GATEHOUSE
FINANCIAL GROUP

Annual Report & Financial Statements 2016

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GATEHOUSE FINANCIAL GROUP LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2016

Registered number: 117951

GATEHOUSE FINANCIAL GROUP

COMPANY INFORMATION

Directors
Fahed Faisal Boodai
Abdulaziz AlBader
Abdulaziz AlDuweesh
Osama M. Al Rasheed
Mohamad Tawfik Al-Tahawy
Aboo Twalha Dhunnoo

Secretary
Intertrust Corporate Services (Jersey) Limited

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

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

Registered number
117951

CHAIRMAN'S STATEMENT

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

To the shareholders of Gatehouse Financial Group Limited

On behalf of the Board of Directors of Gatehouse Financial Group Limited (the "Group") I am pleased to present to you the 2016 Annual Report and Financial Statements.

This is the first financial year after the Group reorganisation with the headline highlights being a profit after tax of £1.0m compared to a six month loss of £2.9m in 2015. This improved financial performance is as a result of the consolidation of full year results of Gatehouse Capital as well as the implementation of a cost optimisation plan across all Group entities.

Gatehouse Bank plc (the "Bank") continued to build on its historic achievement and capitalise in the Private Rented Sector (PRS) Fund and its joint venture with Sigma, its key development partner, making further developments which will see a portfolio of 1,000 new build, high specification properties in target markets across the United Kingdom, especially in the North West of England.

I am delighted that Mr Charles Haresnape has joined as the CEO of Gatehouse Bank in May 2017. Mr Haresnape comes to the Bank 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 £5b.

The outlook for Gatehouse Bank remains promising with more infrastructure and more products, namely with the launch of residential property financing business. We see opportunities in this sector, supported by good fundamentals, growing population trends and increasing 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.

Gatehouse Capital ("GC") added to its portfolio of assets under management and structured several US transactions in the year. These included a portfolio of ten select service Marriot hotels geographically dispersed across the USA in Michigan, Minnesota and Wisconsin. Each hotel has a long-term license agreement to operate under the Marriott select service brands.

In 2016 GC continued to acquire and develop single-family luxury residences for the Prime Residential Development Portfolio in Los Angeles, USA. This is a joint venture with Marmol Radziner and Associates ("MRA") and is focused on developments in some of Los Angeles' most affluent neighbourhood's and will allow investors to capitalize on MRA's full service architectural platform.

In addition GC continued to acquire properties for the US Industrial Portfolio – Aggregation ("USIPA" or "The Portfolio") investment by making a total of seven property acquisitions in 2016 dispersed throughout the Midwest, Northeast and Southwest regions of the USA.

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

I would like to take this opportunity to thank you, our Shareholders, for your continued support and loyalty. It is with your dedication to the Group that we can continue to build on our potential. I extend much gratitude to the Shariah Supervisory Board for their continued guidance and advice. I also take this opportunity to note the commitment and diligence of all of the Group's companies' employees.

Fahed Faisal Boodai
Chairman

30 May 2017

SHARIAH SUPERVISORY BOARD REPORT

بسم الله الرحمن الرحيم

To the Shareholders of Gatehouse Financial Group Limited

Assalaam A'laikum Wa Rahmat Allah Wa Barakatuh

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

In connection with our mandate, we have reviewed all material transaction documents that were presented to us and we also relied on certification of Shariah compliance issued by the respective Shariah Supervisory Boards of the subsidiaries within the Group. These include transactional as well as agreements signed with third parties for the purpose of obtaining their services in order to facilitate the proper operation of the Group. This report relates to the period ended 31 December 2016.

We have conducted overall review of the Group and relied on the certification of Shariah compliance issued by the Shariah Supervisory Boards of the subsidiaries within the Group to form an opinion as to whether the Group has complied with Shariah and with the specific pronouncements, rulings and guidelines issued by us.

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

Supervision

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

Group's Contracts

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

Shariah Audit

Regular Shariah audits have been carried out of the Group's business activities for the period ended 31 December 2016. The Shariah audit included a review of all transaction documents executed by the Group. In all material respects, the SSB found all matters of the Group to be in compliance with the principles of Shariah and thanks the Group for adhering to the principles of Shariah.

Balance Sheet

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

Zakaat

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

Conclusions

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

In our opinion, the contracts and agreements, transactions and dealings entered into by the Group for the period ended 31 December 2016 complies with the Islamic principles of Shariah.

Members of the Shariah Supervisory Board

Sheikh Nizam Yaquby
Chairman of the SSB
30 May 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 report on the affairs of the Group, together with the financial statements and independent auditor's report, for the period ended 31 December 2016.

Principal Activities

Gatehouse Financial Group Limited (the "Company") was incorporated in Jersey on 5 March 2015 to be the holding company for Gatehouse Bank plc and Gatehouse Capital.

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

Gatehouse Capital Economic and Financial Consultancy K.S.C.C ("Gatehouse Capital") is a closed shareholding company registered in Kuwait and is engaged in providing management consultancy to local and foreign companies.

Financial results

The financial statements for the period ended 31 December 2016 are shown on pages 19 to 45. The consolidated Group profit for the period after taxation amounts to £1,040,049 (2015: loss of £2,896,559). The consolidated Group comprehensive profit for the period amounts to £12,155,483 (2015: loss of £8,422,972).

