Annual Report & Accounts 2019

Bath Building Society

We're different because you are

Directors

Robert Derry-Evans	Non-Executive Director and Chairman
Chris Smyth	Non-Executive Director, Vice-Chairman and Senior Independent Director
Kevin Gray	Chief Executive
Tonia Lovell	Director of Risk Management
Tom Leach	Finance Director
Denzil Stirk	Non-Executive Director
Angela Cha	Non-Executive Director
David Smith	Non-Executive Director
Fionnuala Earley	Non-Executive Director

Officers

Colin McDougall	Head of Marketing and Savings
Steve Matthews	Head of Mortgages

Professional Advisers

Auditors:	PricewaterhouseCoopers LLP One Kingsway Cardiff CF10 3PW
Internal Auditors	RSM Risk Assurance Services LLP 14th Floor 20 Chapel Street Liverpool L3 9AG

Contents

Chairman's Report

For the year ended 31 December 2019

The Society has yet again delivered a very satisfactory set of financial results. Its mortgage book, funding balances and reserves of capital have all grown over 2019 and it has managed to maintain strong margins despite a fiercely competitive mortgage market.

Business highlights:

Society reserves up by 6% to

£38.4m **(2018: £36.2m);**

Gross mortgage lending of £43.3m (2018: £42.2m) which increases the Society's mortgage book by 0.8% to a record level of

£247.7m **(2018: £245.7m);**

Liquid assets ratio of 27.4% of shares and borrowings (2018: 25.7%);

Society profit on ordinary activities before taxation reported at

£2.7m **(2018: £3.2m);**

Total assets of the Society increased by 2.4% to

£331.9m **(2018: £324.1m);**

Cases with arrears more than 2 months

15 **(2018: 11);**

Customer satisfaction: 97% of customers surveyed would recommend the Society to family and friends (2018: 97%).

Remaining economic uncertainties and risks arising from Brexit

The Society's solid financial performance in 2019 has to be set against the context of the political impasse over Brexit that existed in the United Kingdom throughout much of the year. The Parliamentary stalemate that ensued increased economic uncertainty and this resulted in both a lack of confidence amongst businesses to invest and also a lack of confidence by individuals to engage in moving home. Property prices and transaction levels remaining subdued for much of 2019 as a result. Whatever our individual views on Brexit, the General Election undoubtedly delivered a government with a strong majority and a clear mandate to get on with exiting the European Union. The greater clarity about our political future appears to have improved business confidence, at least temporarily. Investment and economic growth are slowly improving and the housing market is also showing some signs of recovery. The impact of the Coronavirus is likely however to put a dampener on economic performance in 2020.

Negotiations about our future trading relationship with our European neighbours will continue over 2020. There remains a significant risk that no agreement will be achieved before the transition period ends on 31 December 2020 and the economic consequences of this outcome are uncertain. The Society will not be directly impacted from any failure of the government to arrive at a comprehensive trade deal with the EU as all of its business is undertaken in the UK. However, the Society would not be immune from the outcomes of a downturn caused by a 'no deal' scenario. As part of its standard procedures, the Society prudently conducts a series of stress tests to ascertain the likely impacts on its assets from falling property values, higher unemployment etc. By maintaining strong profitability over many years, your Society has, relative to its size, built one of the strongest reserves of capital of any society or bank with its holdings being significantly in excess of its regulatory Total Capital Requirement. The Society's capital strength acts as a significant buffer against the most extreme of possible economic shocks and it is particularly well placed to weather any economic storm caused by a disruptive Brexit scenario or otherwise.

Competitive and regulatory pressures

The Society is facing an ever-growing number of competitors in the mortgage market and the Bank of England has indicated that it intends to authorise further new banks in the future. In recent years the large high street banks have also refocussed their businesses away from investment banking back towards traditional retail banking as a result of the 'ring fencing' rules that were introduced after the last financial crash to protect retail banking operations in the event of another crisis. The presence of many more financial institutions competing over a relatively flat market for mortgages has pushed yields on mortgages to near unsustainably low levels. The Society has avoided the temptation to chase volume business which it might otherwise have done through slashing interest rates on its mortgage products. It is particularly pleasing that over 2019 the Society has managed to both grow its mortgage book and maintain its margin.

Inevitably over time there is a risk that the mortgage price war will push the Society's margins lower and potentially increase the level of redemptions from its mortgage book. The Society will redouble its efforts to counter this growing competitive threat.

The special liquidity schemes that were offered by the Bank of England over the last ten years are now being wound down and those financial institutions that took funding are now having to repay. Although the Society has no liabilities to these schemes, competitor businesses are sourcing replacement funds by acquiring them from the same retail funding market that the Society uses. The Society was budgeting for its funding costs to increase over 2019 but in reality it did not experience any upwards pressure on savings rates. There remains a risk that funding costs may rise in 2020 due to further competition for retail funds. The Society has never resorted to the dubious practice of offering high introductory 'teaser' rates followed by sharp reductions in rates to low levels after funding targets have been achieved. Instead, the Society's savings strategy will remain one of offering its Members rates of interest that can be deemed as being competitive and fair over the medium term. The Society will continue to source the vast majority of its funding requirements from its traditional heartland of the Bath locality and the wider South West region.

The emergence of financial technology (Fintech) companies into the Financial Services sector has created competitor organisations that have access to new and innovative products and services that are driven by technology. It is unlikely that the Society will ever be able to compete with these organisations on technological terms and so it will not try to do so. Instead, the Society will stick with its strategy of being a traditional savings and mortgage institution. Where it can, it will employ technology to keep the Society credible as a 21st Century financial institution but it will not try to drive real competitive advantage through use of technology alone. I am delighted to report that over 2019 the Society's targeted investments in technology started to bear fruit. To mention but a few successes, a record number of saving Members signed up to use the Bath Online service and the majority of our mortgage intermediaries have now chosen to communicate with us via Broker Online, the Society's web-based portal.

Change in the regulatory world is a virtual constant and the Society is having continuously to adapt to meet the needs of both its prudential and conduct regulators. Sometimes the changes driven by regulatory requirements have unforeseen consequences which result in negative impacts on the services that we offer to our Members. In 2019, for example, well intentioned changes to the protection given to customers who experience payment fraud resulted in the Society, along with others in the sector, having to end all electronic payments over

£250 to third party accounts. It was immensely frustrating for the Society to have to implement this restriction on electronic payments but our hand had been forced. I apologise to all Members who were negatively impacted by this change but proposed regulatory changes to the definition of 'payment accounts' may yet result in the Society having to impose further restrictions on electronic payments other than those to bank accounts designated in customers' own names.

Risk and governance

The Society is currently investing in a new system that will improve the production of management information by automatically integrating data from a multitude of sources. This will allow for the production of more accurate and timely management information thereby giving senior managers and directors a better means of assessing risk and thereby bolstering their abilities to take informed decisions.

In 2019 the Society contracted external consultants to bolster the Society's internal governance resources and facilitate a transfer of skills. Key technical documents covering liquidity and capital management were reviewed and all recommendations were implemented.

Mutual status and business purpose

Your Board is fiercely committed to the Society remaining a mutual organisation, owned by its Members for the benefit of its Members. We strive to keep our Members' best interests at the heart of everything we do. Considering the old adage that the proof of a pudding is in its eating, it is heartening that as at 31 December 2019 our Members had entrusted the Society with looking after a record level of their savings and had chosen the Society to finance a record level of their mortgage balances.

Part of the Society's business purpose is to change peoples' lives by facilitating home ownership. I am proud to say that in 2019 over 35% of the Society's gross lending was to first time buyers. Your Society continues to develop innovative ways of improving access to home ownership through new intergenerational mechanisms. A combination of high property prices and a regulatory requirement to test the ability of borrowers to afford their mortgage payments when interest rates rise, has made affording a mortgage one of the biggest hurdles for prospective homeowners to overcome. In 2019 the Society launched its 'joint borrower/sole proprietor' feature which allows a parent to raise a mortgage jointly with a daughter or son but where legal ownership of the mortgaged property remains solely with the daughter or son. The Society has also developed a Family Assisted Mortgage which is due to launch in 2020. This will allow family members who are willing to help another family member get a mortgage to both offer cash as collateral for loans and be able to reduce ongoing mortgage payments by offsetting their own savings balances.

The Society's Board

In 2019 the Board commissioned its internal auditors, RSM Risk Assurance Services LLP (RSM), to conduct an in-depth review of the effectiveness of the Board and its committees. I am pleased to report that the findings of that review were very positive. RSM stated that, in their opinion, the Board and its committees are operating very effectively and suggested the implementation of only small improvements to further aid overall performance. These changes have been introduced.

Finally, I would like to acknowledge the continued support that the Society enjoys from its staff, its suppliers and, most importantly, its Members.

Robert Derry-Evans
Chairman
5 March 2020

Chief Executive's Report

For the year ended 31 December 2019

Mortgages

The UK property market was weak throughout most of 2019 with average house prices growing at a slower pace than recent years. Competition for mortgage business was intense, forcing mortgage pricing lower and increased activity in the re-mortgage market. Fixed rate mortgages continued to be favoured by the majority of borrowers with demand continuing to grow for initial 5-year fixed rate terms. Borrowers continued the medium-term trend of seeking out the advice of mortgage intermediaries whilst mortgage brokers themselves continued their shift to using mortgage clubs for advice on lender products. The recent changes to the tax treatment of rental income continued to encourage buy-to-let landlords to incorporate their letting businesses using limited company structures.

In 2019 the Society increased the level of its gross lending to £43.3m (2018: £42.2m). Although any level of growth is welcome, the increase in gross lending was somewhat disappointing given the success the Society has had in growing the level of mortgage applications. For much of 2019 the Society operated with a record pipeline of mortgage applications and offers but this pipeline failed to translate into actual advances due to a combination of increased competition, property chains falling through and potential borrowers putting off their plans due to the increased economic uncertainty. The level of fixed rate advances reached a record level for the Society being 67% of total gross advances.

Due to competitive pressures in 2019 the Society set slightly lower yield targets to reflect this challenging market, however the yield achieved on new lending was in excess of target. This was driven by a favourable mix of new business. The Society exceeded its targets in several residential lending niches where high yields can be achieved. Particular success was achieved in growing its Buy for University, Rent A Room and Self-Build products. Despite robust demand, the Society had to restrict the level of residential investment business it was prepared to do with limited companies due to market-wide regulatory constraints on this type of lending. The Society is hopeful of re-entering this marketplace in 2020.

Over 2019 the Society experienced an increase in the level of mortgage redemptions and capital repayments over which the Society has limited control. Net growth in the mortgage book was £2.0m (2018: £3.2m).

One of the key pillars of the Society's mortgage strategy is to increase the distribution of its mortgage products via intermediaries. This requires the Society to build up the number of, and depth of, relationships with brokers and mortgage clubs. In 2019 the Society was successful in getting onto the lending panels of two major mortgage clubs and it significantly increased the level of applications that it received from all the clubs that it does business with. The Society also increased its attendance at major broker seminars that are held throughout the country in order to spread the good news of what the Society can offer the customers of intermediaries. Historically, the Society has only lent in England and Wales. It had never undertaken lending in Scotland due to the different legal and conveyancing systems. With the two great university cities of Glasgow and Edinburgh offering opportunities for the Society's Buy For University product and more general opportunities existing for Self-Build and Holiday Home mortgages, the Society has undertaken substantial legal work over 2019 to prepare the way for a geographic expansion of its business into Scotland in 2020. The Society is determined to offer an attractive and improving service to its mortgage intermediaries. To this end, it commissioned a survey of its broker contacts in the last quarter of 2019 and will use the results to improve the Society's future service offering.

In 2019 the Society moved all of its mortgages onto a daily interest mechanism which will benefit customers who make future capital repayments. The Society also invested in software that will assist with the administration of mortgages to borrowing Members who do not use mortgage intermediaries. The use of this software will improve the Society's ability to conduct remote interviews and will provide much enhanced paperwork to customers during the sales process.

The Society continues to develop its range of mortgages that have intergenerational support mechanisms. A 'joint borrower/sole proprietor' feature has been introduced which allows parents to raise a mortgage with their child in order to improve loan affordability, but where all equity in a property remains with the child. In 2020 the Society is planning to launch its Family Assisted Mortgage with the introduction of new features such as acceptance of cash as collateral for loans and the offsetting of savings account balances to reduce loan repayments.

The Society continues to take a firm but sympathetic approach to the management of arrears. The number of cases being two or more months in arrears increased slightly to 15 by year-end (2018: 11); however the number of cases requiring individual impairment charges remained constant at two (2018: two). As at the end of 2019 the Society again had no properties in possession (2018: nil).

Savings and funding

The fundamentals of the Society's business remain the same as in recent years. The rate of return that the Society earns on its liquid assets is lower than the average rate of interest that it pays on Members' deposits. As such, holding excess liquidity impacts negatively on margins and, therefore, the Society has to carefully manage the level of new savings that it recruits from its Members and other funding sources. If the Society cannot immediately apply new savings to fund mortgages, then it has to restrict the level of new savings that it receives. Over 2019 the Society grew its base of funding by 1.7% (2018: 3.3%).

In 2019 the Society rationalised its range of savings accounts. The old range of accounts had a significant number of products with a defined life, typically 12 months. This feature required annual intervention by the Society in order to offer Members roll over products and this process came at a significant administrative cost. The Society's aim was to simplify the range and thereby reduce ongoing administration whilst keeping overall interest costs the same. Although some Members will have been offered new products with lower interest rates, over 75% of savers have actually benefitted from the changes with a rise in their interest rates. Over 2019 the Society paid out £121,000 more in interest to its savers than it did in 2018. The new range of products will be augmented over time with priority given to local savers and to rewarding customer loyalty. The Society also reduced many of the fees charged to its saver Members for events such as stopped cheques, lost passbooks and telegraphic transfers.

The Society's social purpose includes the promotion of saving as a means of building financial security, particularly amongst young adults. It will be launching a regular saver product in 2020 aimed at 16-25 year olds who are living, working or studying in the BA post codes. Furthermore, the Society is investigating the possibility of launching a Lifetime ISA aimed at encouraging young people to save towards a mortgage deposit.

Information Technology (IT) and finance

After a detailed reassessment of the challenges that were facing the Society, a restructure of staff roles within our finance and technology teams was conducted early in 2019 with the aim of ensuring that the Society had the correct mix and balance of skills. Although the restructure did result in two redundancies, the overall headcount and investment in staff resources in these departments actually increased in 2019. Both teams successfully adapted to their new departmental structures to achieve some notable successes.

The Society completed numerous IT projects over the year including the installation of a new telephone system, the upgrading of the Society's internet connections and the selection of new management information software. The Society again successfully tested its business continuity arrangements at its emergency site located in Bristol and achieved 'Cyber Essentials' status, a government security standard aimed at keeping businesses safe from cyber-attack.

The finance team increased the level of cross skilling in the treasury and regulatory reporting functions and adapted the treasury system to allow new interest rate swap contracts to be purchased against the Sterling Over Night Indexed Average (SONIA) rate, rather than the old and somewhat discredited, London Inter-bank Offered Rate (LIBOR). The finance team also successfully implemented 'hedge accounting' which is a recognised accounting methodology that will help protect the Society's Income Statement from future fluctuations in the underlying values of its swap contracts.

