500**

13. Taxation

	2019	2018
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	6,874	12,549
Other corporation tax – Ascend Estates Limited	154,540	-
Total current tax charge	**161,414**	**12,549**
Deferred tax		
Origination and reversal of timing differences	-	-
Effect on changes in tax rates	-	-
Tax on profits on ordinary activities	**161,414**	**12,549**

The standard rate of corporation tax applied to reported profit is 19% (2018: 19%). Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The unrecognised deferred tax asset on a gross basis is £48,896,178 (2018: £46,453,502). There is no expiry date on the tax losses.

The tax expense in the income statement for the period was £161,414 (2018: £12,549). The tax expense can be reconciled to the loss per the income statement as follows:

	2019	2018
	£	£
Loss before tax from continuing operations	(1,759,724)	(15,842,285)
	(1,759,724)	**(15,842,285)**
Tax at the UK corporation tax rate of 19%	(334,348)	(3,010,034)
Effects of:		
Results from associates and subsidiaries	(344,655)	(352,292)
Expenses not deductible for tax purposes	284,336	173,679
Adjustments to opening and closing deferred tax to average rate of 19.25%	-	356,673
Deferred Tax Asset not recognised	395,426	3,031,710
Fixed asset differences	12,024	1,888
Income tax not taxable for tax purposes	(12,916)	(305,752)
Other permanent differences	133	4
Other corporation tax charge-GHB Properties limited	6,874	12,549
Other corporation tax – Ascend Estates Limited	154,540	-
Other	-	104,124
Tax charge in the consolidated income statement	**161,414**	**12,549**

14. 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.

Notes to the Consolidated Financial Statements (continued)

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.

The table below shows the fair values of financial instruments designated for hedging, recorded as assets or liabilities, together with their notional amounts:

Group and Company	**2019**	**2018**
	£	**£**
Notional Principal	**281,700,000**	**101,700,000**
Fair value adjustment to hedged item	2,223,786	358,894
Accrued profit of hedged item	203,831	73,564
Carrying Value of hedged item	**2,427,617**	**432,458**
Fair value adjustment to hedging instrument	(2,462,399)	(362,178)
Accrued profit of hedging instrument	(266,685)	(114,503)
Carrying Value of hedging instrument	**(2,729,084)**	**(476,681)**
Net Profit Rate Swaps Fair Value Hedges	(238,613)	(3,284)
Net Profit Rate Swaps Accrued interest	(62,854)	(40,938)
Net carrying Value of hedged item and hedging instrument	**(301,467)**	**(44,222)**

The line item in the Statement of Financial Position that includes the hedging instrument is 'Derivative Financial Instruments assets and liabilities' and the line item that includes the hedged item is' Financing and advances at amortised cost'.

The hedge ineffectiveness recognised in profit or loss for the year 2019 is £235,328 loss, (2018: £3,284).

15. Company loss attributable to equity shareholders of the Bank

£1,759,724 of the company loss for the financial year (2018: £15,775,360 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.

16. Financing and advances at amortised cost

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

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

Group	*Avg. Yield*	**2019**	*Avg. Yield*	**2018**
		£		**£**
Gross financing and advances at amortised cost		559,265,182		302,531,956
Less: allowances for impairment		(149,707)		(37,584)
Financing and advances at amortised cost	3.92%	**559,115,475**	3.95%	**302,494,372**

Company	*Avg. Yield*	**2019**	*Avg. Yield*	**2018**
		£		**£**
Gross financing and advances at amortised cost		566,309,949		309,568,066
Less: allowances for impairment		(149,707)		(37,584)
Financing and advances at amortised cost	3.91%	**566,160,242**	3.97%	**309,530,482**

Exposure on financing and advances at amortised cost subject to impairment testing:

Financing and advances at amortised cost 2019	**Stage 1 12m ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Purchased Credit impaired**	**Total**
	£	**£**	**£**	**£**	**£**
Gross carrying value	537,487,394	18,663,432	3,114,356	-	559,265,182
Loss allowance	(66,223)	(59,181)	(24,303)	-	(149,707)
Carrying value under IFRS 9	**537,421,171**	**18,604,251**	**3,090,053**	**-**	**559,115,475**

Financing and advances at amortised cost 2018	**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
Loss allowance	(30,021)	(7,563)	-	-	(37,584)
Carrying value under IFRS 9	**300,055,584**	**2,438,788**	**-**	**-**	**302,494,372**

Notes to the Consolidated Financial Statements (continued)

Change in expected credit losses on financing and advances at amortised cost:

Financing and advances at amortised cost 2019	**Stage 1 12m ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Purchased Credit impaired**	**Total**
	£	£	£	£	£
Loss allowance as at 1 January 2019	(30,021)	(7,563)	-	-	(37,584)
New financial assets originated or purchased	(111,618)	-	-	-	(111,618)
Transfers					
Transfer from stage 1 to stage 2	49,505	(49,505)	-	-	-
Transfer from stage 1 to stage 3	24,303	-	(24,303)	-	-
Transfer from stage 2 to stage 1	351	(351)	-	-	-
Changes in PD's/ LGD's / EAD's	1,257	(1,762)	-	-	(505)
Loss allowance as at 31 December 2019	**(66,223)**	**(59,181)**	**(24,303)**	**-**	**(149,707)**

Financing and advances at amortised cost 2018	**Stage 1 12m ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Purchased Credit impaired**	**Total**
	£	£	£	£	£
Loss allowance as at 1 January 2019	(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)**

Included within the Company financing and advanced at amortised cost is an intercompany Wakala of £6,900,000 (2018: £6,900,000) with the Bank's wholly owned subsidiary, GHB Properties.