Dividend

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

Directors and Directors' Interests in Shares

Below is a table of Directors appointments and resignations:

Director	Date of Appointment	Date of Resignation
Abdulaziz AlBader	15 -Feb- 2017	
Oday Al-Ibrahim	18 -Mar- 2015	27 -Jun-2016
Aboo Twalha Dhunnoo	17 -Dec- 2015	
Mohamad Tawfik Al-Tahawy	18 -Mar- 2015	
Osama M. Al Rasheed	17 -Dec- 2015	
Abdulaziz AlDuweesh	18 -Mar- 2015	
Fahed Faisal Boodai	18 -Mar- 2015	
Marwan Al Saleh	22 -Jun- 2016	5 -Feb- 2017

Zakaat

The Group calculates the Zakaat on behalf of its shareholders according to the Shariah rules approved by the Shariah Supervisory Board. Zakaat calculated for the year ended 31 December 2016 is 0.0179 pence per ordinary share of 1 pence each (2015: 0.0156 pence per ordinary share of 1 pence each). The responsibility for payment of Zakaat lies with the shareholders of the Group.

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

Aboo Twalha Dhunnoo
Chief Financial Officer

30 May 2017

DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

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 results of the Group and the undertakings included in the consolidation taken as a whole;
- The Chairman's statement includes a fair review of the development and performance of the business and the position of the Group and the undertakings; and
- The annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group and Company's performance, business model and strategy.

By order of the Board.

Aboo Twalha Dhunnoo
Chief Financial Officer

30 May 2017


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

We have audited the financial statements of Gatehouse Financial Group Limited for the year ended 31 December 2016 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, and the related notes 1 to 35. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as issued by the European Union (EU).

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

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 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 affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with IFRSs as issued by the European Union (EU); and
- have been properly prepared in accordance with the Companies (Jersey) Law 1991.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

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

Alastair Morley

for and on behalf of Deloitte LLP
Chartered Accountants
London, United Kingdom

30 May 2017

CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 Dec 2016 £	Year ended 31 Dec 2015 £
Income			
Income from investment and financing activities	4	10,939,790	7,431,316
Charges to financial institutions and customers		(3,843,852)	(1,736,313)
Fees and commission income	5	9,936,102	3,238,896
Fees and commission expense		(95,499)	(117,408)
Net iljara (loss)/profit		(157,113)	345,132
Realised (losses)/gains on investments		(126,038)	2,472,042
Foreign exchange gains		666,280	571,687
Other income		437,254	301,826
Total operating income		**17,756,924**	**12,507,178**
Expenses			
Staff costs	6	(10,112,012)	(8,836,851)
Other operating expenses	7	(5,705,051)	(6,495,786)
Depreciation and amortisation	19,20	(1,114,132)	(779,631)
Total operating expenses		**(16,931,195)**	**(16,112,268)**
Operating profit/(loss)		**825,729**	**(3,605,090)**
Share of profit of associate	17	1,876,421	390,346
Step up gain on re-measurement of associate	17	-	299,928
Amortisation of intangibles of associate	17	(186,170)	(57,408)
Amortisation of intangibles of subsidiary	19	(967,939)	(587,485)
Impairment (charge)/release	8	(495,095)	677,231
Un-realised gains on investment properties		14,212	55,348
Profit/(loss) before tax	9	**1,067,158**	**(2,827,130)**
Corporation tax	10	(27,109)	(69,429)
Profit/(loss) for the year from continuing operations		**1,040,049**	**(2,896,559)**

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 Dec 2016 £	Year ended 31 Dec 2015 £
Profit/(loss) for the year from continuing operations		**1,040,049**	**(2,896,559)**
Gain/(loss) on available-for-sale investments		2,620,609	(2,775,444)
Foreign currency translation gains/(losses) from investment in subsidiary		8,494,825	(2,750,969)
Other comprehensive profit/(loss) for the year		**11,115,434**	**(5,526,413)**
Comprehensive profit/(loss) for the year		**12,155,483**	**(8,422,972)**
Earnings per share from continuing operations			
Basic	11	0.007 pence	(0.02) pence
Diluted	11	0.007 pence	(0.02) pence

Notes 1 to 35 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31 Dec 2016 £	31 Dec 2015 Restated £
Assets			
Cash and balances with banks		16,496,016	14,163,843
Due from financial institutions	13	38,695,969	47,134,641
Financing arrangements	14	105,100,203	77,460,441
Ijara receivable		-	9,853,302
Investment securities	15	94,239,899	85,755,962
Investment in associate	17	12,042,951	9,170,305
Derivative financial instruments	18	276,991	1,175,244
Intangible assets	19	3,555,413	4,052,903
Property, plant and equipment	20	13,093,382	13,934,993
Investment Properties	21	1,828,679	1,531,192
Goodwill	22	8,914,906	7,490,211
Other assets	23	8,251,663	6,245,325
Total assets		**302,496,072**	**277,968,362**
Liabilities			
Due to financial institutions	24	110,156,617	141,584,500
Due to customers	25	58,239,327	11,513,973
Ijara payable		-	3,009,453
Other liabilities	26	4,869,578	4,785,369
Total liabilities		**173,265,522**	**160,893,295**
Net assets		**129,230,550**	**117,075,067**
Shareholders' equity			
Share capital	31	158,000,001	158,000,001
Own shares	32	(7,950,700)	(7,950,700)
Available-for-sale reserve		(533,568)	(3,154,177)
Foreign currency translation reserve		5,712,806	(2,782,019)
Retained deficits		(25,997,989)	(27,038,038)
Equity attributable to equity holders and total equity		**129,230,550**	**117,075,067**

Notes 1 to 35 form an integral part of the financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on the 30 May 2017.

