



GATEHOUSE
FINANCIAL GROUP

Annual Report & Financial Statements 2017

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GATEHOUSE FINANCIAL GROUP LIMITED ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2017

Registered number: 117951





GATEHOUSE
FINANCIAL GROUP





COMPANY INFORMATION

Directors

Fahed Faisal Boodai

Abdulaziz AlBader

Mohamad Tawfik Al-Tahawy

Charles Haresnape

Secretary

Intertrust Corporate Services (Jersey) Limited

Auditor

Deloitte LLP

Hill House, 1 Little New Street, London

EC4A 3TR

Registered office

Gatehouse Financial Group Limited

44 Esplanade, St Helier

Jersey, JE4 9WG

Registered number

117951



CHAIRMAN'S STATEMENT

In the name of Allah, the Most Gracious, the Most Merciful, on behalf of the Board of Directors of Gatehouse Financial Group Limited ("GFG", the "Group"), I am pleased to present the 2017 Annual Report and Financial Statements.

The Group's operating profit has continued to improve rising by 100% to £1.6m (2016: 0.8m) driven by stable operating income and strong control over operating expenses. The Group reported a net profit of £0.3m representing a £0.8m decrease from 2016 largely driven by a £1.8m increase in impairments on legacy unquoted equities. In line with the strategy, the Group is seeking to achieve an orderly exit of non-core assets which will prevent the Group from being subject to large impairments in the future.

Considerable progress was made in Gatehouse Bank plc ("GHB", "Bank") during 2017 with the appointment of Charles Haresnape as CEO in May, at which time a revised strategy was approved to expand the Bank's focus into retail financing, whilst retaining the Bank's real estate investment advisory platform and commercial financing lines of business. GFG is confident that the shift to retail financing will complement the existing business and will deliver sustainable value and growth to our shareholders. The Bank remains committed wholeheartedly to Shariah finance principles, and its vision is to be the most admired Shariah-compliant bank in the UK.

The Bank's Executive team has been updated, bringing to the Bank an enhanced skill set, relevant to the new strategy. In addition, there have been changes at Board level, with Charles Haresnape (CEO) and Danesh Mahadeva (CFO) becoming Executive Directors to replace leavers during the year. I have been re-appointed to the position of Chairman of the Bank following a period as interim CEO, and I would like to thank the Non-Executive Directors who left the Bank in 2017 – Craig Friedman, Mohamad Al Tahawy and Lord Carrington of Fulham – all of whom have made significant contributions to the development of the Bank over several years. I appreciate their support and skilful contributions. Mohamad Al-Tahawy remains on the Board of GFG and continues to provide his valued contribution to the Group. New to the

Bank's Board, in a Non-Executive role, is Andy Gray, previously Managing Director of Barclays Mortgages, who brings a wealth of experience of regulated personal finance. I believe we have a Board and an Executive team with broad and relevant skills to oversee the Bank's future development.

The Bank has continued to grow the Private Rented Sector (PRS) Fund and this remains a key element of the Bank's strategy with the total number of homes built or approved for near term build exceeding 1,600 units.

The Board has been monitoring closely the potential impacts from Brexit, but to date, no material impact has been experienced in the sectors the Bank serves. The Bank's assets on the balance sheet continue to be resilient with no significant losses experienced.

The Bank has now opened a new Customer Service Centre in Milton Keynes and new, bespoke personal finance systems launched. This marks a significant milestone for the Bank.

There was also considerable progress at Gatehouse Capital ("GC") which added to its portfolio of assets under management and structured several US transactions in the year. These included:

- Strategic Industrial Portfolio, a portfolio of eleven Industrial and Office Buildings situated in the Midwest, Northeast, and Southeast regions of the US.
- USIPA II, an aggregation portfolio that will target geographically dispersed and sector diversified Industrial assets in the US. Half of the targeted equity was deployed, with 5 assets acquired, with the balance expected to be deployed in 2018.

In 2017, GC continued to 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 focussed on developments in some of Los Angeles' most affluent neighbourhood's allowing investors to capitalise on MRA's full service architectural platform.

There was also strong collaboration between GC and GHB in completing the £67m acquisition of a UK retail park. GFG will continue to benefit from this strong partnership between the two entities and will bring value to the Group and its shareholders, and will continue to provide new investment opportunities for clients.

I would like to conclude by thanking our Shareholders for their continued support and wisdom as the Group continues to grow sustainably. I also wish to express my appreciation to the Shariah Supervisory Board for their valued guidance, and to the Group's employees, without whom 2017 would not have been as successful as it was.



Fahed Faisal Boodai
Chairman

31 May 2018



SHARIAH SUPERVISORY BOARD REPORT

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

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

In connection with our mandate, we have reviewed all material transaction documents that were presented to us and we also relied on certification of Shariah compliance issued by the respective Shariah Supervisory Boards of the subsidiaries within the Group. These include transactional as well as agreements signed with third parties for the purpose of obtaining their services to facilitate the proper operation of the Group. This report relates to the period ended 31 December 2017.

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

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

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 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 2017. The Shariah audit included a review of material transaction documents executed by the Group. In all material respects, the SSB found the business activities of the Group to be in compliance with the principles of Shariah and thanks the management of the Group for adhering to the principles of Shariah.

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 Shariah.

In our opinion, the contracts and agreements, transactions and dealings entered into by the Group for the period ended 31 December 2017 complies with the Islamic principles of Shariah.

Members of the Shariah Supervisory Board



Sheikh Nizam Yaquby
Chairman of the SSB

31 May 2018



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 2017.

