GATEHOUSE BANK

Annual Report & Financial Statements 2016

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GATEHOUSE BANK PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year-ended 31 December 2016

Registered number: 06260053

GATEHOUSE BANK

COMPANY INFORMATION

Directors

Matthew Hadrian Marshall Carrington
Abdulaziz AlBader
Mohamad Tawfik Al-Tahawy
Craig Friedman
Gerald Gregory
Stephen Smith
Fahed Faisal Boodai
Aboo Twalha Dhunnoo

Secretary

Mohaimin Chowdhury

Auditor

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

Registered office

14 Grosvenor Street
London
W1K 4PS

Registered number

06260053

CHAIRMAN'S STATEMENT

In the name of Allah, the Most Gracious, the Most Merciful

To the shareholders and ultimate shareholders of Gatehouse Bank plc

On behalf of the members of the Board of Directors of Gatehouse Bank plc ("the Bank"), I am pleased to present to you the 2016 Annual Report and Financial Statements.

Since Mr Boodai stepped down from his position as Chairman to be Interim CEO in March 2016, the Board has undertaken a search for a new permanent CEO who will be able to build upon past successes and take the Bank to its next chapter. We were determined to find a CEO who shares our commitment to our clients and to our Shariah banking principles, coupled with extensive experience in the property sector. I am delighted that Mr Charles Haresnape has accepted the position of CEO and will be joining in May 2017, subject to regulatory approvals. Mr Haresnape comes to us from Aldermore Group Plc ("Aldermore"), a specialised lender and savings Bank in the UK, where he spent the previous six years as Group Managing Director, overseeing the mortgages arm. During his tenure, Aldermore's mortgage portfolio grew in excess of £5bn. When Mr Haresnape commences his role as CEO and Executive Director, Mr Boodai will resume his position as Chairman.

Throughout 2016, your Board continued to provide the leadership required for the Bank's strategic direction, making key decisions that led to a better year with a profit after tax of £1.6m. This is an improvement compared to 2015, which recorded a loss. This positive financial performance for 2016 was achieved through better cost control initiatives and stronger management of the Bank's income sources.

The Bank continued to grow the Private Rented Sector (PRS) Fund and its joint venture with Sigma; its key development partner. The Bank also made further investments which will see a portfolio of 1000 new build, high specification homes in target markets across the United Kingdom, especially in the North West of England.

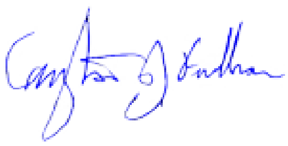
Your Board has considered the impact on the Bank and on the UK economy and financial sector of the UK's EU membership referendum and the UK's prospective withdrawal from the EU. As in all periods of change and uncertainty, there are both risks and opportunities. Gatehouse Bank's assets are resilient and the Bank's strong brand provides a strong defence against any downturn in the economy.

In 2017 the Bank will enhance the platform for the product launch of residential property financing. We see immense opportunities in the residential property sector, supported by fundamentals of a shortage of houses throughout the UK, growing population trends and on average increased prices. We also see residential property financing as an adequately risked, as well as a profitable product that meets both risk appetite and cost-benefit criteria.

The Board is grateful to Mr Jonathan Short, Mr Oday Al-Ibrahim and Mr Marwan Al Saleh, who left the Board as Non-Executive directors in 2016, for their valued contribution to the Bank. I am pleased to welcome the addition of Mr Abdulaziz AlBader as a Non-Executive Director. Mr AlBader brings a wealth of experience from his work at the Kuwait Investment Authority.

Gatehouse Bank has the potential to become a leading provider of Shariah compliant real estate products and services in the UK and is well positioned with a strong balance sheet, a supportive Board and an ambitious and focussed strategy.

To conclude, I would like to thank you, our Shareholders for your continued support as Gatehouse Bank endeavours to meet your ambitions. The Board would also like to extend our sincere gratitude to the Shariah Supervisory Board for their guidance. We, finally, would like to acknowledge the diligent and devoted work of all of the Bank's employees, and their commitment towards a successful year.



Lord Carrington of Fulham
Chairman

20 April 2017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CHIEF EXECUTIVE OFFICER'S STATEMENT

I would like to thank the Chairman and the Board of Directors for their confidence in appointing me as Interim Chief Executive Officer in March 2016.

2016 has been a year of progress for the Bank. We have articulated a clear strategy which reflects the opportunities that lie ahead in our divisions, allowing us to create sustainable momentum that underpins the future vision.

I am pleased that the search for a permanent Chief Executive Officer has been successful, and Mr Haresnape has accepted the role of Chief Executive Officer and is due to join the Bank by May 2017, subject to regulatory approvals.

In 2016, the Bank has seen a marked improvement in its financial performance and we have optimised the Bank's strategy to allow for new and innovative product offerings to meet our client needs, whilst retaining its core offerings. When Mr Haresnape joins the Bank, he will do so in a position of financial strength, optimism and with a clear vision.

2016 Financial Performance

This is the first full financial year following the Group reorganisation in 2015, and followed a competitive UK and US real estate market. The Bank produced a profit after tax of £1.6m, compared to a loss after tax in 2015 of £0.8m. The pleasing turn-around in financial performance is largely due to effective cost management, and good results from Gatehouse Capital, an associate of the Bank.

Total 2016 operating expenses were £12.0m compared to £13.5m in 2015 a reduction by 11%, which largely followed staff cost and professional fee reductions. We endeavour to have a lean operating model with an efficient deployment of staff resources. The strong performance of the Bank's associate Gatehouse Capital which contributed to a profit of £1.3m, compared to £0.4m in 2015, an increase by over 225%; following increased activity in the US Real Estate investment market.

Business Line Progress

Real Estate Investment Advisory

The division's market knowledge and rigorous due diligence processes ensure that only the best opportunities are pursued. In 2016 the Bank continued to build on Private Rented Sector (PRS) Fund making further developments in new build houses in growing markets across the United Kingdom.

Real Estate Finance

The Real Estate Finance division helped maintain the Bank's overall income and the Bank successfully completed several senior secured financing transactions in excess of £60m and saw £30m of financing repaid. The Bank completed its first sub-participation during the year whereby the Bank was able to successfully transfer the risks and rewards of part of its financing and thereby de-recognise the asset from our Balance Sheet. This has proved to be an innovative product and complements the Bank's wide array of product offering as well as aiding capital management.

Treasury and Milestone Savings

Treasury services continue to meet liquidity and funding requirements and I am pleased to report, following the launch of the Bank's retail deposit platform in 2015, that 2016 saw a 506% expansion from prior year with deposits raised via the Milestone Savings platform in excess of £55 million as at 31 December 2016. This has been a clear success and has highlighted the Bank's ability to have access to another source of funding and reduce any significant concentration risks. We use online marketing channels to promote Milestone Savings, and offerings are often ranked high in the league of comparison tables.

Residential Property Financing

In 2016 the Bank started to implement the platform and infrastructure to allow for the product launch of residential property financing. Ownership of residential investment property has always held an attraction for our clients. To help facilitate ownership of residential property, we provide bespoke property finance products for clients, from simple single residential investment finance to more complex company structures including property portfolio and short lease finance.

Operational Achievements

In addition to the considerable progress made in the Business lines, we have continued to further strengthen our central functions and risk platforms.

Effective Risk Management remains a core competency that the Bank consistently places as a central importance. In line with regulatory obligations the Bank has in place adequate and appropriate risk management processes and internal control mechanisms for the purpose of assessing and managing its exposure to group risk, including sound administrative and procedures.

As the Financial Services Industry evolves so does the corresponding financial regulatory landscape. Gatehouse Bank continues to have an open and transparent relationship with the Financial Conduct Authority (FCA) and the Prudential Regulatory Authority (PRA).

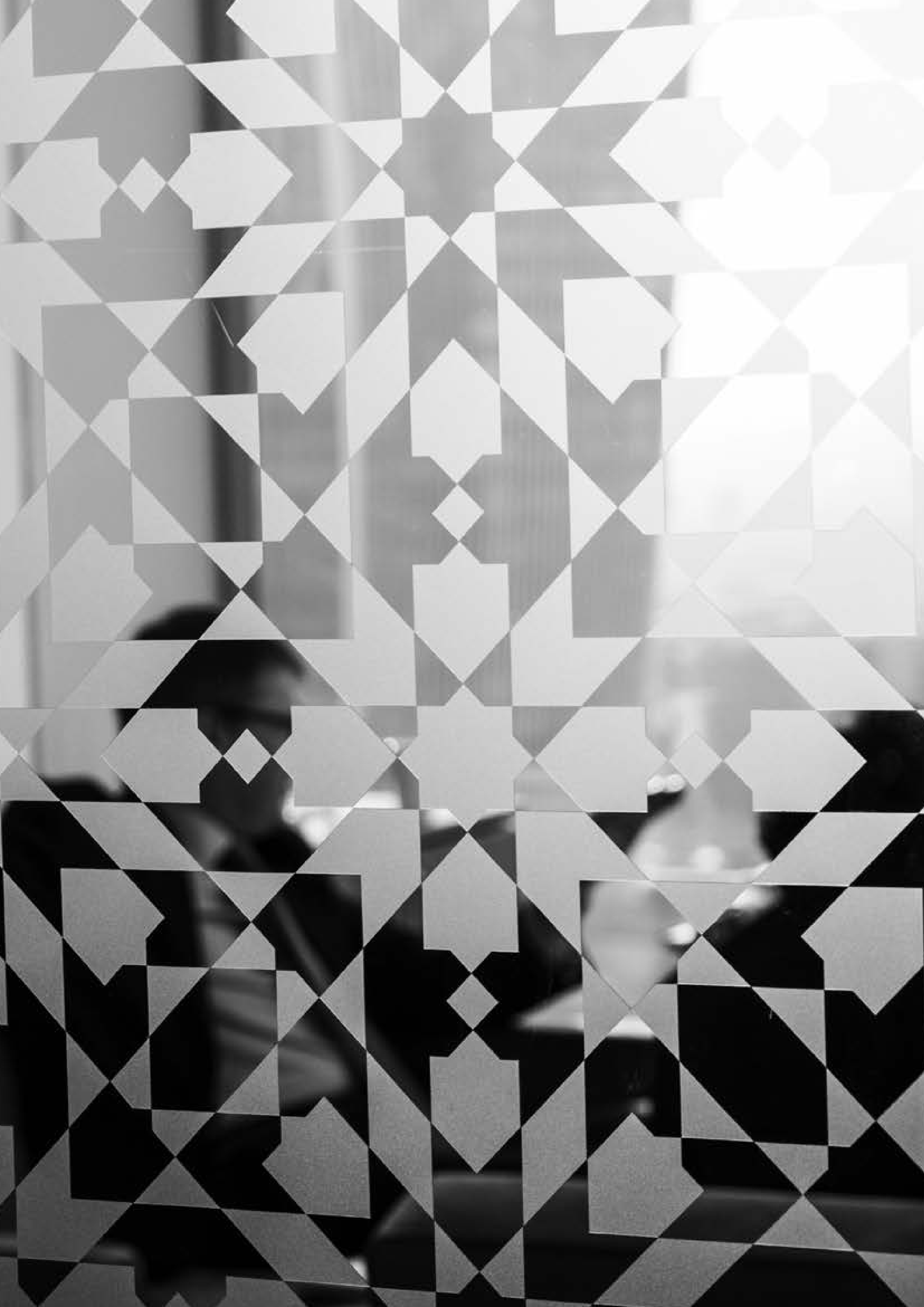
We are treating the adoption of IFRS 9 in 2018 as more than just an accounting standard change from IAS 39. The key variation in IFRS 9 that incorporates expected and lifetime credit losses is being assessed across the Bank's portfolio under multiple scenarios, and we are well placed to complete our IFRS 9 transition for January 2018.