They were signed on its behalf by:

Fahed Faisal Boodai
Chairman

Aboo Twalha Dhunnoo
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Own Shares	Available-for-Sale reserve	Foreign currency translation reserve	Retained deficit	Total
	£	£	£	£	£	£
Balance at 1 January 2015	158,000,001	(7,950,700)	(378,733)	(31,050)	(24,141,479)	**125,498,039**
Unrealised loss on available-for-sale investments	-	-	(2,775,444)	-	-	**(2,775,444)**
Foreign currency translation adjustment	-	-	-	(2,750,969)	-	**(2,750,969)**
Loss for the year	-	-	-	-	(2,896,559)	**(2,896,559)**
Balance at 31 December 2015	**158,000,001**	**(7,950,700)**	**(3,154,177)**	**(2,782,019)**	**(27,038,038)**	**117,075,067**
Balance at 1 January 2016	158,000,001	(7,950,700)	(3,154,177)	(2,782,019)	(27,038,038)	**117,075,067**
Unrealised gain on available-for-sale investments	-	-	2,522,708	-	-	**2,522,708**
Reclassification of reserve on disposal of available-for- sale investments	-	-	97,901	-	-	**97,901**
Foreign currency translation adjustment	-	-	-	8,494,825	-	**8,494,825**
Profit for the year	-	-	-	-	1,040,049	**1,040,049**
Balance at 31 December 2016	**158,000,001**	**(7,950,700)**	**(533,568)**	**5,712,806**	**(25,997,989)**	**129,230,550**

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	1,040,049	(2,896,559)
Adjusted for:		
Realised losses/(gains) on investments	126,038	(2,472,042)
Impairment of investments	495,095	333,119
Share of operating profit of associate	(1,876,421)	(390,346)
Amortisation of intangibles of associate	186,170	57,408
Amortisation of intangibles of subsidiary	967,939	587,485
Income from investment and financing activities	(11,252,365)	(8,934,088)
Unrealised gain on investment properties	(14,212)	(55,348)
Fair value movement in derivative financial instruments	898,253	(1,043,410)
Depreciation and amortisation	1,114,132	1,424,524
Returns to financial institutions	2,111,167	1,674,157
Returns to customers	1,732,685	62,156
Taxation	28,095	7,820
Net (indecrease) decrease in other assets	(2,206,836)	474,419
Net increase in other liabilities	9,826	695,992
Net cash outflow from operating activities	**(6,640,385)**	**(10,474,713)**
Cash flows from investing activities		
Net (increase)/decrease in financial assets:		
Due from financial institutions	11,611,959	51,271,534
Financing arrangements	(30,631,206)	(37,813,189)
Ijara	6,972,833	(17,564)
Investment securities	(6,593,776)	(21,665,470)
Acquisition of subsidiary, net of cash acquired	-	(12,582,818)
Income received from investment and financing activities	9,154,858	6,945,410
Dividends received	2,655,257	1,870,441
Dividends received from associate	688,527	1,757,100
Purchase of intangible assets	(75,727)	(193,185)
Purchase of property, plant and equipment	(13,297)	(2,186,380)
Proceeds from sale of investment properties	-	431,367
Net cash outflow from investing activities	**(6,230,572)**	**(12,182,754)**
Cash flows from financing activities		
(Payments to) Proceeds from financial institutions	(31,605,024)	11,984,185
Proceeds from customers	45,866,786	8,846,181
Profit paid on financing arrangements	(2,808,143)	(1,601,222)
Net cash inflow from fundinginancing activities	**11,453,619**	**19,229,144**
Net outflow in cash and cash equivalents	**(1,417,338)**	**(3,428,323)**
Net foreign exchange differencemovement	3,749,511	(589,545)
Cash and cash equivalents at the beginning of the year	14,163,843	18,181,711
Cash and cash equivalents at the end of the year	**16,496,016**	**14,163,843**

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

1. General Information

Gatehouse Financial Group Limited ('the Group') was incorporated as a private company in Jersey on 5 March 2015 under the Companies (Jersey) Law 1991. The address of the registered office is given on page 1.

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

2. Adoption of new and revised Standards

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied a number of amendments to IFRS's issued by the European Union 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.

3. Basis of preparation and significant accounting policies

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.

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

3. Basis of preparation and significant accounting policies (continued)
New and revised IFRSs in issue but not yet effective (continued)

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 currently underway to assess the financial impact and classification for the Bank's financial instruments.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance as well as the financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in this annual report and accounts. In addition, note 35 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposures to credit and liquidity risk.