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

Group and Company	*Avg. Yield*	2019	*Avg. Yield*	2018
		£		£
Gross financing and advances		33,549,650		47,011,669
Positive/ (negative) revaluations		816,591		(12,001,123)
Total financing and advances		34,366,241		35,010,546
Unquoted equity securities		14,732,783		15,085,431
	4.81%	**49,099,024**	4.78%	**50,095,977**

Included within the Company financing and advances is an intercompany Wakala of £27,112,669 (2018: £26,500,000) with the Bank's parent company, Gatehouse Financial Group Limited.

18. Financial assets at fair value through other comprehensive income

Group and Company	*Avg. Yield*	2019	*Avg. Yield*	2018
		£		£
Quoted sukuk	1.64%	16,576,477	1.66%	21,635,012
Unquoted equity securities		635,885		2,395,185
Unquoted funds		462,924		228,207
Quoted funds		5,288,315		4,117,763
		22,963,601		**28,376,167**

Exposure on financial assets at fair value through other comprehensive income subject to impairment testing:

Financial assets at fair value through other comprehensive income – Debt assets 2019	Stage 1 12m ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased Credit impaired	Total
	£	£	£	£	£
Gross carrying value	16,577,898	-	-	-	16,577,898
Loss allowance	(1,421)	-	-	-	(1,421)
Carrying value under IFRS 9	**16,576,477**	**-**	**-**	**-**	**16,576,477**

Notes to the Consolidated Financial Statements (continued)

Financial assets at fair value through other comprehensive income – Debt assets 2018	**Stage 1 12m ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Purchased Credit impaired**	**Total**
	£	**£**	**£**	**£**	**£**
Gross carrying value	21,636,601	-	-	-	21,636,601
Loss allowance	(1,589)	-	-	-	(1,589)
Carrying value under IFRS 9	**21,635,012**	**-**	**-**	**-**	**21,635,012**

Change in expected credit losses on financial assets at fair value through other comprehensive income:

Financial assets at fair value through other comprehensive income – Debt assets 2019	**Stage 1 12m ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Purchased Credit impaired**	**Total**
	£	**£**	**£**	**£**	**£**
Loss allowance as at 1 January 2019	(1,589)	-	-	-	(1,589)
New financial assets originated or purchased	168	-	-	-	168
Changes in PD's/ LGD's / EAD's	-	-	-	-	-
FX and other movements	-	-	-	-	-
Loss allowance as at 31 December 2019	**(1,421)**	**-**	**-**	**-**	**(1,421)**

Financial assets at fair value through other comprehensive income – Debt assets 2018	**Stage 1 12m ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Purchased Credit impaired**	**Total**
	£	**£**	**£**	**£**	**£**
Loss allowance as at 1 January 2019	(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)**

19. Investment in associate

The Bank has one associate, Gatehouse Capital Economic and Financial Consultancy KSCC ('Gatehouse Capital'), where the Bank has 35.6% (2018: 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 loss from associate investments of £539,285 (2018: £1,055,839 gain) during the period have been recorded in reserves.

The consolidated statement of financial position reflects an investment in associate of £14,693,072 (2018: £16,441,441), and a net share of profit for the year ended 31 December 2019 of £1,026,085 (2018: £1,881,072).

	2019 £	2018 £
Aggregated amounts relating to associate		
Total assets	33,549,852	48,882,950
Total liabilities	(1,400,689)	(12,147,216)
Net assets	**32,149,163**	**36,735,734**
Group's share of net assets of associates	**11,445,102**	**13,077,921**
Total revenue	6,979,272	8,852,573
Profit	2,882,262	5,283,910
Share of profit from associate	**1,026,085**	**1,881,072**
Amortisation of intangibles of associate	-	-
Net share of profit from associate	**1,026,085**	**1,881,072**

Details of the Bank's associate at 31 December 2019 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%

Notes to the Consolidated Financial Statements (continued)

20. 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 amounts recognised in respect of the identifiable assets acquired and liabilities assumed for Ascend Estates Limited are as set out below. The final payment to shareholders of subsidiary was contingent on its actual 2019 performance results and was determined inappropriately as at 31 December 2018. As a result, the prior year goodwill and consideration balances have been restated (Note 4).

	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**
Adjustment to goodwill as at 31 December 2018	1,638,650
Goodwill as at 31 December 2018 (restated)	**3,805,020**
Total consideration as at 31 December 2018 (restated)	**4,344,279**

Goodwill	
Cost	
At 1 January 2019 (restated)	3,805,020
At 31 December 2019	**3,805,020**
Impairment	
Impairment loss recognised in the year ended 31 December 2019	-
Carrying amount	
At 31 December 2019	3,805,020
At 31 December 2018 (restated)	3,805,020

21. 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 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 £21,076,657 (2018: £27,112,669) 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.