Maintaining effective governance and controls strengthen our ability to innovate and provide solutions, therefore meeting the needs of the changing markets.

Environment

We observed the result of the United Kingdom EU membership referendum, and the UK's prospective withdrawal from the EU, and recently we have seen the beginning of political and legal steps that will implement this change. In 2016 a notable effect of the referendum, was the devaluation of Sterling against the US Dollar. We continuously ensure foreign exchange risk management is optimal to effectively manage our Balance Sheet. The Bank has prudently managed its balance sheet exposures and, where required, de-risked its balance sheet from non-core assets.

Whilst the effects of the UK referendum will most likely be realised in future years, I am confident the Bank is in a strong position to withstand any adverse impacts.



CHIEF EXECUTIVE OFFICER'S STATEMENT

Conclusion and Outlook

Today Gatehouse Bank has strong foundations, a profitable business model and is well placed to take advantage of the opportunities that will continue to arise from the structural changes taking place in the markets. I am enthusiastic about setting out a vision that will deliver recurring, future success.

As part of a cost review, the Bank will be sub-leasing its City office space and relocate all staff to its West End Office, the region which is the heart of the UK Real Estate market. This will generate further annual cost savings in excess of £800k per annum, and will allow for a more efficient operating structure.

I appreciate the support of the team around me at Gatehouse Bank; they share my values of client commitment, helping them achieve their ambitions, but doing so in a way that is good for all stakeholders and in line with Shariah principles. I value the support and encouragement from my colleagues on the Board and, in particular, our Chairman.

Gatehouse Bank enters this new period of its growth with a clear strategy, solid foundations and high levels of client engagement. It is thus well placed to continue its growth trajectory.

Fahed Faisal Boodai
Interim Chief Executive Officer

20 April 2017

THE BOARD OF DIRECTORS (the "Board")

Matthew, Lord Carrington of Fulham, Chairman of the Board, Chairman of the Remuneration and Nominations Committee and Senior Independent Director

Lord Carrington is an experienced Non-Executive Director, with a strong track record of providing leadership and strategic thinking in areas such as finance and pensions as well as public relations. Lord Carrington is a former Member of Parliament and Chairman of the Treasury Select Committee, with particular experience in the Middle East. His previous role was Group Chief Executive of the Retail Motor Industry Federation, a major trade association for the motor industry. Lord Carrington holds a MSc Economics from the London Business School as well as a BSc in Physics from Imperial College London. In 2013, Lord Carrington was honoured with a Peerage in the House of Lords by Her Majesty The Queen.

Non-Executive Directors

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

Mohamad Tawfik Al-Tahawy
Mr Al-Tahawy is Chief Operating Officer at The Securities House K.S.C.C, Kuwait ("TSH"). Prior to this he held the position of Advisor to TSH where he was responsible for overseeing the investment and finance functions. Mr Al-Tahawy joined TSH in 1998 and has served in various capacities, including financial control, internal audit and corporate finance, in addition to being an active member in all Committees, including executive, investment, information systems and human resources. He supervised TSH's direct investments and assumed a key role in its strategic initiatives. Prior to joining TSH, Mr Al-Tahawy worked for KPMG and Ernst & Young and has extensive accounting knowledge of a diversified set of activities including investment, finance, trading, contracting and manufacturing. Mr Al-Tahawy holds a Master's degree in Business Administration in addition to designations for Certified Public Accountant, Certified Valuation Analyst, Certified Internal Auditor, Certified Management Accountant and Certified Financial Manager.

Craig Friedman
Mr Friedman has more than 20 years of investment banking and investing experience in the U.S. commercial real estate market and is the founder of Arch Street Capital Advisors, LLC, a full-service real estate advisory firm based in Greenwich, CT, USA. Since 2003, Arch Street Capital Advisors has advised clients on more than $5 billion of acquisitions, dispositions and financings in the industrial, office, multifamily, residential condominium, student housing, single-family rental and health care sectors of the U.S. real estate market. Prior to founding Arch Street Capital Advisors, Mr. Friedman was an investment banker with the real estate investment banking group of Deutsche Bank, based in New York.

Independent Non-Executive Directors ("Independent Directors")

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

Stephen Smith, Chairman of the Board Credit and Investment Committee
Mr Smith is Chairman of Starwood European Real Estate Finance Limited and previously served as Chief Investment Officer at British Land Co. plc. Prior to British Land, Mr Smith served as Global Head of Asset Management at AXA Real Estate Investment Managers Ltd., where he was responsible for the asset management of a portfolio of more than €40 billion on behalf of Life Funds, listed property vehicles, unit linked and closed end funds. He also served as Managing Director at Sun Life Property Services Ltd and has substantial real estate industry expertise.

Executive Directors

Fahed Faisal Boodai, Interim Chief Executive Officer

Mr Boodai has more than 19 years of extensive experience and realised track record within the global real-estate market, he has presided over US $3.5 billion real estate acquisitions and exits in asset classes ranging from core real estate holdings to student accommodation and medical facilities, including the UK headquarters for Procter & Gamble, Rolls Royce and Intercontinental Hotels. Mr Boodai was listed in the "40 under 40" feature for US magazine "Real Estate Forum", a list of globally recognised real estate investors. Mr Boodai is also the founder and Chairman of Gatehouse Capital and is CEO and Vice Chairman of TSH. Mr Boodai received his M.B.A from Loyola Marymount University in Los Angeles, California and a BS in International Business from the University of San Diego and holds a number of board member positions across a range of global funds and US/European companies.

Twalha Dhunnoo - Chief Financial Officer

Mr Dhunnoo began his career at Gatehouse as Executive Vice President, Head of Finance, Operations & IT in September 2007 and played an instrumental role alongside the leadership team to develop the corporate business plan and implement the core banking system during its start-up phase and to manage the FSA authorisation process that led to Gatehouse Bank obtaining its banking licence in April 2008. Post authorisation, Mr

CORPORATE GOVERNANCE REPORT (CONT.)

Dhunnoo headed the Bank's Finance and Operations Department and also set-up the Bank's Customer Service function. He worked closely with the Bank's primary shareholder and the Board in developing the Bank's business strategy and financial projections and the capital structuring that led to the Bank's capital increase in July 2011. Mr Dhunnoo previously held various roles in London at Ernst & Young, Mellon Bank and Deutsche Bank. He graduated with an MA degree from Cambridge University, UK and is a member of the Institute of Chartered Accountants for England & Wales.

Compliance with the UK Corporate Governance Code

The Bank has complied in all material respects with the principles set out in the 2015 UK Corporate Governance Code for the whole of the financial year ended 31 December 2016, except as noted.

Further explanation of how the principles have been applied is set out below:

LEADERSHIP

Role of the Board

At the start of each year the Board approves a meeting schedule for the remainder of that year. At least four quarterly regular meetings are scheduled. The Board has a schedule of matters reserved for its decision which are captured in the Board's terms of reference and reviewed on an annual basis. The matters include the approval of the annual business plan, delegation of authority to approve credit and market risk limits, changes to capital structure, raising of external finance and approval of the annual report and financial statements. The Board's agenda is determined against a pre-planned template to ensure that all relevant issues come to the Board for review at appropriate intervals. In 2016, there were four regular and eight ad hoc Board meetings.

Division of Responsibilities

In order to ensure a clear divide between the responsibilities of running the Board and that of running the business, Lord Carrington was appointed as Chairman of the Board, replacing Mr Boodai. A permanent Chief Executive Officer has now been appointed, subject to relevant regulatory approvals. It is envisaged that the current arrangements will remain in place until the permanent Chief Executive Officer joins, at which point Mr. Boodai intends to resume his role as Chairman.

The Board have a formal division of responsibilities matrix which identifies the individual responsibilities of the Chairman in running the board and the Chief Executive Officer in running the Bank's business.

The Chairman

The responsibilities of the Chairman are identified and documented in the division of responsibilities matrix. These responsibilities include setting meeting agenda, ensuring there is adequate time for each agenda item to be fully considered and encouraging questions and debate in the Board meetings. The Chairman is assisted in his role by the Company Secretary who acts as secretary to the Board and all Board Committees.

Non-Executive Directors

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

EFFECTIVENESS

Composition of the Board

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

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

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

Appointments to the Board

The appointment of Directors is considered by the Remuneration and Nominations Committee and approved by the Board. At the request of a major shareholder Mr Marwan Al Saleh was appointed a director on 4 August 2016. He resigned as a director on 6 December 2016 and on 15 February 2017, was replaced on the Board by Mr Abdulaziz AlBader.

Time Commitment

The time commitment expected of the Non-Executive Directors is stated in their individual letters of appointment. The Chairman's time commitment as a member of the House of Lords has been disclosed to the Board.

Development

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

The Directors receive ongoing training via online and group sessions to address current business or emerging issues which in 2016 included training on Compliance, Liquidity, Wealth Management and IT. The Board Skills Matrix (as referred to in the "Evaluation" section below) is used to identify learning and development needs of the individual Directors and for the Board as a whole.

Information and Support

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

The Board agreed, in view of the size of the Bank, that all Directors be given the opportunity to attend each of the individual Committees as invitees on a regular basis. The Board believes this is working effectively and intend to continue with the arrangement.

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

Evaluation

The Board has a formal Annual Board Evaluation process, which is implemented at the beginning of each year in respect of the previous calendar year. The process includes completion by the Directors of a Self-Assessment Questionnaire and a Skills Matrix. The results of these together with an Attendance Chart are considered by the RNC and reported to the Board with any recommendations. The Board acts on the results of the evaluation by addressing any weaknesses of the Board and considering, where appropriate, memberships of the Board and its Committees.