The entities in the Group ensure they meet capital and liquidity limits and relevant regulatory thresholds on a regular basis by actively managing 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 liquidity of the entities. Senior management monitor the likelihood of such a stress event or combination of events happening on a forward-looking basis regularly and take such preventive and detective actions as appropriate to ensure any stress event or events and their impact is mitigated on a timely basis. The Group's forecasts and projections take account of possible changes in future conditions and performance and the maintenance of planned capital and liquidity resources above. the regulatory base requirements for the foreseeable future. All through 2016, the Companies within the Group operated within their applicable regulatory capital and liquidity requirements.

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 issued by the European Union (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, investment properties and derivative financial instruments.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group'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 into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

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

Foreign currencies

The Group's financial statements are presented in sterling, which is its 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 financing transactions and equity holdings. A Murabaha arrangement represents an agreement whereby a Company 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 financing transactions is recognised as income on a time-apportionment basis over the period of the contract, based on the principal amounts outstanding.

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

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

Charges to financial institutions and customers

Charges to financial institutions and customers consists of profit payable from Shariah-compliant deposits including Murabaha deposits and Wakala arrangements. A Wakala arrangement represents an agreement whereby the Group accepts a deposit of funds on behalf of a customer to perform an investment or financing 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

Investment in associate

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

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

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

Change in Accounting Policy

In August 2016 IAS 27 was updated to include the option to account for subsidiaries using the equity accounting method at the Company level. The Group believes this accounting policy provides more reliable and more consistent information to harmonise the accounts across company and Group level. The change in accounting policy has been applied retrospectively for 2015 in the Company accounts. The net impact on the Company Income Statement from changing from cost accounting method to equity accounting method for 2016 is an increase by £701,552 (2015: a decrease by £568,049) and the change in net assets in the Company Financial Position for 2016 is an increase by £8,269,755 (2015: a decrease by £2,086,697).

Ijara

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

Investment Securities

Investment securities includes investments as at fair value through profit and loss (FVTPL) and available-for-sale investments.

Participation in sukuk or equity investments where the Group 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 available-for-sale (AFS) investments. AFS investments included in investment securities are initially recognised at fair value plus any directly related transaction costs and are subsequently measured at fair value. Changes in fair value of AFS investments are recognised directly in equity in the accounting period in which they arise.

Equity investments either designated by the Group 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.

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

Fair Value Hedge Accounting

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

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 less any impairment losses.

Cash and balances with Banks

Cash and cash equivalents comprise demand deposits with Banks held in non-interest earning accounts.

Provision for impairment of financial assets

At each reporting date, the Group 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.

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
Vehicles	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

Computer software and licenses acquired by the Group are stated at cost, less amortisation and provisions for impairment, if any. 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. Capitalised computer software and licenses is amortised on a straight-line basis over a useful economic life of five years from the date they are brought into full operational use.

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

Contracted Revenue

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

Goodwill

Goodwill arises on the acquisition of subsidiary and associated entities and represents the excess of the fair value of the acquisition over the identifiable net assets acquired. Goodwill is capitalised and reviewed annually for impairment, or more frequently when there are indications impairment has occurred.

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. At the acquisition date the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously-held equity interest (if any) in the acquiree over the fair value of the identifiable net assets recognised.

Goodwill is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. The recoverable amount is the higher of fair value less cost to sell and value in use. If the recoverable amount of the cash-

generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss is recognised immediately in profit or loss and is not subsequently reversed.

Investment Properties

Investment properties are measured initially at cost, including transaction cost, being the fair value of the consideration given and including acquisition charges associated with the property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses from changes in the fair values of investment properties are recognised in the consolidated statement of income in the period in which they arise. Fair values are evaluated annually by an accredited external independent valuer, applying a valuation method consistent with the nature and usage of the investment properties.

Investment properties are derecognised when either they have been disposed of or when the investment properties are permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of income in the period of de-recognition.

Impairment of non-financial assets

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects a current market assessment of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than the carrying amount, the asset is written down to its recoverable amount. An impairment loss is recognised as an expense in the income statement.

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.

4. Income from investment and financing activities

	2016	2015
	£	£
Income from amounts due from financial institutions	112,492	1,535,447
Income from financing arrangements	6,668,142	3,055,266
Income from Sukuk investments	1,546,106	1,158,908
Income from other investment securities	2,613,050	1,681,695
	10,939,790	**7,431,316**

5. Fees and commission income

	2016	2015
	£	£
Management fees	7,062,457	2,615,146
Structuring fees	2,311,008	412,283
Placement fees	562,637	47,088
Incentive fees	-	164,379
	9,936,102	**3,238,896**

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

	2016	2015
	£	£
Staff costs		
Directors' salaries and fees	1,519,511	1,323,284
Directors' pensions	23,125	59,193
Staff salaries	6,219,964	4,924,548
Staff pension contributions	346,563	440,960
Social security costs	703,293	697,407
Other staff costs	1,299,556	1,391,459
	10,112,012	**8,836,851**

	2016	2015
	£	£
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	83	91
Average number of employees	84	94

7. Other operating expenses

	2016	2015
	£	£
Rent and other occupancy costs	1,165,588	1,039,756
Consultancy	467,506	864,665
Legal and professional fees	1,116,349	2,344,375
Recruitment costs	150,542	280,021
IT and communication costs	706,083	578,764
Advertising and marketing	345,108	143,355
Shariah Supervisory Board fees and expenses	78,479	85,874
Other operating charges	1,675,396	1,158,976
	5,705,051	**6,495,786**

8. Impairment (losses)/ releases

	2016	2015
	£	£
Investment securities	(495,095)	(333,119)
Reversal of impairment in previous periods	-	1,010,350
	(495,095)	**677,231**

The Group impaired two UK unquoted equity investments and three US equity investments by £495,095 (2015: the Group impaired two UK unquoted equity investments and one US equity investments by £441,225, released £108,106 in respect of two of its US unquoted equity investments and reversed £1,010,350 on the sale of previously written off financing asset).