Cost base and profitability

Over 2019 the reduction in the Society's margin was lower than budgetary expectations due to the success in achieving a higher yield on new mortgage lending and good control over the average cost of acquiring new funding. Although the mortgage book grew by 0.8%, this was lower than expected and as a result, the overall growth in net interest receivable was lower than the growth in the Society's cost base. As a result, profit before taxation reduced to £2.7m (2018: £3.2m) but this was still substantially ahead of budget. This profit performance will be very creditable when compared with those of the Society's peer group and the Society remains one of the most profitable societies based on asset size.

The Society is investing heavily in the business, particularly in its marketing capabilities and its IT infrastructure and support functions. It is also experiencing rising growth in its wage and salary bill due to both an increase in staff headcount and general wage pressure within the wider economy, especially for skilled staff. The medium-term challenge for the Society is to grow its overall revenues at a pace that exceeds the likely growth in the Society's cost base. One area where the Society will not try and make savings is in the minimum hourly rate that it pays its members of staff. The Society believes that ethical businesses should all be prepared to pay the 'Real' Living Wage which is set by the Living Wage Foundation, and which currently stands at £9 per hour. Your Society can demonstrate its commitment to being a fair employer by committing to paying an hourly rate in excess of this recognised minimum standard.

Property assets

In 2019 the Society conducted a review of its freehold property assets and concluded that it was in the Society's best interests to dispose of the two residential flats located above the Society's Branch on Moorland Road in Bath. As at 31 December 2019 the flats had been sold subject to contract.

Community involvement

In 2019 the Society launched an initiative to deliver financial education to sixth form pupils with the aim of better preparing young adults for their forthcoming moves into work and college by teaching them the basics of such things as taxation, budgeting, saving and renting accommodation. This initiative was delivered in conjunction with WizeUp, a not for profit organisation that specialises in this work. To date, our sponsorship has benefitted over 500 pupils studying in four Bath state schools. The initial training sessions were very well received by both teachers and pupils. This success has encouraged the Society to expand the scheme in 2020 with the aim of reaching up to 1,400 pupils in seven schools. It is the intention that any extra resources that crystallise from participation in the government's Reclaim Fund initiative, which allows unclaimed savings balances to be used for local charitable work, will be used to fund more financial education for our young people.

The Society continues to support local charities. In 2019 it donated £6,500 to a diverse range of charitable organisations via its Charity Awards Scheme. This offers small sums to local community groups and charities that are working in and around Bath. This included Bath Hospital Radio, Moorland Road Community Library and Keynsham & District Mencap. In the first half of 2019 the Society's charity of the year was Bath City Farm.

From the middle of the year VOICES became our charity of the year for 2019-20. For the 44th year, the Society sponsored the children's Firework Safety Poster Competition and associated fireworks display organised by The Rotary Club of Bath. The increase in firework safety awareness generated by the poster competition helps to reduce the incidents of firework accidents in Bath.

The Society's staff also held a Charity Race Night in November 2019 which raised over £5,000, with the monies going to the benefit of VOICES, Focus Counselling and Wiltshire Mind.

As my second year as Chief Executive comes to an end, I would like to thank all of my colleagues for their support in what has been a busy year. I could not wish for a better team. Bath Building Society is a business that is proud of its past achievements but which believes that its best days have yet to come. The Society looks forward to the future with the confidence to tackle the challenges that lie ahead. We are, and will remain, a mutual organisation that is dedicated to meeting the needs of its Members.

Kevin Gray
Chief Executive
5 March 2020

Strategic Report

For the year ended 31 December 2019

The Directors have pleasure in presenting their Strategic Report for the year ended 31 December 2019.

Business objectives

The principal objective of the Society is to be an excellent example of a local building society, possessing a secure and trusted brand that is backed by consistently strong financial results. The Society aims to deliver steady growth in the level of its mortgage assets, primarily funding mortgage assets through retail deposits and deposits from small businesses.

Business strategy

The Society's main competitive advantage lies in its ability to apply traditional underwriting techniques to the assessment of prime mortgage cases that are complex in nature and require a high level of manual intervention, and for which higher margins are appropriate. The Society's strategy focuses on delivering strong profitability through offering a range of innovative mortgage products to customers who demand a personal and flexible mortgage service.

In 2019 the Society continued to grow its mortgage book, funding that growth by limited expansion of its base of shares and deposits sourced through its branch, telephone, postal and online distribution channels.

The mortgage market remains highly competitive, with the impact of post-crisis ringfencing legislation meaning the large high street banks are competing harder than ever for the relatively static amount of UK mortgage lending, leading to acute price pressure in the mainstream residential mortgage market. This in turn drives other mortgage lenders into the areas of the market in which the Society specialises, seeking higher margins than are available in the mainstream residential market, which in turn depresses prices. These market forces create downward pressure on margins, which the Society considers likely to reduce over the medium term.

The Society starts from a strong position with robust margins and a low level of arrears, and will continue to focus on originating higher margin lending and maintaining a diversified funding base. The niche nature of the Society's business model will continue to require a relatively higher investment in people and systems than is the norm in the sector, but the Society recognises the importance of driving efficiency through changes in technology and process to mitigate the impact of cost increases.

Business review and future developments

The Society's performance for the year and its future plans are reviewed by the Chairman and Chief Executive on pages 1 to 6. The Board of Directors principally monitors financial performance against seven key performance indicators as defined below.

- 'Mortgage Asset Growth' is the percentage growth in the Society's total of loans and advances to customers as measured between calendar year-ends, as stated in the Statement of Financial Position on page 28.
- 'Net Interest Margin' is the ratio of the Society's net interest income for the year as stated in the Income Statement to the average of the current and prior year end total asset figures as stated in the Statement of Financial Position.
- 'Management Expense Ratio' is the percentage given by dividing the sum of Administrative Expenses plus Depreciation and Amortisation, as stated in the Income Statement, by the average of the current and prior year end total asset figures as stated in the Statement of Financial Position.
- 'Profit Before Tax' is the Society profit before taxation as stated in the Income Statement on page 27.
- 'Common Equity Tier 1 Ratio' is the percentage given by dividing Common Equity Tier 1 regulatory capital of £38.2m (2018: £35.9m) by the sum of risk weighted assets.
- 'Leverage Ratio' is the percentage given by dividing Tier 1 regulatory capital of £38.2m (2018: £35.9m) by total assets as adjusted for mortgage pipeline commitments, intangible assets, allowances for impairment and financial derivatives.
- 'Liquidity Coverage Ratio' is the percentage given by dividing high quality liquid assets by total net cash outflows calculated over a 30 day stressed period.

Key Performance Indicator

	2019	2018
Mortgage Asset Growth	**0.8%**	1.3%
Profit Before Tax	**£2,741,000**	£3,212,000
Net Interest Margin	**2.37%**	2.37%
Management Expense Ratio	**1.46%**	1.35%
Common Equity Tier 1 Ratio	**31.5%**	29.6%
Leverage Ratio	**11.1%**	10.7%
Liquidity Coverage Ratio	**264%**	335%

The Board's aims for 2019 were to achieve modest growth in the Society's mortgage portfolio whilst maintaining a strong interest margin, to continue to add to the Society's robust levels of capital, and to invest in the capabilities of the Society with particular focus on marketing, IT and operational resilience.

The Society achieved 0.8% (2018: 1.3%) growth in mortgage assets in a mortgage market which continued to be challenging and competitive, maintaining a strong net interest margin at 2.37% (2018: 2.37%). The Society's profit before tax, whilst lower than that generated in 2018, remained robust at £2,741k (2018: £3,212k), and contributed to an increase in its Common Equity Tier 1 Ratio to 31.5% (2018: 29.6%) and in its Leverage Ratio to 11.1% (2018: 10.7%). The management expense ratio increased to 1.46% (2018: 1.35%) reflecting the investment in the Society's marketing and IT capabilities through higher staff and equipment costs. Further detail on the Liquidity Coverage Ratio is set out in the 'Liquidity risk' section on page 10.

As at 31 December 2019 the Society held seven (2018: four) mortgage loans that were six months or more in arrears or otherwise considered to be in default. The total balance outstanding on these loans was £1,936k (2018: £1,304k) and the total arrears outstanding were £70k (2018: £49k). The Society holds individual impairment allowances of £517k (2018: £706k) against these loans. The collective allowance for impairment increased in the year to £71k (2018: £31k).

In 2019 the Society recognised a net credit for impairment of £149k (2018: £88k net charge) and utilised no individual impairment allowances (2018: £560k utilisation) as a result of the crystallisation of losses against previously impaired loans. Total allowances for impairment decreased to £588k (2018: £737k).

The Society uses certain forbearance techniques to help borrowers whose finances are stressed. These techniques include moving loans from a 'capital and interest' basis to an 'interest-only' basis, acceptance of temporary reductions in mortgage payments, and taking an active part in managing the collection of rental income to move defaulting buy-to-let and holiday home loans out of arrears. The impact of forbearance on the Society's arrears position is fully considered in determining the Society's impairment allowances.

Profit and capital

The profit after tax for the year, which increases the Society's general reserve, was £2,215k (2018: £2,626k). Gross capital at 31 December 2019 was £38,442k (2018: £36,227k), representing the aggregate of the general and revaluation reserves. Free capital at 31 December 2019 was £34,972k (2018: £32,677k), representing the aggregate of gross capital and collective impairment on loans and advances to customers, less tangible fixed assets. At 31 December 2019 the ratios of gross capital and free capital, as a percentage of shares and borrowings, were 13.2% (2018: 12.6%) and 12.0% (2018: 11.4%) respectively. Throughout 2019, the Society fully complied with its regulatory capital requirement.

The following table sets out the reconciliation of capital per the statement of financial position to regulatory capital:

Unaudited	2019 £000	2018 £000
Capital available:		
General reserve	37,534	35,319
Revaluation reserve	908	908
Total capital per statement of financial position	**38,442**	**36,227**
Regulatory adjustments to obtain Common Equity Tier 1 and Tier 1 capital		
Intangible assets	(269)	(344)
Common Equity Tier 1 capital and Tier 1 capital	**38,173**	**35,883**
Tier 2 capital - collective allowance for impairment	71	31
Total regulatory capital	**38,244**	**35,914**
Total capital requirement	12,127	12,142
Surplus over Total Capital Requirement	26,117	23,772

Principal risks and uncertainties

The principal risks and uncertainties faced by the Society, together with the approach to managing these risks, are set out below.

Credit risk – residential mortgage book (See Note 30 ci)

Credit risk in the mortgage book is managed through the application of stringent lending criteria where a focus is placed on ensuring that the quality of new lending remains high. The Board monitors the level of arrears in the Society's existing loan book and how individual arrears cases are progressing. In common with all lenders, the Society's arrears levels are negatively impacted by rising unemployment, falling house prices and rising interest rates. The Society has generally experienced a low level of new residential arrears cases but it recognises that any deterioration in the economic outlook for the UK could increase levels of unemployment and impact adversely on house prices, and thereby increase the probability of future loan arrears and defaults. In 2019 the Society repossessed no residential properties (2018: one property repossessed).

Credit risk – commercial mortgage book (See Note 30 cii)

The Society engaged in commercial lending until 31 December 2016, at which point it took a strategic decision to withdraw from the commercial lending market in order to concentrate on its residential mortgage activities. As such, the Society's commercial lending portfolio represents a declining proportion of total mortgage assets.

The Society's commercial lending operated within a framework of conservative credit criteria, principally focused on underlying income streams, debt servicing cover and property values. The Society operated stricter maximum loan-to-value rules for commercial lending than for lending on residential property, and maintained a preference for lending on commercial properties that had secondary or alternative residential uses. The Society would not lend on certain categories of commercial property or fund development projects that were considered to be high risk or where it lacked the appropriate specialist commercial property knowledge.

Commercial lending relationships are subject to regular reviews to ensure that facilities are fully performing and to identify potential causes for concern, in order to facilitate early risk mitigation activity.

In 2019 the Society did not crystallise a loss against any commercial property (2018: one) and no specific impairment allowances were held against the commercial lending portfolio (2018: £nil). There was one commercial loan in default at the year end (2018: none).

Credit risk – treasury portfolio (See Note 30 d)

Credit risk in the treasury portfolio is primarily managed by limiting the maximum size of investments and by only investing directly with counterparties that are of a predetermined credit quality. The Society does not invest in structured investments. As part of its treasury credit risk control processes, the Society utilises the published data from international credit ratings agencies and takes professional advice from treasury market experts. The Society believes that there is a low likelihood of a loss from direct exposure to any of its counterparties; however, the Society prudently limits its exposure to most individual market counterparties to £1m but will place larger investments with the main UK clearing banks, the UK Government, the Bank of England and multilateral development banks. The Society has no exposure to foreign banks and all investments are denominated in Sterling.

Liquidity risk (See Note 30 e)

As a deposit-taking institution, the Society is mindful of the need to maintain a sufficient level of liquid assets to ensure the smooth operation of its businesses in normal and stressed economic circumstances. The Society continues to maintain a robust liquidity position, with liquid assets at year-end being 27.4% (2018: 25.7%) of shares, deposits and loans (SDL). The Society also assesses the adequacy of its liquidity through the use of a regulatory measure called the Liquidity Coverage Ratio (LCR). The LCR is a measure of the Society's ability to withstand a short-term liquidity stress and is calculated using a prescribed methodology.

The Society is required to maintain a pool of high quality liquid assets to cover 100% of its total net cash outflows calculated using a prescribed methodology over a 30 day stressed period (the LCR requirement). As at 31 December 2019, the Society's available pool of high quality liquid assets (adjusted for expected operating expenses over the 30 day period) was £61.9m (2018: £56.9m), well in excess of the total net cash outflows of £23.4m (2018: £17.0m), giving an LCR of 264% (2018: 335%). It should be noted that the high quality liquid assets are held against both the LCR requirement ('Pillar 1') and any additional liquidity that the Society is required by the PRA to hold as part of its supervisory review process to address risks not fully covered by the LCR measure ('Pillar 2'). However, the Society's high quality liquid asset holdings substantially exceed both the LCR and the combined measure, and the Board's policy is to keep its liquidity holdings significantly in excess of total regulatory requirements.

Interest rate risk (See Note 30 f)

Interest rate risk refers to the sensitivity of net interest income to the periodic re-pricing of assets and liabilities, and the imperfect correlation caused by interest on assets and liabilities being subject to movements in different interest bases. For example the Society holds treasury and mortgage assets that earn a fixed rate of interest to the Society. It also has funding liabilities that require the Society to pay interest on fixed rate terms. The magnitude and future maturity profiles of the Society's fixed rate assets and liabilities are often different, and the movements in different interest bases may not be perfectly aligned. When such mismatches are present, and market interest rates move, the Society is exposed to interest rate risk.

The biggest source of interest rate risk arises from the Society advancing fixed rate mortgage products and funding them largely from variable rate savings and deposits. The Society reduces its exposure to interest rate risk by purchasing interest rate swaps to effectively convert fixed rate mortgage assets into variable rate assets by exchanging its fixed rate interest cashflows for variable rate cashflows.

Conduct risk

As a regulated deposit-taker and mortgage lender, the Society risks regulatory censure, fines and remediation costs if its activities were ever deemed to be placing customers in situations which were to their significant detriment, unfair, or unethical. The Society regularly examines its practices, procedures and processes with the objective of maintaining a business culture that always delivers fair outcomes for the Society's customers.