Re-Election of Directors

In accordance with the provisions in the Articles of Association, all Directors who have been appointed by the Board must stand for election at the first Annual General Meeting following their appointment and, then for re-election every subsequent three years. At the 2016 AGM, Mr Jonathan Short and Mr Oday Ibrahim retired and were not re-elected as directors.

DELEGATION OF AUTHORITY

Management Committees

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

Board Committees

The Board establishes sub-Committees as ad hoc or standing Committees to which certain powers and authority of the Board are delegated. The Committees operate under terms of reference approved by the Board that set out the delegation of powers and authority to them. At the end of 2016, the Board split the Audit, Risk and Compliance Committee ("ARCC") into a Board Risk Committee and Audit Committee. The ARCC met 22 times in 2016.

The following standing Committees are currently established:

Board Risk Committee ("BRC") – The BRC's responsibilities include ensuring that an appropriate risk management framework is in place, the Bank's control environment is commensurate to its needs, based on the strategy adopted by the Board and the nature and scale of the Bank's activities and aids managing relationships with external parties, including the Prudential Regulation Authority and the Financial Conduct Authority. The BRC comprises two Independent Directors and one other Non-Executive Director. The BRC did not meet in 2016.

Audit Committee ("AC") – The AC oversee financial reporting and the internal and external audit functions, ensures appropriate actions are taken with regard to internal and external audits and reviews that are undertaken and aid in managing relationships with relevant external parties including the external auditors. The AC comprises two Independent Directors and one other Non-Executive Director. The AC did not meet in 2016.

Remuneration and Nominations Committee ("RNC") – The RNC's responsibilities include determining the remuneration of the CEO, CFO and Chairman, approving the design of any performance related pay or share incentive scheme operated by the Bank, and ensuring the Bank has remuneration policies that are consistent with sound risk management and do not expose the Bank to excessive risk. No Director is involved in deciding their own remuneration. The Committee's responsibilities also include reviewing the structure, size and composition of the Board and making recommendations to the Board, succession planning, identifying and nominating candidates to fill Board vacancies, and reviewing results of the Board evaluation process. The Committee comprises three Independent Directors and three Non-Executive Directors. The RNC met four times in 2016.

Board Credit and Investment Committee ("BCIC") – The BCIC's responsibilities approving transactions beyond authorities delegated to management Committees and approving off-balance sheet proposals relating to the Bank's advisory business. The Committee comprises two Independent Directors, 3 Non-Independent Directors and 2 Executive Directors. The BCIC met 7 times during 2016.

ACCOUNTABILITY

Financial and Business Reporting

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

Risk Management and Internal Control

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

Audit Committee and Auditors

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

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

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

Further disclosures on Risk Management are provided in Note 34 to the financial statements.

REMUNERATION

Level and Components of Remuneration

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

Procedure

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

Further disclosures on Directors' remuneration are provided in Note 5 to the financial statements.

RELATIONS WITH SHAREHOLDERS

Dialogue with Shareholders

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

Constructive use of Annual General Meeting

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

STRATEGIC REPORT

Cautionary statement

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

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

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

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

The strategic report discusses the following areas:

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

The Business Model

Gatehouse Bank plc is a wholesale Shariah-compliant Investment bank based in the City of London and Mayfair, authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA. As at 31 December 2016, the Bank had an interest of 35.6% in Gatehouse Capital, an advisory firm incorporated in Kuwait.

The Bank aims to be a leader in the Islamic Finance sector by striving to secure the long term preservation of wealth for the shareholders and for the institutional and high net-worth clients. The Bank achieves this by providing real estate investment and financing, wealth management, treasury and retail products.

Financial Results

The financial statements for the year ended 31 December 2016 are shown on pages 25 to 31. The profit before tax for the year amounted to £1,599,760 (2015; loss of £775,111). The Chief Executive Officer's and Chairman's statements provide a review of business over the reporting period and highlight all relevant key performance indicators of the Bank.

Strategy and Objectives

The Bank business lines can be described as follows:

Real Estate Investment Advisory

The Real Estate Investments team specialises in sourcing, structuring, advising on and delivering high quality, real estate investment opportunities sourced from the UK. The Bank works very closely with its associate company in the US to allow the Group access to US Real Estate origination capabilities.

Real Estate Finance

The Real Estate Finance team originate and participate in secured and first-ranking Shariah-compliant financing for real estate assets in the UK and Europe.

Wealth Management

The Wealth Management team is responsible for supporting the core business activities of the Bank by offering products and services to High Net Worth Individuals (HNWIs) and Family Office clients. Residential Property Financing products help facilitate ownership of residential property to clients from simple single residential investment finance to more complex company structures including property portfolio and short lease finance.

Treasury

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

Milestone Savings

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

Principal Risks and Uncertainties

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

Corporate Social Responsibility

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

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

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

During 2016, the Bank continued to work in partnership with Mosaic, a charity founded by HRH The Prince of Wales, to supply mentors on a voluntary basis to work with pupils at local schools and we are proud to become a Silver Parton of Mosaic in June 2016. The Bank's employees are encouraged to invest time to support children from local communities.

Sustainability

Gatehouse encourages all staff to operate in a sustainable manner and we aim to minimise any harmful effects on the environment. This culture is supported via staff policies and procedures and the Bank's offices feature motion sensitive lighting to reduce the amount of excess power.

STRATEGIC REPORT (CONT.)

Going Concern

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

Approval

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

Aboo Twalha Dhunnoo

Director

20 April 2017

SHARIAH SUPERVISORY BOARD REPORT

بسم الله الرحمن الرحيم

To the Shareholders of Gatehouse Bank plc

Assalaam A'laikum Wa Rahmat Allah Wa Barakatuh

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

We have reviewed all material transaction documents that the Bank has entered into. These include agreements signed with third parties for the purpose of obtaining their services in order to facilitate the proper operation of the Bank. This report relates to the period from 1 January 2016 to 31 December 2016.

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

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

Supervision

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

Bank's Contracts

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

Shariah Audit

The SSB has carried out regular Shariah Audit of the Bank's business activities for the period from 1 January 2016 to 31 December 2016. The Shariah audit included (i) a review of all transaction documents executed by various departments of the Bank and (ii) an audit of all business related expenses incurred by employees of the Bank. The SSB identified some minor discrepancies in its findings in relation to business expenses, which the Bank has addressed through further internal controls and systems. In all material respects, the SSB found all matters of the Bank to be in compliance with the principles of Shariah and thanks the management of the Bank for adhering to the principles of Shariah.

Balance Sheet

The SSB has perused the Bank's Balance Sheet, the attached statements therewith and notes complementary thereto. The SSB indicates that the Balance Sheet is within limits of information presented by the Bank's management representing the Bank's Assets and Liabilities.

Zakaat

The Bank's parent company, GFGL, calculates the Zakaat on behalf of its shareholders according to the Shariah rules approved by the Shariah Supervisory Board and was calculated using the Net Invested Funds method. The Zakaat payable for GFGL's paid up capital is the responsibility of its shareholders.

Conclusions

We performed our review so as to obtain material information and explanations which we considered necessary in order to provide us with sufficient evidence to give assurance that the Bank has not breached the rules and principles of Islamic Shariah.

In our opinion, the contracts and agreements, transactions and dealings entered into by the Bank during the year ended 31 December 2016 are in compliance with the Islamic principles of Shariah.

Members of the Shariah Supervisory Board

Sheikh Nizam Yaquby
Chairman of the SSB

20 April 2017

Sheikh Dr Esam Khalaf Al Enezi
Member of the SSB

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

DIRECTORS' REPORT

The Directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the year ended 31 December 2016. The Corporate Governance Statement set out on pages 14 to 17 forms part of this report.

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

Dividend

No dividends were paid during the year (2015: £nil). The Directors do not recommend a final dividend on ordinary shares to be paid in respect of the year (2015: £nil).

Directors and Directors' Interests in Shares

The names of the Directors and Company Secretary at the date of this report are shown on page 1. None of the Directors who held office at the end of the financial year has any interest in the shares of the Bank. The Directors served for the entire year with the exception of Oday Al – Ibrahim (resigned 26 May 2016), Jonathan Short (resigned 26 May 2016) and Marwan Al Saleh (Appointed 4 August 2016 and resigned 5 December 2016). Abdulaziz AlBader was appointed on 15 February 2017.

Below is a table of Directors appointments, resignations and committee memberships.

Directors' Indemnities

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

Employee Consultation

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

Policy on Payment of Creditors

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

Auditor

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

Political Contributions and Charitable Donations

The Bank made no political contributions (2015: £nil) and £6,249 (2015: £11,194) of charitable donations during the year, including the purification of equities totalling £1,451.

Directors' Statement as to Disclosure of Information to Auditor

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

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

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

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

Aboo Twalha Dhunnoo

Director

20 April 2017

Director	Date of Appointment	Date of Resignation	Committee membership (as at 31 December 2016)
Matthew Hadrian Marshall Carrington	9 September 2007	-	AC, BRC, RNC
Abdulaziz AlBader	15 February 2017	-	-
Oday Al-Ibrahim	21 May 2012	26 May 2016	-
Mohamad Tawfik Al-Tahawy	25 May 2007	-	AC, BRC, RNC, BCIC
Craig Friedman	31 December 2013	-	RNC, BCIC
Gerald Gregory	10 December 2015	-	AC, BRC
Stephen Smith	11 June 2013	-	RNC, BCIC
Jonathan Ottley Short	29 May 2013	26 May 2016	-
Fahed Faisal Boodai	25 May 2007	-	BCIC
Marwan Al Saleh	4 August 2016	5 December 2016	-

Key

Audit Committee	(AC)	Remuneration & Nomination committee	(RNC)
Board Risk Committee	(BRC)	Board Credit & Investment Committee	(BCIC)

DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent company and of their profit or loss for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Directors' Responsibility Statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with relevant reporting framework, give a true and fair view of the assets, liabilities, financial loss of the Bank and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report together with the Chairman and CEO statements include a fair review of the development and performance of the business and the position of the Bank and the undertakings included, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.