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)/losses	(666,280)	(571,687)
Auditor's remuneration	180,432	214,634
Rentals paid under operating leases: premises	457,455	579,052
Depreciation and amortisation	2,268,241	1,424,524

	2016	2015
Auditor's remuneration can be analysed as follows:	£	£
Audit of the Group's accounts	156,689	167,923
Other services:		
Tax advisory services	16,826	38,754
Other services	6,917	7,957
	180,432	**214,634**

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 profit/ (loss) per the income statement as follows:

	2016	2015
	£	£
Profit/(lLoss) before tax from continuing operations	1,040,049	(2,896,559)
Adjusting items not subject to UK corporation tax	559,711	2,121,448
Profit/ (lLoss) before tax subject to UK corporation tax	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

£27,109 tax payable consists of £20,986 UK Corporation Tax provisions and £6,123 relating to tax on GHB Properties Limited.

The company is subject to Jersey corporate income tax at the rate of 0% (2015: 0%). 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 Group 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.

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

£1,040,049 of the company profit for the financial period (2015: loss of £2,896,559) has been dealt with in the accounts of the Group. As permitted by Jersey company law, a separate profit and loss account of the Bank has not been presented.

13. Due from financial institutions

	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.

The following reclassification has been applied retrospectively for 2015.

	Amounts as previously reported	Adjustment	Amounts as restated
Due from financial institutions			
Treasury placements	15,451,680	31,682,961	47,134,641
Financing arrangements			
Finance receivables	109,143,402	(31,682,961)	77,460,441

The 2015 comparatives have been restated for a prior period adjustment for Treasury placements, previously classified within Finance receivables for £31,682,961. The Impact to the Income Statement is nil.

14. Financing arrangements

	Avg. Yield	2016	Avg. Yield	2015
				Restated
		£		**£**
Finance receivables	4.47%	**105,100,203**	6.28%	**77,460,441**

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. See note 13 for 2015 reclassification details.

15. Investments securities

	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		46,842,917		33,363,154
Unquoted funds		354,449		451,558
	1.99%	**94,239,899**	1.68%	**85,755,962**

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

16. Investment in subsidiaries

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

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

Milestone 002 PC and Clementine Properties Limited subsidiaries were disposed of in 2016. All subsidiaries are included in the consolidated accounts.

17. Investment in Associate

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

Movement on the investment in associate is shown below

	2016	2015
	£	£
At the beginning of the year	9,170,305	18,620,848
Share of profit of Gatehouse Capital (former associate)	-	88,191
Classification of Gatehouse Capital as subsidiary	-	(18,709,039)
Recognition of Weaver Point as associate		8,344,322
Share of profit	1,876,421	302,155
Foreign currency translation adjustment	1,870,922	581,236
Dividends received	(688,527)	-
Amortisation of intangibles	(186,170)	(57,408)
At the end of the year	**12,042,951**	**9,170,305**

17. Investment in Associate (continued)

On 29 June 2015, the Group increased its ownership in Gatehouse Capital from 49% to 100% and thereby became a wholly owned subsidiary and ceased to be an associate. In accordance with IFRS 3, the Group treated the increase in ownership as a step acquisition and the Group re-measured its previously held equity interest of 49% in Gatehouse Capital to the acquisition date fair value. This resulted in a gain of £299,928 and has been presented in the consolidated income statement. Effective from that date, the Group started to present Gatehouse Capital's investment in Weaver Point as an associate.

The following table illustrates summarised financial information of investment in associates

	2016	2015
Aggregated amounts relating to associate	**£**	**£**
Total assets	5,136,137	1,620,825
Total liabilities	(143,971)	(90,230)
Net assets	**4,992,166**	**1,530,595**
Total revenue	6,532,028	2,571,207
Profit	3,962,790	884,662
Group's share of net assets of associate	2,304,109	845,344
Goodwill and intangibles	9,738,842	8,324,961
Carrying amount of interest in associates	**12,042,951**	**9,170,305**

18. 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 Group uses foreign currency agreements for matching currency exposures.

19. Intangible assets

	2016	2015
Intangible assets:	**£**	**£**
Software costs and licence fees	379,399	553,750
Contracted Revenue of a subsidiary	3,176,014	3,499,153
Total Balance at 31 December	**3,555,413**	**4,052,903**

The 2015 comparative has been restated for a prior period adjustment for £3,499,153 for intangible assets, previously classified within goodwill. A reconciliation between 2015 goodwill restated and previously reported is in note 22.

19. Intangible assets (continued)

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 year	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**

Contracted Revenue of a subsidiary	2016 £	2015 £
Balance as at 1 January/on acquisition	3,499,153	3,844,276
Amortisation	(967,939)	(587,485)
FX retranslation	644,800	242,362
Balance as at 31 December	**3,176,014**	**3,499,153**

The 2015 comparative has been restated for a prior period adjustment for £3,499,153 for intangible assets, previously classified within goodwill. A reconciliation between 2015 goodwill restated and previously reported is in note 22.