Operational risk

The Society is vulnerable to the risk of loss through inadequate or failed internal processes or systems, human error, malicious software and hacking, fraud and other similar events. Control processes and systems are in place to minimise these risks. The Society recognises that the threat posed by cyber risk continues to evolve and, as such, the Society will continue to invest in its capabilities to mitigate this threat.

A breakdown of the Society's total liquid resources is set out in the table below:

	2019 £000	2018 £000
Total High Quality Liquid Assets		
Cash in hand and balances with the Bank of England	**62,463**	57,532
Loans and advances to credit institutions	**17,405**	16,255
Total liquid resources	**79,868**	**73,787**

Uncertainties

Whilst some political uncertainty was removed by the general election at the end of 2019 and the subsequent exit from the EU at the end of January 2020, the economic outlook remains uncertain, with the nature of the UK's future trading relationship with the EU after the end of the twelve month transition period unclear and subject to negotiation between the parties. The recent viral pandemic originating in China demonstrated again the interconnectedness of the world economy and the impact that national issues can have internationally.

Whilst the Society is wholly UK based, and therefore not directly impacted by changes to the terms of international trade, the future levels of unemployment, and the path for UK interest rates and house prices could all be impacted by the course of the UK's future trading relationship with the EU and the rest of the world. These in turn may impact on the demand for the Society's products, the level of arrears experienced, the availability and cost of funding, and the valuation of collateral held against the Society's lending.

The Society is well placed to meet any challenges ahead with robust levels of capital and liquidity and a strong business model, and despite the political and economic uncertainties can look forward with confidence to the opportunities in 2020 and beyond.

The Society recognises the potential risks and challenges posed by climate change. This has the potential to change the mortgage lending and savings markets in which the Society participates, and the regulatory environment in which the Society operates. The Society will continue to develop its approach to climate change as part of its strategy formulation processes. The Finance Director has responsibility for developing the Society's response to climate change at an operational level, with oversight provided by the Risk Committee.

Risk management objectives and policies

The Board has the objective of establishing a suitably robust control environment that successfully reduces the potential impact of risks that are present in the Society's business model. The control environment is designed to reduce both the probability of risks crystallising, and to reduce the impact if they do crystallise. The Board operates a Financial Risk Management Policy that sets out the procedures to manage treasury credit risk, interest rate risk and liquidity risk; and a Lending Policy that dictates the procedures to manage mortgage credit risk. The Society's committee structure is designed to monitor and control different aspects of risk on an ongoing basis. In particular, the Society's Risk Committee exists to measure and appraise risk across the whole business and to keep the potential impact from risks within parameters set out in the Board's stated risk appetite.

Approved and signed on behalf of the Board of Directors

Robert Derry-Evans
Chairman
5 March 2020

Directors' Report

For the year ended 31 December 2019

The Directors have pleasure in presenting the Annual Report and Accounts for the year ended 31 December 2019. The Directors consider that the Report and Accounts, comprising the Annual Accounts, Annual Business Statement and Directors' Report, taken as a whole, are fair, balanced and understandable and provide the information necessary for Members to assess the Society's performance, business model and strategy.

Staff

The Directors recognise that the ongoing strong performance of the Society is due in large part to the professionalism and skill of the Society's staff demonstrated across all aspects of the Society's operations, and place on record their sincere appreciation of the commitment and dedication shown during the year. The Board maintains the view that the future of the Society will increasingly depend on a partnership between the Board, the staff and the Members. To ensure that this is promoted, Directors will continue the policy of employing people who possess skill and integrity in all areas of the business.

Creditors' payment policy

The Society's policy is to pay trade creditors in accordance with agreed terms once such creditors have fulfilled all aspects of the contract. At the end of 2019 trade creditors outstanding represented 53 days of purchases (2018: 17 days).

Asset encumbrance policy

The Society's policy is to permit the encumbrance of assets where this is required as a norm of standard market practices or where it is necessary to obtain central bank funding facilities or liquidity insurance. From time-to-time, the Society also provides cash collateral to Natwest Markets as a requirement of the Credit Support Annex to the International Swaps and Derivatives Association master agreement that the Society has in place with that counterparty.

Auditors

At the Annual General Meeting on 30 April 2019 the Members passed a resolution appointing PwC as auditors of the Society. A resolution to reappoint PwC will be proposed at the 2020 Annual General Meeting.

Directors' Responsibilities Statement

Preparing the Annual Accounts
The following statement, which should be read in conjunction with the statement of the auditors' responsibilities on page 25, is made by the Directors to explain their responsibilities in relation to the preparation of the Annual Accounts, Annual Business Statement and Directors' Report.

The Building Societies Act 1986 ('the Act') requires the Directors to prepare annual accounts for each financial year which give a true and fair view of the state of affairs of the Society as at the balance sheet date and of the income and expenditure of the Society for the year. In preparing those accounts, the Directors are required to:

- Select appropriate accounting policies and apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed; and
- Prepare the accounts on the going concern basis, unless it is inappropriate to presume that the Society will continue in business.

In addition to the accounts, the Act requires the Directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Society.

Accounting Records and Internal Control
The Directors are responsible for ensuring that the Society:

- Keeps accounting records in accordance with the Act or the Companies Act 2006 (as relevant); and

- Adheres to financial risk management objectives with regards to its use of financial instruments (see page 11 within the Strategic Report); and

- Takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Prudential Regulation Authority under the Financial Services and Markets Act 2000.

Disclosure of information to the auditors
Each person who is a Director at the time when the Directors' Report is approved must:

- Ensure that there is no relevant audit information of which the Society's auditors are unaware; and

- Ensure that all steps have been taken that ought to have been taken to make themselves aware of any relevant audit information and to establish that the Society's auditors are aware of that information.

The Directors have general responsibility for safeguarding the assets of the Society and for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are also responsible for the integrity of the Society's website **www.bathbuildingsociety.co.uk**. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements. Information in these financial statements is provided under the legislation of the United Kingdom.

Going concern

In the opinion of the Directors, the Society continues to deliver excellent results despite a competitive mortgage market and the turbulent economic and political environment. The core profitability of the Society remains very strong, due to a combination of continuing modest mortgage asset growth and successful management of margins.

In the coming year, the Society expects to achieve a higher level of mortgage asset growth to that which it achieved in 2019. The Society will fund mortgage growth from current liquid resources and by increasing the Society's base of shares and deposits primarily through retail channels and from local businesses. It does not expect to have to seek any wholesale funding from the money markets.

The Board has conducted a recent review of going concern which has included a review of funding, liquidity and capital projections for a 4 year period after the balance sheet date. This review indicates that the Society can expect to generate sufficient liquidity to fund expected mortgage growth whilst maintaining strong levels of short-term liquidity throughout the period. The Society operates in an environment that includes access to Bank of England Sterling Monetary Framework funding facilities, and the Board has established a target of maintaining the Society's overall level of liquid resources above 20% of its total funding liabilities. The Board has stress-tested its planned liquidity and capital positions over a 4 year period to 31 December 2023 to demonstrate that adequate capital and liquidity will be available throughout this strategic period even in severe but plausible stressed scenarios. Despite the prospect of narrower margins and lower profitability in future periods, the Board expects the Society to continue to deliver profits that will remain robust in a historical context, and for the Society's surplus of capital over its regulatory requirements to continue to grow.

The Directors are satisfied that the Society has adequate resources to continue in business for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

Directors

The following persons served as Directors during the year:

Angela Cha, Robert Derry-Evans, Fionnuala Earley, Kevin Gray, Tom Leach, Tonia Lovell, David Smith, Chris Smyth and Denzil Stirk. In accordance with the principles of the UK Corporate Governance Code 2018, all Directors will retire from the Board at the Annual General Meeting and, being eligible, they offer themselves for re-election.

None of the Directors holds any shares in, or debentures of, any connected undertaking of the Society.

On behalf of the Board

Robert Derry-Evans
Chairman
5 March 2020

Report of the Directors on Corporate Governance

For the year ended 31 December 2019

The Directors are committed to best practice in Corporate Governance. Although the UK Corporate Governance Code issued by the Financial Reporting Council in 2018 does not apply directly to Mutual organisations, the Board, whilst not directly applying the Code, pays due regard to the Code principles.

The principal functions of the Board are to provide leadership and challenge; set the Society's strategy, policy and internal limits; ensure appropriate resources are available to meet objectives; ensure there are robust systems and controls in place; ensure the Society operates within its constitution, regulation and legislation; consider and, if appropriate, approve any proposed new initiatives; and review business performance against objectives. The Society's Board Manual describes how decisions relating to these matters are reserved for the Board. The Board meets as often as necessary for the proper conduct of business (usually monthly). The attendance record is detailed at Table 1 on page 17. The Board holds a minuted meeting at least once a year without the Executive Directors being present. The Board takes an interest in all aspects of the business but delegates certain decisions and responsibilities to the following committees:

Audit Committee:

Constituted by three Non-Executive Directors – David Smith (Chairman), Angela Cha and Fionnuala Earley. The purpose of the Audit Committee is to assist the Board in exercising its governance and oversight responsibilities in relation to financial reporting, systems of internal control, and the internal and external audit functions. Meetings are held at least four times per year and it is normal for executives and representatives from the Society's external and internal auditors to attend by invitation. The Audit Committee has terms of reference that include all aspects of audit, compliance, systems and controls and the review of changes to accounting standards that may affect the Society. The committee approves internal and external audit plans, reviews the reports provided by internal and external auditors and assesses the adequacy of audit and compliance arrangements, including reviewing the external auditor's independence. The committee reports to the Risk Committee in respect of matters relevant to the management of risk and to the Board on all matters considered by the committee.

In 2019 the areas of particular focus for the committee included IT and operational resilience, compliance oversight, processes associated with mortgage lending, the Society's recovery plan and its financial planning and forecasting processes. It also considered the adequacy of the Society's allowances for the impairment of mortgages, the appropriateness of its accounting under the effective interest method and its application of hedge accounting.

In each of these areas the committee was provided with papers discussing key assumptions and issues, and any impact on the financial statements. These were reviewed in detail and discussed with the relevant Society staff and the results of this work were considered, together with the results of testing by the external auditors. The committee also considered whether the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for Members to assess the Society's performance, business model and strategy. The committee resolved to commend the Annual Report to the Board for approval.

Risk Committee:

Constituted by three Non-Executive Directors – Chris Smyth (Chairman), Denzil Stirk and Robert Derry-Evans. Meetings are held at least four times per year and it is normal for executives to attend by invitation. The committee reviews and approves all relevant policy documents as considered by its management subcommittees, and receives reports from the Audit Committee in respect of matters relevant to the management of risk. In 2019, the committee examined the Society's Risk Management Framework including reviewing the Society's risk register and its risk appetite statements and monitored the performance of the Society against risk limits and triggers. The committee also reviews and approves the Society's Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP) and Recovery Plan (RP) on an annual basis, and reports to the Board on all matters considered by the committee.

Remuneration Committee:

Constituted by three Non-Executive Directors – Angela Cha (Chairman), Robert Derry-Evans and Fionnuala Earley. The Remuneration Committee has terms of reference that include setting Directors' fees and remuneration, Directors' contractual terms and review of the performance of the Executive Directors. The Executive Directors attend meetings by invitation but none that relate to their remuneration.

Nominations Committee:

Constituted by three Non-Executive Directors – Robert Derry-Evans (Chairman), Angela Cha and David Smith. The Nominations Committee has terms of reference that include executive appointments, Board succession planning, review of Board skill requirements and appointments of new Non-Executive Directors. The Executive Directors attend meetings by invitation.

In addition to the main Board Committees above, the business operates with management subcommittees of the Risk Committee that help manage business risks. These are:

Credit Committee:

This committee consists of Chief Executive – Kevin Gray, Head of Mortgages – Steve Matthews, Director of Risk Management – Tonia Lovell, Head of Marketing and Savings – Colin McDougall and Head of Underwriting – Craig Brown. The committee is chaired by Finance Director – Tom Leach. The Credit Committee has terms of reference that include maintaining the quality of the Society's mortgage book, and oversight of the Society's lending policy and underwriting. The committee reviews quarterly reports from the Head of Mortgages covering mortgage arrears and the volume and nature of exceptions to the lending policy. The committee also approves new underwriting mandates and gives approval for certain loans as specified in the Society's lending policy. The committee reports to the Risk Committee.

Assets and Liabilities Committee (ALCO):

This committee consists of Finance Director – Tom Leach, Head of Mortgages – Steve Matthews, Director of Risk Management – Tonia Lovell, Head of Marketing and Savings – Colin McDougall, Head of Finance and Prudential Risk – Gemma Stock, Portfolio Analysis and Solvency Manager – Rory Cooper and Treasury Reporting Accountant – Deborah Ware. The committee is chaired by Chief Executive – Kevin Gray. The Assets and Liabilities Committee has terms of reference that include all aspects of financial risk management, treasury matters and liquidity. The committee reviews reports from the Treasury Reporting Accountant covering the ongoing management of interest rates, treasury investment strategy, asset encumbrance levels, liquidity arrangements and hedging. The committee reports to the Risk Committee.

Conduct and Operations Committee:

This committee consists of Chief Executive – Kevin Gray, Finance Director – Tom Leach, Director of Risk Management – Tonia Lovell, and Head of Mortgages – Steve Matthews, together with departmental operational managers. The committee is chaired by Head of Marketing and Savings – Colin McDougall. The committee has responsibility for reviewing the Society's processes and practices with a view to ensuring that customers are treated fairly. The committee reviews feedback from customers and customer complaints, and recommends process changes to the Senior Leadership Team where appropriate. The committee reports to the Risk Committee.

Information Technology and Operational Resilience Committee:

This committee consists of the Chief Executive – Kevin Gray, Finance Director – Tom Leach and Head of Information Technology and Business Change – Jason Wilmot. The committee is chaired by Director of Risk Management – Tonia Lovell. The committee has the responsibility for monitoring risks associated with operating the Society's information technology systems and for ensuring that the Society has adequate business continuity processes and procedures in place to protect it in the event of any incident involving damage to the Society's physical infrastructure or data security. The committee reports to the Risk Committee.

The offices of Chairman and Chief Executive are distinct and are held by different people. The role of each is set out in their terms of appointment and service contract respectively. The Chairman is responsible for leading the Board, communication with Members and ensuring that Directors receive accurate, timely and clear information. The Chairman is independent. The Chief Executive is responsible for managing the Society's business within the parameters set by the Board.

The Chairman sets the Board agenda with the Chief Executive and ensures that adequate time is available for all discussions. The Chairman promotes debate and challenge and ensures that there is contribution from all members of the Board.

The Senior Independent Director provides an alternative channel of communication for Directors, staff and Members and has responsibility for ensuring that the Society Chairman's performance is appraised on an annual basis. The role is performed by Chris Smyth. The Society maintains liability insurance for all Board members who also have access to independent legal advice.

Non-Executive Directors review all strategic proposals and propose amendments where this is considered necessary. They regularly monitor management's progress in delivering the annual operating plan. Through the Remuneration Committee the Non-Executive Directors consider the performance of the Executive Directors, remuneration and succession planning.

At the year end the Board comprised three Executive Directors and six Non-Executive Directors (including the Chairman).

Report of the Directors on Corporate Governance (continued)
For the year ended 31 December 2019

The Board is of an appropriate size, with the necessary balance of skills and experience to meet the needs of the business.