Notes to the Consolidated Financial Statements (continued)

22. Derivative financial instruments

	Assets	Liabilities	Notional amount
	£	£	£
2019			
Maturing in 0-3 months	6,571,752	4,977,556	46,151,693
Maturing in 3-6 months	-	-	7,546,037
	6,571,752	**4,977,556**	**53,697,730**
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**

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.

23. Intangible assets

Group & Company		
Software costs and licence fees	**2019**	**2018**
	£	**£**
Cost		
At 1 January	2,808,191	2,127,394
Additions	387,102	680,797
Disposals	-	-
At 31 December	**3,195,293**	**2,808,191**
Amortisation		
At 1 January	2,010,853	1,788,151
Charge for the period	315,512	222,702
On disposal	-	-
At 31 December	**2,326,365**	**2,010,853**
Net book value		
At 1 January	**797,338**	**339,243**
At 31 December	**868,928**	**797,338**

Group Customer lists	2019 £	2018 £
Cost		
At 1 January	489,773	-
Additions	-	489,773
Disposals	-	-
At 31 December	**489,773**	**489,773**
Amortisation		
At 1 January	-	-
Charge for the period	32,652	-
On disposal	-	-
At 31 December	**32,652**	**-**
Net book value		
At 1 January	**489,773**	**-**
At 31 December	**457,121**	**489,773**

Notes to the Consolidated Financial Statements (continued)

24. Property, plant and equipment

Group	Property £	Leasehold property £	Leasehold vehicles £	Computer equipment	Fixtures and fittings £	Leasehold improvements £	Total £
Costs							
At 1 January 2019	12,216,511	-	-	1,092,490	316,712	2,999,867	16,625,580
Additions	-	-	-	83,776	19,883	-	103,659
Leases (IFRS 16 implementation adjustment)	-	564,282	108,490	14,061	-	-	686,833
Reclassification to property held for sale	(12,216,511)	-	-	-	-	-	(12,216,511)
Disposals	-	-	-	(60,633)	(85,824)	(1,346,261)	(1,492,718)
At 31 December 2019	**-**	**564,282**	**108,490**	**1,129,694**	**250,771**	**1,653,606**	**3,706,843**
Depreciation							
At 1 January 2019	550,314	-	-	910,430	222,416	2,029,390	3,712,550
Charge for the period	110,064	159,056	48,847	80,136	27,512	285,263	710,878
Write-off on disposals	(660,378)	-	-	(55,005)	(85,824)	(1,346,261)	(2,147,468)
At 31 December 2019	**-**	**159,056**	**48,847**	**935,561**	**164,104**	**968,392**	**2,275,960**
Net book value							
At 1 January 2019	11,666,197	-	-	182,060	94,296	970,477	12,913,030
At 31 December 2019	**-**	**405,226**	**59,643**	**194,133**	**86,667**	**685,214**	**1,430,883**

Group	Property	Computer equipment	Fixtures and fittings	Leasehold improvements	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**

Company	Leasehold property	Computer equipment	Fixtures and fittings	Leasehold improvements	Total
	£	£	£	£	£
Cost					
At 1 January 2019	-	1,064,695	219,350	2,999,867	4,283,912
Additions	-	81,384	-	-	81,384
IFRS 16 implementation adjustment	293,949	-	-	-	293,949
Disposals	-	(55,005)	(85,823)	(1,363,262)	(1,487,090)
At 31 December 2019	**293,949**	**1,091,074**	**133,527**	**1,653,605**	**3,172,155**
Depreciation					
At 1 January 2019	-	909,478	219,350	2,029,390	3,158,218
Charge for the period	75,051	68,614	-	285,263	428,928
Write-off on disposals	-	(55,005)	(85,823)	(1,346,262)	(1,487,090)
At 31 December 2019	**75,051**	**923,087**	**133,527**	**968,391**	**2,100,056**
Net book value					
At 1 January 2019	-	155,217	-	970,477	1,125,694
At 31 December 2019	**218,898**	**167,987**	**-**	**685,214**	**1,072,099**

Notes to the Consolidated Financial Statements (continued)

Company	Computer equipment	Fixtures and fittings	Leasehold improvements	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**

25. Leases

Right of use assets

The Group's leased assets including buildings, vehicles and computer equipment as at 31 December 2019:

Group	Leasehold property	Leasehold vehicles	Computer equipment	Total
	£	£	£	£
Cost				
At 1 January 2019	564,282	108,490	14,061	686,833
Depreciation charge for the year	(159,056)	(48,847)	(3,323)	(211,226)
At 31 December 2019	**405,226**	**59,643**	**10,738**	**475,607**

Additions to the Group right of use assets during 2019 were £162,203.

The Company's leased assets including buildings for its office spaces:

Company	Leasehold property
	£
At 1 January 2019	293,949
Depreciation charge for the year	(75,051)
At 31 December 2019	**218,898**

Additions to the Company's right of use assets during 2019 were nil.

