GATEHOUSE
FINANCIAL GROUP

Annual Report & Financial Statements

2019

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CONTENTS

GATEHOUSE FINANCIAL GROUP LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2019

Registered number: 117951


GATEHOUSE
FINANCIAL GROUP

COMPANY INFORMATION

Directors

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

Secretary

Intertrust Corporate Services (Jersey) Limited

Auditor

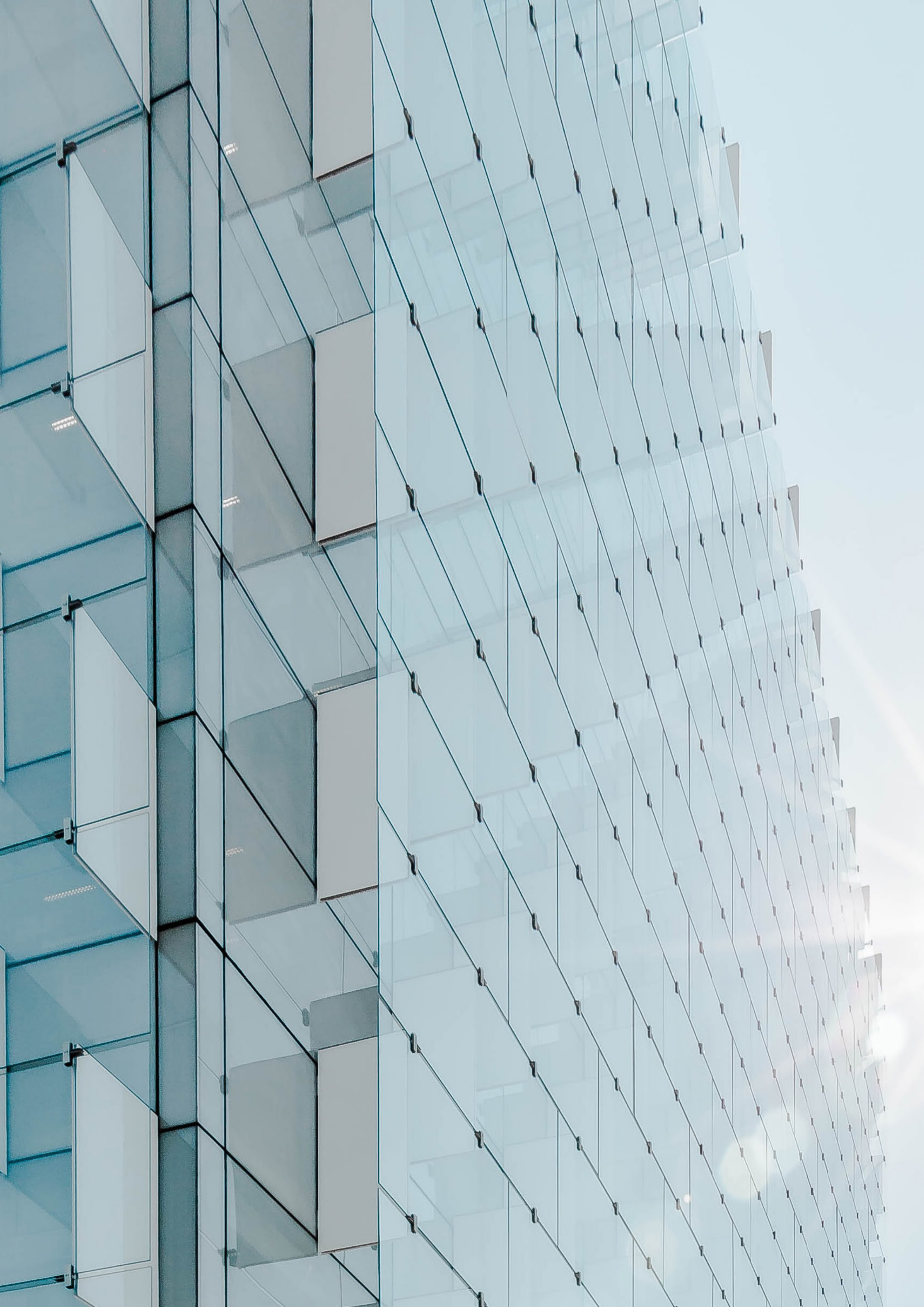
Deloitte LLP
Hill House, 1 Little New Street, London
EC4A 3TR

Registered office

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

Registered number

117951



CHAIRMAN'S STATEMENT

In the name of Allah, the Most Gracious, the Most Merciful, on behalf of the Board of Directors of Gatehouse Financial Group Limited ("GFG", the "Group"), I am pleased to present the 2019 Annual Report and Financial Statements.

2019 saw further progress, at both Gatehouse Capital ("GC") and Gatehouse Bank ("GHB").

At Gatehouse Capital the consistency of profitability continued with a post-tax profit contribution of £2.9m (KD1.1m). This was achieved following additional successful investment placing for clients across the Middle East Region based on real estate investments in both UK and USA. The executive team has enhanced regulatory governance processes and introduced new software to bring further benefits to its client reporting. Post year end the investment landscape changed significantly, making ongoing monitoring front of mind. However, the company continues to selectively source potential new investments.

At Gatehouse Bank a post-tax loss of £2m resulted from the conclusion of a small number of legacy workouts but I am satisfied that the underlying business continues to perform well. Home Finance balances increased by 169% year-on-year to over £400m and total balance sheet assets now exceed £685m, an increase of 57% compared to 2018. With strong capital and liquidity levels, GHB is well placed to withstand the headwinds created by the global COVID-19 pandemic, which developed after the year end. The executive team adapted the business in early 2020, introducing flexible working, which will be the basis of the future model and result in enhancing cost efficiency.

In addition, the Bank regularly reviews the potential impact of Brexit. As GHB's financing activity is solely focused in the UK and, as such, is likely to 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.

The Group recorded a post-tax loss of £3.2m in 2019, due primarily to the revaluation of some investments and provision for a financial liability to cover the possibility of any adverse findings relating to the Bank's historic activities. I remain confident in the underlying business models of both subsidiary businesses and that they are well positioned to move forward in 2020.