20. Property, plant and equipment

	Property	Computer equipment	Fixtures and fittings	Leasehold improvement	Vehicles	Total
	£	£	£	£	£	£
Cost						
At 1 January 2016	12,216,511	1,225,090	765,581	2,656,296	56,2212	16,919,699
Additions	-	12,132	1,154	553	-	13,839
Disposals	-	-	-	-	(24,527)	(24,527)
FX retranslation	-	75,392	100,656	-	10,360	186,408
At 31 December 2016	12,216,511	1,312,614	867,391	2,656,849	42,0545	17,095,420
Depreciation						
At 1 January 2016	220,123	965,072	634,800	1,113,047	51,664	2,984,706
Charge for the year	110,064	163,473	40,352	546,976	3,189	864,054
On disposal	-	-	-	-	(24,527)	(24,527)
FX retranslation	-	68,482	99,552	9,771	-	177,805
At 31 December 2016	330,187	1,197,027	774,704	1,669,794	30,326	4,002,038
Net book value						
At 1 January 2016	11,996,388	260,018	130,781	1,543,249	4,5578	13,934,993
At 31 December 2016	**11,886,324**	**115,587**	**92,687**	**987,055**	**11,7289**	**13,093,382**

20. Property, plant and equipment (continued)

	Property	Computer equipment	Fixtures and fittings	Leasehold improvement	Vechicles	Total
	£	£	£	£	£	£
Cost						
At 1 January 2015	12,216,511	724,709	207,793	2,553,389	-	15,702,402
Additions	-	98,822	18,233	102,907	-	219,962
Additions on acquisition of subsidiary	-	410,423	539,555	-	56,2212	1,006,199
Disposals	-	(8,864)	-	-	-	(8,864)
At 31 December 2015	12,216,511	1,225,090	765,581	2,656,296	56,2212	16,919,699
Depreciation						
At 1 January 2015	110,058	500,065	60,166	808,633	-	1,478,922
Accumulated depreciation on acquisition of subsidiary	-	345,312	537,020	-	48,113	930,445
Charge for the year	110,065	128,559	37,614	304,414	3,551	584,203
On disposal	-	(8,864)	-	-	-	(8,864)
At 31 December 2015	220,123	965,072	634,800	1,113,047	51,664	2,984,706
Net book value						
At 1 January 2015	12,106,453	224,644	147,627	1,744,756	1,744,756-	14,223,480
At 31 December 2015	**11,996,388**	**260,018**	**130,781**	**1,543,249**	**4,5578**	**13,934,993**

21. Investment Properties

	2016	2015
	£	£
Cost		
At 1 January	1,531,192	-
Additions on acquisition of subsidiary	-	1,379,939
Unrealised gain on revaluation	14,212	55,348
FX retranslation	283,275	95,905
At 31 December	1,828,679	1,531,192
Net book value		
At 1 January	1,531,192	-
At 31 December	**1,828,679**	**1,531,192**

Investment properties are located at the Sultanate of Oman and are stated at fair value. The fair value of the property is based on lower of two external valuations carried out by accredited independent valuators using market comparable approach which is further discounted by the management by £612,685 (2015: £411,301).

22. Goodwill

	2016	2015 Restated
	£	£
Balance as at 1 January/on acquisition	7,490,211	7,362,978
FX re-measurement	1,424,695	127,233
Balance as at 31 December	**8,914,906**	**7,490,211**

The 2015 comparatives have been restated for a prior period adjustment for intangible assets, previously classified within goodwill for £3,499,153. The Impact to the Income Statement is nil.

	Amounts as previously reported	Adjustment	Amounts as restated
Intangible assets- contracted Revenue of a subsidiary	-	3,499,153	3,499,153
Goodwill	10,989,364	(3,499,153)	7,490,211

23. Other Assets

	2016	2015
	£	£
Other debtors	5,808,491	1,555,957
Prepayments	677,557	3,462,425
Accrued income receivable	1,765,615	1,192,040
Intercompany receivable	-	34,903
	8,251,663	**6,245,325**

24. Due to financial institutions

	Avg. Yield	2016	Avg. Yield	2015
		£		£
Treasury liabilities	1.87%	110,156,617	1.64%	141,584,500

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

25. Due to customers

	Avg. Yield	2016	Avg. Yield	2015
		£		£
Treasury liabilities	2.26%	**58,239,327**	2.17%	**11,513,973**

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

26. Other liabilities

	2016	2015
	£	£
Trade creditors	84,085	96,052
Other taxes and social security costs	610,170	392,052
Deferred income	827,386	844,830
Other creditors	3,347,937	3,452,435
	4,869,578	**4,785,369**

27. Maturity analysis of financial assets and liabilities

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

2016	Less than 12 months	More than 12 months	Total
	£	£	£
Assets			
Cash and balances with Groupsbanks	16,496,016	-	16,496,016
Due from financial institutions	8,047,726	30,648,243	38,695,969
Financing arrangements	56,915,101	48,185,102	105,100,203
Investment securities	45,578,199	48,661,700	94,239,899
Investment in associate	-	12,042,951	12,042,951
Derivative financial instruments	276,991	-	276,991
Other debtors	7,574,106	-	7,574,106
Total financial assets	**134,888,139**	**139,537,996**	**274,426,135**
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**