Principal Activities

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

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

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

Financial results

The financial statements for the period ended 31 December 2017 are shown on pages 19 to 22. The consolidated Group profit for the period after taxation amounts to £277,241 (2016: profit of £1,040,049). The consolidated Group comprehensive loss for the period amounts to £3,582,255 (2016: profit of £12,155,483).

Dividend

No dividends were paid during the period (2016: £nil). The Directors do not recommend a final dividend on ordinary shares to be paid in respect of the period (2016: £nil).

Directors and Directors' Interests in Shares

Below is a table of Directors appointments and resignations:

Director	Date of Appointment	Date of Resignation
Fahed Boodai	18 March 2015	
Abdulaziz AlBader	15 February 2017	
Aboo Twalha Dhunnoo	17 December 2015	15 June 2017
Mohamad Tawfik Al-Tahawy	18 March 2015	
Osama M. Al Rasheed	17 December 2015	7 December 2017
Abdulaziz AlDuweesh	18 March 2015	15 June 2017
Charles Haresnape	15 June 2017	

Zakaat

The Group calculates the Zakaat on behalf of its shareholders according to the Shariah rules approved by the Shariah Supervisory Board. Zakaat calculated for the year ended 31 December 2017 is 0.0172 pence per ordinary share of 1 pence each (2016: 0.0179 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.



Charles Haresnape
Director

31 May 2018



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

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

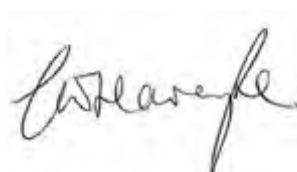
The Directors are responsible for keeping proper accounting records that disclose

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

Directors' 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's performance, business model and strategy.



Charles Haresnape
Director

31 May 2018

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

Report on the audit of the financial statements Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the Companies (Jersey) Law 1991.

We have audited the financial statements of Gatehouse Financial Group Limited ("GHB", the "Group") and its subsidiaries 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 adopted by the European Union.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained

in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in respect of these matters.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that

an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of our report

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

Matters on which we are required to report by exception

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

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

- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.



Alastair Morley

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

31 May 2018



CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 Dec 2017 £	Year ended 31 Dec 2016 £
Income			
Income from investment and financing activities	4	7,662,748	10,939,790
Charges to financial institutions and customers		(3,424,915)	(3,843,852)
Fees and commission income	5	12,303,950	9,936,102
Fees and commission expense		-	(95,499)
Net ijara loss		-	(157,113)
Realised gains /(losses) on investments		1,019,024	(126,038)
Foreign exchange (losses)/gains		(208,113)	666,280
Other income		600,785	437,254
Total operating income		17,953,479	17,756,924
Expenses			
Staff costs	6	(10,306,610)	(10,112,012)
Other operating expenses	7	(5,384,154)	(5,705,051)
Depreciation and amortisation	19,20	(614,381)	(1,114,132)
Total operating expenses		(16,305,145)	(16,931,195)
Operating profit		1,648,334	825,729
Share of profit of associate	17	2,163,191	1,876,421
Amortisation of intangibles of associate	17	(384,765)	(186,170)
Amortisation of intangibles of subsidiary	19	(1,173,448)	(967,939)
Impairment charge	8	(2,284,424)	(495,095)
Un-realised gains on investment properties	21	314,924	14,212
Profit before tax	9	283,812	1,067,158
Corporation tax	10	(6,571)	(27,109)
Profit for the year from continuing operations		277,241	1,040,049

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Year ended 31 Dec 2017 £	Year ended 31 Dec 2016 £
Profit for the year from continuing operations	277,241	1,040,049
Gain on available-for-sale investments	1,101,940	2,522,708
Accumulated reserve movement on disposal of available-for-sale	(963,273)	97,901
Foreign currency translation (losses)/gains from investment in subsidiary	(3,998,163)	8,494,825
Other comprehensive (loss)/profit for the year	(3,859,496)	11,115,434
Comprehensive (loss)/profit for the year	(3,582,255)	12,155,483
Earnings per share from continuing operations		
Basic	11	0.002 pence
		0.007 pence

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31 Dec 2017 £	31 Dec 2016 £
Assets			
Cash and balances with banks		16,452,273	16,496,016
Due from financial institutions	13	47,411,159	38,695,969
Financing arrangements	14	85,903,292	105,100,203
Investment securities	15	88,829,159	94,239,899
Investment in associate	17	10,800,956	12,042,951
Derivative financial instruments	18	-	276,991
Intangible assets	19	2,298,107	3,555,413
Property, plant and equipment	20	13,039,036	13,093,382
Investment Properties	21	1,995,580	1,828,679
Goodwill	22	8,080,314	8,914,906
Other assets	23	5,903,229	8,251,663
Total assets		280,713,105	302,496,072
Liabilities			
Due to financial institutions	24	76,742,889	110,156,617
Due to customers	25	73,334,272	58,239,327
Derivative financial instruments	18	506,336	-
Other liabilities	26	4,481,313	4,869,578
Total liabilities		155,064,810	173,265,522
Net assets		125,648,295	129,230,550
Shareholders' equity			
Share capital	31	158,000,001	158,000,001
Own shares	32	(7,950,700)	(7,950,700)
Available-for-sale reserve		(394,901)	(533,568)
Foreign currency translation reserve		1,714,643	5,712,806
Retained deficits		(25,720,748)	(25,997,989)
Equity attributable to equity holders and total equity		125,648,295	129,230,550

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 31 May 2018.