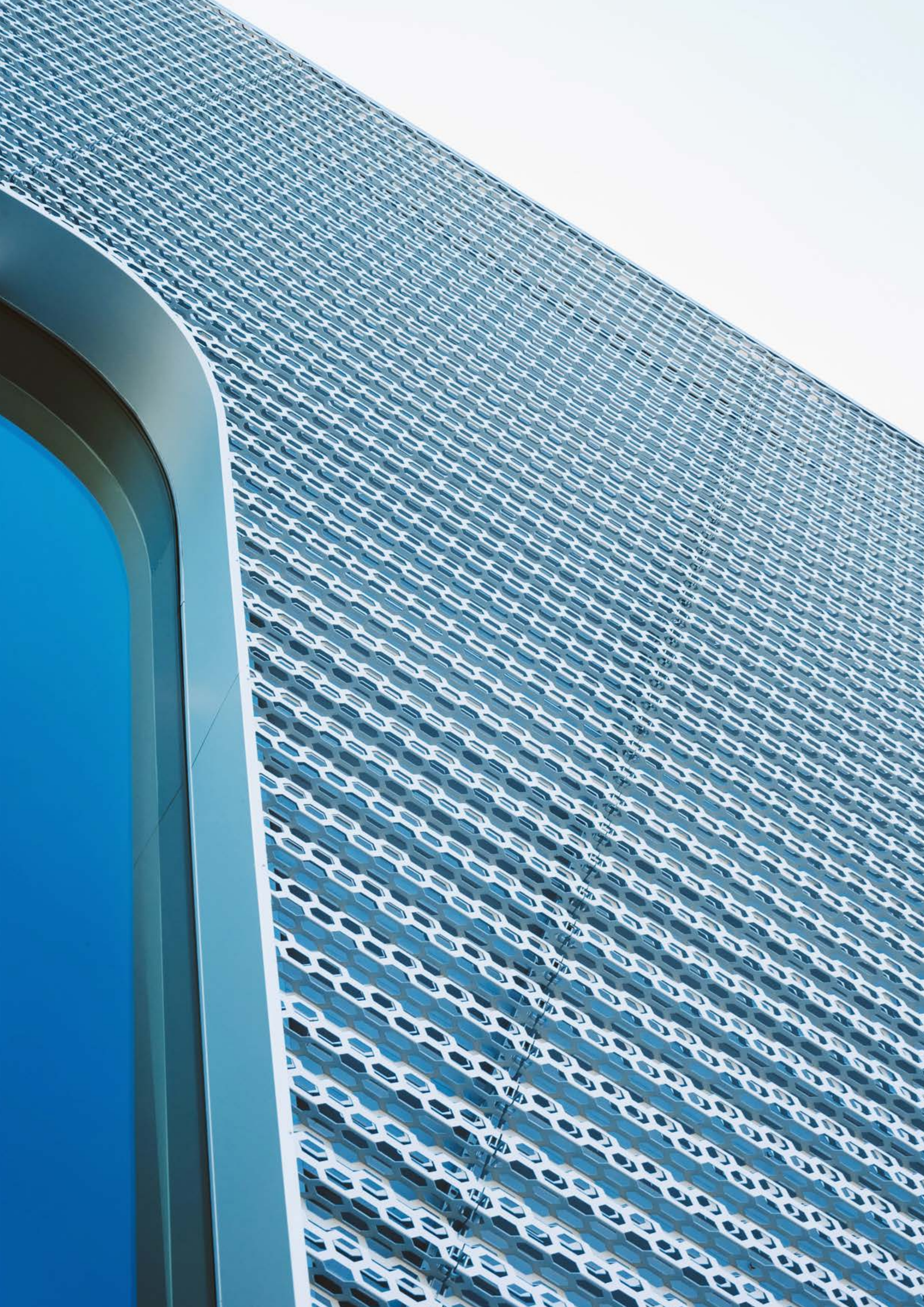
The Board continues to closely monitor the impacts of the COVID-19 pandemic and remains confident in the going concern of the Group and is pleased with the early adjustments made to ensure we exit the current difficulties in a strong position to take advantage of new opportunities.

I would like to conclude by thanking our Directors, Shariah Supervisory Board and, in particular, all our hard-working staff.

Fahed Faisal Boodai

Chairman

28 July 2020



SHARIAH SUPERVISORY BOARD REPORT

بسم الله الرحمن الرحيم

<u>To the Shareholders of Gatehouse Financial Group Limited</u>

<u>Assalaam A'laikum Wa Rahmat Allah Wa Barakatuh</u>

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

In connection with our mandate, we have reviewed all material transaction documents that were presented to us and we also relied on certification of Shariah compliance issued by the respective Shariah Supervisory Boards of the subsidiaries within the Group. These include transactional as well as agreements signed with third parties for the purpose of obtaining their services to facilitate the proper operation of the Group. This report relates to the year ended 31 December 2019.

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

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

<u>Supervision</u>

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

<u>Group's Contracts</u>

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

<u>Shariah Audit</u>

Regular Shariah audits have been carried out of the Group's business activities for the year ended 31 December 2019. The Shariah audit included a review of material transaction documents executed by the Group. In all material respects, the SSB found the business activities of the Group to be in compliance with the principles of Shariah and thanks the management of the Group for adhering to the principles of Shariah.

<u>Balance Sheet</u>

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

<u>Zakaat</u>

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

<u>Conclusions</u>

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

In our opinion, the contracts and agreements, transactions and dealings entered into by the Group for the year ended 31 December 2019 complies with the Islamic principles of Shariah.

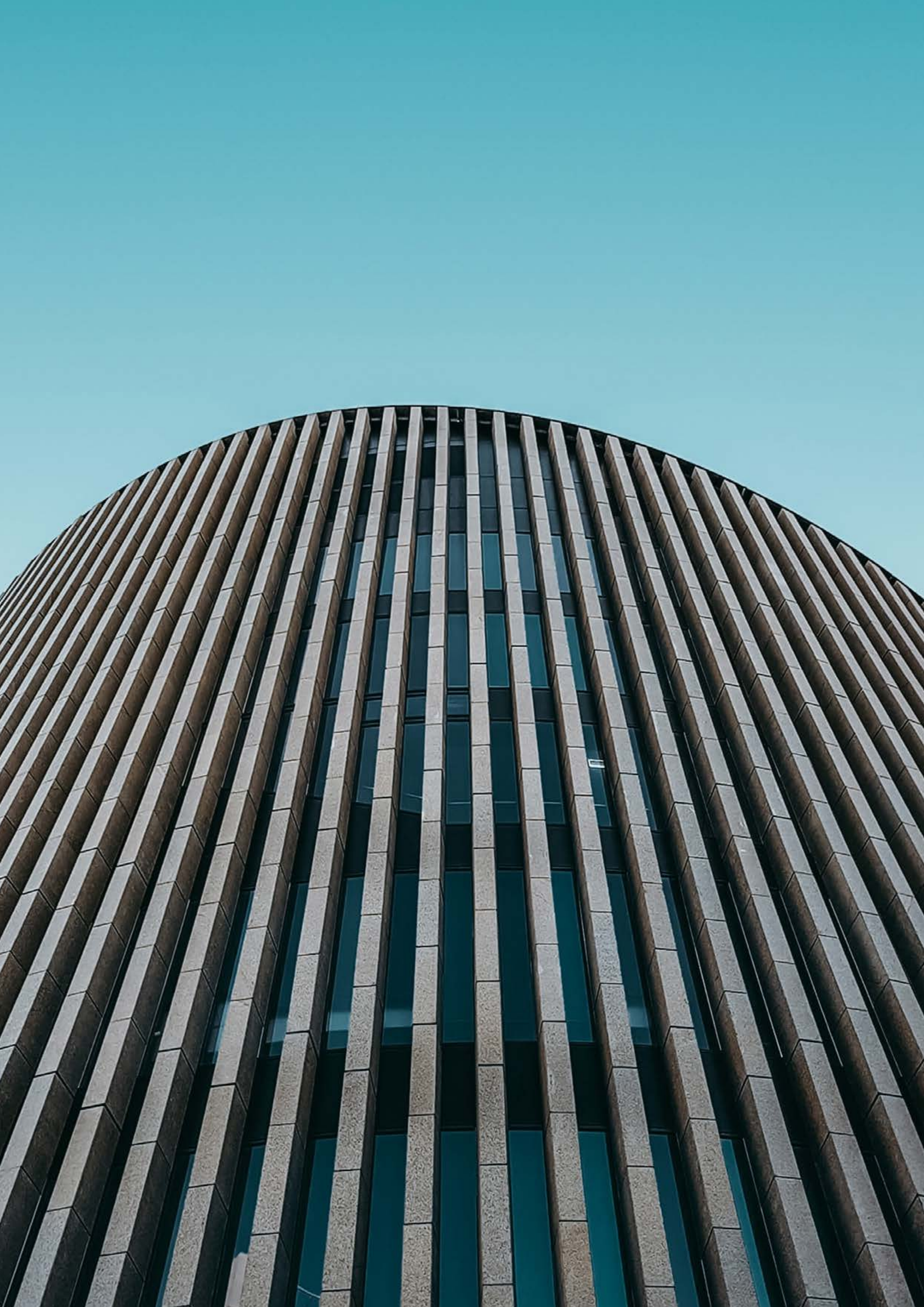
Members of the Shariah Supervisory Board

Sheikh 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

28 July 2020



DIRECTORS' REPORT

The Directors present their report on the affairs of the Group, together with the financial statements and independent auditor's report, for the year ended 31 December 2019.

Principal Activities

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

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

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

Financial results

The financial statements for the year ended 31 December 2019 are shown on pages 13 to 18. The consolidated Group loss for the year after taxation amounts to £3,240,483 (2018: loss of £15,334,319). The consolidated Group comprehensive loss for the year amounts to £5,868,638 (2018: loss of £14,248,643).