By order of the Board

Aboo Twalha Dhunnoo

Director

20 April 2017

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

We have audited the financial statements of Gatehouse Bank plc for the year ended 31 December 2016 which comprise Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statements of Changes in Equity and the related notes 1 to 34. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

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

In our opinion the information given in note 34 to the financial statements for the financial year ended 31 December 2016 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Alastair Morley
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
20 April 2017

CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 Dec 2016 £	Year ended 31 Dec 2015 £
Income			
Income from investment and financing activities	4	12,317,728	8,408,942
Charges to financial institutions and customers		(3,843,852)	(1,736,313)
Fees and commission income		3,798,116	1,874,379
Fees and commission expense		(95,499)	(117,408)
Foreign exchange gains/(losses)	5	562,465	260,384
Realised gains on investments		(126,038)	2,270,884
Net Ijara profit		(157,113)	345,132
Other income		353,865	268,771
Total operating income		**12,809,672**	**11,574,771**
Expenses			
Staff costs	6	(6,917,809)	(7,775,619)
Depreciation and amortisation	20 & 21	(1,070,793)	(755,587)
Other operating expenses	7	(4,030,850)	(4,977,878)
Total operating expenses		**(12,019,452)**	**(13,509,084)**
Operating profit/(loss)		**790,220**	**(1,934,313)**
Share of profit of associate	16	1,304,635	399,994
Impairment release/(charge)	8	(495,095)	759,208
Profit/(loss) before tax	9	**1,599,760**	**(775,111)**
Tax	10	(27,109)	(69,429)
(Loss)/profit for the year from continuing operations		**1,572,651**	**(844,540)**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 Dec 2016 £	Year ended 31 Dec 2015 £
Profit/(loss) for the year from continuing operations		**1,572,651**	**(844,540)**
Gain/(loss) on available-for-sale investments		2,490,525	(2,775,444)
Foreign currency gains from investment in associate		2,593,136	309,937
Other comprehensive (loss)/profit for the year		**5,083,661**	**(2,465,507)**
Comprehensive (loss)/profit for the year		**6,656,312**	**(3,310,047)**
Earnings per share from continuing operations			
Basic	11	0.04 pence	(0.02) pence
Diluted	11	0.01 pence	0.00 pence

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

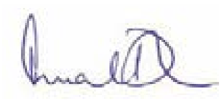
Company No. 06260053

	Notes	31 Dec 2016	31 Dec 2015
		£	**£**
Assets			
Cash and balances with banks		8,405,735	6,721,162
Due from financial institutions	13	38,695,969	47,134,641
Financing arrangements	14	135,748,446	105,966,130
Investment securities	15	79,681,188	78,878,335
Investment in associate	16	16,533,428	13,886,815
Ijara receivable		-	9,853,302
Derivative financial instruments	19	276,991	1,175,244
Intangible assets	20	379,399	553,750
Property, Plant and Equipment	21	13,055,579	13,869,750
Other assets	22	7,130,873	3,735,495
Total assets		**299,907,609**	**281,774,624**
Liabilities			
Due to financial institutions	23	110,156,617	141,584,500
Due to customers	24	58,239,327	11,513,973
Ijara payable		-	3,009,453
Other liabilities	25	2,667,361	3,478,706
Total liabilities		**171,063,305**	**159,586,632**
Net assets		**128,844,304**	**122,187,992**
Shareholders' equity			
Share capital	30	150,049,301	150,049,301
Foreign currency translation reserve		2,872,023	278,887
Available-for-sale reserve		(663,652)	(3,154,177)
Retained deficits		(23,413,368)	(24,986,019)
Equity attributable to the Bank's equity holders and total equity		**128,844,304**	**122,187,992**

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

The financial statements were approved by the Board of Directors and authorised for issue on 20 April 2017. They were signed on its behalf by:

Fahed Faisal Boodai
Interim Chief Executive Officer



Aboo Twalha Dhunnoo
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Available-for-Sale reserve	Foreign currency translation reserve	Retained deficit	Total
	£	£	£	£	£
Balance at 1 January 2015	150,049,301	(378,733)	(31,050)	(24,141,479)	**125,498,039**
Movement during the year	-	-	-	-	**-**
Unrealised gain on available-for-sale investments	-	(2,775,444)	-	-	**(2,775,444)**
Foreign currency translation gain from associate investments	-	-	309,937	-	**309,937**
Loss for the year	-	-	-	(844,540)	**(844,540)**
Balance at 31 December 2015	**150,049,301**	**(3,154,177)**	**278,887**	**(24,986,019)**	**122,187,992**
Balance at 1 January 2016	150,049,301	(3,154,177)	278,887	(24,986,019)	**122,187,992**
Movement during the year	-	-	-	-	**-**
Unrealised loss on available-for-sale investments	-	2,392,624	-	-	**2,392,624**
Accumulated reserve movement on disposal of available-for-sale investments	-	97,901	-	-	**97,901**
Foreign currency translation gain from associate investments	-	-	2,593,136	-	**2,593,136**
Profit for the year	-	-	-	1,572,651	**1,572,651**
Balance at 31 December 2016	**150,049,301**	**(663,652)**	**2,872,023**	**(23,413,368)**	**128,844,304**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 Dec 2016 £	Year ended 31 Dec 2015 £
Cash flows from operating activities		
Operating profit /(loss) on ordinary activities after tax	1,572,651	(844,540)
Adjusted for:		
Impairment of investments	495,095	251,141
Share of operating profit of associate	(1,304,635)	(399,994)
Fair value movement in derivative financial instruments	898,253	(1,043,410)
Depreciation and amortisation	1,070,793	755,587
Taxation	28,095	7,820
Realised losses/(gains) on investments	126,038	(2,270,884)
Changes in financing arrangements	(29,480,144)	(37,577,187)
Changes in due from financial institutions	8,434,690	30,080,329
Income from financing activities	8,766,016	5,825,378
Income from investment activities	(12,630,303)	(8,934,088)
Returns to financial institutions	2,111,167	1,674,157
Returns to customers	1,732,685	62,156
Proceeds from customers	45,866,786	8,846,181
Net (increase) in other assets	(3,599,872)	(876,461)
Net (decrease)/increase in other liabilities	(839,005)	695,992
Net cash inflow/ (outflow) from operating activities	**23,248,309**	**(3,747,823)**
Cash flow from investing activities		
Net (increase)/decrease in financial assets:		
Investment securities	1,066,538	(20,480,955)
Investment in associate	1,251,161	-
Ijara	6,972,833	(17,564)
Income from investment activities	1,540,358	1,120,032
Dividends received	2,100,811	1,681,695
Purchase of property, plant and equipment	(6,544)	(205,712)
Purchase of intangible assets	(75,727)	(193,185)
Net cash outflow from investing activities	**12,849,431**	**(18,095,689)**
Cash flows from financing activities		
Proceeds from financial institutions	(31,605,024)	11,984,185
Profit paid in respect of financing arrangements	(2,808,143)	(1,601,222)
Net cash inflow from financing activities	**(34,413,167)**	**10,382,963**
Net inflow/(outflow) in cash and cash equivalents	**1,684,573**	**(11,460,549)**
Cash and cash equivalents at the beginning of the year	6,721,162	18,181,711
Cash and cash equivalents at the end of the year	**8,405,735**	**6,721,162**

COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	31 Dec 2016	31 Dec 2015
		£	£
Assets			
Cash and balances with banks		8,179,034	6,435,022
Due from financial institutions	13	38,695,969	47,134,641
Financing arrangements	14	142,806,145	113,083,105
Investment securities	15	79,681,188	85,778,335
Investment in associate	16	11,307,937	11,307,937
Investment in subsidiaries	17	5,338,200	5,338,200
Derivative financial instruments	19	276,991	1,175,244
Intangible assets	20	379,399	553,750
Plant and equipment	21	1,169,255	1,873,362
Other assets	22	7,091,958	3,508,247
Total assets		**294,926,076**	**276,187,843**
Liabilities			
Due to financial institutions	23	110,129,512	141,578,945
Due to customers	24	58,260,876	11,513,973
Other liabilities	25	2,659,906	3,476,939
Total liabilities		**171,050,294**	**156,569,857**
Net Assets		**123,875,782**	**119,617,986**
Shareholders' Equity			
Share capital	30	150,049,301	150,049,301
Available-for-sale reserve		(663,652)	(3,154,177)
Retained deficits		(25,509,867)	(27,277,138)
Equity attributable to the Bank's equity holders and total equity		**123,875,782**	**119,617,986**

The financial statements were approved by the Board of Directors and authorised for issue on the 20 April 2017. They were signed on its behalf by:

Fahed Faisal Boodai
Interim Chief Executive Officer

Aboo Twalha Dhunnoo
Chief Financial Officer

COMPANY STATEMENT OF CHANGES IN EQUITY

	Share capital	Available- for-Sale Reserve	Retained deficit	Total
	£	£	£	£
Balance at 1 January 2015	150,049,301	(378,733)	(26,038,872)	**123,631,696**
Unrealised loss on available-for-sale investments	-	(2,775,444)	-	**(2,775,444)**
Loss for the year (Note 12)	-	-	(1,238,266)	**(1,238,266)**
Balance at 31 December 2015	**150,049,301**	**(3,154,177)**	**(27,277,138)**	**119,617,986**
Balance at 1 January 2016	150,049,301	(3,154,177)	(27,277,138)	**119,617,986**
Unrealised gain on available-for-sale investments	-	2,392,624	-	**2,392,624**
Accumulated reserve movement on disposal of available-for-sale investments	-	97,901	-	**97,901**
Profit for the year (Note 12)	-	-	1,767,271	**1,767,271**
Balance at 31 December 2016	**150,049,301**	**(663,652))**	**(25,509,867)**	**123,875,782**

COMPANY STATEMENT OF CASH FLOWS

	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Cash flows from operating activities	**£**	**£**
Operating profit/(loss) on ordinary activities after tax	1,767,271	(1,238,266)
Adjusted for:		
Impairment of investments	495,095	251,141
Fair value movement in derivative financial instruments	898,253	(1,043,410)
Depreciation and amortisation	960,729	645,523
Taxation	21,972	(136)
Realised gains on investments	126,038	(2,270,884)
Dividends receivable	(2,006,840)	(1,936,991)
Changes in financing arrangements	(29,501,693)	(37,424,676)
Changes in due from financial institutions	8,434,691	30,080,329
Income from financing activities	8,766,016	5,825,378
Income from investment activities	(11,874,624)	(6,997,097)
Returns to financial institutions and corporates	2,111,167	1,674,157
Returns to customers	1,732,685	62,156
Proceeds from Customers	45,866,786	8,846,181
Net (increase) in other assets	(3,577,960)	(889,448)
Net (decrease) / increase in other liabilities	(839,005)	695,402
Net cash inflow/ (outflow) from operating activities	**23,380,581**	**(3,720,641)**
Cash flow from investing activities		
Net (increase)/decrease in financial assets:		
Investment securities	7,966,538	(20,480,955)
Income from investment activities	1,540,358	1,120,032
Dividends received	3,351,971	1,681,695
Purchase of plant and equipment	(6,543)	(205,712)
Purchase of intangible assets	(75,727)	(193,185)
Net cash inflow/ (outflow) from investing activities	**12,776,598**	**(18,078,125)**
Cash flows from financing activities		
Proceeds from Financial Institutions	(31,605,024)	11,984,185
Profit paid in respect of financing arrangements	(2,808,143)	(1,601,222)
Net cash outflow/inflow from financing activities	**(34,413,167)**	**10,382,963**
Net inflow/ (outflow) in cash and cash equivalents	**1,744,012**	**(11,415,803)**
Cash and cash equivalents at the beginning of the year	6,435,022	17,850,825
Cash and cash equivalents at the end of the year	**8,179,034**	**6,435,022**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. General Information

The Bank was incorporated as a public limited company in the United Kingdom on 25 May 2007 under the Companies Act 1985 and received authorisation from the FSA on 21 April 2008 to carry out regulated activities as a deposit-taking institution. The address of the registered office is given on page 7.