They were signed on its behalf by:



Fahed Faisal Boodai
Director



Charles Haresnape
Director

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 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	<u>158,000,001</u>	<u>(7,950,700)</u>	<u>(533,568)</u>	<u>5,712,806</u>	<u>(25,997,989)</u>	<u>129,230,550</u>
	Share capital	Own Shares	Available-for-Sale reserve	Foreign currency translation reserve	Retained deficit	Total
	£	£	£	£	£	£
Balance at 1 January 2017	158,000,001	(7,950,700)	(533,568)	5,712,806	(25,997,989)	129,230,550
Unrealised gain on available-for-sale investments	-	-	1,101,940	-	-	1,101,940
Reclassification of reserve on disposal of available-for-sale investments	-	-	(963,273)	-	-	(963,273)
Foreign currency translation adjustment	-	-	-	(3,998,163)	-	(3,998,163)
Profit for the year	-	-	-	-	277,241	277,241
Balance at 31 December 2017	<u>158,000,001</u>	<u>(7,950,700)</u>	<u>(394,901)</u>	<u>1,714,643</u>	<u>(25,720,748)</u>	<u>125,648,295</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 Dec 2017 £	Year ended 31 Dec 2016 £
Cash flows from operating activities		
Operating profit on ordinary activities after tax	277,241	1,040,049
<i>Adjusted for:</i>		
Realised losses/(gains) on investments	(1,019,024)	126,038
Impairment of investments	2,284,424	495,095
Share of operating profit of associate	(2,163,191)	(1,876,421)
Amortisation of intangibles of associate	384,765	186,170
Amortisation of intangibles of subsidiary	1,173,448	967,939
Changes in investment and financing activities	(7,662,748)	(11,252,365)
Unrealised gain on investment properties	(314,924)	(14,212)
Fair value movement in derivative financial instruments	276,991	898,253
Depreciation and amortisation	614,381	1,114,132
Returns to financial institutions	3,424,915	2,111,167
Returns to customers	-	1,732,685
Taxation	6,571	28,095
Net increase/(decrease) in other assets	2,392,224	(2,206,836)
Net (decrease)/increase in other liabilities	(438,626)	9,826
Net cash outflow from operating activities	(763,553)	(6,640,385)
Cash flow from investing and financing activities		
Changes in income due from financial institutions	(8,715,190)	11,611,959
Changes in Financing arrangements	19,335,545	(30,631,206)
Proceeds from the sale of Ijara	-	6,972,833
Changes in Investment securities	4,284,007	(6,593,776)
Changes in investment and financing activities	7,090,475	9,154,858
Dividends received	433,639	2,655,257
Dividends received from associate	1,948,225	688,527
Purchase of intangible assets	-	(75,727)
Purchase of property, plant and equipment	(561,940)	(13,297)
Net cash inflow/(outflow) from investing activities	23,814,761	(6,230,572)
Cash flows from financing activities		
Proceeds from financial institutions	(36,838,643)	(31,605,024)
Proceeds from customers	15,094,945	45,866,786
Profit paid on financing arrangements	-	(2,808,143)
Net cash (outflow)/inflow from funding activities	(21,743,698)	11,453,619
Net inflow/(outflow) in cash and cash equivalents	1,307,510	(1,417,338)
Net foreign exchange difference	(1,351,253)	3,749,511
Cash and cash equivalents at the beginning of the year	16,496,016	14,163,843
Cash and cash equivalents at the end of the year	16,452,273	16,496,016

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. General Information

Gatehouse Financial Group Limited (the "Group", the "Company") was incorporated as a private company in Jersey on 5 March 2015 under the Companies (Jersey) Law 1991. The address of the registered office is given on page 7.

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

2. Adoption of new and revised Standards

IAS 8 requires that an entity applies its accounting policies consistently. Changes in accounting policies can only be made if the change is required by a new or revised standard or an interpretation, or results in providing more reliable and relevant information. These financial statements illustrate the adoption of new standards and amendments which are applicable to reporting periods with a year end of 31 December 2017.

New and revised IFRSs:		Effective date
IFRS 9	Financial Instruments	01 January 2018
IFRS 15 (and the related Clarifications)	Revenue from Contracts with Customers (and the related clarifications)	01 January 2018
IFRS 16	Leases	01 January 2019
IFRS 17	Insurance Contracts	01 January 2021
IFRS 2 (amendments)	Classification and Measurement of Share-based Payment Transactions	01 January 2018
IFRS 4 (amendments)	Applying IFRS 9 Financial Instruments with IFRS 4	01 January 2018
IAS 7 (amendments)	Statement of cash flows	01 January 2017
IAS 12 (amendments)	Income taxes	01 January 2017
IFRS 10 and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	TBC*
IAS 40 (amendments)	Transfers of Investment Property	01 January 2018

Annual Improvements to IFRSs:		Effective date
2014 - 2016 Cycle	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 28 Investments in Associates and Joint Ventures	1 January 2018/1 January 2017**
IFRIC 22	Foreign Currency Transactions and Advanced Consideration	01 January 2018
IFRIC 23	Uncertainty over Income Tax Treatments	01 January 2019

* The effective date of the amendments has yet to be set by the IASB.

** The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IAS 12 for annual periods beginning on or after 1 January 2017.

Earlier application is permitted in all instances.

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

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2017. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

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

The application of these amendments has had no impact on the Group's consolidated financial statements.

New and revised IFRSs in issue but not yet effective

At the date of authorisation of these financial statements, The Group has not applied the above new and revised IFRSs on page 16 that have been issued but are not yet effective and had not yet been adopted by the EU.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Adoption of new and revised Standards (continued)

IFRS 15 Revenue from contracts with customers

IFRS 15 'Revenue from contracts with customers' effective 1 January 2018 and endorsed by the EU on 22 September 2016. The standard replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31. It applies to contracts with customers but does not apply to insurance contracts, financial instruments or lease contracts, which fall under the scope of other IFRSs. The standard introduces a new revenue recognition model that recognises revenue either at a point in time or over time. The model features a contract-based 5-step analysis of transactions to determine whether, how much, and when revenue is recognised.