The Nominations Committee considers the balance of skills and experience on the Board and the requirements of the Society. Board composition and succession planning are regularly reviewed. Appointments are made on merit objectively against defined criteria, but with due regard to the benefits of diversity within the Board. As at 31 December 2019, the Board consisted of nine Directors (2018: nine) of which three were female (2018: three). All Directors meet the tests of fitness and propriety laid down by the regulators and all Directors are registered with the regulators, with the three Executive Directors and four of the six Non-Executive Directors holding Senior Manager Functions under the regulators' Senior Managers Regime. The remaining two Non-Executive Directors are 'notified Non-Executive Directors' under the Regime rules. Letters of appointment relating to Non-Executive Directors are available for inspection on request.

The Chairman's job specification outlines the main role of the Chairman with regard to meetings and commitment. The commitment of Non-Executive Directors is assessed through annual appraisal with the Chairman.

New Directors receive induction training including: the nature of building societies, responsibilities and duties, interpretation of management information, the Society's business and local market, overview of regulatory requirements and significant issues for the sector and industry. Training is provided to the Board both by management and by attendance on external courses. Training and development needs are identified during appraisals.

The Chairman ensures that the Board receives information in a timely way which is sufficient to enable it to fulfil its responsibilities.

The Chairman follows a formal annual appraisal process for all Directors. The Senior Independent Director evaluates the Chairman, taking into account the views of other Directors. The Board formally considers its overall performance and that of the committees on an annual basis and performance is also discussed at an annual meeting of the Non-Executive Directors. During 2019, the Board also commissioned and undertook an external Board effectiveness review.

All Directors are submitted for election at the Annual General Meeting (AGM) following their first appointment to the Board. Following the principles set out in the UK Corporate Governance Code 2018, from the 2020 AGM onwards all Directors will retire and be subject to re-election at the AGM on an annual basis. Directors are only submitted for re-election if the appraisal process confirms their ongoing contribution and the specialist knowledge, skills, experience and independence.

The responsibilities of the Directors in relation to the preparation of the Society's accounts and the statement that the Society's business is a going concern are contained in the Directors' Report on pages 12 to 13.

The Board is responsible for determining appropriate strategies for risk management and control. The Board recognises compliance as a key part of the business and the Internal Auditor provides independent and objective challenge as to whether management controls are appropriate and are being applied as stated. The Director of Risk Management is responsible for providing guidance to the Board on risk control matters.

The Board reviews key documents at least annually. These include the Lending Policy; Financial Risk Management Policy; the Risk Management Framework (reflecting the Board's risk appetite); Corporate Strategy; Annual Operating Plan; Annual Budgets; the Internal Capital Adequacy Assessment Process (ICAAP); the Internal Liquidity Adequacy Assessment Process (ILAAP); the Recovery Plan (RP); and the Board Manual.

Management has responsibility for operating within the control framework. The categories within the risk register reflect the key risk types to which the Society is exposed. For example, credit risk (risk that a customer or counterparty will fail to meet their obligations to the Society as they fall due); operational risk (risk of a loss arising from inadequate or failed internal processes or systems, human error or external events); business risk (risk that the Society fails to meet the demands of its Members as a whole); and liquidity risk (risk that the Society is not able to meet its financial obligations as they fall due, or can do so only at excessive cost). Key controls include segregation of duties and monitoring and reporting against Board approved limits.

The Board is satisfied that the Audit Committee includes members who have adequate, recent and relevant financial experience. The Society Chairman is not a member of the Audit Committee. The Audit Committee meets with the auditors, without the Executives present, after each meeting. Minutes of Committee meetings are distributed to all Board members and the Chairman of the Audit Committee reports to the Board. The Audit Committee's main responsibilities are described on page 14.

During the previous year the Audit Committee held rigorous tender processes for both the external and internal auditor appointments. As a result of this tender process, the Audit Committee appointed PricewaterhouseCoopers LLP ('PwC') in the role of external auditors, and RSM Risk Assurance Services LLP ('RSM') in the role of internal auditors. PwC assumed responsibility for the audit of the Annual Accounts from the year ended 31 December 2018, whilst RSM assumed their internal audit responsibilities from 1 January 2019.

The Audit Committee conducts a formal annual review of the level and split of total fees paid to the auditors and it assesses whether auditor independence is being maintained. Following the latest annual review, noting that PwC did not carry out any non-audit engagements during 2019, the Audit Committee considered that independence, effectiveness and objectivity were not being compromised. In addition, PwC as external auditor confirms to the committee that it considers itself to be independent as defined by the Financial Reporting Council.

The Audit Committee reviews the effectiveness of the audit arrangements, the performance of the external auditors, and the performance of the internal audit function after completion of each annual cycle. The Audit Committee Chairman also liaises with the Chief Executive, Finance Director and the Director of Risk Management to assess relationships and operational working practices. The ongoing effectiveness of the internal audit process is considered by the Audit Committee by way of a formal review of the Annual Audit Plan and by review of interim reports to the Committee. The Audit Committee assesses its own effectiveness by formally assessing the results from an annual Audit Effectiveness Questionnaire that is completed by all committee members.

As a mutual organisation, the Society has a membership composed of individual customers. The Society proactively seeks the views of customers using questionnaires and requests for Member feedback. All such feedback is considered at the Conduct and Operations Committee and contributes to the Society's drive to improve outcomes for its customers. The Society continues to seek ways to increase this dialogue in the future.

Each year the Society sends details of the AGM, including the election of the Directors, to all Members eligible to vote. Members are encouraged to exercise their right to vote and are sent forms enabling them to appoint a proxy to vote for them if they cannot attend the AGM. At the AGM a presentation is given by the Society Chairman and Chief Executive covering the Society's performance and current issues. A poll is called in relation to each resolution at the AGM, enabling all proxy votes to count. A scrutineer oversees the counting of votes at the AGM. Members of the Board are present at the AGM and are available to answer questions from the membership.

Table 1: Directors' Attendance Record

Director	Full Board	Risk	Audit	Nominations	Remuneration
Robert Derry-Evans	9/9	4/4		1/1	1/1
Chris Smyth	9/9	4/4			
Fionnuala Earley	8/9		5/5		0/1
Denzil Stirk	7/9	4/4			
Angela Cha	8/9		5/5	1/1	1/1
David Smith	9/9		5/5	1/1	
Tonia Lovell	9/9				
Kevin Gray	9/9				
Tom Leach	9/9				

(Number of meeting commitments actually attended / number of meeting commitments)

On behalf of the Board

Robert Derry-Evans
Chairman
5 March 2020

Report of the Directors on Remuneration

For the year ended 31 December 2019

Unaudited information

The following Report of the Directors on Remuneration will be put to an advisory vote of the Members at the forthcoming Annual General Meeting.

The Board has due regard to the principles outlined in the UK Corporate Governance Code relating to the setting of remuneration.

Level and components of remuneration

The Society's remuneration policy is to reward Directors through salary according to their expertise, experience and contribution. The Society also carries out benchmarking against other comparable organisations.

Executive Directors' emoluments

The remuneration arrangement for Executive Directors consists of basic salary, annual bonus, pension and other benefits. The Executive Directors do not hold outside directorships that provide an income for the benefit of themselves.

The Remuneration Committee designs the Executive Directors' bonus scheme to align the interests of Executive Directors with the interests of Members and provide incentives that recognise corporate and personal performance. If a range of challenging personal and operational targets is achieved, the Executive Directors can achieve a bonus of 10% of basic salary. The Committee has the discretion to reward the Executive Directors an additional bonus element equivalent to a maximum of 5% of basic salary if collective exceptional performance is deemed to be delivered.

The Executive Directors benefit from a pension scheme whereby the Society contributes 12% of basic salary per annum to a money purchase scheme. The Society operates no final salary pension arrangements.

Kevin Gray received the benefit of a company car. Tonia Lovell and Tom Leach received the benefit of a car allowance. Kevin Gray, Tom Leach and Tonia Lovell received the benefit of health insurance. The aggregate amount of these benefits is included in Table 2.

Executive Directors' contractual terms

Each Executive Director has a service contract with the Society, terminable by either party giving six months' notice.

Non-Executive Directors

The level of fees payable to Non-Executive Directors is assessed by the Remuneration Committee using information from comparable organisations. These fees are not pensionable. Non-Executive Directors do not participate in any bonus schemes and they do not receive any other benefits. Details of Non-Executive Directors' emoluments are set out in Table 3.

The terms of appointment letter for each Non-Executive Director specifies that either party giving one month's notice may terminate the agreement.

Procedure for determining remuneration

Angela Cha, Fionnuala Earley and Robert Derry-Evans constitute the Remuneration Committee. The committee is responsible for setting Executive Director remuneration and Non-Executive Director fees. After a review of the responsibilities and work load of Non-Executive Directors, the committee approved a 3% rise in fees for 2020. In addition, in recognition of the relatively larger responsibilities of the Chairs of the Audit and Risk Committees, an additional award of £3,000 was made to those Non-Executive Directors.

The Remuneration Committee reviews Executive Directors' basic salaries on an annual basis, by reference to jobs carrying similar responsibilities in comparable organisations and local market conditions generally.

Report of the Directors on Remuneration (continued)

For the year ended 31 December 2019

Audited information

Table 2: Executive Directors' Emoluments

2019	Basic salary £	Salary in lieu of pension contributions £	Annual bonus £	Benefits £	Pension contributions £	TOTAL 2019 £
Kevin Gray	156,458	-	11,813	14,142	18,775	**201,188**
Tonia Lovell	89,583	-	6,750	6,776	10,750	**113,859**
Tom Leach	121,875	-	10,413	6,522	14,625	**153,435**
TOTAL 2019	**367,918**	**-**	**28,976**	**27,440**	**44,150**	**468,483**

2018	Basic salary £	Salary in lieu of pension contributions £	Annual bonus £	Benefits £	Pension contributions £	TOTAL 2018 £
Dick Jenkins (retired 26 April 2018)	51,125	5,391	3,565	3,028	-	**63,109**
Kevin Gray	138,636	-	11,091	12,820	16,636	**179,183**
Tonia Lovell	84,167	-	5,892	6,476	10,100	**106,635**
Tom Leach (appointed 26 April 2018)	77,994	-	9,937	4,159	9,359	**101,449**
TOTAL 2018	**351,922**	**5,391**	**30,485**	**26,483**	**36,095**	**450,376**

Table 3: Non-Executive Directors' Emoluments (comprising fees only)

	2019 £	2018 £
Robert Derry-Evans (Society Chairman)	35,999	34,337
Chris Smyth (Society Vice-Chairman)	25,713	24,526
Angela Cha	25,713	24,526
Fionnuala Earley	25,713	24,526
Denzil Stirk	25,713	24,526
David Smith	25,713	24,526
TOTAL	**164,564**	**156,967**

On behalf of the Remuneration Committee

Robert Derry-Evans
Chairman
5 March 2020

Independent auditors' report to the members of Bath Investment & Building Society

Report on the audit of the annual accounts

Opinion

In our opinion, Bath Investment & Building Society's annual accounts (the "annual accounts"):

- give a true and fair view of the state of the Society's affairs as at 31 December 2019 and of its income and expenditure and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the annual accounts, included within the Annual Report & Accounts 2019 (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2019, the income statement, the cash flow statement and statement of changes in equity for the year then ended; and the notes to the accounts, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law.
Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the annual accounts section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Society in accordance with the ethical requirements that are relevant to our audit of the annual accounts in the UK, which includes the FRC's Ethical Standard applicable to public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Society.

We have provided no non-audit services to the Society in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview

Materiality	• £384,000. • Based on 1% of Society net assets.
Key audit matters	• Impairment losses on loans and advances to customers • Effective interest rate ("EIR")

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the annual accounts. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Society, we identified that the principal risks of non-compliance with laws and regulations related to breaches of Financial Services Regulations and we considered the extent to which non-compliance might have a material effect on the annual accounts. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journals to increase interest income and loan assets or record inappropriate expenditure, and management bias in accounting estimates. Audit procedures performed by us included:

- Discussions with management and internal audit to enquire of any known instances of non compliance with Laws and Regulations and Fraud;

- Reading correspondence with the Society' regulators The Financial Conduct Authority and the Prudential Regulatory Authority in relation to compliance with Financial Services Regulations;

- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to Impairment Losses on Loans and advances to customers and Effective Interest Rate ("EIR") accounting (see the related key audit matters below); and

- Identifying and testing a sample of journal entries including, in particular, journal entries posted with unusual account combinations that would increase interest income and loan assets or record inappropriate expenditure.

There are inherent limitations in the audit procedures described above and the further removed any non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely it is that we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

We did not identify any key audit matters relating to irregularities including fraud. As in all our audits we also addressed the risk of management override of controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the annual accounts of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Impairment losses on loans and advances to customers See notes 1 and 2 to the annual accounts for the directors' disclosures of the related accounting policies, judgements and estimates and note 12 for detailed disclosures. The Society has recognised an impairment gain on loans and advances to customers ("loans") of £149,000 (2018: loss of £88,000) in the year. An individually identified provision of £517,000 (2018 : £706,000) and a collectively identified provision of £71,000 (2018:£31,000) are included in the statement of financial position at 31 December 2019. The individually identified provision covers loans and advances where the customer is experiencing a specific case of difficulty, the customer is in arrears or is subject to some form of forbearance. Such loans are included on the Watchlist. Loans that do not display an individual indicator of impairment are assessed for recoverability within the collectively assessed impairment calculation. Significant judgement needs to be applied by the directors to estimate the potential loss on loans where an impairment event has occurred and, once identified, in determining the estimate of loss on a loan. Such loss is calculated by models to discount the future cash flows expected to be received on the loan. The calculation is impacted by a number of assumptions which we focused on, including, but not limited to: • The value of the underlying security at the forecast disposal date once a loss event has occurred • The cost associated with realising the security; and • The period in which the expected cash flows will arise. The above are subject to significant estimation uncertainty and as a result there is an increased risk that impairment allowances may be materially under or over stated.	We tested the significant inputs into the models that determine the specific and collective provisions to supporting evidence from loan documentation. We tested the completeness of the Watchlist for the Specific Provision by extracting from the loan listing all loans which would require provision using the Society's impairment methodology and testing to confirm that those loans were on the Watchlist. We tested the assumptions used to determine the specific provision, including those related to security value, the cost of realising security and the period in which the cash flows are expected to arise, by :- • Agreeing a sample of property valuations to latest valuations prepared by external valuers and recalculating indexation to the period end date where appropriate • Undertaking sensitivity analysis to assess the degree of change required in those assumptions to result in material movements in the specific loans loss provision • Comparing the assumptions used to peer organisations to assess their suitability Where the directors relied on third party property valuations, we engaged our valuations experts to review the appropriateness of a sample of these valuations and to check they were in line with industry standard requirements. This included assessing the appropriateness of the surveyors used and their competencies. In order to test the collective provision we tested the estimates of probability of default and loss given default by reference to the Society's underlying historical loss data. We undertook sensitivity analysis to assess the degree of change required in those estimates to result in material movements in the collective loans loss provision. We concluded that the impairment provisions are within a reasonable range.