2. Adoption of new and revised Standards

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 2016.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively and do not have any impact on the consolidated financial statements of the Group.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the income statement and statement of comprehensive income and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to income statement.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the income statement and statement of comprehensive income. These amendments do not have any impact on the consolidated financial statements of the Group.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2016 did not have any material impact on the accounting policies, financial position or performance of the Group.

3. Basis of preparation and significant accounting policies

New and revised IFRSs in issue but not yet effective

At the date of authorisation of these financial statements, The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and had not yet been adopted by the EU:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases
IFRS 2 (amendments)	Classification and Measurement of Share-based Payment Transactions
IAS 7 (amendments)	Disclosure Initiative
IAS 12 (amendments)	Recognition of Deferred Tax Assets for Unrealised Losses
IFRS 10 and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, except as noted below:

- IFRS 9 will impact both the measurement and disclosures of financial instruments

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

The Directors are currently considering the potential impact of the adoption of the aforementioned new standard on the financial statements of the Bank. An IFRS 9 working group is in the process is currently underway to assess the financial impact and classification for the Bank's financial instruments.

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

Going concern

The Bank's business activities, together with the factors likely to affect its future development, performance as well as the financial position of the Bank, its cash flows, liquidity position and borrowing facilities are described in this annual report and accounts. In addition, note 33 to the financial statements includes the Bank's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposures to credit and liquidity risk.

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

In light of the above, the Directors continue to adopt the going concern basis in preparing the annual report and financial statements.

Basis of accounting

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU.

The financial statements have been prepared under the historical cost accounting convention except for financial assets and liabilities stated at their fair value, comprising investment securities and derivative financial instruments.

Significant accounting judgments, estimates and assumptions

Judgements

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

Structured entities

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

The Company adopted IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities in 2012.

Foreign currencies

The financial statements are presented in sterling, which is the Bank's functional and presentation currency, transactions in foreign currencies are initially recorded at the rate of exchange ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the balance sheet date. Non-monetary assets and liabilities are translated into sterling at the effective historical rate used on the date of initial recognition. Exchange differences arising on the settlements of monetary items and on the retranslation of monetary items are included in the profit or loss for the year.

Income from investment and financing activities

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

Profit receivable on Murabaha placements and participation in sukuk or syndicated financing transactions is recognised as income on a time-apportionment basis over the period of the contract, based on the principal amounts outstanding.

Income received from equity holdings as distribution or dividends is recognised when Gatehouse's right to receive payment has been established.

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

Charges to financial institutions and customers

"Charges to financial institutions and customers" consists of profit payable from Shariah-compliant deposits including Murabaha deposits and Wakala arrangements. A Wakala arrangement represents an agreement whereby the Bank accepts a deposit of funds on behalf of a customer to perform an investment activity and endeavours to pay a return based on a pre agreed rate.

Profit payable on Murabaha deposits and Wakala arrangements is recognised as income on a time-apportionment basis over the period of the contract, based on the principal amounts outstanding.

Fees and commissions

Fees and commissions are recognised on an accruals basis as the service is provided.
Fees and commissions arising from transactions for third parties, such as the acquisition of securities or the purchase or sale of other assets, are recognised when right to receive the income has been established. Management advisory and service fees are recognised based on applicable service contracts or over the period the service is provided.

Financial Assets and Liabilities

Recognition/de-recognition

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

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender 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 regular way purchase and sale of financial assets are recognized using settlement date accounting. Changes in fair value between the trade date and settlement date are recognized in the consolidated statement of income or in the consolidated statement of comprehensive income in accordance with the policy applicable to the related instrument. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

Investment in subsidiaries

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

Investment in associate

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

The results and net assets of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of the investment. Losses of an associate in excess of the Group's interest in that associate are not recognised.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is included within the carrying amount of the investment.

Ijara

The Bank accounts for the Ijara as a finance lease in accordance with IAS 17 and records the investment in the lease as the gross investment discounted at the rate implicit in the lease which at inception causes the aggregate present value of the minimum lease payments to be equal to the sum of the fair value of the leased asset and any initial direct costs of the lessor.

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

Investment Securities

These balance sheet captions comprise non-derivative financial assets and liabilities with fixed or determinable repayments that are not quoted in an active market. Financial assets and liabilities included under these captions are initially recognised at fair value plus any directly related transaction costs. They are accounted for as Loans and Receivables and measured at amortised cost less any impairment losses.
Investment securities includes investments as at fair value through profit and loss (FVTPL) and available-for-sale investments (AFS).

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

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

at fair value. Changes in fair value of AFS investments are recognised directly in equity in the accounting period in which they arise. Equity investments either designated by the Bank as at fair value through profit and loss upon initial recognition or acquired principally for the purpose of selling in the near term, or if these are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking are classified as financial assets at fair value through profit and loss (FVTPL).

Financial assets at fair value through profit or loss are initially recognised at fair value plus any directly related transaction costs. Subsequently, these assets are measured at fair value with changes in fair value recognised in income statement.

Fair Value Hedge Accounting

The Bank applies fair value hedge accounting to hedge the foreign exchange risk on its AFS portfolio. At the inception of a hedging relationship, the Bank documents the relationship between the hedging instruments and the hedged items, its risk management objective and its strategy for undertaking the hedge. The Bank also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments that are used in hedging transactions are highly effective in offsetting the changes attributable to the foreign exchange risks in the fair values of the hedged items.

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

Derivative Financial Instruments

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

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

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

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

Provision for impairment of financial assets

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

Cash and balances with banks

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

Property, Plant and Equipment

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

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

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

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

Intangible assets

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

Impairment of non-financial assets

The Bank reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered permanent diminution in value. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

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.

Operating leases

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

Pension costs

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

Segmental reporting

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

4. Income from investment and financing activities

	2016	2015
	£	£
Income from financial institutions	2,002,669	1,276,009
Income from financing arrangements	6,668,142	4,292,330
Income from Sukuk investments	1,546,106	1,158,908
Income from other investment securities	2,100,811	1,681,695
	12,317,728	**8,408,942**

5. Foreign exchange gains/(losses)

	2016	2015
	£	£
Net losses on translation of balances denominated in foreign currency	285,474	(914,860)
Net gains on translation of forward foreign exchange agreements	276,991	1,175,244
Net gains in foreign exchange	**562,465**	**260,384**

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

	2016	2015
	£	£
Staff costs		
Directors' salaries and fees	932,087	1,134,264
Directors' pensions	23,125	59,193
Staff salaries	3,955,866	4,183,023
Staff pension contributions	346,563	440,960
Social security costs	614,875	659,395
Other staff costs	1,045,293	1,298,784
	6,917,809	**7,775,619**

Highest paid Director		
Emoluments	366,260	375,000
Pension contribution	-	37,500
	366,260	**412,500**

	2016 No.	2015 No.
Number of employees at year end	48	56
Average number of employee	49	59

7. Other operating expenses

	2016	2015
	£	£
Rent and other occupancy costs	873,427	909,364
Consultancy	211,414	927,084
Legal and professional fees	886,029	965,693
Recruitment costs	150,542	280,021
IT and communication costs	639,686	560,292
Advertising and marketing	284,256	126,163
Shariah Supervisory Board fees and expenses	55,160	75,565
Other operating charges	930,336	1,133,696
	4,030,850	**4,977,878**

8. Impairment losses/(releases)

	2016	2015
	£	£
Investment securities	495,095	251,142
Reversal of impairment in previous periods	-	(1,010,350)
	495,095	**(759,208)**

The Bank impaired two UK unquoted equity investments and two US equity investments by £495,094.

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

9. Profit/(loss) before tax

	2016	2015
Profit/(loss) before tax is stated after charging:	£	£
Net foreign exchange (gains)	(562,465)	(260,384)
Auditor's remuneration	127,844	154,070
Rentals paid under operating leases: premises	165,294	448,565
Depreciation and amortisation	1,070,793	755,587

	2016	2015
Auditor's remuneration can be analysed as follows:	£	£
Audit of the Bank's accounts	110,000	110,000
Other services:		
Tax advisory services	15,844	38,320
Other services	2,000	5,750
	127,844	**154,070**

10. Taxation

The tax expense in the income statement for the period was £27,109 (2015: £69,429). The tax expense can be reconciled to the loss or profit per the income statement as follows:

	2016	2015
	£	£
Profit/(loss) before tax from continuing operations	1,599,760	(775,111)
	1,599,760	(775,111)
Tax at the UK corporation tax rate of 20% (2015: 20.25%)	319,952	(156,960)
Effects of:		
Effect of results from associates and subsidiaries	(188,495)	(81,341)
Expenses not deductible for tax purposes	81,776	47,119
Tax losses utilised but previously not recognised	(192,247)	-
Deferred Tax Asset not recognised	-	191,182
Foreign ownership of Kuwaiti income tax on associate	-	61,473
Other	6,123	7,956
Tax charge in the consolidated income statement	**27,109**	**69,429**

The unrecognised deferred tax asset on a gross basis is £27,962,239 (2015:25,281,789). There is no expiry date on the tax losses.

11. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding. Diluted earnings per share is calculated by dividing the basic earnings by the weighted average number of ordinary shares outstanding plus the weighted average number of dilutive potential ordinary shares. The dilutive potential ordinary shares are represented by the shares held by the Employee Benefit Trust as part of the Employee Incentive Plan.

11. Earnings per share (cont.)

The effect of dilutive potential ordinary shares on the weighted average number of ordinary shares outstanding is as follows:

	Number of shares	
	2016	**2015**
Weighted average number of ordinary shares outstanding	15,000,000,100	15,000,000,100
Weighted average number of dilutive potential ordinary shares	800,000,000	800,000,000
Weighted average number of ordinary shares assuming dilution	**15,800,000,100**	**15,800,000,100**

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

£1,767,271 of the company profit for the financial year (2015: £1,238,266 loss) has been dealt with in the accounts of the Bank. As permitted by section 408 of the Companies Act 2006, a separate profit and loss account of the Bank has not been presented.