2015	Less than 12 months	More than 12 months	Total
	£	£	£
Assets			
Cash and balances with Groupsbanks	14,163,843	-	14,163,843
Due from financial institutions	14,435,156	32,699,485	47,134,641
Financing arrangements	21,122,741	56,337,700	77,460,441
Investment securities	8,872,977	76,882,985	85,755,962
Ijara receivable	15,312	9,837,990	9,853,302
Investment in associate	-	9,170,305	9,170,305
Derivative financial instruments	1,175,244	-	1,175,244
Other Debtors	2,782,900	-	2,782,900
Total financial assets	**62,568,173**	**184,928,465**	**247,496,638**
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**

28. Assets and liabilities in foreign currency

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

	2016	2015
Assets	**£**	**£**
Denominated in Sterling	166,223,657	130,630,682
Denominated in other currencies	136,272,415	147,337,680
	302,496,072	**277,968,362**

Liabilities		
Denominated in Sterling	86,667,831	47,692,654
Denominated in other currencies	86,597,691	113,200,641
	173,265,522	**160,893,295**

29. Pension Commitments

Within the Group, only Gatehouse Bank plc provides a defined contribution pension scheme for all staff. The assets of the scheme are held separately from those of the Bank in independently administered funds. During the 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 £nil (2015: £nil).

30. Commitments under Operating Leases

Operating lease commitments

At the balance sheet date, the Group 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**

31. 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**

32. Own shares

The Own Shares reserve represents the shares issued as part of the Group's Employee Incentive Plan, held by the Employee Benefit Trust on behalf of participating employees and the Trustee. 800,000,000 ordinary shares of £0.01 each (2015: 800,000,000 ordinary shares) were held by the Employee Benefit Trust at 31 December 2016 of which 493,000,000 were partly paid up to £0.0001 per share (2015: 493,000,000) by former beneficiaries of the Group's Employee Incentive Plan during their employment.

33. Off balance sheet items

Loan commitments

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

	2016	2015
	£	£
Within one year	8,321,048	2,365,714
One to five years	-	-
	8,321,048	**2,365,714**

Other commitments

At the balance sheet date, the Group has outstanding other 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**

34. Related party transactions

During the reporting year, the Group 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
Kuwait Investment Authority		
Finance liabilities	90,284,615	96,912,383

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

Kuwait Investment Authority is a shareholder of the Group.

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

Included within:	2016	2015
Treasury liabilities		
Kuwait Investment Authority	77,435,152	100,126,921
The Securities House K.S.C.P.	28	9,213,903

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

35. Risk Management

The Risk Management function is primarily at the Bank level and forms an integral part of the Bank's three lines of defence and is divided into the key areas: credit risk, market risk and operational risk. The Chief Financial Officer delegates responsibility for the day-to-day monitoring of these risks to ensure that the Bank is maintained 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 at the Bank level and, in this respect, sits on the main risk committees.

Credit Risk

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

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

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

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

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

A comprehensive control framework is in place. This incorporates:

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

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

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

Exposure

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

	2016	2015
	£	£
Cash and balances with Groupsbanks	16,496,016	14,163,843
Due from financial institutions	38,695,969	47,134,641
Financing arrangements	105,100,203	77,460,441
Ijara receivable	-	9,853,302
Investment securities	94,239,899	85,755,962
Investments in Associates	12,042,951	9,170,305
Derivative financial instruments	276,991	1,175,244
Other debtors	7,574,106	2,782,900
	274,426,135	**247,496,638**

35. Risk Management (continued)

Geographical region

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

	2016	2015
	£	£
GCC countries	29,979,800	31,647,361
Bahrain	-	5,429,729
Kuwait	8,275,832	2,548,670
Saudi Arabia	13,769,564	11,227,311
UAE	5,478,488	10,367,247
Qatar	2,455,916	2,074,404
Jersey	39,280,516	66,405,842
Europe	133,656,415	89,379,222
USA	67,408,655	56,657,516
Asia	4,100,749	3,406,697
	274,426,135	**247,496,638**

Credit quality

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

2016	**Investment grade**	**Non-investment grade**	**Non-rated**	**Total**
	£	£	£	£
Assets				
Cash and balances with Groupsbanks	16,453,336	-	42,680	16,496,016
Due from financial institutions	8,047,726	-	30,648,243	38,695,969
Financing arrangements	-	-	105,100,203	105,100,203
Investment securities	31,773,177	93,.124	62,373,598	94,239,899
Investment in associate	-	-	12,042,951	12,042,951
Derivative financial instruments	276,991	-	-	276,991
Other debtors	-	-	7,574,106	7,574,106
Total assets	**56,551,230**	**93,124**	**217,781,781**	**274, 426,135**