Independent auditors' report to the members of Bath Investment & Building Society (continued)

Key audit matter	How our audit addressed the key audit matter
Effective interest rate ("EIR") accounting See notes 1 and 2 to the annual accounts for the directors' disclosures of the related accounting policies, judgements and estimates. Loans and advances to customers ("Loans") are held at amortised cost and interest receivable is recognised using the EIR method. The recognition of interest receivable using the EIR method requires judgement by management regarding the expected life of mortgage assets. This is because accounting standards require that interest and related fee income and expense is recognised using a constant yield over the estimated life of loans. We focused our work on the appropriateness of management's assumptions in light of historic redemption experience, the mathematical accuracy of the underlying calculations and the consistency of management's calculations with accounting standards.	We understood the basis of management's process for recognising interest income using the effective interest rate method, and identified the key data inputs and assumptions within management's calculation. We tested the approach to management's interest income recognition to determine whether it is consistent with the accounting standards. This included assessing whether the fees and expenses included within management's model should be included within the effective interest rate calculation. We tested a sample of loan data included in management's calculations for the EIR balances to the loan book standing data. We tested the calculation of the EIR balances that have been accounted for. We compared the Society's estimate of expected lives of mortgages to its historical experience of redemptions. We performed sensitivity analysis over this assumption to consider how the Society's interest income recognition would change in the event of management using a different assumption. We concluded that the EIR accounting has been based on appropriate methodology and reasonable estimates.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the annual accounts as a whole, taking into account the structure of the Society, the accounting processes and controls, and the industry in which it operates.

All of the Society's activities are in the United Kingdom and all its activities are undertaken through the Society. The Society has no active subsidiaries. Its activities are the provision of mortgage finance for the purchase and improvement of residential property and savings products for private individuals and local businesses.

The accounting records of the Society are located at its principal office in Bath, our audit procedures provided us with sufficient audit evidence as a basis for our opinion on the Annual accounts.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the annual accounts as a whole.

Independent auditors' report to the members of Bath Investment & Building Society (continued)

Based on our professional judgement, we determined materiality for the annual accounts as a whole as follows:

Overall materiality	£384,000.
How we determined it	1% of net assets.
Rationale for benchmark applied	Net assets has been considered to be the most appropriate benchmark for the Society given that its strategy is not one purely of profit maximisation but instead to provide a secure place for customer investments in a mutual environment. Regulatory capital is the key benchmark for management and regulators but it is not a statutory accounts measure. Hence the materiality calculation is based on net assets as this approximates to regulatory capital given the simple funding structure of the Society.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £19,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the annual accounts is not appropriate; or
- the directors have not disclosed in the annual accounts any identified material uncertainties that may cast significant doubt about the Society'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 annual accounts are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Society's ability to continue as a going concern. For example, the terms of the United Kingdom's withdrawal from the European Union, are not clear and it is difficult to evaluate all of the potential implications on the Society's business, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the annual accounts and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the annual accounts 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 based on these responsibilities.

With respect to the Annual Business Statement and Directors' Report we also considered whether the disclosures required by the Building Societies Act 1986 have been included.

Independent auditors' report to the members of Bath Investment & Building Society (continued)

Building Society Act 1986 – Opinion on Annual Business Statement and Directors' Report

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

- the Annual Business Statement and the Directors' Report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- the information given in the Directors' Report for the year ended 31 December 2019 is consistent with the accounting records and the annual accounts; and
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

Responsibilities for the annual accounts and the audit

Responsibilities of the directors for the annual accounts

As explained more fully in the Directors' Responsibilities Statement set out on page 12, the directors are responsible for the preparation of the annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the directors are responsible for assessing the Society'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 Society or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the annual accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 annual accounts.

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

Use of this report

This report, including the opinions, has been prepared for and only for the Society's members as a body in accordance with Section 78 of the Building Societies Act 1986 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Building Societies Act 1986 exception reporting

Under the Building Societies Act 1986 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Society; or
- the annual accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents we require for our audit.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 17 October 2018 to audit the annual accounts for the year ended 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ended 31 December 2018 and 2019.

Kevin Williams (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cardiff
5 March 2020

Income statement

For the year ended 31 December 2019

	Notes	2019 £000	2018 £000
Interest receivable and similar income	3	**10,617**	10,259
Interest payable and similar charges	4	**(2,843)**	(2,722)
Net interest income		**7,774**	7,537
Fees and commissions receivable	5	**216**	168
Fees and commissions payable	6	**(333)**	(306)
Net fee and commission expense		**(117)**	(138)
Other operating income		**16**	29
Net (losses)/gains from derivatives and hedge accounting	7	**(231)**	104
Investment property - change in fair value	21	**20**	15
Net operating income		**7,462**	7,547
Administrative expenses	8	**(4,494)**	(4,047)
Depreciation, amortisation and profit on disposal of fixed asset		**(298)**	(256)
Operating expenses		**(4,792)**	(4,303)
Impairment release/(loss) on loans and advances to customers	12	**149**	(88)
Provision for other liabilities and charges	26	**(78)**	(15)
Profit on sale of subsidiary	18	**-**	71
Profit before taxation		**2,741**	3,212
Taxation expense	11	**(526)**	(586)
Profit for the year		**2,215**	2,626

The notes on pages 31 to 52 form part of these accounts.

Statement of financial position

As at 31 December 2019

	Notes	2019 £000	2018 £000
Assets			
Liquid Assets:			
Cash in hand and balances with the Bank of England		**62,463**	57,532
Loans and advances to credit institutions	13	**17,405**	16,255
		79,868	73,787
Derivative financial instruments	14	**71**	230
Loans and advances to customers:			
Loans fully secured on residential property	15	**236,065**	232,273
Other loans fully secured on land	16	**11,664**	13,435
	17	**247,729**	245,708
Intangible fixed assets	19	**269**	344
Property, plant and equipment	20	**3,121**	3,182
Investment properties	21	**420**	400
Prepayments and accrued income		**439**	403
Total Assets		**331,917**	324,054
Liabilities			
Shares	23	**224,710**	227,846
Deposits owed to other customers	24	**67,040**	58,931
Derivative financial instruments	14	**539**	128
Other liabilities	25	**601**	434
Deferred tax liability	22	**186**	194
Accruals and deferred income		**256**	229
Provisions for liabilities and charges	26	**143**	65
Total liabilities		**293,475**	287,827
Total equity attributable to Members		**38,442**	36,227
Total equity and liabilities		**331,917**	324,054

Approved by the Board of Directors on 5 March 2020 and signed on its behalf by:

Robert Derry-Evans
Chairman

Kevin Gray
Chief Executive

Tom Leach
Finance Director

The notes on pages 31 to 52 form part of these accounts.

Statement of changes in equity

For the year ended 31 December 2019

As at 31 December 2019	**Notes**	**General Reserve £000**	**Revaluation reserve £000**	**Total equity attributable to Members £000**
As at 1 January 2019		35,319	908	**36,227**
Total comprehensive income for the year		2,215	-	**2,215**
As at 31 December 2019		**37,534**	**908**	**38,442**

As at 31 December 2018	Notes	General Reserve £000	Revaluation reserve £000	Total equity attributable to Members £000
As at 1 January 2018		32,693	348	33,041
Total comprehensive income for the year		2,626	-	2,626
Revaluation of fixed assets in the year		-	691	691
Deferred tax on revaluation reserve		-	(131)	(131)
As at 31 December 2018		35,319	908	36,227

Cash flow statement

For the year ended 31 December 2019

	Notes	2019 £000	2018 £000
Profit on ordinary activities before tax		**2,741**	3,212
Adjusted for:			
Impairment loss/(release) on loans and advances to customers	12	**(149)**	88
Depreciation and amortisation		**285**	262
Change in value of investment property	21	**(20)**	(15)
Loss on disposal of fixed assets		**13**	(6)
Profit on disposal of subsidiary	18	**-**	(71)
Cash generated from operations		**2,870**	3,470
Changes in operating assets and liabilities			
(Increase)/Decrease in prepayments and accrued income		**(36)**	71
Increase in loans and advances to customers		**(1,872)**	(3,321)
Increase in accruals and deferred income		**27**	2
Net (decrease)/increase in shares		**(3,136)**	13,263
Change in derivative financial instruments	14	**570**	(138)
Net increase/(decrease) in deposits owed to other customers		**8,109**	(3,952)
Net (increase)/decrease in loans and advances to credit institutions		**(2,000)**	500
Net increase/(decrease) in other liabilities		**215**	(122)
Increase in provisions for liabilities and charges	26	**78**	6
Taxation paid		**(582)**	(685)
Net cash inflow from operating activities		**4,243**	9,094
Purchase of intangible assets and property, plant and equipment		**(162)**	(318)
Sale of property, plant and equipment		**-**	13
Net cash flows from investing activities		**(162)**	(305)
Net increase in cash and cash equivalents		**4,081**	8,789
Cash and cash equivalents at beginning of the year		**65,244**	56,455
Cash and cash equivalents at the end of the year		**69,325**	65,244
Represented by:			
Cash and balances with the Bank of England	30	**62,463**	57,532
Loans and advances to credit institutions repayable on demand	13	**6,862**	7,712
		69,325	65,244

Notes to the accounts

For the year ended 31 December 2019

1. Accounting policies

The principal accounting policies are summarised below. Other than the adoption of hedge accounting from 2019, all accounting policies have been applied consistently throughout the year and the preceding year.

General information and basis of accounting
The registered office of Bath Building Society is 15 Queen Square, Bath BA1 2HN. The nature of the Society's operations and its principal activities are set out in the Strategic Report on pages 7 to 11.

The financial statements have been prepared on the going concern basis as outlined in the Directors' Report.

The functional currency of Bath Building Society is pounds Sterling.

The financial statements have been prepared in accordance with the Building Societies (Accounts and Related Provisions) Regulations 1998.

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

Intangible assets - computer software
Website and computer software development costs, installation costs and licence fees are capitalised if it is probable that the assets created will generate future economic benefits. Where relevant costs are capitalised, they are amortised using the straight line method over their estimated useful lives which are 3 to 6 years. The amortisation periods are reviewed annually. Costs associated with establishing technical feasibility or to maintain software and existing levels of performance are expensed as they are incurred.

Property, plant and equipment
Property, plant and equipment is stated at cost or valuation, less accumulated depreciation and less any impairment. Additions and subsequent expenditure are included in an asset's carrying value or are recognised as a separate asset only when they improve the expected future economic benefits to be derived from the asset. Land is not depreciated. Depreciation on other assets is provided using the straight line method to allocate costs less residual values over estimated useful lives, as follows:

Freehold premises	1% per annum
Leasehold premises	term of lease
Fixtures and fittings	10% - 25% per annum
Computer equipment	25% per annum
Vehicles	25% per annum

All repairs and maintenance costs are charged to the income statement in the period in which they are incurred.

Investment properties
Investment properties are held for long-term rental yields and capital appreciation. Investment properties for which fair values can be measured reliably without undue cost or effort on an ongoing basis are measured at fair value annually with any changes being recognised in the income statement relating to the period in which they arise. Depreciation is not charged on investment properties.

Revaluation of properties
Individual freehold properties that are used in the Society's business are revalued to fair value every 5 years with an interim revaluation carried out in the third year after the full revaluation. The surplus or deficit on revaluation is transferred to the revaluation reserve, except where a deficit is in excess of any previously recognised surplus over depreciated cost relating to the same property, or the reversal of such a deficit, when the amount is charged (or credited) to the income statement.

Measurement of financial instruments
The Society has adopted in full Sections 11 and 12 of FRS 102 with regards to accounting for financial instruments. These sections classify financial instruments as being either 'basic financial instruments' or 'other financial instruments'.

Basic financial instruments
This category includes non-derivative financial assets and liabilities. It applies to cash in hand and balances with the Bank of England, loans and advances to credit institutions, debt securities issued by other borrowers, loans and advances to customers, shares, and deposits owed to other customers. Basic financial instruments are initially recognised at transaction price, including transaction costs. Assets and liabilities are subsequently measured at amortised cost which is the present value of a financial instrument's future cash flows discounted at its effective interest rate. The interest income or expense in a period equals the carrying amount at the beginning of a period multiplied by the effective interest rate.

Financial assets in this category that are measured at cost or amortised cost are assessed annually for evidence of impairment. Impairments are determined using an incurred loss model. For assets measured at amortised cost, an impairment loss is calculated as the difference between the carrying amount and the present value of estimated cash flows discounted at the original effective interest rate. For assets measured at cost, impairment is calculated as the difference between the carrying amount and the best estimate of the amount that would be received if the asset was sold at the reporting date.

Where the qualifying criteria of FRS102 are satisfied, the Society applies hedge accounting to those mortgage assets in economic hedging relationships with derivative financial instruments, as described in the 'Hedge accounting' section on the next page.

Other financial instruments
This category covers derivative financial assets and liabilities. The Society utilises derivative financial instruments to reduce interest rate risk arising from offering fixed rate mortgage products. The Society uses derivative financial instruments for economic hedging purposes only. Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into. They are subsequently

1. Accounting policies (continued)

re-measured at fair value and are carried as assets when their fair values are positive and liabilities when their fair values are negative. Changes in values are reflected in the Income Statement under 'Net gains/losses from derivatives and hedge accounting' in the period in which the movement occurs. The initial transaction costs associated with derivatives are taken directly to the Income Statement. Fair value is determined in the manner described in Note 30.

Hedge accounting
In order to manage the income volatility associated with the different accounting valuation methodologies applied to fixed rate mortgage assets and derivative financial instruments, where the eligibility criteria for hedge accounting set out in FRS102 are met, the Society applies fair value hedge accounting. The Society adopted fair value hedge accounting from January 2019.

The Society undertakes individual (known as 'micro') fair value hedge accounting, with interest rate risk being the hedged risk. The Society's fair value hedge relationships involve the designation of a number of fixed rate mortgages (the hedged items) into hedge relationships with a single interest rate swap (the hedging instrument), matching the principal amount of the mortgage loans at the point of advance with the notional amount of the interest rate swap.

The change in fair value of the hedged item that is attributable to the hedged risk is accounted for as an adjustment to the carrying value of loans and advances to customers in the Statement of Financial Position, and is recorded in the Income Statement under 'Net gains/losses from derivatives and hedge accounting' in the period in which the movement occurs.

Impairment losses on loans and advances to customers
The Society assesses at the date of each statement of financial position whether, as a result of one or more events that occurred after initial recognition, there is objective evidence that loans and advances to customers are impaired. Evidence of impairment may include indication that borrowers are experiencing significant financial difficulties, default or delinquency in interest or principal payments and loans being restructured to reduce the burden on borrowers.

The Society considers a loan to be in default if it is six or more months in arrears or if a trigger event has occurred that results in a very high likelihood of a loan moving into this arrears position. An individual impairment test is undertaken for all loans that are categorised as being in default. The impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The resultant allowances for impairment have been deducted from the appropriate asset values in the Statement of Financial Position.

Loans that are not in default are considered for collective impairment. An estimate of the probability of loans moving into default and the likelihood of losses crystallising given default is calculated each year-end. For loans that are not past due, a historical assessment of loans moving into arrears is considered over an emergence period of 12 months in order to capture loss events that have been incurred at balance sheet date but where arrears have not yet been reported.

Taxation
The tax expense represents the sum of current and deferred tax. Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences. In contrast, deferred tax assets are only recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Both current and deferred tax balances are calculated using tax rates applicable at the date of the Statement of Financial Position.