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

Below is a table of Directors appointments:

Fahed Boodai
(18 March 2015)

Abdulaziz Al-Bader
(15 February 2017)

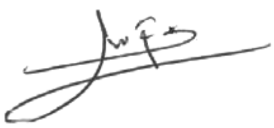
Mohamad Tawfik Al-Tahawy
(18 March 2015)

Charles Haresnape
(15 June 2017)

Zakaat

The Group calculates the Zakaat on behalf of its shareholders according to the Shariah rules approved by the Shariah Supervisory Board. Zakaat calculated for the year ended 31 December 2019 is 0.0154 pence per ordinary share of 1 pence each (2018: 0.0164 pence per ordinary share of 1 pence each). The responsibility for payment of Zakaat lies with the shareholders of the Group.

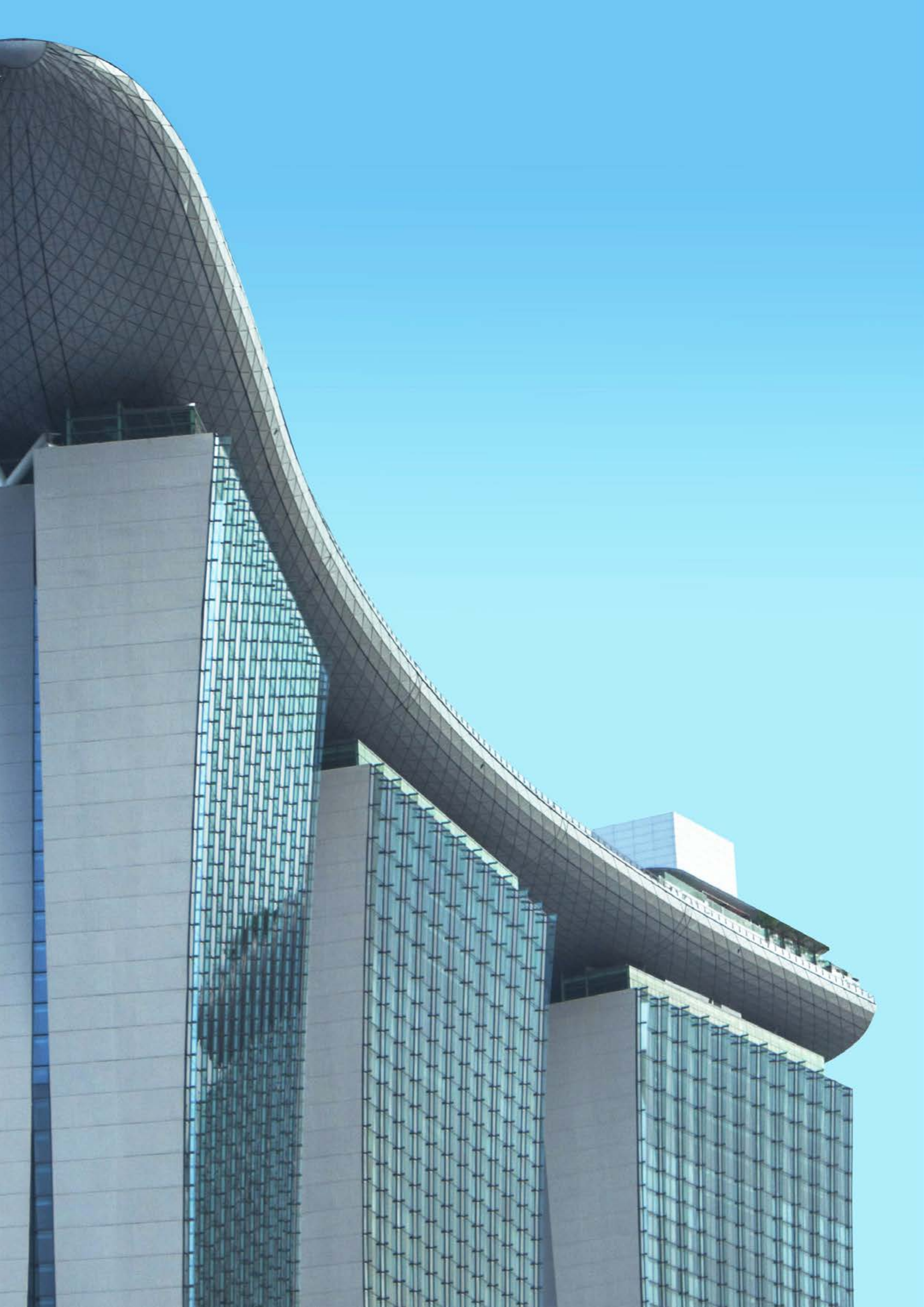
Approved by the Board of Directors and signed on behalf of the Board.



Mohamad Tawfik Al-Tahawy

Director

28 July 2020



DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

Directors' Responsibilities Statement

We confirm that to the best of our knowledge:

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

By order of the Board:

Mohamad Tawfik Al-Tahawy

Director

28 July 2020

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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the group's affairs as at 31 December 2019 and of the group's loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been properly prepared in accordance the Companies (Jersey) Law 1991.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated statement of financial position;
- the consolidated statement of changes in equity;
- the consolidated statement of cash flows; and
- the related notes 1 to 41.

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Other information

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

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

We have nothing to report in respect of these matters.

Responsibilities of directors

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

In preparing the financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Report on other legal and regulatory requirements

Matters on which we are required to report by exception

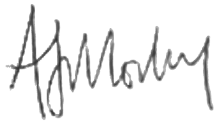
Under the Companies (Jersey) Law 1991 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

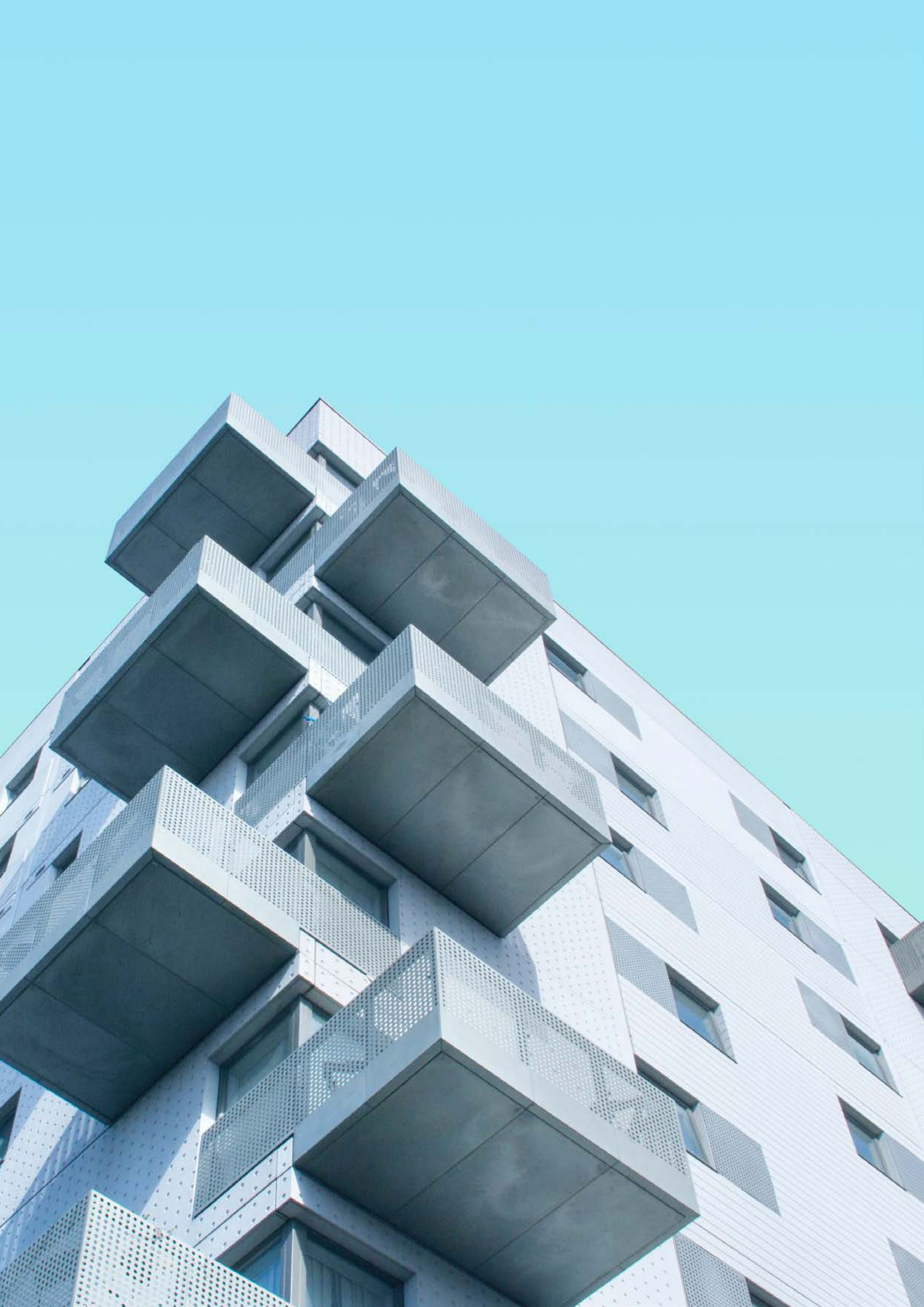
This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Alastair Morley