13. Due from financial institutions

Group and Company

	Avg. Yield	**2016**	*Avg. Yield*	**2015**
		£		**£**
Treasury placements	*0.39%*	**38,695,969**	*0.36%*	**47,134,641**

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

14. Financing arrangements

Group

	Avg. Yield	**2016**	*Avg. Yield*	**2015**
		£		**£**
Finance receivables	*4.47%*	135,748,446	*5.32%*	105,966,130

Company

	Avg. Yield	**2016**	*Avg. Yield*	**2015**
		£		**£**
Finance receivables	*4.47%*	142,806,145	*5.28%*	113,083,105

All finance receivables are bilateral financial arrangements with corporate entities accounted for as Loans and Receivables in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

Included within the Company finance receivables is an intercompany wakala of £7,036,110 with the bank's wholly owned subsidiary, GHB Properties.

Included within the Company finance receivables is an intercompany wakala of £30,648,243 with the bank's parent company, Gatehouse Financial Group Limited.

15. Investments securities

Group

	Avg. Yield	2016	Avg. Yield	2015
		£		£
Quoted sukuk		27,521,806		23,865,366
Unquoted sukuk		14,923,277		14,006,095
Quoted equity securities		4,597,450		14,069,789
Unquoted equity securities		32,284,206		26,485,527
Unquoted funds		354,449		451,558
	1.99%	**79,681,188**	*1.55%*	**78,878,335**

Company

	Avg. Yield	2016	Avg. Yield	2015
		£		£
Quoted sukuk		27,521,806		30,765,366
Unquoted sukuk		14,923,277		14,006,095
Quoted equity securities		4,597,450		14,069,789
Unquoted equity securities		32,284,206		26,485,527
Unquoted funds		354,449		451,558
	1.99%	**79,681,188**	*1.55%*	**85,778,335**

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

Unquoted funds are stated net of £131,097 provision (2015: £19,422). Unquoted equity securities are stated net of an impairment provision of £582,411 (2015: £2,362,032)

16. Investment in associate

The Bank has one associate, Gatehouse Capital Economic and Financial Consultancy KSCC ("Gatehouse Capital"), where the Bank has 35.6% (2015: 35.6%) ownership in the underlying legal and/or beneficial interests.

Foreign currency translation gains from associate investments of £2,593,136 (2015: £309,937) during the period have been recorded in reserves.

The consolidated statement of financial position reflects an investment in associate of £16,533,428 (2015: £13,886,815), and a share of profit for the year ended 31 December 2016 of £1,304,635 (2015: £399,994).

Associate

	2016	2015
	£	£
Aggregated amounts relating to associate		
Total assets	39,543,143	32,215,026
Total liabilities	*(2,246,007)*	*(1,397,176)*
Net assets	**37,297,135**	**30,817,850**
Group's share of net assets of associates	**13,277,780**	**10,971,155**
Total revenue	8,450,936	4,326,320
Profit	3,664,706	1,058,265
Share of profit of associate	**1,304,635**	**399,994**

Details of the Bank's associate at 31 December 2016 are as follows:

16. Investment in associate (cont.)

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

The investment in associate is stated at cost less impairment, if any.

17. Investment in subsidiaries

The Bank has two wholly-owned subsidiaries all incorporated in Jersey: Gate Holdings Limited and GHB Properties Limited as at 31 December 2016. All subsidiaries are included in the consolidated accounts.

18. Disclosure of interests in other entities

The Bank has investments in a number of UK property special purpose vehicles (SPVs). The Bank sponsors the SPVs and provides investment advisory services to them. The property SPVs have two classes of equity: management shares which carry voting rights; and participating shares which represent economic interests in the SPVs. None of the SPVs are consolidated by the Bank as the Bank holds only a small percentage of the participating shares and acts as agent in its capacity as investment advisor for the SPVs. Typically the Bank receives a fixed annual advisory fee for its services which is not linked to the performance of the SPV and a performance fee of 20% of profits achieved over a specified rate of return. The Bank cannot be removed as investment advisor except by the board of the SPV which is controlled by the holders of the management shares. In most cases the Bank does not own a majority of the management shares.

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

The Bank's gross investment in property SPVs is £28,139,086 which is included in investment securities. The Bank has also provided funding through fixed term Murabaha contracts as bridge financing to these SPVs totalling £5,305,099. The Bank's maximum loss relating to these SPVs is equal to the exposure in the SPVs. The primary risk to which the Bank is exposed is the risk of changes in the valuation of the Bank's investment in the SPV due to changes in the valuation of the property held by each SPV or changes in the cash flows generated by the property.

19. Derivative financial instruments

	Assets	Liabilities	Notional amount
	£	£	£
2016			
Maturing in 0-3 months	276,991	-	42,555,503
2015			
Maturing in 0-3 months	1,177,439	-	57,778,998
Maturing greater than three months	(2,195)	-	12,639,155

The Bank uses foreign currency agreements for matching currency exposures.

20. Intangible assets

Group and Company

Software costs and licence fees	2016	2015
	£	£
Cost		
At 1 January	1,911,230	1,718,045
Additions	75,727	193,185
Disposals	-	-
At 31 December	1,986,957	1,911,230
Amortisation		
At 1 January	1,357,480	1,161,335
Charge for the period	250,078	196,145
On disposal	-	-
At 31 December	1,607,558	1,357,480
Net book value		
At 1 January	**553,750**	**556,710**
At 31 December	**379,399**	**553,750**

21. Property, plant and equipment

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

21. Property, plant and equipment (cont.)

Group	Property	Computer equipment	Fixtures and fittings	Leasehold im-provement	Total
	£	£	£	£	£
Cost					
At 1 January 2015	12,216,511	724,709	207,793	2,553,389	15,702,402
Additions	-	91,248	11,557	102,907	205,712
At 31 December 2015	12,216,511	815,957	219,350	2,656,296	15,908,114
Depreciation					
At 1 January 2015	110,058	500,065	60,166	808,633	1,478,922
Charge for the period	110,065	108,773	36,190	304,414	559,442
At 31 December 2015	220,123	608,838	96,356	1,113,047	2,038,364
Net book value					
At 1 January 2015	12,106,453	224,644	147,627	1,744,756	14,223,480
At 31 December 2015	**11,996,388**	**207,119**	**122,994**	**1,543,249**	**13,869,750**

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

21. Property, plant and equipment (cont.)

Company	Computer equipment	Fixtures and fittings	Leasehold improvement	Total
	£	£	£	£
Cost				
At 1 January 2015	724,709	207,793	2,553,389	3,485,891
Additions	91,248	11,557	102,907	205,712
At 31 December 2015	815,957	219,350	2,656,296	3,691,603
Depreciation				
At 1 January 2015	500,065	60,166	808,633	1,368,864
Charge for the period	108,773	36,190	304,414	449,377
At 31 December 2015	608,838	96,356	1,113,047	1,818,241
Net book value				
At 1 January 2015	224,644	147,627	1,744,756	2,117,027
At 31 December 2015	**207,119**	**122,994**	**1,543,249**	**1,873,362**

An accelerated depreciation charge was put through in December 2016 in respect of the leasehold improvement assets in 125 Old Broad Street due to the planned office relocation by 10 April 2017. The assets were deemed to not have a useful economic life after this date.

22. Other assets

Group	2016	2015
	£	£
Other debtors	3,862,139	821,845
Prepayments	515,139	837,218
Accrued income receivable	1,277,093	*725,548*
Intercompany receivable	1,476,502	1,350,884
	7,130,873	**3,735,495**

Company	2016	2015
	£	£
Other debtors	3,823,224	626,602
Prepayments	515,139	805,213
Accrued income receivable	1,277,093	*725,548*
Intercompany receivable	1,476,502	1,350,884
	7,091,958	**3,508,247**

23. Due to financial institutions

Group	*Avg. Yield*	2016	*Avg. Yield*	2015
		£		£
Amounts due to Financial institutions	*1.87%*	110,156,617	*1.39%*	141,584,500

Company	*Avg. Yield*	2016	*Avg. Yield*	2015
		£		£
Amounts due to Financial institutions	*1.87%*	110,129,512	*1.39%*	141,578,945

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

24. Due to customers

Group

	Avg. Yield	**2016**	*Avg. Yield*	**2015**
		£		£
Amounts due to Customers		**58,239,327**		**11,513,973**
	2.26%	**58,239,327**	*1.97%*	**11,513,973**

Company

	Avg. Yield	**2016**	*Avg. Yield*	**2015**
		£		£
Amounts due to Customers		**58,260,876**		**11,513,973**
	2.26%	**58,260,876**	*1.97%*	**11,513,973**

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

25. Other liabilities

Group

	2016	**2015**
	£	**£**
Trade creditors	-	26,023
Other taxes and social security costs	610,170	392,052
Deferred income	827,386	844,830
Other creditors	1,229,805	2,215,801
	2,667,361	**3,478,706**

Company

	2015	**2014**
	£	**£**
Trade creditors	-	26,023
Other taxes and social security costs	610,170	392,052
Deferred income	827,386	844,830
Other creditors	1,222,350	2,214,034
	2,659,906	**3,476,939**

26. Maturity analysis of financial assets and liabilities

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

Group

2016	Less than 12 months	More than 12 months	Total
	£	£	£
Assets			
Cash and balances with banks	8,405,735	-	8,405,735
Due from financial institutions	8,047,726	30,648,243	38,695,969
Financing arrangements	56,915,101	78,833,345	135,748,446
Investment securities	45,578,198	34,102,989	79,681,188
Investment in associate	-	16,533,428	16,533,428
Derivative financial instruments	276,991	-	276,991
Other debtors	6,615,734	-	6,615,734
Total financial assets	**125,839,486**	**160,118,005**	**285,957,491**
Liabilities			
Due to financial institutions	110,156,617	-	110,156,617
Due to customers	25,500,955	32,738,372	58,239,327
Total financial liabilities	**135,657,572**	**32,738,372**	**168,395,944**

Company

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

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

Group

2015	Less than 12 months	More than 12 months	Total
	£	£	£
Assets			
Cash and balances with banks	6,721,162	-	6,721,162
Due from financial institutions	19,482,745	27,651,896	47,134,641
Financing arrangements	17,945,473	88,020,657	105,966,130
Investment securities	8,872,977	70,005,358	78,878,335
Ijara receivable	15,312	9,837,990	9,853,302
Investment in associate	-	13,886,815	13,886,815
Derivative financial instruments	1,175,244	-	1,175,244
Other debtors	2,898,277	-	2,898,277
Total financial assets	**57,111,190**	**209,402,716**	**266,513,906**
Liabilities			
Due to financial institutions	141,584,500	-	141,584,500
Ijara payable	-	3,009,453	3,009,453
Due to customers	7,113,978	4,399,995	11,513,973
Total financial liabilities	**148,698,478**	**7,409,448**	**156,107,926**