IFRS 16 Leases

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

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

IFRS 9 Financial Instruments

The Group will apply IFRS 9 from 1 January 2018. The Group has elected not to restate comparatives on initial application of IFRS 9. The full impact of adopting IFRS 9 on the Group's consolidated financial statements will depend on the financial instruments that the Group has during 2018 as well as on economic conditions and judgements made as at the year end. The Group is performing a preliminary assessment of potential impact of adopting IFRS 9 based on the financial instruments and hedging relationships as at the date of initial application of IFRS 9 (1 January 2018).

3. Basis of preparation and significant accounting policies

Going concern

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

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 recognised in the consolidated financial statements.

Structured entities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

Impairment losses on loans and advances

Assets accounted for at amortised cost are evaluated for impairment.

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about each counterparty's financial situation and the realisable value of any underlying collateral.

Each impaired asset is assessed on its merits, and the estimates of cash flows considered recoverable are approved by the Risk function.

References to 'loan loss provisioning' refer to provisioning in respect of receivables due.

Key estimates used by Management are as follows:

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data. Fair value is estimated on the basis of historic cost less impairment and by reference to the net asset value of the underlying investment, where the net asset value is not based on observable market data (see note 35).

Basis of consolidation

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

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

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

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

Foreign currencies

The financial statements are presented in sterling, which is the Group'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 Group 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 the Group's right to receive payment has been established.

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

Financial assets and liabilities

Recognition/de-recognition

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

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

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

Investment in 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.

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 available-for-sale investments (AFS). 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 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.

Fair Value Hedge Accounting

The Group applies fair value hedge accounting to hedge the foreign exchange risk on its 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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 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.

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
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

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.

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 acquire and the fair value of the acquirer’s previously-held equity interest (if any) in the acquire 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

Impairment of non-financial assets

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

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

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

Share-based payments

The Group accounts for its share-option scheme in accordance with IFRS 2. At each balance sheet date, the Group revises its estimate of the number of equity options expected to vest. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions.

Taxation

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

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

No deferred tax assets are recognised at 31 December 2017 as management believe that it is improbable that the related tax benefit will be realised due to tax losses brought forward.

Operating leases

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

Pension costs

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

4. Income from investment and financing activities

	2017	2016
	£	£
Income from amounts due from financial institutions	579,226	112,492
Income from financing arrangements	4,951,557	6,668,142
Income from Sukuk investments	838,282	1,546,106
Income from other investment securities	1,293,683	2,613,050
	<u>7,662,748</u>	<u>10,939,790</u>

5. Fees and commission income

	2017	2016
	£	£
Management fees	6,983,927	7,062,457
Structuring fees	2,335,817	2,311,008
Placement fees	633,481	562,637
Incentive fees	2,350,725	-
	<u>12,303,950</u>	<u>9,936,102</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

	2017	2016
	£	£
Staff costs		
Directors' salaries and fees	1,435,027	1,519,511
Directors' pensions	11,562	23,125
Staff salaries	6,465,635	6,219,964
Staff pension contributions	311,136	346,563
Social security costs	604,234	703,293
Other staff costs	1,479,016	1,299,556
	10,306,610	10,112,012
	2017	2016
	£	£
Highest paid Director		
Emoluments	503,164	366,260
Pension contribution	-	-
	503,164	366,260
	2017	2016
	No.	No.
Number of employees at year end	88	83
Average number of employees	79	84

7. Other operating expenses

	2017	2016
	£	£
Rent and other occupancy costs	1,346,811	1,165,588
Consultancy	525,024	467,506
Legal and professional fees	1,187,408	1,116,349
Recruitment costs	413,410	150,542
IT and communication costs	687,308	706,083
Advertising and marketing	110,885	345,108
Shariah Supervisory Board fees and expenses	90,029	78,479
Other operating charges	1,023,279	1,675,396
	5,384,154	5,705,051

8. Impairment losses

	2017	2016
	£	£
Investment securities	(2,284,424)	(495,095)
	(2,284,424)	(495,095)

The Group impaired two UK unquoted equity investments and three US equity investments by £2,284,424 (2016: £495,095).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Profit/ before tax

	2017	2016
	£	£
Profit before tax is stated after charging/crediting:		
Net foreign exchange losses/(gains)	224,370	(666,280)
Auditor's remuneration	274,831	180,432
Rentals paid under operating leases: premises	893,037	457,455
Depreciation and amortisation	583,335	2,268,241
	<u>2017</u>	<u>2016</u>
	£	£
Auditor's remuneration can be analysed as follows:		
Audit of the Group's accounts	187,668	156,689
Other services:		
Tax advisory services	1,013	16,826
IFRS 9 services	10,200	-
Other services	75,950	6,917
	<u>274,831</u>	<u>180,432</u>

10. Taxation

	2017	2016
	£	£
Analysis of tax charge for the period		
Current tax		
UK Corporation tax based on the profit for the year	-	20,986
Other corporation tax – GHB Properties Limited	6,571	6,123
Adjustments in respect of prior periods	-	-
Total current tax charge	<u>6,571</u>	<u>27,109</u>
Deferred tax		
Origination and reversal of timing differences	-	-
Effect on changes in tax rates	-	-
Tax on profits on ordinary activities	<u>6,571</u>	<u>27,109</u>

The standard rate of corporation tax applied to reported profit is 19.25% (2016: 20%). Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The unrecognised deferred tax asset relating to Gatehouse Bank on a gross basis is £28,250,359 (2016: £27,962,239). There is no expiry date on the tax losses.