Pension costs
The Society operates an externally managed, defined contribution personal pension scheme in respect of staff, under which the costs of the Society's contributions are charged to the income and expenditure account in the year in which the pensionable salary is earned.

Leasing
All rental payments under operating lease contracts are charged to the income statement on a straight-line basis over the period of the lease.

Interest receivable and similar income
The Society uses the Effective Interest Rate (EIR) method to recognise interest receivable from all basic financial instruments including cash in hand and balances with the Bank of England, on loans and advances to credit institutions, on debt securities issued by other borrowers, and on loans and advances to customers. The net expense on derivative financial instruments is recognised on an accruals basis.

Interest payable and similar charges
The Society uses the EIR method to recognise interest payable from all basic financial instruments including shares and deposits owed to other customers.

Fees and commissions receivable
Fees receivable from the Society's mortgage business that are integral to the yield on mortgage loans are included within interest receivable and are recognised using the asset's EIR at inception. Other mortgage fees receivable are recognised within fees and commissions receivable in the same period as their related expenses, or otherwise they are recognised on a receipts basis. Commissions received by the Society relating to a transferred back book of homes and contents insurance policies are recognised on a receipts basis.

Fees and commissions payable
Mortgage fees payable that are integral to the yield on mortgage loans are included within the EIR calculation for revenue recognition. Other mortgage fees payable are recognised within fees and commissions payable in the same period as any related fee income. Commissions paid to investment introducers and branch agents are not considered to form part of the effective interest cost of shares and deposits and are therefore included within fees and commissions payable on an accruals basis. Other fees and commissions payable are recognised on an accruals basis.

1. Accounting policies (continued)

Other operating income
Other operating income comprises rent receivable from the letting of investment property. Income is included in the accounts on an accruals basis.

2. Judgements in applying accounting policies and critical accounting estimates

The Society has to make judgements in applying its accounting policies which affect the amounts recognised in the financial statements. In addition, estimates and assumptions are made that could affect the reported amounts of assets and liabilities within the following financial year.

The most significant areas where judgements in applying accounting policies are made are as follows:

Impairment losses on loans and advances to customers
In accordance with the accounting policy on the impairment of loans and advances to customers that are carried at amortised cost, a loss is measured as the difference between an asset's carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate.

Key estimates included in the measurement of the collective allowance for impairment are the probability of any account going into default and the likely scale of losses in the event of forced sales or write offs. These estimates are based on observed historical data and are updated as management considers appropriate to reflect current and future conditions. The accuracy of the collective allowance for impairment would therefore be affected by unexpected changes in these estimates. The collective allowance for impairment includes an allowance for loss trigger events that have occurred at the date of the statement of financial position but where arrears have not yet been reported. A loss emergence period of 12 months has been used in the calculation of this Incurred But Not Reported (IBNR) element of the collective allowance for impairment. If the loss emergence period was increased to 24 months, it is estimated that there would be no impact on the IBNR element of the collective allowance for impairment.

Estimates of forced sale discounts and disposal costs are used in the calculation of individual allowances for impairment. Any future increase in either of these estimates will result in higher individual allowances for impairment. Estimates of the market value of properties associated with defaulting loans are derived from either historic or current external valuations. The actual proceeds that will be received from property disposals is inherently uncertain. If disposal costs were to increase by 0.5%, it is estimated that the increase in stated individual impairments would be £2,000.

Expected future cash flows from defaulting loans are discounted over a period of 12 months. This takes account of the time to sell a property and the associated time value of money. If the discount rate applied were to increase by 0.5%, the increase in stated individual impairments would be £15,000.

Fair value of derivative financial instruments
Derivative financial instruments are stated at fair value.
Derivative financial instruments are valued by discounted cash flow models using yield curves that are based on observable market data. Changes in the assumptions used in this model could affect the reported fair value of derivative financial instruments. For example, a 50 basis point parallel shift upward in both the SONIA and LIBOR yield curves would increase the fair value of the Society's derivative financial instruments by £0.9m.

Fair value of hedged items
Where the criteria specified in FRS102 are satisfied, the Society applies fair value hedge accounting to hedged mortgage assets so that changes in the fair value of the underlying asset that are attributable to the hedged risk are recorded in the Income statement to offset the fair value movement of the related derivative. Hedged mortgage assets are valued by discounted cash flow models using yield curves that are based on observable market data. Changes in the assumptions used in this model could affect the reported value of these assets. For example, a 50 basis point parallel shift upward in both the SONIA and LIBOR yield curves would decrease the carrying value of the Society's hedged mortgage assets by £1.1m.

Effective interest rate (EIR)
The Society uses the EIR method to recognise interest and net fee income from mortgage contracts over the estimated behavioural lives of mortgage products. Product behavioural lives are calculated from historic data. The EIR method requires upfront mortgage fees to be spread over product behavioural lives and for income to be accrued over product behavioural lives to cover future cash receipts that are expected to materialise from fees associated with future mortgage redemptions. A decrease of 1 year in the estimates of product behavioural lives applying to 2019 would have increased the value of loans and advances secured on residential property in the Statement of Financial Position by £6,997.

The impact of a 10% increase in the anticipated level of future early redemption charges from mortgage products would result in an increase in the value of loans and advances secured on residential property of £4,428 in the Statement of Financial Position.

3. Interest receivable and similar income

	2019 £000	2018 £000
On loans fully secured on residential property	**9,522**	9,250
On other loans fully secured on land	**620**	739
On other liquid assets:		
Interest and similar income	**550**	396
Net expense on derivative financial instruments	**(75)**	(126)
	10,617	10,259

4. Interest payable and similar charges

	2019 £000	2018 £000
On shares held by individuals	**2,409**	2,228
On deposits owed to other customers	**434**	494
	2,843	2,722

5. Fees and commissions receivable

	2019 £000	2018 £000
Mortgage related fees	**207**	154
Other fees and commissions	**9**	14
	216	168

6. Fees and commissions payable

	2019 £000	2018 £000
Mortgage related fees	**149**	120
Commission to investment agents and introducers	**182**	181
Other fees and commissions	**2**	5
	333	306

7. Net (losses)/gains from derivatives and hedge accounting

	2019 £000	2018 £000
(Losses)/Gains on derivatives not in hedging relationship	**(69)**	104
(Losses) on derivatives in hedging relationships	**(485)**	-
(Losses)/Gains on derivatives	**(554)**	104
Gains on hedged mortgage assets	**323**	-
	(231)	104

8. Administrative expenses

	2019 £000	2018 £000
Wages and salaries	**2,147**	2,001
Social security costs	**226**	219
Other pension costs	**119**	110
	2,492	2,330
Other administrative expenses:	**2,002**	1,717
Total administrative expenses	**4,494**	4,047

Other administrative expenses include:

	2019	2018
Auditors' remuneration:		
For audit of the Society's annual accounts (excl VAT)	**62**	60
Total audit fees	**62**	60
Assurance services other than the auditing of the Society's accounts	**-**	-
Total auditors' remuneration	**62**	60
Operating lease charges:		
Land and buildings	**86**	86
Office equipment	**-**	7

9. Employees

The average monthly number of staff employed during the year was:	2019 Full-time	2018 Full-time	2019 Part-time	2018 Part-time
Head Office	**43**	42	**6**	5
Branches	**4**	4	**4**	4
Total Society	**47**	46	**10**	9

10. Directors' emoluments and transactions with Directors

	2019 **£**	2018 £
a) Remuneration of Directors		
For services as Non-Executive Directors	**164,561**	156,967
For Executive services	**468,483**	450,376
	633,044	607,343

Full details are given in the Report of the Directors on Remuneration on pages 18 and 19.

b) Transactions with Directors and connected persons

Mortgage Loans
At 31 December 2019 there was one outstanding mortgage loan to a connected entity of a Director totalling £40,000 (2018: none).

The register, required to be maintained under Section 68 of the Building Societies Act 1986 detailing all loans, transactions and arrangements with Directors and their connected persons, is held at the Society's Head Office. It is available for inspection, by Members, in normal office hours by arrangement with the Society's Secretary, during the period of 15 days prior to the Annual General Meeting and at the Annual General Meeting.

Related Party Transactions
There were no transactions with Directors that constituted related party transactions. The key management of the Society is considered to be the Directors, and therefore no additional disclosures are required.

11. Taxation

	2019 **£000**	2018 £000
Current Tax		
Corporation tax at 19% (2018: 19%)	**534**	586
Deferred Tax:		
Current year	**(9)**	15
Effect of rate changes	**1**	(15)
Tax on profit on ordinary activities	**526**	586

	2019 **£000**	2018 £000
Factors affecting tax charge for the year		
Profit before tax	**2,741**	3,212
Profit multiplied by effective rate of corporation tax of 19% (2018: 19%)	**521**	610
Effects of:		
Expenses not deductible for tax purposes	**4**	5
Income not taxable	**-**	(14)
Effect of rate changes	**1**	(15)
Total tax charge for the year	**526**	586

12. Impairment losses on loans and advances to customers

2019	**Loans fully secured on residential property £000**	**Loans fully secured on land £000**	**Total £000**
At 1 January 2019:			
Collective impairment	26	5	31
Individual impairment	706	-	706
	732	5	737
Income and expenditure account charge/(credit) for the year:			
Collective impairment	31	9	40
Individual impairment	(189)	-	(189)
	(158)	9	(149)
Amount utilised during the year:			
Collective impairment	-	-	-
Individual impairment	-	-	-
	-	-	-
At 31 December 2019:			
Collective impairment	57	14	71
Individual impairment	517	-	517
	574	**14**	**588**

In 2019, £189,000 was released against two loans, taking the individual impairment for these loans to £517,000 (2018: £706,000). One loan was reassessed based on changes to property valuations and this resulted in the release of £17,000 of individual impairment allowances. The other loan, which continues to be in default, was reassessed based on the likely level of recovery against the loan, and this resulted in the release of £172,000 of individual impairment allowances.

2018	Loans fully secured on residential property £000	Loans fully secured on land £000	Total £000
At 1 January 2018:			
Collective impairment	75	-	75
Individual impairment	820	242	1,062
	895	242	1,137
Income and expenditure account charge/(credit) for the year:			
Collective impairment	(49)	5	(44)
Individual impairment	128	76	204
	79	81	160
Amount utilised during the year:			
Collective impairment	-	-	-
Individual impairment	(242)	(318)	(560)
	(242)	(318)	(560)
At 31 December 2018:			
Collective impairment	26	5	31
Individual impairment	706	-	706
	732	5	737

In 2018, the Society recovered £72,000 in respect of loans which had been written off. This was combined with the 2018 charge of £160,000 shown above to give a charge to the 2018 income statement of £88,000.

13. Loans and advances to credit institutions

Repayable from the date of the statement of financial position in the ordinary course of business:

	2019 £000	2018 £000
Accrued interest	**43**	43
Repayable on demand	**6,462**	7,872
Repayable within three months	**4,000**	5,000
Repayable in more than three months and less than one year	**6,500**	3,500
Credit Support Annex (CSA) liabilities	**400**	(160)
	17,405	16,255

The International Swaps and Derivatives Association (ISDA) Master Agreement is the Society's preferred agreement for entering into derivative activity. For certain counterparties a Credit Support Annex (CSA) has been executed in conjunction with the ISDA Master Agreement. Under a CSA, cash collateral is passed between counterparties to mitigate the market contingent counterparty risk inherent in the outstanding positions. As at 31 December 2019, £400,000 had been placed (2018: £160,000 received).

14. Derivative financial instruments

Interest rate swaps are used by the Society for hedging interest rate risk that is associated with fixed rate products (mortgages and savings). These are commitments to exchange one set of cash flows for another. No exchange of principal takes place.

	Notional amount		**Fair value**	
	2019 £000	2018 £000	**2019 £000**	2018 £000
Derivative assets:				
Interest rate swaps	**25,174**	49,960	**71**	230
Total recognised derivative assets	**25,174**	49,960	**71**	230
Derivative liabilities:				
Interest rate swaps	**56,191**	22,485	**(539)**	(128)
Total recognised derivative liabilities	**56,191**	22,485	**(539)**	(128)

In 2019, there was an overall net liability from derivative financial instruments of £468,000 (2018 net asset of £102,000).

15. Loans fully secured on residential property

	2019 £000	2018 £000
Gross balances	**236,212**	232,919
Allowance for impairment	**(574)**	(732)
Unamortised loan origination fees	**104**	86
Fair value hedge accounting adjustment	**323**	-
	236,065	232,273

16. Other loans fully secured on land

	2019 £000	2018 £000
Gross balances	**11,678**	13,440
Allowance for impairment	**(14)**	(5)
	11,664	13,435

17. Loans and advances to customers

The remaining contractual maturity of loans and advances secured on residential property and other loans fully secured on land from the date of the statement of financial position is as follows:

	2019 £000	2018 £000
On call and at short notice	**1,508**	742
In not more than three months	**1,175**	1,150
In more than three months but not more than one year	**4,446**	5,598
In more than one year but not more than five years	**31,676**	29,523
In more than five years	**209,085**	209,346
	247,890	246,359
Allowances for impairment (see note 12)	**(588)**	(737)
Unamortised loan origination fees	**104**	86
Fair value hedge accounting adjustment	**323**	-
	247,729	245,708

The above table may not reflect actual experience of repayments since many mortgage loans are repaid early.

The Society participates in the Bank of England's Sterling Monetary Framework. The Society places a proportion of its total portfolio of mortgage loans with the bank to be held as collateral against funds drawn from the bank's liquidity arrangements. The portfolio of loans prepositioned with the bank are not currently encumbered.

18. Investment in subsidiary undertakings

Investment in Bath Property Letting Limited
Bath Property Letting Limited was sold to Leaders Romans in November 2017. The sale agreement contained a provision for future consideration to pass to the Society on the anniversary of the disposal, the scale of that consideration being dependent on the size of the portfolio of landlords remaining with the purchaser. In 2018 the Society recognised a final payment of £70,647.

19. Intangible fixed assets

	Computer software £000
At cost	
At 1 January 2019	1,595
Additions	78
Disposals	(50)
At 31 December 2019	1,623
Accumulated amortisation	
At 1 January 2019	1,251
Charge	150
Disposals	(47)
At 31 December 2019	1,354
Net book value	
At 31 December 2019	**269**
At 31 December 2018	344

Computer software includes website and software development costs, implementation costs and licences.

20. Property, plant and equipment

	Land and buildings			
	Freehold premises £000	Leasehold premises (short) £000	Equipment, fixtures and fittings and vehicles £000	Total £000
At cost or valuation				
At 1 January 2019	2,950	64	928	3,942
Additions	-	-	84	84
Disposals	-	-	(125)	(125)
At 31 December 2019	2,950	64	887	3,901
Accumulated depreciation				
At 1 January 2019	-	64	696	760
Charge	20	-	115	135
Disposals	-	-	(115)	(115)
At 31 December 2019	20	64	696	780
Net book value				
At 31 December 2019	**2,930**	**-**	**191**	**3,121**
At 31 December 2018	2,950	-	232	3,182

An external revaluation of all the Society's freehold land and buildings was last conducted as at 31 December 2018 by Derek Walker Chartered Surveyors. The valuation of properties used in the Society's business was prepared using a fair value basis. The Society conducts a full external revaluation every five years with an interim valuation conducted three years after each full revaluation.