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

28 July 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	17,973,471	6,486,866
Charges to financial institutions and customers		(12,402,866)	(5,464,056)
Fees and commission income	7	10,372,250	11,104,198
Fees and commission expense		(69,874)	(12,243)
Net gains/(losses) from financial assets at fair value through income statement	6	2,043,508	(10,288,018)
Net gains from financial assets at fair value through other comprehensive income		2,179,570	1,757,466
Unrealised (losses)/gains on investment properties		(111,373)	6,008
Impairment reversal/(charge) on financial assets	10	85,972	(1,150,740)
Foreign exchange gains		2,211,479	679,760
Other income		79,987	517,897
Total operating income		**22,362,124**	**3,637,138**
Expenses			
Staff costs	8	(15,877,492)	(12,314,224)
Other operating expenses	9	(6,757,647)	(7,226,538)
Depreciation and amortisation		(1,409,194)	(686,013)
Total operating expenses		**(24,044,333)**	**(20,226,775)**
Operating Loss		**(1,682,209)**	**(16,589,637)**
Net share of profit of associate	22	881,152	2,640,614
Amortisation of intangibles of subsidiary	24	(1,028,012)	(997,100)
Other provisions	12	(1,250,000)	-
Amortisation of intangibles of associate	22	-	(375,647)
(Loss)/Profit before tax		**(3,079,069)**	**(15,321,770)**
Tax	13	(161,414)	(12,549)
Loss for the year from continuing operations		**(3,240,483)**	**(15,334,319)**
Attributable to:			
Loss attributable to the Bank's equity holders		(3,537,689)	(15,326,248)
Non-controlling interest		297,206	(8,071)
		(3,240,483)	**(15,334,319)**

Notes 1 to 41 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 Dec 2019 £	Year ended 31 Dec 2018 £
Loss for the year from continuing operations	**(3,240,483)**	**(15,334,319)**
Items that may be reclassified subsequently to income statement if specific conditions are met:		
Net movement on instruments at FVTOCI	(739,139)	(2,154,549)
Foreign currency translation (losses)/gains from investment in associate	(1,488,784)	2,981,536
Items that will not be reclassified subsequently to income statement:		
Net movement on instruments at FVTOCI	(400,232)	258,689
Other comprehensive (loss)/gain for the year	**(2,628,155)**	1,085,676
Comprehensive loss for the year	**(5,868,638)**	**(14,248,643)**
Attributable to:		
Loss attributable to the Group's equity holders	(6,165,844)	(14,240,572)
Non-controlling interest	297,206	(8,071)
	(5,868,638)	**(14,248,643)**

Notes 1 to 41 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		31 Dec 2019	31 Dec 2018
		£	£
Assets	**Notes**		**(restated)***
Cash and balances with banks		15,026,363	16,804,748
Financing and advances at amortised cost	17	559,477,014	294,737,373
Financial assets held at fair value through the income statement	18	25,083,714	24,987,580
Financial assets at fair value through other comprehensive income	19	37,131,426	55,331,860
Investment in associate	22	9,410,579	11,631,081
Goodwill	29	12,049,865	12,343,183
Derivative financial instruments	23	6,571,752	1,943,199
Intangible assets	24	1,326,049	2,322,040
Investment Properties	28	1,124,899	2,114,905
Property, Plant and Equipment	25	1,929,287	12,921,364
Other assets	30	2,954,316	4,184,683
		672,085,264	439,322,016
Property held for sale	27	11,555,998	-
Total assets		**683,641,262**	**439,322,016**
Liabilities			
Financial liabilities measured at amortised cost	31	564,600,787	318,846,691
Derivative financial instruments	23	4,977,556	1,854,165
Other liabilities	32	8,259,240	6,948,843
Total liabilities		**577,837,583**	**327,649,699**
Net assets		**105,803,679**	**111,672,317**
Shareholders' equity			
Share capital		158,000,001	158,000,001
Own shares		(7,950,700)	(7,950,700)
Fair value through other comprehensive income reserve		(3,512,177)	(2,372,806)
Foreign currency translation reserve		3,206,482	4,695,266
Retained deficits		(44,777,375)	(41,239,686)
Equity attributable to the Bank's equity holders		104,966,231	111,132,075
Non-controlling interest		837,448	540,242
Total Equity		**105,803,679**	**111,672,317**

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

Notes 1 to 41 form an integral part of the financial statements.
The financial statements were approved by the Board of Directors and authorised for issue on the 28 July 2020.
They were signed on its behalf by:

Fahed Faisal Boodai
Director

Mohamad Tawfik Al-Tahawy
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Own Shares	FVTOCI reserve	Foreign currency translation reserve	Retained deficit	Equity attributable to the Bank's equity holders	Non-controlling interest	Total
	£	£	£	£	£	£	£	£
Balance at 1 January 2018	158,000,001	(7,950,700)	(394,901)	1,714,643	(25,720,748)	125,648,295	-	125,648,295
Transition adjustment on adoption of IFRS 9 at 1 January 2018	-	-	-	-	(275,648)	(275,648)	-	(275,648)
Fair value changes recognised on reclassification of financial assets	-	-	(82,958)	-	82,958	-	-	-
Balance at 1 January 2018 (restated)	**158,000,001**	**(7,950,700)**	**(477,859)**	**1,714,643**	**(25,913,438)**	**125,372,647**	**-**	**125,372,647**
Other comprehensive (losses)/gains for the year								
Net movement on instruments at FVTOCI	-	-	(1,894,947)	(913)	-	(1,895,860)	-	(1,895,860)
Foreign currency translation gain from associate investments	-	-	-	2,981,536	-	2,981,536	-	2,981,536
Total other comprehensive (losses)/gains for the year	**-**	**-**	**(1,894,947)**	**2,980,623**	**-**	**1,085,676**	**-**	**1,085,676**
Acquisition of subsidiary	-	-	-	-	-	-	548,313	548,313
Loss for the year	-	-	-	-	(15,326,248)	(15,326,248)	(8,071)	(15,334,319)
Balance at 31 December 2018	**158,000,001**	**(7,950,700)**	**(2,372,806)**	**4,695,266**	**(41,239,686)**	**111,132,075**	**540,242**	**111,672,317**
Balance at 1 January 2019	**158,000,001**	**(7,950,700)**	**(2,372,806)**	**4,695,266**	**(41,239,686)**	**111,132,075**	**540,242**	**111,672,317**
Other comprehensive losses for the year								
Net movement on instruments at FVTOCI	-	-	(1,139,371)	-	-	(1,139,371)	-	(1,139,371)
Foreign currency translation loss from associate investments	-	-	-	(1,488,784)	-	(1,488,784)	-	(1,488,784)
Total other comprehensive losses for the year	**-**	**-**	**(1,139,371)**	**(1,488,784)**	**-**	**(2,628,155)**	**-**	**(2,628,155)**
Loss for the year	**-**	**-**	**-**	**-**	**(3,537,689)**	**(3,537,689)**	**297,206**	**(3,240,483)**
Balance at 31 December 2019	**158,000,001**	**(7,950,700)**	**(3,512,177)**	**3,206,482**	**(44,777,375)**	**104,966,231**	**837,448**	**105,803,679**