The tax expense in the income statement for the period was £6,571 (2016: £27,109). The tax expense can be reconciled to the loss or profit per the income statement as follows:

	2017	2016
	£	£
Profit after tax from continuing operations	277,241	1,040,049
Adjusting items subject to UK corporation tax	(621,762)	559,711
(Loss)/profit before tax subject to UK corporation tax	<u>(344,521)</u>	<u>1,599,760</u>
Tax at the UK corporation tax rate of 19.25% (2016: 20%)	(66,320)	319,952
Effects of:		
Results from associates and subsidiaries	(346,312)	(188,495)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Taxation (continued)

Expenses not deductible for tax purposes	96,324	81,776
Tax losses utilised but previously not recognised	-	(192,247)
Adjustments to opening and closing deferred tax to average rate of 19.25%	39,120	-
Deferred Tax Asset not recognised	296,022	-
Foreign ownership of Kuwaiti income tax on associate	-	-
Fixed asset differences	27,456	-
Income tax not taxable for tax purposes	(34,758)	-
Other	(4,961)	6,123
Tax charge in the consolidated income statement	<u>6,571</u>	<u>27,109</u>

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.

	Number of shares	
	2017	2016
Weighted average number of ordinary shares outstanding	<u>15,800,000,100</u>	<u>15,800,000,100</u>

12. Group profit attributable to equity shareholders

£277,241 of the Company profit for the financial period (2016: profit of £1,040,049) 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	2017	Avg. Yield	2016
		£		£
Treasury placements	0.39%	<u>47,411,159</u>	0.36%	<u>38,695,969</u>

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

14. Financing arrangements

	Avg. Yield	2017	Avg. Yield	2016
		£		£
Finance receivables	4.47%	<u>85,903,292</u>	6.28%	<u>105,100,203</u>

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.

15. Investments securities

	Avg. Yield	2017	Avg. Yield	2016
		£		£
Quoted sukuk		26,956,969		27,521,806
Unquoted sukuk		15,194,274		14,923,277
Quoted equity securities		1,266,976		4,597,450
Unquoted equity securities		40,869,840		46,842,917
Unquoted funds		262,195		354,449
Quoted funds		4,278,905		
	1.99%	<u>88,829,159</u>	1.68%	<u>94,239,899</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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	GFG consolidated interest
Directly held:			
Gatehouse Bank plc	Banking and Investment Advisory	England & Wales	100.0%
Gatehouse Capital Economic and Financial Consultancy K.S.C	Investment and Real Estate Investment Advisory	Kuwait	100.0%
Gatehouse UK PRS Manager Limited	Investment and real estate activities	Cayman Islands	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%

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

	2017	2016
	£	£
At the beginning of the year	12,042,951	9,170,305
Share of profit	2,163,191	1,876,421
Foreign currency translation adjustment	(1,072,196)	1,870,922
Dividends received	(1,948,225)	(688,527)
Amortisation of intangibles	(384,765)	(186,170)
At the end of the year	10,800,956	12,042,951

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Investment in Associate (continued)

The following table illustrates summarised financial information of investment in associates

	2017	2016
	£	£
Aggregated amounts relating to associate		
Total assets	5,701,736	5,136,137
Total liabilities	(119,581)	(143,971)
Net assets	5,582,155	4,992,166
Total revenue	8,423,686	6,532,028
Profit	5,056,472	3,962,790
	2017	2016
	£	£
Group's share of net assets of associate	2,304,077	2,304,109
Goodwill and intangibles	8,496,879	9,738,842
Carrying amount of interest in associates	10,800,956	12,042,951

18. Derivative financial instruments

	Assets	Liabilities	Notional amount
	£	£	£
2017			
Maturing in 0-3 months	-	506,336	25,059,935
2016			
Maturing in 0-3 months	276,991	-	42,555,503

The Group uses foreign currency agreements for matching currency exposures.

19. Intangible assets

	2017	2016
	£	£
Intangible assets:		
Software costs and licence fees	339,243	379,399
Contracted Revenue of a subsidiary	1,958,864	3,176,014
Total Balance at 31 December	2,298,107	3,555,413
Software costs and licence fees	2017	2016
	£	£
Cost		
At 1 January	1,986,957	1,911,230
Additions	140,437	75,727
Disposals	-	-
At 31 December	2,127,394	1,986,957
Amortisation		
At 1 January	1,607,558	1,357,480
Charge for the year	180,593	250,078
On disposal	-	-
At 31 December	1,788,151	1,607,558
Net book value		
At 1 January	379,399	553,750
At 31 December	339,243	379,399

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19. Intangible assets (continued)

Contracted Revenue of a subsidiary	2017	2016
	£	£
Balance as at 1 January	3,176,014	3,499,153
Amortisation	(1,173,448)	(967,939)
FX retranslation	(43,702)	644,800
Balance as at 31 December	<u>1,958,864</u>	<u>3,176,014</u>