2015	**Investment grade**	**Non-investment grade**	**Non-rated**	**Total**
	£	£	£	£
Assets				
Cash and balances with Groupsbanks	13,967,535	-	196,308	14,163,843
Due from financial institutions	47,134,641	-	-	47,134,641
Financing arrangements	-	-	77,460,441	77,460,441
Ijara receivable	-	-	9,853,302	9,853,302
Investment securities	36,653,785	368,337	48,733,840	85,755,962
Investment in associate	-	-	9,170,305	9,170,305
Derivative financial instruments	1,175,244	-	-	1,175,244
Other debtors	-	-	2,782,900	2,782,900
Total assets	**98,931,205**	**368,337**	**148,197,096**	**247,496,638**

35. Risk Management (continued)

Liquidity risk

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

Liquidity and rate profile

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

	Less than 1 month	1-3 months	3-6 months	6-12 months	1-5 years	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	16,496,017	6,978,357	310,109	82,746	64,040,659	-	**87,907,888**
Total assets	**41,560,056**	**26,987,168**	**3,861,787**	**25,040,132**	**176,976,992**	**-**	**274,426,135**
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	**9,059,714**	**(8,257,655)**	**(33,913,434)**	**(3,112,175)**	**142,253,741**	**-**	**106,030,191**

	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	4,352,512	8,787,110	18,112,573	116,937,907	-	**167,672,851**
Variable rate items	-	-	-	-	-	-	-
Non-rate sensitive	14,163,843	2,061,021	3,807	123,711	53,711,555	9,759,850	**79,823,787**
Total assets	**33,646,592**	**6,413,533**	**8,790,917**	**18,236,284**	**170,649,462**	**9,759,850**	**247,496,638**
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**	**45,994,874**	**38,582,028**	**45,495,310**	**6,352,682**	**3,009,453**	**156,107,926**
Net	**16,973,013**	**(39,581,341)**	**(29,791,111)**	**(27,259,026)**	**164,296,780**	**6,750,397**	**91,388,712**

35. Risk Management (continued)

Market risk

Market risk is a measure of potential change in the value of a portfolio of instruments as a result of changes in market factors (such as interest rates, equity indices, bond prices, commodity markets and exchange rates) during a specified time horizon. The Bank is exposed to market risk in the management of the balance sheet (i.e. banking book). The role of the Credit and Market Risk function is to identify, quantify and manage the potential effects of those potential changes on the value of the portfolio.

The Board approves the market risk appetite for all types of market risk. The Credit and Market Risk function implements a 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 and Head of Finance for review.

Gatehouse Bank plc Treasury manages treasury market risk.

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 Group's portfolio due to changes in market risk factors;
- Maximum loss: an estimate of the potential loss the Group 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 the Group across a range of market conditions.

Although the Group only trades in Shariah-compliant products, the carrying value of financial instruments held by the Group 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 Group'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, the Bank maintains access to market liquidity by using all reasonable endeavors to quote bid and offer prices with other market makers and carries an inventory of approved capital market and treasury instruments, including a range of cash, securities and treasury products. These include Commodity Murabaha, Wakala, Islamic 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. Gatehouse Bank plc'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.

Gatehouse Bank plc uses VaR to monitor the risk arising from open foreign currency positions. Gatehouse Bank plc'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:

35. Risk Management (continued)

Foreign exchange risk (continued)

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

Gatehouse Capital uses sensitivity analysis to monitor the risk arising from open foreign currency positions. A 3% strengthening or weakening of the net foreign currency positions against Kuwaiti Dinars at the statement of financial position date would result in a Gatehouse Capital FX revaluation gain or loss of £193,153 for USD currency and £784 for Euro currency.

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. Gatehouse Bank plc'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 Group has not used derivatives to hedge Listed Equity investments.

VaR is used to monitor the risk arising from the Listed Equities portfolio. Gatehouse Bank plc'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);
- 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 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.

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
Sukuk portfolio	27,521,806	-	14,923,277	42,445,083
Unquoted equity securities	-	-	46,842,917	46,842,917
Unquoted funds	-	-	354,449	354,449
Total	**32,396,247**	**-**	**62,120,643**	**94,516,890**

35. Risk Management (continued)

Fair value measurements recognised in the balance sheet (continued)

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
Sukuk portfolio	23,865,366	-	14,006,095	37,871,461
Unquoted equity securities	-	-	33,363,154	33,363,154
Unquoted funds	-	-	451,558	451,558
Total	**39,110,399**	**-**	**47,820,807**	**86,931,206**

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	47,820,807
Total gains or losses:	
In profit or loss	(681,265)
Purchases, sales, issuances and net settlements	14,981,101
Balance at 31 December 2016	**62,120,643**

2015	Available-for-sale Unquoted equities and funds £
Balance at 1 January 2015	28,259,835
Total gains or losses:	
In profit or loss	677,231
Purchases, sales, issuances and net settlements	18,883,741
Balance at 31 December 2015	**47,820,807**

Operational risk

Operational risk is the risk of direct or indirect losses 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, error, customer service quality, regulatory compliance, recruitment, training retention of staff and social and environmental impacts.

Ongoing assessment of operational risks are recorded in a dashboard that is prepared and presented monthly to the Executive Committee, and quarterly to the Audit, Risk and Compliance Committee. The dashboard captures and rates key operational risks, along with an analysis of mitigating controls in place. The role also involves input into outsourcing arrangements and reviewing of any new products.

Pillar 3 Disclosures

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

35. Risk Management (continued)

Capital risk management

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

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

Gatehouse Bank plc'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**

GATEHOUSE
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