CONSOLIDATED STATEMENT OF CASH FLOWS

Cash flows from operating activities	Year ended 31 Dec 2019 £	Year ended 31 Dec 2018 £
Operating loss on ordinary activities after tax	(3,240,483)	(15,334,319)
Adjusted for:		
Impairment charge	(85,972)	1,169,449
Other provisions	1,250,000	-
(Positive)/Negative revaluation of financial assets held at fair value through the income statement	(920,835)	13,068,076
Gains/(losses) on financial assets held at fair value through the income statement	(1,122,673)	854,649
Share of operating profit from associate	(881,152)	(2,640,614)
Amortisation of intangibles of associate	-	375,647
Amortisation of intangibles of subsidiary	1,028,012	997,100
Fair value movement in derivative financial instruments	(1,505,162)	(595,370)
Depreciation and amortisation	1,409,194	686,013
Unrealised (losses)/gains on investment properties	111,373	(6,008)
Foreign exchange gains	(2,009,104)	(705,210)
Taxation	161,414	12,549
Net decrease/(increase) in operating assets:		
Coupons receivable for financial assets held at fair value through other comprehensive income	67,359	93,320
Net investment in financial assets held at fair value through the income statement	2,837,559	(8,812,185)
Changes in financing and advances at amortised cost	(263,644,565)	(174,696,745)
Net decrease in other assets	1,163,006	1,875,857
Net increase/(decrease) in operating liabilities:		
Changes in financial liabilities measured at amortised cost	245,754,096	168,769,531
Net increase/(decrease) in other liabilities	(220,339)	1,957,171
Net cash outflow from operating activities	**(19,848,272)**	**(12,931,089)**
Cash flow from investing activities		
Dividend received from associate	2,745,922	2,128,273
Purchases of financial assets at fair value through other comprehensive income	(4,114,227)	(28,199,188)
Proceeds from sale of financial assets	20,889,138	42,432,770
Net investment in subsidiary	-	(3,532,101)
Purchase of plant and equipment	(1,203,568)	(220,482)
Purchase of intangible assets	878,633	(680,797)
Net cash inflow from investing activities	**19,195,898**	**11,928,475**
Cash outflow for lease liabilities	(703,968)	-
Net cash inflow from financing activities	**(703,968)**	**-**
Net outflow/inflow in cash and cash equivalents	**(1,356,342)**	**(1,002,614)**
Cash and cash equivalents at the beginning of the year	16,804,748	16,452,273
Effect of foreign exchange rate changes	(422,043)	1,355,089
Cash and cash equivalents at the end of the year	**15,026,363**	**16,804,748**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. General Information

Gatehouse Financial Group Limited (the "Group", the "Company") was incorporated as a private company in Jersey on 5 March 2015 under the Companies (Jersey) Law 1991. The address of the registered office is given on page 2.

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

2. Adoption of new and revised standards

New and revised IFRSs in issue but not yet effective

The Group 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:

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

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 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 Group but have not had a material impact on the Group's consolidated financial statements except for IFRS 16 Leases as described below.

Transition to IFRS 16

As of 1 January 2019, the Group 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.

The Group 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.

2. Adoption of new and revised standards (continued)

In order to calculate the lease liability and the related right-of-use asset, the Group 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 profit 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 Group 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 Group 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 1,486,448 pounds, lease liabilities comprised 1,486,448 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 Group'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 40 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposures to credit and liquidity risk.

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

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

- The adequacy and resilience of the Group's capital base throughout the pandemic including revised macro-economic scenarios;
- The impact of negative valuations on the Group's real estate and legacy assets;
- The adequacy of the Group'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.

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

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

Structured entities

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

Key estimates

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 40).

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 Group's financing portfolio and all other variables were held constant, the Group'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

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 Group 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.

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.

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

Financial Instruments

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

Measurement categories of financial assets and liabilities

The Group 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.

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

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel; 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 Group's assessment.

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

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

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

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.

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

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 Group has the irrevocable election at initial recognition to classify the instruments as FVTOCI, which has not been taken. This election is available for each separate investment.

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

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income include quoted funds and unquoted equity securities which the Group has elected to hold under FVTOCI and quoted sukuk.

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

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

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

Derivative Financial Instruments

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

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

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

ECL measurement

The Group's portfolio is split into three asset classes: Treasury (placements and Liquid Asset Buffer ("LAB") Sukuk, Real Estate Finance ("REF") and residential finance book (Commercial real estate, Home Purchase Plans ('HPPs') 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 Group monitors the effectiveness of the criteria used to identify significant increase through regular reviews. For each financial asset the Group 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 Group has incorporated the Group of England forward-looking forecasts for UK residential property price index into the IFRS 9 model.

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 Group enters in particular arrangements with the customer to sell to them its share in this partnership until they become the sole owner of the specific asset (diminishing musharaka).

The calculation of profit on financial assets that are not impaired (Stage 1, Stage 2) is performed by applying the effective profit rate to the gross outstanding amount of asset. Once asset is impaired or classified as Stage 3, the effective profit 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.

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.

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

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.

Financial Assets and Liabilities

Recognition/de-recognition

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

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

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

Investment in associate

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

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

Financing and advances at amortised cost

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

Financial assets held at fair value through the income statement

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

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

Financial assets at fair value through other comprehensive income

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

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

Cash and balances with banks

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

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

Property, Plant and Equipment

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

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

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

Intangible assets

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

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

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

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

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

Impairment of non-financial assets

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

Contracted Revenue

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

Share-based payments

The Group accounts for its share-option scheme in accordance with IFRS 2. At each balance sheet date, the Group revises its estimate of the number of equity options expected to vest.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in shareholders' equity, in which case it is recognised in shareholders' equity.

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

Deferred tax is provided in full using the liability method on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised.

No deferred tax assets are recognised at 31 December 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 Group operates a defined contribution pension scheme for all staff. The cost of the scheme is equal to the contributions payable to the scheme for the accounting period and is recognised within "Staff costs" in the income statement. The Bank has no further obligation once the contributions have been paid.

4. Restatement of prior period

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	10,704,533	1,638,650	12,343,183
Other liabilities	5,310,193	1,638,650	6,948,843

5. Income from financial assets held at amortised cost

	2019	**2018**
	£	**£**
Income from financial institutions	2,941,989	670,204
Income from financing arrangements	15,031,483	5,816,662
	17,973,472	**6,486,866**

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

	2019	**2018**
	£	**£**
Positive /(Negative) revaluation on financing asset	816,591	(12,312,585)
Profit income of financing assets	(1,080)	684,690
Profit Rate Swap Loss	(235,327)	-
Positive/ (negative) revaluation on unquoted equity securities	(248,746)	829,226
Gain on disposal of unquoted securities	-	34,174
Dividend income	1,712,070	476,477
	2,043,508	**(10,288,018)**

7. Fees and commission income

	2019	**2018**
	£	**£**
Management fees	8,239,943	5,451,904
Structuring fees	1,639,003	2,415,487
Placement fees	493,304	368,498
Incentive fees	-	2,868,309
	10,372,250	**11,104,198**

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

	2019	2018
	£	£
Staff costs		
Directors' salaries and fees	1,400,380	1,374,479
Directors' pensions	54,063	52,813
	1,454,443	**1,427,292**
Staff salaries	10,007,737	7,124,094
Staff pension contributions	452,964	408,213
Social security costs	1,262,790	964,042
Other staff costs	2,699,558	2,390,583
	15,877,492	**12,314,224**

	2019	2018
	£	£
Highest paid Director		
Emoluments	628,701	641,250
Pension contribution	-	-
	628,701	**641,250**