20. Property, plant and equipment

	Property	Computer equipment	Fixtures and fittings	Leasehold improvement	Vehicles	Total
	£	£	£	£	£	£
Cost						
At 1 January 2017	12,216,511	1,312,614	867,391	2,656,849	42,055	17,095,420
Additions	-	75,662	-	305,821	-	381,483
Disposals	-	(47,940)	-	-	-	(47,940)
FX retranslation	-	(36,885)	(49,042)	-	-2,835	(88,762)
At 31 December 2017	<u>12,216,511</u>	<u>1,303,451</u>	<u>818,349</u>	<u>2,962,670</u>	<u>39,220</u>	<u>17,340,201</u>
Depreciation						
At 1 January 2017	330,187	1,197,027	774,704	1,669,794	30,326	4,002,038
Charge for the year	110,177	86,455	42,442	192,575	2,139	433,788
On disposal	-	(46,867)	-	-	-	(46,867)
FX retranslation	-	(36,505)	(48,273)	(9,771)	6,755	(87,794)
At 31 December 2017	<u>440,364</u>	<u>1,200,110</u>	<u>768,873</u>	<u>1,852,598</u>	<u>39,220</u>	<u>4,301,165</u>
Net book value						
At 1 January 2017	<u>11,886,324</u>	<u>115,587</u>	<u>92,687</u>	<u>987,055</u>	<u>11,729</u>	<u>13,093,382</u>
At 31 December 2017	<u>11,776,147</u>	<u>103,341</u>	<u>49,476</u>	<u>1,110,072</u>	<u>0</u>	<u>13,039,036</u>
	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	56,221	16,919,699
Additions	-	12,132	1,154	553	-	13,839
Disposals	-	-	-	-	(24,527)	(24,527)
FX retranslation	-	75,392	100,656	-	10,361	186,409
At 31 December 2016	<u>12,216,511</u>	<u>1,312,614</u>	<u>867,391</u>	<u>2,656,849</u>	<u>42,055</u>	<u>17,095,420</u>
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	<u>330,187</u>	<u>1,197,027</u>	<u>774,704</u>	<u>1,669,794</u>	<u>30,326</u>	<u>4,002,038</u>
Net book value						
At 1 January 2016	<u>11,996,388</u>	<u>260,018</u>	<u>130,781</u>	<u>1,543,249</u>	<u>4,557</u>	<u>13,934,993</u>
At 31 December 2016	<u>11,886,324</u>	<u>115,587</u>	<u>92,687</u>	<u>987,055</u>	<u>11,729</u>	<u>13,093,382</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21. Investment Properties

	2017 £	2016 £
Cost		
At 1 January	1,828,679	1,531,192
Additions on acquisition of subsidiary	-	-
Unrealised gain on revaluation	314,924	14,212
FX retranslation	(148,023)	283,275
At 31 December	<u>1,995,580</u>	<u>1,828,679</u>
Net book value		
At 1 January	<u>1,828,679</u>	<u>1,531,192</u>
At 31 December	<u>1,995,580</u>	<u>1,828,679</u>

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 valuers using market comparable approach which is further discounted by the management by £180,739 (2016: £612,685).

22. Goodwill

On 29 June 2015, the Group completed the step up acquisition of Gatehouse Capital to be the 100% owner. The reconciliation of Goodwill balances at 31 December 2017 are provided below:

	2017 £	2016 £
Balance as at 1 January	8,914,906	7,490,211
FX re-measurement	(834,592)	1,424,695
Balance as at 31 December	<u>8,080,314</u>	<u>8,914,906</u>

23. Other Assets

	2017 £	2016 £
Other debtors	3,629,036	5,808,491
Prepayments	733,219	677,557
Accrued income receivable	1,540,974	1,765,615
	<u>5,903,229</u>	<u>8,251,663</u>

24. Due to financial institutions

	Avg. Yield	2017 £	Avg. Yield	2016 £
Treasury liabilities	2.21%	<u>76,742,889</u>	1.87%	<u>110,156,617</u>

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	2017 £	Avg. Yield	2016 £
Treasury liabilities	2.10%	<u>73,334,272</u>	2.26%	<u>58,239,327</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

26. Other liabilities

	2017	2016
	£	£
Trade creditors	-	84,085
Other taxes and social security costs	529,978	610,170
Deferred income	693,361	827,386
Other creditors	3,257,974	3,347,937
	<u>4,481,313</u>	<u>4,869,578</u>

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:

2017	Less than 12 months	More than 12 months	Total
	£	£	£
Assets			
Cash and balances with banks	16,452,273	-	16,452,273
Due from financial institutions	45,579,328	1,831,831	47,411,159
Financing arrangements	15,608,348	70,294,944	85,903,292
Investment securities	55,889,149	32,940,010	88,829,159
Investment in associate	10,800,956	-	10,800,956
Total financial assets	<u>144,330,054</u>	<u>105,066,785</u>	<u>249,396,839</u>
Liabilities			
Due to financial institutions	76,742,889	-	76,742,889
Due to customers	41,835,457	31,498,815	73,334,272
Fair value of foreign contracts	506,336	-	506,336
Total financial liabilities	<u>119,084,682</u>	<u>31,498,815</u>	<u>150,583,497</u>
2016	Less than 12 months	More than 12 months	Total
	£	£	£
Assets			
Cash and balances with banks	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	<u>134,888,139</u>	<u>139,537,996</u>	<u>274,426,135</u>
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	<u>135,657,572</u>	<u>32,738,372</u>	<u>168,395,944</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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.