Company

2015	Less than 12 months	More than 12 months	Total
	£	£	£
Assets			
Cash and balances with banks	6,435,022	-	6,435,022
Due from financial institutions	19,482,749	27,651,892	47,134,641
Financing arrangements	25,062,444	88,020,661	113,083,105
Investment securities	8,872,977	76,905,358	85,778,335
Investment in subsidiaries	-	5,338,200	5,338,200
Investment in associate	-	11,307,937	11,307,937
Derivative financial instruments	1,175,244	-	1,175,244
Other debtors	2,703,034	-	2,703,034
Total financial assets	**63,731,470**	**209,224,048**	**272,955,518**
Liabilities			
Due to financial institutions	141,578,945	-	141,578,945
Due to customers	7,113,978	4,399,995	11,513,973
Total financial liabilities	**148,692,923**	**4,399,995**	**153,092,918**

27. Assets and liabilities in foreign currency

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

Group

	2016	2015
Assets	£	£
Denominated in Sterling	214,873,801	166,651,970
Denominated in other currencies	85,033,808	115,122,654
	299,907,609	**281,774,624**
Liabilities		
Denominated in Sterling	86,711,622	47,783,167
Denominated in other currencies	84,351,683	111,803,465
	171,063,305	**159,586,632**

Company

	2016	2015
Assets	£	£
Denominated in Sterling	209,892,268	163,644,068
Denominated in other currencies	85,033,808	112,543,775
	294,926,076	**276,187,843**
Liabilities		
Denominated in Sterling	86,698,611	44,786,972
Denominated in other currencies	84,351,683	111,782,885
	171,050,294	**156,569,857**

28. Pension commitments

The Bank provides a defined contribution pension scheme for all staff. The assets of the scheme are held separately from those of the Bank in independently administered funds. During the period, pension costs of £369,688 were charged to the income statement (2015: £500,153). The pension creditor outstanding at the balance sheet date amounted to £30,765 (2015: £50,548).

29. Commitments under operating leases

Operating lease commitments

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

	2016	2015
	£	£
Within one year	557,260	557,260
One to five years	743,013	1,300,273
	1,300,273	**1,857,533**

30. Share capital

	2016	2015
Authorised:	£	£
22,500,000,000 ordinary shares of 1 pence each	225,000,000	225,000,000
Issued and paid :		
15,000,000,100 ordinary shares of 1 pence each	150,000,001	150,000,001
Issued and partly paid :		
Ordinary shares of 1 pence each paid up by 0.01 pence per share	4,930,000	4,930,000
Issued but not paid :		
Ordinary shares of 1 pence each	3,070,000	3,070,000
Total issued share capital	158,000,001	158,000,001
Total uncalled and unpaid share capital	(7,950,700)	(7,950,700)
	150,049,301	**150,049,301**

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

31. Off balance sheet items

As at the year end, the Bank reported £nil (2015: £nil) of cash as an off balance sheet item.

Financing commitments

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

	2016	2015
	£	£
Within one year	8,321,048	2,365,714
	8,321,048	**2,365,714**

Other commitments

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

	2016	2015
	£	£
Within one year	6,563,499	5,966,250
One to five years	-	6,285,925
	6,563,499	**12,252,175**

32. Related party transactions

During the reporting year, the Bank entered into separate transactions with related counterparties. The table below discloses the average daily exposure (2015: average daily exposure) of separately identifiable transactions that took place at different times during the year.

	2016	2015
	£	£
The Securities House K.S.C.C.		
Finance receivables	-	4,940,135
Treasury liabilities	8,954,619	14,442,991
Foreign exchange agreements	162,729	-
Gatehouse Capital		
Finance receivables	-	-
Treasury liabilities	3,686,064	3,645,254
Foreign exchange agreements	250,000	-
Kuwait Investment Authority		
Finance liabilities	90,284,615	96,912,383
Gatehouse Financial Group Limited		
Finance receivables	27,564,381	25,624,309
Other receivables	125,618	1,350,884
Treasury liabilities	51,714	-
Foreign exchange agreements	30,845,609	-

Gatehouse Capital, an associate of the Bank, provided management services to the Bank of £185,301 (2015: £250,000).

During 2016, Rubicon Securities (where Stephen Smith is a Director) provided consultancy services to the Bank, of £12,000.

The Bank is now a wholly owned subsidiary of Gatehouse Financial Group Limited ("GFGL"). During 2015 the bank entered into a financing agreement with GFGL which had a year-end balance of £30,648,243 (2015: 27,612,994) which was used to purchase the remaining 64.4% share in Gatehouse Capital. The Bank also entered into £125,618 (2015: £1,350,884) of rechargeable expenses for professional fees incurred on behalf of GFGL.

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

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

Included within:	2016	2015
Assets	£	£
Gatehouse Financial Group Limited	32,124,746	28,963,878
Treasury liabilities		
The Securities House K.S.C.C.	28	9,213,903
Gatehouse Capital	26,238	3,500,868
Kuwait Investment Authority	77,435,152	100,126,921
Gatehouse Financial Group Limited	51,714	-
Other liabilities		
Gatehouse Capital	43,790	155,713

The disclosure requirement in respect of remuneration to key management personnel has been met by providing Directors' emoluments details in note 5.

Credit risk (cont.)

33. Risk Management

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

The Chief Financial Officer delegates responsibility for the day-to-day monitoring of these risks to ensure that the Bank's activities remain within the risk appetite parameters set by the Board.

The Chief Financial Officer is responsible for providing an oversight function that considers all risks on a consolidated basis and, in this respect, chairs the main Risk Committee. The Bank has also reorganised the Risk Department bringing together the credit and investment, market and operational risk functions, led by a Head of Risk.

Credit Risk

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

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

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

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

- Assessment of real estate equity investments and senior and mezzanine financing activities via the provision of comprehensive credit risk assessments making recommendations to appropriate decision making forums. This includes monitoring of portfolio composition; and
- The ongoing monitoring and review of credit risk for real estate equity investment and finance exposures to ensure compliance with covenants and early identification of changes to the credit risk profile and composition of the portfolio.
- Enhanced analysis of potentially deteriorating credit exposures through a 'watchlist' process

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 adopting the Standardised approach to credit risk quantification for capital purposes.

Note 2 refers to the basis by which the Bank reviews for impairments of its financial assets. Note 8 details the impairment provisions taken in the year to the income statement.

33. Risk Management (cont.)

Credit risk (cont.)

Exposure

The table below shows the maximum exposure to credit risk for financial assets on the balance sheet at 31 December 2016:

Group	2016	2015
	£	£
Cash and balances with banks	8,405,034	6,721,162
Due from financial institutions	38,695,969	47,134,641
Financing arrangements	135,748,446	105,966,130
Investment securities	79,681,188	78,878,335
Ijara receivable	-	9,853,302
Investments in Associate	16,533,428	13,886,815
Derivative financial instruments	276,991	1,175,244
Other debtors	6,615,734	2,898,277
	285,957,491	**266,513,906**

Company	2016	2015
	£	£
Cash and balances with banks	8,179,034	6,435,022
Due from financial institutions	38,695,969	47,134,641
Financing arrangements	142,806,145	113,083,105
Investment securities	79,681,188	85,778,335
Investment in subsidiary	5,338,200	5,338,200
Investments in Associate	11,307,937	11,307,937
Derivative financial instruments	276,991	1,175,244
Other debtors	6,576,819	2,703,034
	292,862,283	**272,955,518**

Geographical region

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

Group

	2016	2015
	£	£
GCC countries	39,877,925	71,973,709
Bahrain	-	*5,429,729*
Kuwait	*18,173,957*	*42,875,018*
Saudi Arabia	*13,769,564*	*11,227,291*
UAE	*5,478,488*	*10,367,247*
Qatar	*2,455,916*	*2,074,424*
Jersey	71,353,547	67,846,722
Europe	129,975,984	86,025,986
USA	40,649,286	37,260,792
Asia	4,100,749	3,406,697
	285,957,491	**266,513,906**

33. Risk Management (cont.)

Credit risk (cont.)

Company

	2016	2015
	£	£
GCC countries	34,652,434	69,394,830
Bahrain	*-*	*5,429,729*
Kuwait	*12,948,466*	*40,296,139*
Saudi Arabia	*13,769,564*	*11,227,291*
UAE	*5,478,488*	*10,367,247*
Qatar	*2,455,916*	*2,074,424*
Jersey	83,483,830	76,867,213
Europe	129,975,984	86,025,986
USA	40,649,286	37,260,792
Asia	4,100,749	3,406,697
	292,862,283	**272,955,518**

Credit quality

The table below shows the credit quality of financial assets on the balance sheet at 31 December 2016, based on a credit rating system:

Group

2016	**Investment grade**	**Non-investment grade**	**Non-rated**	**Total**
	£	**£**	**£**	**£**
Assets				
Cash and balances with banks	8,363,054	-	42,681	8,405,735
Due from financial institutions	8,047,726	-	30,648,243	38,695,969
Financing arrangements	-	-	135,748,446	135,748,446
Investment securities	31,773,177	93,124	47,814,887	79,681,188
Investment in associate	-	-	16,533,428	16,533,428
Derivative financial instruments	276,991	-	-	276,991
Other debtors	-	-	6,615,734	6,615,734
Total assets	**48,460,948**	**93,124**	**237,403,419**	**285,957,491**

Company

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

33. Risk Management (cont.)

Credit Quality

Group

2015	Investment grade	Non-investment grade	Non-rated	Total
	£	£	£	£
Assets				
Cash and balances with banks	6,524,854	-	196,308	6,721,162
Due from financial institutions	19,482,749	-	27,651,892	47,134,641
Financing arrangements	-	-	105,966,130	105,966,130
Investment securities	36,653,785	368,337	41,856,213	78,878,335
Ijara receivable	-	-	9,853,302	9,853,302
Investment in associate	-	-	13,886,815	13,886,815
Derivative financial instruments	1,175,244	-	-	1,175,244
Other debtors	-	-	2,898,277	2,898,277
Total assets	**63,836,632**	**368,337**	**202,308,937**	**266,513,906**

Company

2015	Investment grade	Non-investment grade	Non-rated	Total
	£	£	£	£
Assets				
Cash and balances with banks	6,238,714	-	196,308	6,435,022
Due from financial institutions	19,482,749	-	27,651,892	47,134,641
Financing arrangements	-	-	113,083,105	113,083,105
Investment securities	36,653,785	368,337	48,756,231	85,778,335
Investment in subsidiary	-	-	5,338,200	5,338,200
Investment in associate	-	-	11,307,937	11,307,937
Derivative financial instruments	1,175,244	-	-	1,175,244
Other debtors	-	-	2,703,034	2,703,034
Total assets	**63,550,492**	**368,337**	**209,036,707**	**272,955,518**

Liquidity risk

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

Liquidity and rate profile

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

33. Risk Management (cont.)

Liquidity risk (cont.)