	2019	2018
	No.	No.
Number of employees at year end	245	189
Average number of employees	214	166

9. Other operating expenses

	2019	2018
	£	£
Legal and professional fees	1,601,191	1,695,823
Rent and other occupancy costs	1,622,969	1,498,205
Travel and accommodation	528,697	378,075
Other tax payable	226,847	933,283
Other operating charges	955,621	776,244
IT and communication costs	1,160,255	984,425
Recruitment costs	90,280	288,428
Consultancy	244,610	360,479
Shariah Supervisory Board fees	67,399	78,872
Advertising and marketing	259,778	232,704
	6,757,647	**7,226,538**

10. Impairment reversal /(charge)

	2019	2018
	£	£
Bad debt on trade receivable	-	(125,000)
Impairment of Murabaha receivable	-	(225,147)
Expected credit losses	85,972	(800,593)
	85,972	**(1,150,740)**

11. Loss before tax

	2019	2018
Loss before tax is stated after charging:	£	£
Net foreign exchange gains	(2,211,479)	(679,761)
Auditor's remuneration	313,360	229,500
Rentals paid under operating leases: premises	703,968	977,154
Depreciation and amortisation	1,409,194	684,837

	2019	2018
Auditor's remuneration can be analysed as follows:	£	£
Audit of the Group's accounts	256,933	179,000
Other services:	-	
Other audit-related services including audit of subsidiaries	56,427	50,500
	313,360	**229,500**

12. Other provisions

A provision of £1.25m has been included in the financials to cover the possibility of any adverse findings relating to the Group'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 Group's best judgement.

13. Taxation

	2019	2018
	£	£
Analysis of tax charge for the year		
Current tax		
UK Corporation tax based on the profit for the year	-	-
Other corporation tax – GHB Properties Limited	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 the UK corporation tax applied to reported profit is 19% (2018: 19%). Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

13. Taxation (continued)

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 year 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	(3,079,069)	(15,321,770)
Adjusting items subject to UK corporation tax	1,319,345	(520,515)
Loss before tax subject to UK corporation tax	**(1,759,724)**	**(15,842,285)**

Tax at the UK corporation tax rate of 19% (2018: 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. Earnings per share

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

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

	Number of shares	
	2019	2018
Weighted average number of ordinary shares outstanding	**15,800,000,100**	**15,800,000,100**

15. Profit Rate Swap

The Group participates in 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 is attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured. The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

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

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

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

	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).

16. Company loss attributable to equity shareholders

£3,519,322 of the company loss for the financial year (2019: £15,446,106 loss) has been dealt with in the accounts of the Group.

17. Financing and advances at amortised cost

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

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

	Avg. Yield	**2019**	*Avg. Yield*	**2018**
		£		**£**
Gross financing and advances at amortised cost		559,643,758		295,831,239
Less: allowances for impairment		(166,744)		(1,093,866)
Financing and advances at amortised cost	*3.92%*	**559,477,014**	*3.84%*	**294,737,373**

17. Financing and advances at amortised cost (continued)

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	537,865,970	18,663,432	3,114,356	-	559,643,758
Loss allowance	(83,260)	(59,181)	(24,303)	-	(166,744)
Carrying value under IFRS 9	**537,782,710**	**18,604,251**	**3,090,053**	**-**	**559,477,014**

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	293,384,888	2,446,351	-	-	295,831,239
Loss allowance	(11,312)	(1,082,554)	-	-	(1,096,866)
Carrying value under IFRS 9	**293,373,576**	**1,363,797**	**-**	**-**	**29,737,373**

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	(11,312)	(1,082,554)	-	-	(1,093,866)
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	(34,599)	1,073,229	-	-	1,038,630
FX and other movements	110	-	-	-	110
Loss allowance as at 31 December 2019	**(83,260)**	**(59,181)**	**(24,303)**	**-**	**(166,744)**

17. Financing and advances at amortised cost (continued)

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 2018	(70,759)	(203,042)	-	-	(273,801)
New financial assets originated or purchased	(908,543)	-	-	-	(908,543)
Transfers					
Transfer from stage 1 to stage 2	879,825	(879,825)	-	-	-
Changes in PD's/ LGD's / EAD's	87,870	(489)	-	-	87,381
FX and other movements	295	802			1,098
Loss allowance as at 31 December 2018	**(11,312)**	**1,082,554**	**-**	**-**	**(1,093,866)**

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

	Avg. Yield	2019	*Avg. Yield*	2018
		£		£
Gross financing and advances		9,534,340		21,903,272
Positive /(Negative) revaluations		816,591		(12,001,123)
Total financing and advances		10,350,931		9,902,149
Unquoted equity securities		14,732,783		15,085,431
	4.81%	**25,083,714**	*2.58%*	**24,987,580**

All finance receivables are bilateral financial arrangements with corporate entities accounted for as Loans and Receivables in accordance with IFRS 9 Financial Instruments: Recognition and Measurement.

19. Financial assets at fair value through other comprehensive income

	Avg. Yield	2019	*Avg. Yield*	2018
		£		£
Quoted sukuk		16,576,477		21,635,010
Unquoted equity securities		15,266,634		29,350,880
Unquoted funds		-		228,207
Quoted funds		5,288,315		4,117,763
	1.64%	**37,131,426**	*1.66%*	**55,331,860**

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**

19. Financial assets at fair value through other comprehensive income (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	21,636,599	-	-	-	21,636,599
Loss allowance	(1,589)	-	-	-	(1,589)
Carrying value under IFRS 9	**21,635,010**	**-**	-	-	**21,635,010**

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 2019
	£	£	£	£	£
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 2018
	£	£	£	£	£
Loss allowance as at 1 January 2018	(1,847)	-	-	-	(1,847)
New financial assets originated or purchased	-	-	-	-	-
Changes in PD's/ LGD's / EAD's	121	-	-	-	121
FX and other movements	137	-	-	-	137
Loss allowance as at 31 December 2018	**(1,589)**	**-**	**-**	**-**	**(1,589)**

20. Investment in subsidiaries

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

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

20. Investment in subsidiaries (continued)

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

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

The Group's gross investment in property SPVs is £39,491,779 which is included in financial assets held at fair value through the income statement and financial assets held at fair value through other comprehensive income. The Group has also provided funding through fixed term Murabaha contracts as bridge financing to these SPVs. The Group's maximum loss relating to these SPVs is equal to the exposure in the SPVs. The primary risk to which the Group is exposed is the risk of changes in the valuation of the Group's investment in the SPV due to changes in the valuation of the property held by each SPV or changes in the cash flows generated by the property.

22. Investment in Associate

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

Movement on the investment in associate is shown below:

	2019	**2018**
	£	**£**
At the beginning of the year	11,631,081	10,800,956
Share of profit	881,152	2,640,614
Foreign currency translation adjustment	(355,732)	693,431
Dividends received	(2,745,922)	(2,128,273)
Amortisation of intangibles	-	(375,647)
At the end of the year	**9,410,579**	**11,631,081**

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

	2019	**2018**
	£	**£**
Aggregated amounts relating to associate		
Total assets	2,322,780	7,247,578
Total liabilities	(569,834)	(2,364,675)
Net assets	**1,752,946**	**4,882,903**
Total revenue	4,766,203	9,369,480
Profit	**1,374,283**	**4,243,314**

	2019	**2018**
	£	**£**
Group's share of net assets of associate	1,081,911	2,998,999
Goodwill and intangibles	8,328,668	8,632,082
Carrying amount of interest in associates	**9,410,579**	**11,631,081**

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

24. Intangible assets

Intangible assets:	**2019**	**2018**
	£	£
Software costs and licence fees	868,928	797,338
Customer List	457,121	489,773
Contracted Revenue of a subsidiary	-	1,034,929
Total Balance at 31 December	**1,326,049**	**2,322,040**

	2019	**2018**
Software costs and licence fees	**£**	**£**
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 year	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**