	2017	2016
	£	£
Assets		
Denominated in Sterling	192,392,089	166,223,657
Denominated in other currencies	88,321,016	136,272,415
	<u>280,713,105</u>	<u>302,496,072</u>
	2017	2016
	£	£
Liabilities		
Denominated in Sterling	87,714,842	86,667,831
Denominated in other currencies	67,349,968	86,597,691
	<u>155,064,810</u>	<u>173,265,522</u>

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 £311,136 were charged to the income statement (2016: £369,688). The pension creditor outstanding at the balance sheet date amounted to £67,834 (2016: 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:

	2017	2016
	£	£
Within one year	588,098	557,260
One to five years	510,928	743,013
	<u>1,099,026</u>	<u>1,300,273</u>

31. Share Capital

	2017	2016
	£	£
<i>Authorised:</i>		
22,500,000,000 ordinary shares of 1 pence each	<u>225,000,000</u>	<u>225,000,000</u>
<i>Issued and paid :</i>		
15,000,000,100 ordinary shares of 1 pence each	150,000,001	150,000,001
<i>Issued and partly paid :</i>		
Ordinary shares of 1 pence each paid up by 0.01 pence per share	4,930,000	4,930,000
<i>Issued but not paid :</i>		
Ordinary shares of 1 pence each	<u>3,070,000</u>	<u>3,070,000</u>
Total issued share capital	<u>158,000,001</u>	<u>158,000,001</u>

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 (2016: 800,000,000 ordinary shares) were held by the Employee Benefit Trust at 31 December 2017 of which 493,000,000 were partly paid up to £0.0001 per share (2016: 493,000,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33. Off balance sheet items

Financing commitments

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

	2017	2016
	£	£
Within one year	6,467,150	8,321,048
One to five years	-	-
	<u>6,467,150</u>	<u>8,321,048</u>

Other commitments

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

	2017	2016
	£	£
Within one year	4,830,819	6,563,499
One to five years	-	-
	<u>4,830,819</u>	<u>6,563,499</u>

34. Related party transactions

During the reporting year, the Group entered into separate transactions with related counterparties. Kuwait Investment Authority is a shareholder of the Group and has a year-end balance of £59,778,144 (2016: £77,435,152).

Amounts outstanding with related parties as at 31 December 2017 were as follows:

Included within:	2017	2016
	£	£
Assets		
Treasury liabilities		
Kuwait Investment Authority	59,778,144	77,435,152

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

During the year, the Company received profit income and profit expense as follows:

	2017	2016
	£	£
Profit expense		
The Securities House K.S.C.P	-	45,103
Kuwait Investment Authority	1,451,452	1,242,511

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

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

Credit Risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35. Risk Management (continued)

Credit Risk (continued)

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

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

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

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

A comprehensive control framework is in place. This incorporates:

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

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

Note 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 2017:

	2017	2016
	£	£
Cash and balances with banks	16,452,273	16,496,016
Due from financial institutions	47,411,159	38,695,969
Financing arrangements	85,903,292	105,100,203
Investment securities	88,829,159	94,239,899
Investments in Associates	10,800,956	12,042,951
Derivative financial instruments	-	276,991
Other debtors	-	7,574,106
	249,396,839	274,426,135

Geographical region

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

	2017	2016
	£	£
GCC countries	25,138,531	29,979,800
<i>Kuwait</i>	16,378,923	8,275,832
<i>Saudi Arabia</i>	6,521,446	13,769,564
<i>UAE</i>	21,202	5,478,488
<i>Qatar</i>	2,216,960	2,455,916
Jersey	28,730,623	39,280,516
Europe	132,433,562	133,656,415
USA	59,421,544	67,408,655
Asia	3,672,579	4,100,749
	249,396,839	274,426,135

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35. Risk Management (continued)

Credit Risk (continued)

Credit quality

The table below shows the credit quality of financial assets on the balance sheet at 31 December 2017, based on the Group's credit rating system:

2017	Investment grade £	Non-investment grade £	Non-rated £	Total £
Assets				
Cash and balances with banks	16,450,789	-	1,484	16,452,273
Due from financial institutions	25,005,502	-	22,405,657	47,411,159
Financing arrangements	-	-	85,903,292	85,903,292
Investment securities	53,032,690	125,307	35,671,162	88,829,159
Investment in associate	10,800,956	-	-	10,800,956
Total assets	105,289,937	125,307	143,981,595	249,396,839

2016	Investment grade £	Non-investment grade £	Non-rated £	Total £
Assets				
Cash and balances with banks	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

Liquidity risk

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

Liquidity and rate profile

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

	Less than 1 month £	1-3 months £	3-6 months £	6-12 months £	1-5 years £	Total £
2017						
Assets						
Fixed rate items	67,338,370	-	-	3,633,790	58,015,566	128,987,726
Non-rate sensitive	11,900,028	32,087,252	-	-	76,421,833	120,409,113
Total assets	79,238,398	32,087,252	-	3,633,790	134,437,399	249,396,839
Liabilities						
Fixed rate items	28,434,246	15,762,213	37,549,993	36,581,893	31,748,816	150,077,161
Non-rate sensitive	506,336	-	-	-	-	506,336
Total liabilities	28,940,582	15,762,213	37,549,993	36,581,893	31,748,816	150,583,497
Net	50,297,816	16,325,039	(37,549,993)	(32,948,103)	102,688,583	98,813,342

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35. Risk Management (continued)

Credit Risk (continued)

	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	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

Market risk

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

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

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

Market risk measurement

The techniques used to measure and control market risk include:

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

Although the 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 2017 would decrease/increase by £1,246,000 (2016: £3,186,000).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35. Risk Management (continued)

Value at risk

Profit Rate Risk (equivalent to Interest Rate Risk)

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

The Group manages PRR by matching as far as possible the maturity profile of assets and liabilities. As at 31 December 2017, the Group has not to date used derivatives to hedge PRR.

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

As at 31 December 2017, the market value of nominal positions generating profit rate VaR was £125,109,936 (2016: £111,797,964) which generated profit rate VaR and maximum loss estimates of:

	95% VaR (£)	Maximum loss (£)
One day	(1,349)	(12,348)
One week	(5,479)	(10,046)

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 I minimum capital requirement allows for foreign exchange risk through the foreign exchange risk requirement.