Lease liabilities

Contractual undiscounted cash flows:

Group	2019 £	Company	2019 £
Less than one year	29,647	Less than one year	74,024
One to five years	380,724	One to five years	149,257
More than five years	75,470	More than five years	-
	485,841		**223,281**

Amounts recognised in the income statement:

Group	2019 £
Interest on lease liabilities	31,292
Expenses relating to short-term leases	71,955
Expenses relating to leases of low value assets, excluding short-term leases of low-value items	20,942
	124,189

Amounts recognised in the statement of cash flows:

Group	2019 £
Total cash outflow for leases	(325,180)
	(325,180)

Company	2019 £
Total cash outflow for leases	(157,793)
	(157,793)

Notes to the Consolidated Financial Statements (continued)

26. Property held for sale

In December 2019, management signed a property sale agreement with completion after the reporting date. As a result, the building with a net book value of £11,555,998 was reclassified from 'Property, plant and equipment' to 'Property held for sale'. The sale was completed in March 2020. The sale price for the building was £14,000,000. No impairment and changes to fair value less costs to sell were recognised in profit and loss after classification of the asset as 'Property held for sale'.

27. Other assets

Group	2019 £	2018 £
Intercompany receivable	1,089,730	1,084,859
Prepayments	517,361	502,897
Accrued income receivable	185,830	407,329
Other debtors	656,549	2,240,204
	2,449,470	**4,235,289**

Company	2019 £	2018 £
Intercompany receivable	1,089,730	1,084,859
Prepayments	466,414	466,156
Accrued income receivable	185,830	407,329
Other debtors	491,964	2,104,616
	2,233,938	**4,062,960**








Notes to the Consolidated Financial Statements (continued)

28. Financial liabilities measured at amortised cost

Group	*Avg. Yield*	£
Financial liabilities measured at amortised cost at 1 January 2019	2.55%	**318,846,691**
Net proceeds from financial institutions and customers		244,230,572
Net increase in profit payable		2,648,162
FX Movement		(983,195)
Financial liabilities measured at amortised cost at 31 December 2019	2.19%	**564,742,230**
	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 2019	2.55%	**318,806,228**
Net proceeds from financial institutions and customers		244,271,035
Net increase in profit payable		2,648,162
FX Movement		(983,195)
Financial liabilities measured at amortised cost at 31 December 2019	2.19%	**564,742,230**
	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**

29. Other liabilities

Group	2019 £	2018 £ (restated)
Payable to subsidiary shareholders	1,738,560	1,638,650
Other provisions	1,250,000	-
Lease liabilities	485,840	-
Other taxes and social security costs	324,442	278,065
Other creditors	3,059,709	3,566,172
	6,858,551	**5,482,887**

Company	2019 £	2018 £ (restated)
Payable to subsidiary shareholders	1,738,560	1,638,650
Other provisions	1,250,000	-
Other taxes and social security costs	324,442	278,065
Lease liabilities	223,281	-
Other creditors	2,663,070	3,261,140
	6,199,353	**5,177,855**

Notes to the Consolidated Financial Statements (continued)

30. Maturity analysis of financial assets and liabilities

The table shows an analysis of assets and liabilities analysed between those expected to be recovered or settled from the balance sheet date:

Group	Less than 12 months	More than 12 months	Total
2019	£	£	£
Assets			
Cash and balances with banks	11,659,288	-	11,659,288
Financing and advances at amortised cost	59,953,225	499,162,250	559,115,475
Financial assets held at fair value through the income statement	-	49,099,024	49,099,024
Financial assets held at fair value through other comprehensive income	3,785,152	19,178,449	22,963,601
Investment in Associates	-	14,693,072	14,693,072
Derivative financial instruments	6,571,752	-	6,571,752
Total financial assets	**81,969,417**	**582,132,795**	**664,102,212**
Liabilities			
Financial liabilities measured at amortised cost	363,380,419	201,361,811	564,742,230
Derivative financial instruments	4,977,556	-	4,977,556
Other liabilities	1,768,206	456,194	2,224,401
Total financial liabilities	**370,126,181**	**201,818,005**	**571,944,187**

Company 2019	Less than 12 months £	More than 12 months £	Total £
Assets			
Cash and balances with banks	10,096,036	-	10,096,036
Financing and advances at amortised cost	66,997,992	499,162,250	566,160,242
Financial assets held at fair value through the income statement	-	49,099,024	49,099,024
Financial assets held at fair value through other comprehensive income	3,785,152	19,178,449	22,963,601
Investment in Subsidiaries	-	9,682,579	9,682,579
Investment in Associates	-	11,307,937	11,307,937
Derivative financial instruments	6,571,752	-	6,571,752
Total financial assets	**87,450,932**	**588,430,239**	**675,881,171**
Liabilities			
Financial liabilities measured at amortised cost	363,380,419	201,361,811	564,742,230
Derivative financial instruments	4,977,556	-	4,977,556
Other liabilities	1,812,584	149,257	1,961,841
Total financial liabilities	**370,170,559**	**201,511,068**	**571,681,627**

Notes to the Consolidated Financial Statements (continued)

Group	**Less than 12 months**	**More than 12 months**	**Total**
2018	**£**	**£**	**£**
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
Derivative financial instruments	1,943,199	-	1,943,199
Total financial assets	**73,261,822**	**341,758,556**	**415,020,378**
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
Other liabilities	1,638,650	-	1,638,650
Total financial liabilities	**276,608,661**	**45,730,845**	**322,339,506**

Company	Less than 12 months	More than 12 months	Total
2018	£	£	£
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	-	9,682,579	9,682,579
Investment in Associates	-	11,307,937	11,307,937
Derivative financial instruments	1,943,199	-	1,943,199
Total financial assets	**79,392,841**	**346,307,631**	**425,700,472**
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
Other liabilities	1,638,650	-	1,638,650
Total financial liabilities	**276,568,198**	**45,730,845**	**322,299,043**