24. Intangible assets (continued)

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 year	32,652	-
On disposal	-	-
At 31 December	**32,652**	**-**
Net book value		
At 1 January	**489,773**	**-**
At 31 December	**457,121**	**489,773**

Contracted Revenue of a subsidiary	**2019**	**2018**
	£	**£**
Balance as at 1 January	1,034,929	1,958,864
Amortisation	(1,028,012)	(997,100)
FX retranslation	(6,917)	73,165
Balance as at 31 December	**-**	**1,034,929**

25. Property, plant and equipment

Group	Property	Leasehold property	Leasehold vehicles	Computer equipment	Fixtures and fittings	Leasehold improvements	Vehicles	Total
	£	£	£	£	£	£	£	£
Cost								
At 1 January 2019	12,216,511	-	-	1,537,785	949,998	2,999,867	41,097	17,745,258
Additions	-	-	-	114,597	19,883	-	-	134,480
Leases (IFRS 16 implementation adjustment)	-	1,363,897	108,490	14,061	-	-	-	1,486,448
Reclassification to property held for sale	(12,216,511)	-	-	-	-	-	-	(12,216,511)
Disposals	-	-	-	(60,633)	(85,824)	(1,346,261)	-	(1,492,718)
FX retranslation	-	-	-	(15,298)	(21,756)	-	(1,412)	(38,466)
At 31 December 2019	**-**	**1,363,897**	**108,490**	**1,590,512**	**862,301**	**1,653,606**	**39,685**	**5,618,491**
Depreciation								
At 1 January 2019	550,314	-	-	1,347,391	855,702	2,029,390	41,097	4,823,894
Charge for the period	110,064	490,394	48,847	88,880	27,512	285,259		1,050,956
Write-off on disposals	(660,378)	-	-	(55,005)	(85,824)	(1,346,261)		(2,147,468)
FX Retranslation	-	-	-	(15,010)	(21,756)	-	(1,412)	(38,178)
At 31 December 2019	**-**	**490,394**	**48,847**	**1,366,256**	**775,634**	**968,388**	**39,685**	**3,689,204**
Net book value								
At 1 January 2019	11,666,197	-	-	190,394	94,296	970,477	-	12,921,364
At 31 Dec. 2019	**-**	**873,503**	**59,643**	**224,256**	**86,667**	**685,218**	**-**	**1,929,287**

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

26. Leases

Right of use assets

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

	Leasehold property	Leasehold vehicles	Computer equipment	Total
	£	£	£	£
Cost				
At 1 January 2018	1,363,897	108,490	14,061	1,486,448
Depreciation charge for the year	(490,394)	(48,847)	(3,323)	(542,564)
At 31 December 2018	**873,503**	**59,643**	**10,738**	**943,884**

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

Lease liabilities

Contractual undiscounted cash flows:

	2019
	£
Less than one year	367,366
One to five years	510,962
More than five years	75,470
	953,798

Amounts recognised in the income statement:

	2019
	£
Profit on lease liabilities	68,602
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
	161,499

Amounts recognised in the statement of cash flows:

	2019
	£
Total cash outflow for leases	(703,968)
	(703,968)

27. 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'.

28. Investment properties

	2019	2018
	£	**£**
Cost		
At 1 January	2,114,905	1,995,580
Additions on acquisition of subsidiary	-	-
Unrealised gain on revaluation	-	6,251
Disposal	(916,425)	-
FX retranslation	(73,581)	113,074
At 31 December	**1,124,899**	**2,114,905**
Net book value		
At 1 January	**2,114,905**	**1,995,580**
At 31 December	**1,124,899**	**2,114,905**

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

29. Goodwill

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

	2019	2018 (restated)
	£	**£**
Balance as at 1 January	12,343,183	8,080,314
Ascend goodwill	-	3,805,020
FX re-measurement	(293,318)	457,849
Balance as at 31 December	**12,049,865**	**12,343,183**

30. Other Assets

	2019	2018
	£	**£**
Other debtors	1,171,498	2,649,699
Prepayments	618,735	594,056
Accrued income receivable	1,164,083	940,928
	2,954,316	**4,184,683**

31. Financial liabilities measured at amortised cost

	Avg. Yield	£
Financial liabilities measured at amortised cost at 1 January 2019	*2.55%*	318,846,691
Net proceeds from financial institutions and customers		244,089,129
Net increase in profit payable		2,648,162
FX Movement		(983,195)
Financial liabilities measured at amortised cost at 31 December 2019	*2.19%*	**564,600,787**

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

32. Other liabilities

	2019 £	**2018** £ **(restated)**
Payable to subsidiary shareholders	1,738,560	1,638,650
Other provisions	1,250,000	-
Lease liabilities	953,797	278,065
Other taxes and social security costs	324,442	2,713,163
Other creditors	3,992,441	2,318,965
	8,259,240	**6,948,843**

33. Maturity analysis of financial assets and liabilities

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

2019	**Less than 12 months**	**More than 12 months**	**Total**
	£	**£**	**£**
Assets			
Cash and balances with banks	15,026,363	-	15,026,363
Financing and advances at amortised cost	60,314,764	499,162,250	559,477,014
Financial assets held at fair value through the income statement	-	25,083,714	25,083,714
Financial assets held at fair value through other comprehensive income	3,785,152	33,346,274	37,131,426
Investment in Associates	-	9,410,579	9,410,579
Goodwill	-	-	-
Derivative financial instruments	6,571,752	-	6,571,752
Total financial assets	**85,698,031**	**567,002,817**	**652,700,848**
Liabilities			
Financial liabilities measured at amortised cost	363,238,976	201,361,811	564,600,787
Derivative financial instruments	4,977,556	-	4,977,556
Other liabilities	2,590,904	586,433	3,177,337
Total financial liabilities	**370,807,436**	**201,948,244**	**572,755,680**

2018	**Less than 12 months**	**More than 12 months**	**Total**
	£	**£**	**£**
Assets			
Cash and balances with banks	16,804,748	-	16,804,748
Financing and advances at amortised cost	47,617,324	247,120,049	294,737,373
Financial assets held at fair value through the income statement	-	24,987,580	24,987,580
Financial assets held at fair value through other comprehensive income	10,937,629	44,394,233	55,331,862
Investment in Associates	-	11,631,082	11,631,082
Derivative financial instruments	1,943,199	-	1,943,199
Total financial assets	**77,302,900**	**328,132,944**	**405,435,844**
Liabilities			
Financial liabilities measured at amortised cost	273,115,846	45,730,845	318,846,691
Derivative financial instruments	1,854,165	-	1,854,165
Total financial liabilities	**274,970,011**	**45,730,845**	**320,700,856**

34. Assets and liabilities in foreign currency

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

	2019	2018
	£	£
		(restated)
Assets		
Denominated in Sterling	606,939,876	326,217,010
Denominated in other currencies	76,701,385	113,105,006
	683,641,261	**439,322,016**

	2019	2018
	£	£
Liabilities		
Denominated in Sterling	512,184,472	170,431,547
Denominated in other currencies	65,653,111	157,218,152
	577,837,583	**327,649,699**

35. Pension Commitments

Within the Group, only Gatehouse Bank plc provides a defined contribution pension scheme for all staff. The assets of the scheme are held separately from those of the Bank in independently administered funds. During the year, pension costs of £452,946 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).

36. 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**

37. Own shares

The Own Shares reserve represents the shares issued as part of the Group's Employee Incentive Plan, held by the Employee Benefit Trust on behalf of participating employees and the Trustee. 800,000,000 ordinary shares of £0.01 each (2018: 800,000,000 ordinary shares) were held by the Employee Benefit Trust at 31 December 2019 of which 493,000,000 were partly paid up to £0.0001 per share (2018: 493,000,000).

38. Off balance sheet items

Financing commitments

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

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

Other commitments

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

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

39. Related party transactions

During the reporting year, the Group entered into separate transactions with related counterparties. Kuwait Investment Authority is a shareholder of the Group and has a year-end balance of £101,772,279 (2018: 150,294,947).