As at 31 December 2017, the net market value of nominal foreign exchange exposure was £1,523,620 (2016: £489,850) which generated Foreign Exchange VaR maximum loss estimates of:

	95% VaR	Maximum Loss (£)
One day	(4,753)	(23,925)
One week	(26,970)	(84,919)

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 £155,774 for USD currency.

Sukuk portfolio risk

As part of liquidity management, the Group's Treasury department invests in selected sukuk. As at 31 December 2017, the Group 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 I minimum capital requirement allows for investment risk through the equity position risk requirement.

As at 31 December 2017, the market value of nominal AFS sukuk investment exposure was £42,151,243 (2016: £42,445,084) which generated Price Risk VaR and maximum loss of:

	95% VaR	Maximum Loss (£)
One day	(6,235)	(40,242)
One week	(18,200)	(52,063)

Equity portfolio risk

The Group has a legacy Listed Equities portfolio which the Board have expressed an appetite to actively reduce, whilst minimising loss on disposal. As at 31 December 2017, the Group 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 I minimum capital requirement allows for investment risk through the equity position risk requirement.

As at 31 December 2017, the market value of Listed Equities investment exposure was £1,266,976 (2016: £4,597,450) which generated Price Risk VaR and maximum loss of:

	95% VaR	Maximum Loss (£)
One day	(11,464)	(82,639)
One week	(29,557)	(119,981)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35. Risk Management (continued)

Equity portfolio risk (continued)

Fair value measurements recognised in the balance sheet

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

- Level 1: Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities. As at 31 December 2017, 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 2017, 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 2017, Level 3 financial instruments are investments in unquoted equity securities, sukuku 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.
- 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.

	Level 1 £	Level 2 £	Level 3 £	Total £
2017				
Investment securities				
Quoted equity securities	1,266,976	-	-	1,266,976
Quoted sukuk portfolio	26,956,969	-	-	26,956,969
Unquoted sukuk portfolio	-	-	15,194,274	15,194,274
Unquoted equity securities	-	-	40,869,840	40,869,840
Unquoted funds	-	-	262,195	262,195
Quoted Funds	4,278,905	-	-	4,278,905
Total	32,502,850	-	56,326,309	88,829,159
	Level 1 £	Level 2 £	Level 3 £	Total £
2016				
Derivative financial instruments	276,991	-	-	276,991
Derivative financial instruments subtotal	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	-	-	46,842,917	46,842,917
Unquoted funds	-	-	354,449	354,449
Investment securities subtotal	32,119,256	-	62,120,643	94,239,899
Total	32,396,247	-	62,120,643	94,516,890

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35. Risk Management (continued)

Equity portfolio risk (continued)

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

Level 3 asset	2017	2016	Valuation Technique	Significant unobservable inputs
	Carrying value £	Carrying value £		
UK Unquoted equity securities	21,498,090	19,930,445	Measurement of net assets as a proportion of participating shares in issue	Third party appraisal reports, cash and debt balances
US Unquoted equity securities	19,371,750	26,912,471	Measurement of net assets as a proportion of participating shares in issue	Third party appraisal reports, audited financial statements
Unquoted funds	262,195	354,449	Measurement of net assets as a proportion of participating shares in issue	Financial statements
Unquoted sukuk portfolio	15,194,274	14,923,278	Measurement of net assets as a proportion of participating shares in issue	Financial statements
Total	56,326,309	62,120,643		

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

Reconciliation of Level 3 fair value measurements of financial assets

2017

Available-for-sale

	Unquoted equities	Unquoted funds	Unquoted sukuk	Total
Balance at 1 January 2017	46,842,917	354,449	14,923,277	62,120,643
Total gains or losses:				
In profit or loss	(3,251,427)	(106,820)	270,997	(3,087,250)
In OCI	(4,525)	14,566	-	10,041
Purchases	6,526,252	-	-	6,526,252
Disposal	(2,521,109)	-	-	(2,521,109)
Issues	-	-	-	-
Settlements	(6,722,268)	-	-	(6,722,268)
Transfers out of Level 3	-	-	-	-
Transfers into Level 3	-	-	-	-
Balance at 31 December 2017	40,869,840	262,195	15,194,274	56,326,309

2016

Available-for-sale

	Unquoted equities	Unquoted funds	Unquoted sukuk	Total
Balance at 1 January 2016	33,363,155	451,558	14,006,095	47,820,808
Total gains or losses:				
In profit or loss	839,181	(97,109)	917,182	1,659,254
In OCI	886,364	-	-	886,364
Purchases	12,108,199	-	-	12,108,199
Issues	-	-	-	-
Settlements	(353,982)	-	-	(353,982)
Transfers out of Level 3	-	-	-	-
Transfers into Level 3	-	-	-	-
Balance at 31 December 2016	46,842,917	354,449	14,923,277	62,120,643

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35. Risk Management (continued)

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

Pillar 3 Disclosures

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

Capital risk management

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 I capital, which includes ordinary share capital and retained earnings less intangible assets.

Gatehouse Bank plc's regulatory capital position was as follows:

	2017	2016
	£	£
Core Tier I Capital		
Share capital	150,049,301	150,049,301
Retained losses	(25,917,746)	(25,509,867)
Other Reserves - AFS	(394,901)	(663,652)
Total CET I Capital	123,736,654	123,875,782
Deductions from CET I	(28,113,927)	(28,806,626)
Total regulatory capital	95,622,727	95,069,156



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