21. Investment properties

	2019 **£000**	2018 £000
At 1 January	**400**	385
Fair value adjustment	**20**	15
At 31 December	**420**	400

The investment properties consist of surplus ground floor commercial premises that are no longer used in the Society's business plus associated first floor residential flats. All of the investment properties are located in the City of Bath. Estimates of market values are obtained annually from Derek Walker, Chartered Surveyors, Bath.

The total future minimum lease payments receivable under non-cancellable operating leases relating to investment properties were as set out below:

	2019 **£000**	2018 £000
Within 1 year	**10**	22
Between 1 and 5 years	**10**	10
At 31 December	**20**	32

22. Deferred taxation

	2019 **£000**	2018 £000
Deferred tax liability at 1 January	**(194)**	(63)
Adjustments in respect of prior years	**-**	1
Charge to profit and loss account	**9**	(16)
Charge to revaluation reserve	**-**	(131)
Effect of rate changes	**(1)**	15
Deferred tax liability at 31 December	**(186)**	(194)
The elements of deferred taxation are as follows:		
Fixed asset timing differences	**(273)**	84
Short-term timing differences	**87**	(278)
Deferred tax liability	**(186)**	(194)

A reduction in the UK corporation tax rate from 20% to 19% (effective 1 April 2017) was substantively enacted on 26 October 2015. An additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Society's future current tax charge accordingly.

23. Shares

All shares are held by individuals. In the ordinary course of business the repayment of share balances from the date of the statement of financial position is as follows:

	2019 £000	2018 £000
Accrued interest	**373**	316
Repayable on demand	**211,091**	205,035
In not more than 3 months	**7,653**	6,125
In more than 3 months but not more than 1 year	**5,593**	16,370
	224,710	227,846

24. Deposits owed to other customers

In the normal course of business deposits owed to other customers are repayable from the date of the statement of financial position as follows:

	2019 £000	2018 £000
Accrued interest	**4**	1
Repayable on demand	**58,299**	46,722
In not more than 3 months	**4,141**	3,091
In more than 3 months but not more than 1 year	**4,596**	9,117
	67,040	58,931

25. Other liabilities

	2019 £000	2018 £000
Amounts falling due within 1 year:		
Corporation tax	**233**	281
Other taxation and social security	**76**	57
Other creditors	**292**	96
	601	434

26. Provisions for liabilities

	Provision for dilapidations £000	Provision for Financial Services Compensation Scheme levy £000	Total £000
At 1 January 2019	60	5	65
Charge for the year	83	(5)	78
At 31 December 2019	**143**	**-**	**143**

The £83,000 charge for dilapidations relates to the Society's leased business premises at Wood Street, Bath. This provision will likely be utilised if the Society exits these premises. See Note 29 on page 43 re the provision for liabilities to the Financial Services Compensation Scheme.

27. Commitments

a) At 31 December 2019 the total of future minimum lease payments under non-cancellable operating leases were as set out below:

	2019 Property £000	2018 Property £000
Society commitments:		
Within 1 year	**86**	86
Between 1 and 5 years	**344**	344
After 5 years	**504**	590
	934	1,020

As at 31 December 2019 the Society had approximately 11 years of commitments remaining relating to a full repairing lease over its Branch premises at 3 Wood Street, Bath.

b) The Society offers a mortgage product which allows borrowers to receive the contractual advance over a period of time. The amounts in respect of completed advances which have not yet been received by borrowers as at 31 December 2019 are £3,000,000 (2018: £3,698,000).

28. Pension schemes

During the year ended 31 December 2019 the Society operated a defined contribution personal pension scheme in respect of staff, and the charge for the year was £119,000 (2018: £110,000). As at 31 December 2019 there were outstanding contributions from the Society of £10,068 (2018: £9,351).

29. Contingent liabilities

Financial Services Compensation Scheme

The Financial Services Compensation Scheme has the right to require payments in respect of levies in each fiscal year, based on the Society's share of protected Scheme deposits at the start of each calendar year. The Society's potential liability to the Scheme consists of two elements: a management levy and a charge based on the costs of failures of other deposit taking institutions. No provision has been made in the current year (2018: £4,670) as the Society does not anticipate a levy being raised in respect of 2019 based on the latest available information published by the Financial Services Compensation Scheme. There remains uncertainty as to whether the Society will have any future liability to the Scheme if projected capital shortfalls should increase and what the scale of those liabilities would likely be.

30. Financial instruments

a) Categories of financial instruments

Financial assets and liabilities are measured on an ongoing basis either at fair value or at amortised cost.

The accounting policies note describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following tables analyse the financial assets and liabilities in the statement of financial position by the class of financial instrument to which they are assigned and by the measurement basis.

As at 31 December 2019	At amortised cost £000	Fair value through profit and loss £000	Total £000
Society assets			
Cash in hand and balances with the Bank of England	62,463	-	62,463
Loans and advances to credit institutions	17,405	-	17,405
Derivative financial instruments	-	71	71
Loans and advances to customers	247,729	-	247,729
Total financial assets	**327,597**	**71**	**327,668**
Total non-financial assets			4,249
Total Society assets			**331,917**
Society liabilities			
Shares	224,710	-	224,710
Deposits owed to other customers	67,040	-	67,040
Derivative financial instruments	-	539	539
Total financial liabilities	**291,750**	**539**	**292,289**
Total non-financial liabilities			1,186
General reserve and other reserves			38,442
Total Society reserves and liabilities			**331,917**

As at 31 December 2018	At amortised cost £000	Fair value through profit and loss £000	Total £000
Society assets			
Cash in hand and balances with the Bank of England	57,532	-	57,532
Loans and advances to credit institutions	16,255	-	16,255
Derivative financial instruments	-	230	230
Loans and advances to customers	245,708	-	245,708
Total financial assets	**319,495**	**230**	**319,725**
Total non-financial assets			4,329
Total Society assets			**324,054**
Society liabilities			
Shares	227,846	-	227,846
Deposits owed to other customers	58,931	-	58,931
Derivative financial instruments	-	128	128
Total financial liabilities	**286,777**	**128**	**286,905**
Total non-financial liabilities			922
General reserve and other reserves			36,227
Total Society reserves and liabilities			**324,054**

30. Financial instruments (continued)

b) Carrying values and fair values

The table below compares carrying values and fair values of the Society's financial instruments by category. It is accompanied by an explanation of the methods used to determine fair value.

	Note	2019 Carrying value £000	2019 Fair value £000	2018 Carrying value £000	2018 Fair value £000
Society assets					
Cash in hand and balances with the Bank of England	i.	**62,463**	**62,463**	57,532	57,532
Loans and advances to credit institutions – excluding CSA payments	i.	**17,005**	**17,005**	16,415	16,415
CSA payments		**400**	**400**	(160)	(160)
Derivative financial instruments - interest rate swaps	ii.	**71**	**71**	230	230
Loans and advances to customers	iii.	**247,729**	**250,074**	245,708	247,104
		327,668	**330,013**	319,725	321,121
Society liabilities					
Shares	iv.	**224,710**	**224,710**	227,846	227,846
Deposits owed to other customers	iv.	**67,040**	**67,040**	58,931	58,931
Derivative financial instruments - interest rate swaps	ii.	**539**	**539**	128	128
		292,289	**292,289**	286,905	286,905

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The following methods and assumptions have been applied in determining fair value:

i) The carrying amount of cash in hand, balances with the Bank of England and loans and advances to credit institutions with a maturity of under 12 months is assumed to equate to their fair value.

ii) All derivatives are held for economic hedging purposes. The fair value of interest rate swaps is calculated by utilising discounted cash flow valuation models.

iii) The fair value of loans and advances to customers is assumed to approximate to the discounted amount of future cash flows that are expected to be received after taking account of provisions for expected future impairments, expected levels of early repayment and discounting at current market rates.

iv) The fair value of customer share and deposit accounts with maturities of under 12 months are assumed to equate to the amount payable at the date of the statement of financial position.

c) Credit risk on loans and advances to customers

The classes of financial instruments to which the Society is most exposed to credit risk are loans and advances to customers, loans and advances to credit institutions, debt securities and financial derivatives. Credit risk relating to retail mortgages and commercial mortgages is described in this section. Credit risk relating to treasury financial instruments is described in section d).

Credit Risk Management
Experienced credit and risk functions operate within the Society and are driven by both the recognised need to manage the potential and actual risk but also by the need to continually develop new processes to ensure sound decisions are made in the future. In this way, any variations in risk from market, economic or competitive changes are identified and the appropriate controls are developed and put in place.

30. Financial instruments (continued)

c) Credit risk on loans and advances to customers (continued)

Comprehensive management information on movements and performance within the various loan portfolios ensures that credit risk is effectively controlled, and any adverse trends are identified before they impact on performance. Society performance is also measured against the industry where appropriate to identify where debt default levels are out of line with that of the industry average. The management information is distributed across the Society and monitored within tight boundaries at Board and Board subcommittees.

The exposure to retail credit risk relating to loans and advances to customers comprises the following:

	2019 £000	**2019 %**	2018 £000	2018 %
Retail mortgages	**225,883**	**91.1**	225,147	91.4
Commercial mortgages	**22,007**	**8.9**	21,212	8.6
Total gross exposure (contractual amounts)	**247,890**	**100.0**	246,359	100.0
Impairment, fair value and EIR adjustments	**(161)**		(651)	
Total net exposure	**247,729**		245,708	

i) Retail mortgages

Retail mortgages are defined by the Society as being loans made to private individuals that are secured against properties that are not used for commercial purposes. The retail mortgage balance shown above of £225,883,000 (2018: £225,147,000) consists of loans fully secured on residential property (FSRP).

The Society is firmly committed to the management of credit risk at all stages of the lending cycle. The Society closely monitors customer loan affordability and LTV multiples at the application stage. It employs appropriate underwriting and fraud detection techniques to minimise losses once loans have been approved, and it also takes a proactive approach to the control of bad and doubtful debt which is managed by individuals with experience and skills appropriate to the collections and recovery process.

Risk concentrations: retail mortgage balances

The Society provides retail mortgages secured on residential property across England and Wales and the Society, as a local building society, has a geographical concentration in the South West of England. As at 31 December 2019 approximately 41% (2018: 41%) of first charge retail loans by account and 39% (2018: 39%) by value were concentrated in the South West.

Loan to value distribution: retail mortgage balances

Loan to value (LTV) is one of the main factors used to determine the credit quality of retail loans secured on residential property. Index linked LTV banding is shown below:

	2019 %	2018 %
Less than 70%	**62.6**	64.0
More than 70% but less than 80%	**19.7**	18.4
More than 80% but less than 90%	**12.2**	8.8
More than 90% but less than 100%	**5.1**	8.3
More than 100%	**0.4**	0.5
	100.0	100.0

30. Financial instruments (continued)

c) Credit risk on loans and advances to customers (continued)

i) Retail mortgages (continued)

The overall indexed loan-to-value of the retail mortgage portfolio is 49.6% (2018: 49.1%). In general the lower the loan-to-value percentage the greater the borrower's equity within the property and the lower the losses expected to be realised in the event of default or repossession.

Payment due status of retail mortgage balances

The table below provides further information on the Society's loans and advances to customers secured by way of retail mortgages on residential property. The balances exclude fair value adjustments and impairment allowances.

	2019 £000	**2019 %**	2018 £000	2018 %
Current	**220,011**	**97.4**	220,102	97.7
Past due up to 3 months	**4,038**	**1.8**	3,319	1.5
Past due 3 to 6 months	**641**	**0.3**	602	0.3
Past due 6 to 12 months	**1,062**	**0.5**	1,099	0.5
Past due over 12 months	**131**	**-**	25	0.0
	225,883	**100.0**	225,147	100.0

Fair value of collateral held for retail mortgages

The Society holds collateral against loans and advances to retail customers in the form of mortgage interests over property. Collateral values are updated at the date of each statement of financial position based on data from the quarterly Nationwide price index.

As at 31 December 2019 the total collateral held against retail lending secured against residential property was estimated to be £455.2m (2018: £458.7m). Any collateral surplus on the sale of repossessed properties, after a deduction for costs incurred in relation to the sale, is returned to the borrower.

Allowances for impairment are held against loans and advances to customers in line with the accounting policy which is outlined in Note 1. Allowances for impairment of retail mortgage loans are as follows:

	2019 £000	2018 £000
Individual impairment	**517**	706
Collective impairment	**57**	26
	574	732

Forbearance strategies on retail loans

The Society uses forbearance techniques to help some retail borrowers through periods where their finances have become stressed and where the servicing of their normal mortgage commitments has become difficult. Definitions of forbearance are consistent with the former FSA's paper entitled 'Forbearance and Impairment Provisions - Mortgages' issued in October 2011.

The arrears management section of the Society's Mortgage Department maintains forbearance information which is reported regularly to the Society's Credit Committee. In 2019, 3 (2018: 4) retail accounts with balances totalling £1,069,347 (2018: £860,405) in value were granted forbearance concessions. As at 31 December 2019, 4 (2018: 6) retail accounts with balances totalling £1,616,480 (2018: £1,825,229) remained on special payment arrangements plus a further 1 (2018: 1) retail account with a balance totalling £25,154 (2018: £25,069) remained on concessionary interest only terms following the occurrence of impairment alerts. The Society takes full consideration of the impact on its arrears position from using these forbearance techniques and the potential for losses on these retail accounts is assessed and considered in setting the level of allowances for impairment held against the retail mortgage portfolio.

30. Financial instruments (continued)

c) Credit risk on loans and advances to customers (continued)

ii) Commercial mortgages

Commercial mortgages are defined by the Society as being loans made to either limited companies or to private individuals that are secured against properties that are primarily used for the purposes of running businesses. The commercial mortgage balance shown on page 46 of £22,007,000 (2018: £21,212,000) consists of total loans fully secured on land (FSOL) of £11,678,000 (2018: £13,140,000) plus £10,329,000 (2018: £8,072,000) of loans fully secured on residential property (FSRP) made to limited companies.

Commercial lending activity is split between lending to businesses investing in residential property and lending to businesses investing in commercial property.

Risk concentrations: commercial lending

The Society's commercial loan portfolio on a gross basis comprises the following:

	2019 £000	**2019 %**	2018 £000	2018 %
Loans secured on residential property	**10,329**	**46.9**	8,072	38.1
Loans secured on commercial property	**11,678**	**53.1**	13,140	61.9
	22,007	**100.0**	21,212	100.0

Loans secured on commercial property are well diversified by industry type and counterparty. An analysis of commercial property loans by industry is provided below:

	2019 £000	**2019 %**	2018 £000	2018 %
Office	**1,949**	**16.7**	1,989	15.1
Retail	**2,052**	**17.6**	2,135	16.3
Industrial	**1,329**	**11.4**	1,422	10.8
Leisure	**3,607**	**30.9**	3,775	28.7
Land	**645**	**5.5**	645	4.9
Other	**2,096**	**17.9**	3,174	24.2
	11,678	**100.0**	13,140	100.0

The Society provides loans secured on commercial property across England and Wales and the Society, as a local building society, has a geographic concentration in the South West. An analysis of loans secured on commercial property by geographic location is provided below:

	2019 £000	**2019 %**	2018 £000	2018 %
South West	**13,872**	**63.0**	14,527	68.5
South East	**1,490**	**6.8**	888	4.2
Greater London	**3,547**	**16.1**	2,701	12.7
Midlands	**1,227**	**5.6**	1,229	5.8
Wales	**201**	**0.9**	201	0.9
North	**1,670**	**7.6**	1,666	7.9
	22,007	**100.0**	21,212	100.0

30. Financial instruments (continued)

c) Credit risk on loans and advances to customers (continued)

ii) Commercial mortgages (continued)

Loan-to-value distribution: commercial lending

Estimates of current property values are used to calculate loan-to-values (LTVs). These are derived from recent external valuations or are estimated by applying quarterly Nationwide price indices to previously recorded external valuations. The overall loan-to-value of the Society's commercial portfolio is 46.3% (2018: 44.6%). Index linked LTV banding is shown below:

	2019 %	2018 %
Less than 70%	**94.4**	93.8
More than 70% but less than 80%	**5.6**	6.2
	100.0	100.0

As at 31 December 2019, the largest single commercial loan was £1.37m (2018: £1.37m) or 6.22% of gross balances. The largest combined exposure to a single commercial counterparty, who has multiple mortgages on different properties, was £1.09m (2018: £1.09m) or 4.95% of gross balances.