Amounts outstanding with related parties as at 31 December 2019 were as follows:

2019	**Shareholder**
	Kuwait Investment Authority
	£
Profit income	-
Profit expense	4,021,159
Assets	-
Financial liabilities measured at amortised cost	101,772,279
Other liabilities	-

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

The disclosure requirement in respect of remuneration to key management personnel has been met by providing Directors' emoluments details in note 8.

40. Risk Management

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

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

40. Risk Management (continued)

Credit Risk

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

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

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

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

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

A comprehensive control framework is in place. This incorporates:

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

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

Note 2 refers to the basis by which the Group reviews for impairment of its financial assets. Note 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:

	2019	2018
	£	£
Cash and balances with banks	15,026,363	16,804,748
Financing and advances at amortised cost	559,477,014	294,737,373
Financial assets held at fair value through the income statement (debt assets)	7,257,731	6,801,615
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
	610,197,652	**346,039,710**

40. Risk Management (continued)

Credit Risk (continued)

Geographical region

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

	2019	2018
	£	£
GCC countries	56,818,870	28,413,909
Kuwait	6,743,060	4,256,816
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	249,721,022
North America	25,927,536	26,059,171
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
	610,197,652	**346,039,710**

Credit quality

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

2019	**Investment grade**	**Non-investment grade**	**Non-rated**	**Total**
	£	**£**	**£**	**£**
Assets				
Cash and balances with banks	15,024,514	-	1,849	15,026,363
Financing and advances at amortised cost	10,004,623	-	549,472,391	559,477,014
Financial assets held at fair value through the income statement (debt assets)	-	-	7,257,731	7,257,731
Financial assets held at fair value through other comprehensive income (debt Assets)	16,576,477	-	5,288,315	21,864,792
Derivative financial instruments	6,571,752	-	-	6,571,752
Total assets	**48,177,366**	**-**	**562,020,286**	**610,197,652**

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

40. Risk Management (continued)

Credit Risk (continued)

Liquidity risk

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

Liquidity and rate profile

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

	Less than 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Total
	£	£	£	£	£	£
2019						
Assets						
Fixed rate items	29,221,338	3,053,893	13,612,596	14,630,769	506,419,980	566,938,576
Non-rate sensitive	21,394,284		-	3,785,152	18,079,640	43,259,076
Total assets	**50,615,622**	**3,053,893**	**13,612,596**	**18,415,921**	**524,499,620**	**610,197,652**
Liabilities						
Fixed rate items	103,788,459	63,964,133	122,156,058	77,945,409	201,724,284	569,578,343
Non-rate sensitive	-	-	-	-	-	-
Total liabilities	**103,788,459**	**63,964,133**	**122,156,058**	**77,945,409**	**201,724,284**	**569,578,343**
Net	**(53,172,837)**	**(60,910,240)**	**(108,543,462)**	**(59,529,488)**	**322,775,336**	**40,619,309**

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

40. Risk Management (continued)

Market risk

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

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

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

Market risk measurement

The techniques used to measure and control market risk include:

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

Although the Bank only trades in Shariah-compliant products, the carrying value of financial instruments held by the Bank is sensitive to movement in interest rates. If interest rates had been 200 basis points higher/lower and all other variables were held constant, the Bank's profit for the year ended 31 December 2019 would decrease/increase by £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 Group uses derivatives to prudently manage its PRR. In 2018 the Group undertook profit rate derivatives (swaps) totalling £281,700,000 (2018: £101,700,000) in the form of fixed for floating rate, which allowed the Group to tactically hedge against risks arising from deposits of certain short-term maturities and longer-term financing.

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

As at 31 December 2019, the market value of nominal positions generating profit rate VaR was £100,135,505 (2018: £111,543,814) which generated profit rate VaR and maximum loss estimates of:

2019	95% VaR (£)
One day	(8,792)
One week	(24,757)

2018	95% VaR (£)
One day	(3,868)
One week	(13,803)

40. Risk Management (continued)

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 setup headed by the Treasurer who reports to the ALCO. Aside from Treasury, this working group comprised of the CFO, 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 December 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 maximum loss estimates of:

2019	95% VaR (£)
One day	(1,510)
One week	(4,032)

2018	95% VaR (£)
One day	(592)
One week	(3,159)

40. Risk Management (continued)

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 FVOCI 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 and maximum loss 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, Level 1 financial instruments are primarily investments in sukuk that are quoted in active markets and market bid prices have been applied to fair value these at year end;
- Level 2: Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); As at 31 December 2019, 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, Level 3 financial instruments are investments in unquoted equity securities. Fair value is estimated on the basis of historic cost less impairment and by reference to the net asset value of the underlying investment, where the net asset value is not based on observable market data. The group splits its level 3 unquoted equity securities between US and UK assets. US assets are valued using the audited accounts of the underlying SPV's in order to arrive at a net asset value. UK assets are valued using confirmations of debt and cash balances held via the SPV and third party appraisal reports.

2019	Level 1	Level 2	Level 3	Total
	£	£	£	£
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	-	-	17,825,983	17,825,983
Financing arrangements	-	7,257,731	-	7,257,731
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	-	-	15,266,634	15,266,634
Total	**28,436,544**	**7,257,731**	**33,092,617**	**68,786,892**

40. Risk Management (continued)

Fair value measurements recognised in the balance sheet (continued)

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

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

Level 3 asset	2019 Carrying value £	2018 Carrying value £	Valuation Technique	Significant unobservable inputs
UK Unquoted equity securities	18,726,160	43,816,225	Measurement of net assets as a proportion of participating shares in issue	Third party appraisal reports, cash and debt balances
US Unquoted equity securities	14,366,457	3,720,618	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	**33,092,617**	**47,765,050**		

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.

40. Risk Management (continued)

Fair value measurements recognised in the balance sheet (continued)

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	**29,350,880**	**228,207**	**-**	**29,579,087**
Total gains or losses:				
In income statement	-	-	-	-
In FVTOCI	(2,448,706)	-	-	(2,448,706)
Purchases	(10,709,512)	-	-	(10,709,512)
Issues	-	-	-	-
Settlements	-	(228,207)	-	(228,207)
FX retranslation	(926,028)	-	-	(926,028)
Transfers out of Level 3	-	-	-	-
Transfers into Level 3	-	-	-	-
Balance at 31 December 2019	**15,266,634**	**-**	**-**	**15,266,634**

A 20% decrease in property prices would reduce the fair value of financial assets at FVOCI by £3.5m as at 31 December 2019.

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

40. Risk Management (continued)

Fair value measurements recognised in the balance sheet (continued)

2019	**Financial assets held at fair value through the income statement**		
	Financing arrangements	**Unquoted equities**	**Total**
Balance at 1 January 2019	-	18,195,084	18,195,084
Negative revaluations	-	(251,734)	(251,734)
Fair value uplifts	-	-	-
Net settlements	-	-	-
FX retranslation	-	(117,367)	(117,367)
Balance at 31 December 2019	**-**	**17,825,983**	**17,825,983**

A 20% decrease in property prices would reduce the fair value of financial assets held at FVTIS by £5m 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	-	17,944,306	17,944,306
Negative revaluations	-	(304,991)	(304,991)
Fair value uplifts	-	555,769	555,769
Net settlements	-	-	-
Balance at 31 December 2018	**-**	**18,195,084**	**18,195,084**

Operational risk

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

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

Pillar 3 Disclosures

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

Capital Risk Management (Unaudited)

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

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

40. Risk Management (continued)

Capital Risk Management (Unaudited) (continued)

Gatehouse Bank plc'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**

41. 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 and investment exposures and impact to customers and staff working arrangements.

The Group considers this event to be a non-adjusting event after the reporting period and therefore has not made any adjustments to the financial statements as a result of this matter. The outcome of this event is unknown and therefore the impact on the Group cannot be reasonably quantified at the date of issuance of these financial statements. From the analysis performed so far, no Capital and Liquidity issues have been identified. Management will continue to monitor the situation closely and utilize committed facilities or seek additional facilities, or take additional measures as a fall back plan in case the period of disruption becomes prolonged. These and other relevant matters will be considered in the determination of the Group's estimates in 2020.

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