Group

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

Company

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

33. Risk Management (cont.)

Group

	Less than 1 month	1-3 months	3-6 months	6-12 months	1-5 years	5+ years	Total
	£	£	£	£	£	£	£
2015							
Assets							
Fixed rate items	19,482,749	1,175,244	8,787,110	18,112,573	116,937,907	-	**164,495,583**
Variable rate items	-	-	-	-	-	-	**-**
Non-rate sensitive	6,721,162	2,902,043	3,807	7,740	82,623,721	9,759,850	**102,018,323**
Total assets	**26,203,911**	**4,077,287**	**8,790,917**	**18,120,313**	**199,561,632**	**9,759,850**	**266,513,906**
Liabilities							
Fixed rate items	9,549,680	45,994,874	38,582,028	45,495,310	6,352,682	-	**145,974,574**
Variable rate items	7,123,899	-	-	-	-	-	**7,123,899**
Non-rate sensitive	-	-	-	-	-	3,009,453	**3,009,453**
Total liabilities	**16,673,579**	**45,994,875**	**38,582,028**	**45,495,310**	**6,352,682**	**3,009,453**	**156,107,926**
Net	**9,530,332**	**(41,917,588)**	**(29,791,111)**	**(27,374,997)**	**193,208,946**	**6,750,397**	**110,405,980**

Company

	Less than 1 month	1-3 months	3-6 months	6-12 months	1-5 years	5+ years	Total
	£	£	£	£	£	£	£
2015							
Assets							
Fixed rate items	19,482,749	1,175,244	8,787,110	25,148,310	123,919,145	-	**178,512,558**
Variable rate items	-	-	-	-	-	-	**-**
Non-rate sensitive	6,435,022	2,703,034	-	-	85,304,904	-	**94,442,960**
Total assets	**25,917,771**	**3,878,278**	**8,787,110**	**25,148,310**	**209,224,049**	**-**	**272,955,518**
Liabilities							
Fixed rate items	9,549,681	45,994,874	38,582,028	45,489,754	6,352,682	-	**145,969,019**
Variable rate items	7,123,899	-	-	-	-	-	**7,123,899**
Non-rate sensitive	-	-	-	-	-	-	-
Total liabilities	**16,673,580**	**45,994,874**	**38,582,028**	**45,489,754**	**6,352,682**	**-**	**153,092,918**
Net	**9,244,191**	**(42,116,596)**	**(29,794,918)**	**(20,341,444)**	**202,871,367**	**-**	**119,862,600**

33. Risk Management (cont.)

Market risk

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

The Board sets and approves the market risk appetite for the Bank's activities. Gatehouse Bank 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 Chief Executive Officer, Chief Financial Officer, Chief Investment Officer, Treasurer, Head of Risk and Head of Finance 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 2016 would decrease/increase by £3,186,000 (2015: £7,346,883).

In order to meet internal and client demand, Gatehouse Bank maintains access to market liquidity by using all reasonable endeavors to quote bid and offer prices with other market makers and carries an inventory of approved capital market and treasury instruments, including a range of cash, securities and treasury products. These include Commodity Murabaha, Wakala, Islamic FX 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 exposures due to the imperfect matching of margins and maturity differences between assets and liabilities.

The Bank manages profit rate risk by matching as far as possible the maturity profile of assets and liabilities. As at 31 December 2016, the Bank has not to date used derivatives to hedge profit rate 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 2016, the market value of nominal positions generating profit rate VaR was £111,737,964 which generated profit rate VaR and maximum loss estimates of:

	95% VaR (£)	Maximum loss (£)
One day	**(52,230)**	**(381,833)**
One week	(149,639)	(651,903)

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

	95% VaR (£)	Maximum Loss (£)
One day	**(2,873)**	**(33,287)**
One week	(11,605)	(34,411)

33. Risk Management (cont.)

Sukuk portfolio risk

As part of liquidity management, Gatehouse Treasury invests in selected Sukuk. As at 31 December 2016, the Bank has not used derivatives to hedge Sukuk investments.

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

As at 31 December 2016, the market value of nominal AFS Sukuk investment exposure was £35,721,806 which generated Price Risk VaR and maximum loss of:

	95% VaR (£)	Maximum Loss (£)
One day	**(7,426)**	**(42,828)**
One week	(25,047)	(88,956)

Equity portfolio risk

As part of liquidity management, Gatehouse Treasury invests in selected Listed Equities. As at 31 December 2016, the Bank has not used derivatives to hedge Listed Equity investments.

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

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

	95% VaR (£)	Maximum Loss (£)
One day	**(35,060)**	**(176,378)**
One week	(95,622)	(343,668)

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 2016, Level 1 financial instruments are primarily investments in equity securities and Sukuk that are quoted in active markets and market bid prices have been applied to fair value these at year end;
- Level 2: Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); As at 31 December 2016, Level 2 financial instruments are investments in sukuk securities that are quoted in inactive markets and indicative bid prices have been applied to fair value these at year end; and
- Level 3: Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data. As at 31 December 2016, Level 3 financial instruments are investments in unquoted equity securities, sukuks and funds. Fair value is estimated on the basis of historic cost less impairment and by reference to the net asset value of the underlying investment, where the net asset value is not based on observable market data. The group splits its level 3 assets between US and UK assets. US assets are valued using the audited accounts of the underlying SPV's in order to arrive at a net asset value. UK assets are valued using confirmations of debt and cash balances held via the SPV and third party appraisal reports.

33. Risk Management (cont.)

Group

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

Company

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

Group

2015	Level 1	Level 2	Level 3	Total
	£	£	£	£
Derivative financial instruments	1,175,244	-	-	1,175,244
Investment securities				
Quoted equity securities	14,069,789	-	-	14,069,789
Quoted sukuk portfolio	23,865,366	-	-	23,865,366
Unquoted sukuk portfolio	-	-	14,006,095	14,006,095
Unquoted equity securities	-	-	26,485,527	26,485,527
Unquoted funds	-	-	451,558	451,558
Total	**39,110,399**	**-**	**40,943,180**	**80,053,579**

33. Risk Management (cont.)

Company 2015	Level 1 £	Level 2 £	Level 3 £	Total £
Derivative financial instruments	1,175,244	-	-	1,175,244
Investment securities				
Quoted equity securities	14,069,789	-	-	14,069,789
Quoted sukuk portfolio	23,865,366	-	-	23,865,366
Unquoted sukuk portfolio	-	-	20,906,095	20,906,095
Unquoted equity securities	-	-	26,485,527	26,485,527
Unquoted funds	-	-	451,558	451,558
Total	**39,110,399**	**20,906,095**	**47,843,180**	**86,953,579**

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

Reconciliation of Level 3 fair value measurements of financial assets

2016	Available-for-sale Unquoted equities and funds
Balance at 1 January 2016	40,943,180
Total gains or losses:	
- In profit or loss	(495,095)
Purchases, sales, issuances and net settlements	7,113,845
Balance at 31 December 2016	**47,561,932**

2015	Available-for-sale Unquoted equities and funds
Balance at 1 January 2015	28,259,835
Total gains or losses:	
- In profit or loss	759,208
Purchases, sales, issuances and net settlements	11,924,137
Balance at 31 December 2015	**40,943,180**

Operational risk

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

Ongoing assessment of operational risks occurs through the analysis of risk events, audit findings, external events and key operational risk indictors. Relevant operational risk management information is recorded in a dashboard that is prepared and presented monthly to the Executive Committee, and quarterly to the Board Risk 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

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

33. Risk Management (cont.)

Capital risk management

The Bank policy in respect of capital adequacy is to maintain a strong capital base so as to retain investor, creditor and market confidence. During the year, capital has been maintained at a level above minimum regulatory requirements. Such levels have been established by reference to an Internal Capital Adequacy Assessment Process (''ICAAP'') assessment. The PRA reviews the ICAAP assessment of its Pillar 2 capital requirement as part of the Individual Capital Guidance ("ICG") process.

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

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

The Bank's regulatory capital position was as follows:

	2016	2015
Core Tier 1 Capital	**£**	**£**
Share capital	150,049,301	150,049,301
Retained losses	(25,509,867)	(27,277,138)
Other Reserves - AFS	(663,652)	(3,154,177)
Total CET 1 Capital	123,875,782	119,617,986
Deductions from CET1	(28,806,626)	(27,410,472)
Total regulatory capital	**95,069,156**	**92,207,514**

34. Country by country disclosure

Principal activities

Gatehouse Bank plc ('Gatehouse Bank' or 'Bank') is a Shariah-compliant provider of real estate financing and investment advisory services. Gatehouse Bank is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Geographical locations of Group entities

Gatehouse Bank is based in London, United Kingdom and at 31 December 2016, has the following wholly owned subsidiaries located in Jersey, Channel Islands:

- Gate Holdings limited
- GHB Properties limited

The Bank has an associate investment in Gatehouse Capital Economic and Financial Consultancy KSCC, based in Kuwait. Its turnover and profit is not required to be included in the below report.

Turnover

The consolidated net operating income of Gatehouse Bank for year ended 31 December 2016, before share of profit from associate was £14,410,900.

Employees

The average number of permanent employees was 49 for the year ended 31 December 2016.

34. Country by country disclosure (cont.)

Country by Country Breakdown

The Group received no public subsidies during 2016.

Country	Type of Operations	Net Income from Continuing operations (£)	Profit/(loss) before tax (£)	Corporation tax paid (£)	Average number of employees
United Kingdom	PRA and FCA regulated Bank	14,530,521	1,788,255	-	49
Jersey	Investment vehicles	88,225	(324,860)	9,141	-
Group Consolidation adjustments	-	(207,846)	82,890	-	-
Total	**-**	**14,410,900**	**1,546,285**	**9,141**	**49**

Notes to Country by Country Breakdown

- Financial information is presented under IFRS.
- The information is presented on a consolidated basis, inclusive of subsidiaries.
- Group Consolidation adjustments include accounting eliminations between Gatehouse Bank plc and its Jersey subsidiaries. These include rental income eliminations on the Mayfair office lease held between Bank and GHB Properties Limited, and intercompany eliminations between Bank and Milestone 002 PC. Milestone 002 PC and Clementine Properties Limited subsidiaries were disposed in 2016.
- Gatehouse Bank, Kuala Lumpur Representative Office primary activities were to seek South East Asia opportunities for Gatehouse Bank plc and to maintain relationships with investors in the region. The office had an average of three employees in the year, the cost of which was all borne by the UK Bank. Its activities did not constitute a taxable presence in Malaysia. The office was closed in June 2016.

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