Payment due status: commercial lending

The table below provides further information on the Society's commercial loans and advances by payment due status as at 31 December 2019. The balances exclude fair value adjustments and impairment allowances.

	2019 £000	**2019 %**	2018 £000	2018 %
Current	**21,008**	**95.4**	20,718	97.7
Past due up to 3 months	**501**	**2.3**	-	-
Past due 3 to 6 months	**498**	**2.3**	494	2.3
	22,007	**100.0**	21,212	100.0

Fair value of collateral held: commercial lending

The Society holds collateral against loans and advances to commercial customers in the form of mortgage interests over property. The current value of collateral is estimated based on the latest professional valuation adjusted for subsequent property price movements using the quarterly Nationwide price index.

As at 31 December 2019 the total collateral held against lending secured against commercial property was estimated to be £47.5m (2018: £47.6m).

As at 31 December 2019 no commercial properties were in possession and hence no collateral was held against cases in possession (2018: £nil). Properties that are repossessed are made available for sale in accordance with statutory guidelines with proceeds used to reduce or repay outstanding loans. When repossessed properties are disposed of, the Society has a statutory duty to obtain the best reasonable prices and to sell properties as soon as it reasonably can.

30. Financial instruments (continued)

c) Credit risk on loans and advances to customers (continued)

ii) Commercial mortgages (continued)

Allowances for impairment are held against loans and advances to customers in line with the accounting policy which is outlined in Note 1. Allowances for impairment of commercial mortgage loans are as follows:

	2019 £000	2018 £000
Individual impairment	**-**	-
Collective impairment	**14**	5
	14	5

Forbearance strategies on commercial loans
See the note on the Society's general forbearance strategy on page 47.

In 2019 no commercial accounts were granted forbearance concessions (2018: nil). As at 31 December 2019, no commercial accounts were on special payment arrangements. The Society takes full consideration of the impact on its arrears position, and hence the impact on its allowances for impairment, from the use of forbearance techniques.

d) Credit risk on treasury financial instruments

The classes of financial instruments to which the Society is most exposed to treasury credit risk are loans and advances to credit institutions, debt securities and financial derivatives. For financial assets recognised in the statement of financial position, the exposure to credit risk equals their carrying amount. The following table shows the Society's estimated maximum exposure to credit risk without taking into account any collateral held or other credit enhancements.

	2019 £000	2018 £000
UK government securities and amounts held with central banks	**62,317**	57,413
UK financial institutions	**17,405**	16,255
	79,722	73,668

None of the above exposures were either past due or impaired and there were no assets that would otherwise be past due or impaired whose terms have been renegotiated.

Collateral is not held over loans and advances to credit institutions and debt securities. Collateral of £400,000 (2018: £160,000 received) has been pledged to other financial institutions to mitigate the risk inherent in amounts due to/from the Society relating to derivative financial instruments and is included within exposures to UK financial institutions in the table above.

The table below shows treasury exposures categorised by Fitch ratings:

	2019 £000	2018 £000
AAA to AA-	**62,326**	57,424
A+ to A-	**6,853**	7,702
BBB+ to BBB-	**1,000**	1,000
Unrated	**9,543**	7,542
	79,722	73,668

30. Financial instruments (continued)

d) Credit risk on treasury financial instruments (continued)

The geographical distribution of treasury exposures is as follows:

	2019 **£000**	2018 £000
UK	**79,722**	73,668
	79,722	73,668

The Society's treasury risk function monitors exposure concentrations against a variety of criteria including counterparty and country limits. With the exception of instant access treasury deposits with both the Bank of England and the primary UK based clearing banks, no material concentrations of treasury investments exist.

e) Liquidity risk

The following tables analyse the gross contractual principal cash flows payable under financial liabilities. These balances do not agree directly to the balances in the Statement of financial position as the tables incorporate only principal amounts and do not reflect accrued interest or fair value adjustments.

31 December 2019	**Repayable on demand £000**	**Less than 3 months £000**	**3 months to 6 months £000**	**6 months to 12 months £000**	**1 to 5 years £000**	**Total £000**
Society non derivative liabilities						
Shares	**211,091**	**7,653**	**1,744**	**3,849**	**-**	**224,337**
Deposits owed to other customers	**58,299**	**4,141**	**4,053**	**543**	**-**	**67,036**
	269,390	**11,794**	**5,797**	**4,392**	**-**	**291,373**
Society derivative liabilities						
Interest rate swaps	**-**	**-**	**-**	**24**	**492**	**516**
	-	**-**	**-**	**24**	**492**	**516**

31 December 2018	Repayable on demand £000	Less than 3 months £000	3 months to 6 months £000	6 months to 12 months £000	1 to 5 years £000	Total £000
Society non derivative liabilities						
Shares	205,035	6,125	1,511	14,859	-	227,530
Deposits owed to other customers	46,722	3,091	8,635	482	-	58,930
	251,757	9,216	10,146	15,341	-	286,460
Society derivative liabilities						
Interest rate swaps	-	-	-	-	115	115
	-	-	-	-	115	115

Annual commitments under non-cancellable operating leases are outlined in Note 27.

30. Financial instruments (continued)

f) Interest rate risk

Interest rate risk refers to the sensitivity of net interest income to the periodic re-pricing of assets and liabilities and the imperfect correlation caused by basis risk. Interest rate risks generated by these activities are offset against each other, and the remaining net exposure to interest rate risk is managed on a continuous basis, within parameters set by Risk Committee, using a combination of derivatives and cash instruments (such as savings and deposits).

The Society's exposure to interest rate risk in terms of the net risk after taking account of management's action to hedge inherent exposures is measured using interest rate gap analysis. In this method each of the Society's financial instruments including on and off the statement of financial position assets and liabilities is assigned to future time periods on the basis of their contractual maturity or contractual re-pricing arrangements. In calculating the net exposure for each future period, account is also taken of those assets and liabilities with embedded optionality, such as pipeline and prepayment risk on fixed rate mortgages. As at 31 December 2019, if there was a 2% parallel upward shift in interest rates the adverse impact on reserves would be £868,000 (2018: £307,000 adverse impact on reserves).

Capital Requirements (Country-by-Country reporting) Regulations 2013

For the year ended 31 December 2019

The Capital Requirements (country-by-country) Reporting Regulations 2013 introduced reporting obligations for institutions within the scope of the European Union's Capital Requirements Directive (CRD IV). Article 89 of the Capital Requirements Directive IV (CRD IV) requires credit institutions and investment firms in the EU to disclose, by Member State and by third country in which it has an establishment, the following information for the year ended 31 December 2019:

EU Member State and/or third country	Nature of activities	Turnover *	Number of Employees at year end	Profit before tax	Corporation tax payments made in 2019	Public subsidies
United Kingdom	Deposit taking, mortgage lending	£7.7m	58	£2.7m	£0.6m	£nil

* Turnover is defined as the sum of Net Interest Income and Net Fee and Commission expense.

Basis of preparation

The Society's country-by-country reporting ("CBCR") has been prepared to comply with the Regulations which came into effect in 1 January 2014. The requirements place certain reporting obligations on financial institutions that are within the scope of CRD IV. CBCR requires annual publication of certain statutory information on a consolidated basis, by country where an institution has a subsidiary or branch. Income and expenses relating to transactions between operations in the same jurisdiction have been eliminated. All of the Society's operations are in the United Kingdom.

Independent auditors' report to the directors of Bath Investment & Building Society

Report on the audit of the country-by-country information

Opinion
In our opinion, Bath Investment & Building Society's country-by-country information for the year ended 31 December 2019 has been properly prepared, in all material respects, in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

We have audited the country-by-country information for the year ended 31 December 2019 in the Country-by-Country Report above.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the country-by-country information section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We remained independent of the Society in accordance with the ethical requirements that are relevant to our audit of the country-by-country information in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter – Basis of preparation
In forming our opinion on the country-by-country information, which is not modified, we draw attention to the country-by-country information which describes the basis of preparation. The country-by-country information is prepared for the directors for the purpose of complying with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013. The country-by-country information has therefore been prepared in accordance with a special purpose framework and, as a result, the country-by-country information may not be suitable for another purpose.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the country-by-country information is not appropriate; or
- the directors have not disclosed in the country-by-country information any identified material uncertainties that may cast significant doubt about the Society'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 country-by-country information is authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Society's ability to continue as a going concern. For example the terms of the United Kingdom's withdrawal from the European Union are not clear and it is difficult to evaluate all of the potential implications on the Society's business, customers, suppliers and the wider community.

Independent auditors' report to the directors of Bath Investment & Building Society (continued)

Report on the audit of the country-by-country information (continued)

Responsibilities for the country-by-country information and the audit

Responsibilities of the directors for the country-by-country information

The directors are responsible for the preparation of the country-by-country information in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013 as explained in the basis of preparation in the country-by-country information, and for determining that the basis of preparation and accounting policies are acceptable in the circumstances. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of country-by-country information that is free from material misstatement, whether due to fraud or error.

In preparing the country-by-country information, the directors are responsible for assessing the Society'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 Society or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the country-by-country information

It is our responsibility to report on whether the country-by-country information has been properly prepared in accordance with the relevant requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Our objectives are to obtain reasonable assurance about whether the country-by-country information as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 this country-by-country information.

A further description of our responsibilities for the audit of the country-by-country information is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinion, has been prepared for and only for the Society's directors in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

The engagement leader responsible for this audit is Kevin Williams.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cardiff
5 March 2020

Annual Business Statement

For the year ended 31 December 2019

1. Statutory percentages

	2019 %	Statutory Limit %
Lending Ratio	**5.0**	25.0
Funding Ratio	**23.0**	50.0

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986.

The Lending Limit measures the proportion of business assets not in the form of loans fully secured on residential property and is calculated as (X-Y)/X where:

X = business assets, being the total assets of the Society, plus allowances for impairment of loans and advances, less liquid assets and tangible fixed assets as shown in the Society Balance Sheet.

Y = the principal of, and interest accrued on, loans owed to the Society, as shown in the Society Balance Sheet, gross of allowances for impairment, which are fully secured on residential property.

The Funding Limit measures the proportion of shares and borrowings not in the form of shares held by individuals and is calculated as (X-Y)/X where:

X = shares and borrowings, being the aggregate of-

1. the principal value of, and interest accrued on, shares in the Society; and
2. the principal of, and interest accrued on, sums deposited with the Society; and
3. the principal value of, and interest accrued under, instruments or agreements creating or acknowledging indebtedness and accepted, made, issued or entered into by the Society or any such undertaking less any amounts qualifying as own funds.

Y = the principal value of, and interest accrued on, shares in the Society held by individuals otherwise than as bare trustees for bodies corporate or for persons who include bodies corporate.

The statutory limits are as laid down under the Building Societies Act 1986, and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its Members.

2. Other percentages

	2019 %	2018 %
As percentage of shares and borrowings:		
Gross capital	**13.2**	12.6
Free capital	**12.0**	11.4
Liquid assets	**27.4**	25.7
Profit for the year as a percentage of mean total assets	**0.68**	0.83
Management expenses as a percentage of mean total assets:	**1.46**	1.35

The above percentages have been prepared from the Society accounts and in particular:

- 'Shares and borrowings' represent the total of shares and amounts owed to other customers.
- 'Gross capital' represents the aggregate of general reserves and revaluation reserve.
- 'Free capital' represents the aggregate of gross capital and the collective allowance for impairment of loans and advances less tangible fixed assets.
- 'Liquid assets' represents the total of cash in hand, loans and advances to credit institutions and debt securities issued by other borrowers as shown in the balance sheet.
- 'Mean total assets' represent the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.
- 'Management expenses' represent the aggregate of administrative expenses, depreciation and amortisation and exclude the Levy to the Financial Services Compensation Scheme.

3. Directors and Officers

The Directors and Officers of the Society at 31 December 2018 together with their further particulars were as follows:

Name	Occupation	Appointment	Other Directorships
Kevin Gray	Chief Executive	April 2018	
Chris Smyth	Solicitor	January 2013	C M Smyth Ltd
Angela Cha	Solicitor	June 2014	Cha Sing Ltd
Robert Derry-Evans	Solicitor	June 2014	Bath Philharmonia Ltd Omnia Legal Ltd Romi Behrens Paintings Ltd
Denzil Stirk	Management Consultant	June 2014	
David Smith	Accountant	January 2016	
Tonia Lovell	Director of Risk Management	May 2017	
Fionnuala Earley	Economist	January 2018	
Tom Leach	Finance Director	April 2018	

Documents may be served on the above named Directors c/o The Society Secretary, Bath Building Society, 15 Queen Square, Bath BA1 2HN.

Details of Directors' service contracts are shown in the Directors' Remuneration Report.

Other Officers

Name	Business Occupation
Mark Wiltshaw	Head of Savings and Investments
Steve Matthews	Head of Mortgages

Your local Society

Registered name and office

Bath Investment & Building Society
15 Queen Square, Bath BA1 2HN
Tel: 01225 423271

Registered No. 30B

Branch offices

Bath
3 Wood Street, Bath BA1 2JQ
Tel: 01225 330837

12/13 Moorland Road, Oldfield Park, Bath BA2 3PL
Tel: 01225 445271

Agency offices

Ilminster
Harper Dolman & West, 20 East Street, TA19 0AJ
Tel: 01460 53095

Midsomer Norton
Waterhouse Financial Advisers, 23 High Street, BA3 2DR
Tel: 01761 412980

Shaftesbury
Chaffers Estate Agents, 48 High Street, SP7 8AA
Tel: 01747 852301

South Petherton
Hamdon Financial Services, 36 St James Street, TA13 5BW
Tel: 01460 240000

Staple Hill
Mark Richard Insurance, 141 High Street, BS16 5HQ
Tel: 0117 957 5008

Wellington
MJC Financial Planning, 22 South Street, TA21 8NS
Tel: 01823 663174

We're different because you are

Head Office:
15 Queen Square,
Bath BA1 2HN.

Savings enquiries:
Telephone:
01225 423271
Fax:
01225 446914
Email:
savings@bibs.co.uk

Mortgage enquiries:
Telephone:
01225 475719
Fax:
01225 424590
Email:
mortgages@bibs.co.uk

Web:
www.bathbuildingsociety.co.uk

Telephone calls may be recorded to help the Society to maintain high standards of service delivery.

Bath Building Society

We're different because you are