Notes to the Consolidated Financial Statements (continued)

31. 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	2019	2018
Assets	**£**	**£**
Denominated in Sterling	638,107,115	366,734,944
Denominated in other currencies	46,562,518	70,525,884
	684,669,633	**437,260,828**
Liabilities		
Denominated in Sterling	512,325,915	170,431,547
Denominated in other currencies	64,252,422	155,752,196
	576,578,337	**326,183,743**

Company	2019	2018
Assets	**£**	**£**
Denominated in Sterling	637,178,657	377,960,281
Denominated in other currencies	42,877,479	53,726,183
	680,056,136	**431,686,464**
Liabilities		
Denominated in Sterling	511,666,717	170,086,186
Denominated in other currencies	64,252,422	155,752,062
	575,919,139	**325,838,248**

32. 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 £452,964 were charged to the income statement (2018: £408,213). The pension creditor outstanding at the balance sheet date amounted to £56,062 (2018: £48,560).

33. Share capital

	2019 £	2018 £
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.

34. Off balance sheet items

Financing commitments

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

	2019 £	2018 £
Within one year	59,311,869	51,135,172
	59,311,869	**51,135,172**

Expected credit losses on financing commitments as at 31 December 2019 amounted to £372 (31 December 2018: £nil).

Other commitments

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

	2019 £	2018 £
Within one year	-	4,830,819
	-	**4,830,819**

Notes to the Consolidated Financial Statements (continued)

35. 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 2019 year-end balance of £27,112,669 (2018: £29,374,795) which was used to purchase the remaining 64.4% share in Gatehouse Capital. The Bank also entered into £326,250 (2018: £177,587) 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 8.

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

2019	**Shareholder**	**Shareholder**	**Ultimate parent**	**Associate**
	Kuwait Investment Authority	The Securities House K.S.C.C.	Gatehouse Financial Group Limited	Gatehouse Capital
	£	**£**	**£**	**£**
Profit income	-	-	1,700,237	-
Profit expense	4,021,159	-	-	-
Assets	-	-	25,509,765	17,500
Treasury liabilities	101,772,279	28	141,443	-

2018	**Shareholder**	**Shareholder**	**Ultimate parent**	**Associate**
	Kuwait Investment Authority	The Securities House K.S.C.C.	Gatehouse Financial Group Limited	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

36. 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. Internal Audit that performs regular reviews of different activities of the Bank represents the third line of defence.

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.

Notes to the Consolidated Financial Statements (continued)

From 1 January 2018 the Bank adopted IFRS 9 for measuring impairment allowances for financial assets, the classification and measurement of financial assets. 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 scenarios.

Note 3 refers to the basis by which the Bank reviews for impairments of its financial assets. Note 10 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 2019 and 31 December 2018:

Group	**2019** **£**	**2018** **£**
Cash and balances with banks	11,659,288	15,669,222
Financing and advances at amortised cost	559,115,475	302,494,372
Financial assets held at fair value through the income statement (Debt Assets)	34,366,241	35,010,546
Financial assets held at fair value through other comprehensive income (Debt Assets)	21,864,792	25,752,775
Derivative financial instruments	6,571,752	1,943,199
	633,577,548	**380,870,114**

Company	**2019** **£**	**2018** **£**
Cash and balances with banks	10,096,036	14,764,131
Financing and advances at amortised cost	566,160,242	309,530,482
Financial assets held at fair value through the income statement (Debt Assets)	34,366,241	35,010,546
Financial assets held at fair value through other comprehensive income (Debt Assets)	21,864,792	25,752,775
Derivative financial instruments	**6,571,752**	1,943,199
	639,059,063	**387,001,133**

Geographical region

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

Group	**2019**	**2018**
	£	**£**
GCC countries	83,299,655	66,161,453
Kuwait	33,223,845	42,004,360
Saudi Arabia	17,116,447	9,066,515
UAE	24,602,789	11,750,562
Qatar	4,417,694	1,672,138
Oman	1,895,955	958,174
Bahrain	2,042,925	709,704
Europe	405,570,450	249,709,434
North America	22,826,647	23,153,619
South America	230,003	-
Asia	98,210,281	33,843,819
Africa	11,564,118	6,678,990
Australasia	11,876,394	1,322,799
	633,577,548	**380,870,114**

Company	**2019**	**2018**
	£	**£**
GCC countries	82,999,751	66,161,453
Kuwait	32,923,941	42,004,360
Saudi Arabia	17,116,447	9,066,515
UAE	24,602,789	11,750,562
Qatar	4,417,694	1,672,138
Oman	1,895,955	958,174
Bahrain	2,042,925	709,704
Europe	411,351,869	255,840,453
North America	22,826,647	23,153,619
South America	230,003	-
Asia	98,210,281	33,843,819
Africa	11,564,118	6,678,990
Australasia	11,876,394	1,322,799
	639,059,063	**387,001,133**

Notes to the Consolidated Financial Statements (continued)

Credit quality

The table below shows the credit quality of financial assets on the balance sheet at 31 December 2019 and at 31 December 2018, based on a credit rating system:

Group	Investment grade	Non-investment grade	Non-rated	Total
2019	£	£	£	£
Assets				
Cash and balances with banks	11,657,439	-	1,849	**11,659,288**
Financing and advances at amortised cost	10,004,623	-	549,110,852	**559,115,475**
Financial assets held at fair value through the income statement (Debt Asset)	-	-	34,366,241	**34,366,241**
Financial assets held at fair value through other comprehensive income	16,576,477	-	5,288,315	**21,864,792**
Derivative financial instruments	6,571,752	-	-	**6,571,752**
Total assets	**44,810,291**	**-**	**588,767,257**	**633,577,548**

Company	Investment grade	Non-investment grade	Non-rated	Total
2019	£	£	£	£
Assets				
Cash and balances with banks	10,094,187	-	1,849	**10,096,036**
Financing and advances at amortised cost	10,004,623	-	556,155,619	**566,160,242**
Financial assets held at fair value through the income statement (Debt Asset)	-	-	34,366,241	**34,366,241**
Financial assets held at fair value through other comprehensive income	16,576,477	-	5,288,315	**21,864,792**
Derivative financial instruments	6,571,752	-	-	**6,571,752**
Total assets	**43,247,039**	**-**	**595,812,024**	**639,059,063**

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 (Debt Asset)	-	-	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**

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 (Debt Asset)	-	-	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**

Notes to the Consolidated Financial Statements (continued)

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 2019 the KIA has provided the Bank with a funding of £101,772,279 (2018: £150,294,947). 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 2019 Gatehouse savings deposits were £323,296,792 (2018: £130,131,390).

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
	£	£	£	£	£	£
2019						
Assets						
Fixed rate items	29,221,338	2,692,354	13,612,596	14,630,769	533,528,490	593,685,547
Non-rate sensitive	18,027,209	-	-	3,785,152	18,079,640	39,892,001
Total assets	**47,248,547**	**2,692,354**	**13,612,596**	**18,415,921**	**551,608,130**	**633,577,548**
Liabilities						
Fixed rate items	103,929,902	63,964,133	122,156,058	77,945,409	201,724,284	569,719,786
Non-rate sensitive	-	-	-	-	-	-
Total liabilities	**103,929,902**	**63,964,133**	**122,156,058**	**77,945,409**	**201,724,284**	**569,719,786**
Net	**(56,681,355)**	**(61,271,779)**	**(108,543,462)**	**(59,529,488)**	**349,883,846**	**63,857,762**

Company	Less than 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Total
	£	£	£	£	£	£
2019						
Assets						
Fixed rate items	29,221,338	2,692,354	13,612,596	21,675,536	533,528,491	600,730,315
Non-rate sensitive	16,463,956	-	-	3,785,152	18,079,640	38,328,748
Total assets	**45,685,294**	**2,692,354**	**13,612,596**	**25,460,688**	**551,608,131**	**639,059,063**
Liabilities						
Fixed rate items	103,929,902	63,964,133	122,156,058	77,945,409	201,724,284	569,719,786
Non-rate sensitive	-	-	-	-	-	-
Total liabilities	**103,929,902**	**63,964,133**	**122,156,058**	**77,945,409**	**201,724,284**	**569,719,786**
Net	**(58,244,608)**	**(61,271,779)**	**(108,543,462)**	**(52,484,721)**	**349,883,847**	**69,339,277**

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						
Fixed rate items	58,522,003	56,731,547	95,805,003	64,002,464	45,639,839	320,700,856
Non-rate sensitive	-	-	-	-	-	-
Total liabilities	**58,522,003**	**56,731,547**	**95,805,003**	**64,002,464**	**45,639,839**	**320,700,856**
Net	**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)

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						
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 liabilities	**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**

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.

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 2019 would decrease/increase £5,423,000 (2018: £8,955,000).

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

Value at Risk

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

The Bank uses derivatives to prudently manage its PRR. In 2019 the Bank undertook profit rate derivatives (swaps) totalling £281,700,000 (2018: £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 2019, the market value of nominal positions generating profit rate VaR was £100,135,505 (2018: £111,543,814) which generated profit rate VaR of:

2019	95% VaR (£)
One day	**(8,792)**
One week	(24,757)
2018	**95% VaR (£)**
One day	**(3,868)**
One week	(13,803)

The Bank applies VaR methodology for measuring interest rate, currency and basis spread risks for both the trading portfolio and banking books. VaR measure adopted by the Bank estimates he potential negative change in the market value of a portfolio at a 99% confidence level over a 1-day horizon. The Bank distinguishes the following types of VaR:

1. Total VaR is calculated for all risk factors taken in aggregate;
2. Interest rate VaR is originated from interest rate risk exposure of the portfolio;
3. Foreign exchange VaR is originated from foreign exchange risk exposure of the portfolio;
4. Residual VaR is originated from other factors exposure of the Sukuk portfolio.

LIBOR Interest Rate Benchmark Reform (IBOR)

The Bank is exposed to the GBP LIBOR interest rate benchmark for assets in the Banking Book and for profit rate swaps used to hedge the profit rate risk. Additional disclosure requirements relating to IBOR will apply to annual reporting periods beginning on or after 01 January 2020 as stated by International Accounting Standards Board. The Bank will provide the disclosures from the next accounting year. The Bank's products are exposed to 3M Libor, 6M Libor and SONIA.

In order to make the Business ready for transition away from LIBOR, a working group was set-up headed by the Treasurer who reports to the ALCO. Aside from Treasury, this working group comprised of the CFO,

Notes to the Consolidated Financial Statements (continued)

Finance, Risk, Legal, Operations, Compliance and the Front Office for the Residential and Commercial areas of the Bank. The purpose of the working group was to understand existing exposures of the Bank which have reference to LIBOR benchmarking in their pricing, review current documentation and to prepare and deliver on an action plan to enable a smooth transition to alternative benchmark risk free rates (RFR) such as the Sterling Overnight Index Average Rate (SONIA). ALCO is appraised by the Treasurer on progress of the working group on a regular basis.

As at 31 December 2019, the Bank has three exposures in its Residential and Commercial Financing portfolio totalling £5.6m; there is also £3.7m quoted Sukuk exposures maturing before 31 December 2021. These products are referenced to Libor benchmark.

In order to manage profit rate risk, the Bank has entered into profit rate swaps with an investment grade financial institution. As at 31 December 2019, the Bank has £197m notional of profit rate swaps linked to the LIBOR benchmark; out of which £37m will mature before 31 December 2021.

The Bank is closely monitoring the market and the output from the various industry working groups managing the transition to a new benchmark. This includes announcements made by LIBOR regulators such as the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) regarding the transition away from LIBOR to a RFR i.e. Sterling Overnight Index Average Rate (SONIA). The FCA has made clear that, at the end of 2021, it will no longer seek to persuade, or compel, banks to submit to LIBOR and banks must have transitioned before this end date.

The Bank is prepared to transition from LIBOR to SONIA by 2021 and has already moved away from the use of LIBOR as a reference rate and has entered into c£85m of profit rate swaps using the Sterling Overnight Index Average Rate (SONIA) benchmark as at 31/12/2019.

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 2019, the net market value of nominal foreign exchange exposure was £390,695 (2018: £66,027) which generated Foreign Exchange VaR of:

2019	95% VaR (£)
One day	**(1,510)**
One week	(4,032)
2018	**95% VaR**
One day	**(592)**
One week	(3,159)

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 2019, 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 2019, the market value of nominal FVTOCI sukuk investment exposure was £16,577,898 (2018: £21,635,012) which generated Price Risk VaR of:

2019	95% VaR (£)
One day	**(6,345)**
One week	(9,685)
2018	**95% VaR**
One day	**(5,142)**
One week	(16,004)

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 2019 and 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 are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); As at 31 December 2019 and 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 2019 and 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 discounted cash flow models for financing arrangements at fair value through profit and loss and by reference to the net asset value of the underlying investment for unquoted funds and unquoted equities, 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. The valuation techniques include net present value and discounted cash flow models, comparison to similar instruments and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark profit rates, credit spreads and foreign currency exchange rates. The objective of valuation techniques is to arrive at fair value determination that reflects the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Group and Company	**Level 1**	**Level 2**	**Level 3**	**Total**
2019	**£**	**£**	**£**	**£**
Derivative financial instruments				
Derivative financial instruments	6,571,752	-	-	**6,571,752**
Financial assets held at fair value through the income statement				
Unquoted equity securities	-	-	14,732,783	**14,732,783**
Financing arrangements	-	7,257,731	27,108,510	**34,366,241**
Financial assets at fair value through other comprehensive income				
Quoted Sukuk	16,576,477	-	-	**16,576,477**
Quoted Funds	5,288,315	-	-	**5,288,315**
Unquoted equity securities	-	-	1,098,809	**1,098,809**
Unquoted funds	-	-	-	**-**
Total	**28,436,544**	**7,257,731**	**42,940,102**	**78,634,377**

Notes to the Consolidated Financial Statements (continued)

Group and Company	Level 1	Level 2	Level 3	Total
2018	£	£	£	£
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**

The fair value of financial assets and liabilities at amortised cost approximates their carrying value.
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	2019 Carrying value £	2018 Carrying value £	Valuation Technique	Significant unobservable inputs
Financing arrangements	27,108,510	28,208,931	Measured using discounted cash flow models	Financial statements
UK Unquoted equity securities	15,368,668	16,869,651	Measurement of net assets as a proportion of participating shares in issue	Third party appraisal reports, cash and debt balances
US Unquoted equity securities	462,924	610,965	Measurement of net assets as a proportion of participating shares in issue	Third party appraisal reports, audited financial statements
Unquoted funds	-	228,207	Measurement of net assets as a proportion of participating shares in issue	Financial statements
Total	**42,940,102**	**45,917,754**		

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

Reconciliation of Level 3 fair value measurements of financial assets:

2019 **Fair Value Through Other Comprehensive Income**	**Unquoted equities**	**Unquoted funds**	**Unquoted sukuk**	**Total**
Balance at 1 January 2019	**2,395,185**	**228,207**	**-**	**2,623,392**
Total gains or losses:				
In income statement	-	-	-	-
In FVTOCI	(1,296,376)	-	-	(1,296,376)
Purchases	-	-	-	-
Issues	-	-	-	-
Settlements	-	(228,207)	-	(228,207)
Transfers out of Level 3	-	-	-	-
Transfers into Level 3	-	-	-	-
Balance at 31 December 2019	**1,098,809**	**-**	**-**	**1,098,809**

A 20 % decrease in property prices would reduce the fair value of financial assets at FVOCI by £0.7m as at 31 December 2019.

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**

Notes to the Consolidated Financial Statements (continued)

The line item in the Consolidated Statement of Comprehensive Income that includes change in unrealised gains/ (losses) on financial assets through other comprehensive income is 'Losses on FVOCI investments'.

2019 **Financial assets held at fair value through the income statement**	**Financing arrangements**	**Unquoted equities**	**Total**
Balance at 1 January 2019	28,208,931	15,085,431	**43,294,362**
Negative revaluations	(342)	(352,648)	**(3,352,990)**
Fair value uplifts	-	-	**-**
Net settlements	(1,100,079)	-	**(1,100,079)**
Balance at 31 December 2019	**27,108,510**	**14,732,783**	**41,841,293**

A 20 % decrease in property prices would reduce the fair value of financial assets held at FVIS by £6m as at 31 December 2019.

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	**44,361,495**
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**

The line item in the Consolidated Income Statement that includes change in unrealised gains/ (losses) on financial assets held at fair value through the income statement is 'Net gains/ (losses) from financial assets at fair value through income statement'.

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.

Pillar 3 Disclosures

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

Capital Risk Management (Unaudited)

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:

	2019	2018
Core Tier 1 Capital	**£**	**£**
Share capital	150,049,301	150,049,301
Retained losses	(43,420,206)	(41,660,482)
Other Reserves – FVTOCI	(2,492,099)	(2,540,603)
Add back of IFRS 9 impairments due to transitional arrangements	90,677	31,338
	104,227,673	**105,879,554**
Deductions from CET1	**(28,038,865)**	**(28,549,079)**
Total regulatory capital	**76,188,808**	**77,330,475**

37. 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.

Notes to the Consolidated Financial Statements (continued)

Employees

The average number of permanent employees was 182 (2018: 133) for the year ended 31 December 2019.

Country-by-Country Breakdown

2019

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	14,849,116	(1,759,724)	-	112
Jersey	Investment vehicles	2,365,369	1,992,372	6,874	-
United Kingdom	Management of real estate	3,539,905	755,995	154,550	70
Group Consolidated adjustments		(4,177,074)	(2,898,754)	-	-
Total	**-**	**16,577,316**	**(1,910,111)**	**161,424**	**182**

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**

The Group received no public subsidies during 2019 and 2018.

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.

38. Subsequent events

The sale of the Bank's original headquarters classified under 'Property held for sale' as at 31 December 2019 has been completed in March 2020. The sale price for the building was £14,000,000. The Bank has since located to a new office based in the City of London.

The Bank provided additional financing of €13,000,000 to one of its key clients in February 2020 and obtained control over this entity. The entity will be consolidated to the Group's financial statements since the effective date of obtaining control.

The Bank raised Tier 2 capital of £9,000,000 in the first quarter 2020. The financing was provided by private and institutional investors.

Covid-19

In early March, the coronavirus Covid-19 virus was declared a global pandemic, and it unfortunately continues to spread rapidly. Business continuity, including supply chains and consumer demand across a broad range of industries and countries, could be severely impacted for months or more, as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. The pandemic has had and will likely continue to have implications for the Group across a range of areas, chiefly its operational continuity, finance exposures and impact to customers and staff working arrangements.

A consequence of the social distancing measures introduced by the UK government is the profound impact on the UK real estate market, the extent of which will be closely associated with the length of time these measures remain in force.

As regards the residential real estate market, the FCA issued new guidance on how it expects mortgage lenders and administrators to treat customers fairly during this Covid-19 situation including offering appropriate forbearance opportunities to affected customers. For homebuyers and landlords facing financial difficulty, the Group has a range of forbearance measures available, consistent with other mortgage providers, and for customers facing financial difficulty will assess their needs on an individual basis and identify a suitable payment plan. Currently there are very high levels of uncertainty as so little reasonable and supportable forward-looking information is currently available in the Group's ability to assess the expected credit loss associated with such forborne customers. Moreover, due to the physical and practical difficulties in completing home finance transactions the Group expects a material reduction in new business flow, with potential ripple effects on broader house prices. The Group has taken active steps in managing its products offered to residential customers and balanced risk with commercial discipline by limiting new financing to 65% FTV down from 80% FTV and placing greater reliance on desktop valuations.

The commercial real estate market is also affected by the Covid-19 situation. The Group has commercial real estate finance exposures across sectors including retail and hospitality, that have come under stress. However, given the evolving nature of events, most of the consequences are likely to become visible only slowly and in some cases with a considerable time lag. Other things being equal, the duration of stress to the commercial real estate sector is highly correlated with the shape of the economic recovery.

As regards the operational and staff working arrangements, there has been limited impact to the Group's operations from Covid-19. The distributed presence of the Group's offices and limited workforce has allowed the Group's management to quickly shift to remote working reducing the impact to its ability to transact. However, disruptions to staff capacity arising from viral infections remains a risk, which could impact on originating or managing customers or key internal decision making and management continues to carefully monitor the situation.

39. Parent Company

As at 31 December 2019 the Bank's ultimate parent undertaking and controlling party 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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