



Annual Report & Accounts 2018

Directors

Robert Derry-Evans	Non-Executive Director and Chairman
Chris Smyth	Non-Executive Director, Vice-Chairman and Senior Independent Director
Denzil Stirk	Non-Executive Director
Angela Cha	Non-Executive Director
David Smith	Non-Executive Director
Fionnuala Earley	Non-Executive Director (appointed 1 January 2018)
Kevin Gray	Finance Director and Deputy Chief Executive (to 26 April 2018) Chief Executive (appointed 26 April 2018)
Tonia Lovell	Director of Risk Management
Tom Leach	Finance Director (appointed 26 April 2018)

Officers

Mark Wiltshaw	Head of Savings and Investments
Steve Matthews	Head of Mortgages

Professional Advisers

Auditors:	PricewaterhouseCoopers LLP One Kingsway Cardiff CF10 3PW
Internal Auditors (to 31 December 2018):	KPMG LLP 66 Queen Square Bristol BS1 4BE
Internal Auditors (from 1 January 2019):	RSM Risk Assurance Services LLP 14th Floor 20 Chapel Street Liverpool L3 9AG

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Chairman's Statement

For the year ended 31 December 2018

In 2018 the Society yet again improved the size and strength of its mortgage book. Its funding balances rose sharply and its reserves of capital grew to a record level.

Business highlights:

Society reserves up by 10% to;

£36.2m (2017: £33m);

Gross mortgage lending of £42.2m (2017: £47.6m) which increases the Society's mortgage book by 1.3% to a record level of

£245.7m (2017: £242.5m);

Liquid assets ratio of 25.7% of shares and borrowings (2017: 23.6%);

Society profit before taxation reported at

£3.2m (2017: £4.2m);

Total Assets increased by 4% to

£324.1m (2017: £311.7m);

Cases with arrears more than 2 months

11 (2017: 13);

Customer satisfaction: 97% of customers surveyed would recommend the Society to family and friends (2017: 95%).

The Society's strong financial performance in 2018 was achieved despite a weakening economic environment in the United Kingdom. A combination of softening international growth and specific worries about the UK economy arising from Brexit has resulted in slowing economic growth, falling business investment and reduced confidence about the future. The housing market in the UK also weakened over 2018, with many regions having reported flat or falling house prices. Notwithstanding these storm clouds, the Society has

managed to maintain strong margins and it has delivered a very satisfactory set of financial results.

Risks and uncertainties caused by Brexit

As all of the Society's business is undertaken in the UK, the direct impact of Brexit will be limited. However, the Society would not be immune from any Brexit induced recession that caused higher unemployment and falling property values, and as such, it prudently plans for these adverse scenarios.

Chairman's Statement (continued) For the year ended 31 December 2018

Your Society has one of the strongest reserves of capital of any Society and this would act as a buffer against Brexit induced stresses.

Over the last few years, the Society has been working on the basis that the Bank of England base rate would be moving in an upwards trajectory over the medium term. The size, direction and timing of future interest rate changes is now very uncertain given the unknowns around Brexit. Whatever happens with regards to future rate changes, your Society's Board will continue to do its duty to balance the overall financial needs of the Society together with the interests of the Members.

Future competitive pressures

Over the last few years, around 40 new 'Challenger Banks' have been authorised. The presence of materially more lending institutions competing in a relatively flat market is pushing mortgage yields lower. Together with the large UK Banks, these new financial institutions have significant borrowings from the Bank of England's special liquidity arrangements, such as The Funding for Lending Scheme and The Term Funding Scheme. These schemes are now un-winding and institutions are seeking replacement funding from wherever they can get it, including the retail funding market in which the Society operates. The Society is expecting the cost of retail funding to increase due to these competitive pressures.

The retail deposit market is also adapting to operational changes driven by regulatory initiatives. Furthermore, a plethora of financial technology (Fintech) companies is now operating in the market and some of their technology driven business models are likely to change consumer banking behaviour forever. Although it is unlikely that the Society will seek to create competitive advantage through the use of leading-edge technology, it will continue to invest in its IT infrastructure and it will remain alert to how new technology could improve the service offered to the Members.

Risk and governance

In 2018, the Board's Audit Committee undertook competitive tendering processes to select suitable firms to meet the Society's future external and internal audit requirements. As a result, PricewaterhouseCoopers LLP and RSM Risk Assurance Services LLP were appointed to cover the external and internal audit providers respectively.

The Society continues to develop and adapt its governance structures to better manage risk within the business. It is investing heavily in creating new management information that aims to give the Board and senior managers better analysis of risk to inform decision making.

Mutuality and business purpose

I am pleased to report that the results of the Members' Survey remain very strong. In particular a very high percentage of respondents would recommend the Society to their family

and friends. Your Board is fiercely committed to the Society remaining a mutual organisation, owned by its Members for the benefit of its Members. In 2019, the Society has refocused the business towards meeting its true purpose: harnessing the collective power of Members' savings to finance home ownership, particularly for first time buyers. I am proud to say that in 2018 almost 50% of the Society's gross lending was to first time buyers.

The Building Societies Association has recently published a report called 'Intergenerational Mortgages – Building on the Bank of Mum and Dad'. It is gratifying that your Society is already doing many of the things that the report suggests could be done to get young people onto the housing ladder. Nevertheless, the Society will consider further innovative ways of improving access to home ownership.

The Society's Board

I can report that the Society has successfully and seamlessly managed the succession of the Chief Executive position from Dick Jenkins to Kevin Gray. Furthermore, I am pleased to welcome Tom Leach as Finance Director. Tom took up this position in April 2018. As a chartered accountant with a background in the auditing profession and with the Principality Building Society, his experience and skills are assets to the Board.

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



Robert Derry-Evans

Chairman

8 March 2019

Chief Executive's Report

For the year ended 31 December 2018

Mortgages

The fortunes of the UK property market were mixed over 2018 with different geographic regions delivering markedly different rates of growth. Scotland and the north of England experienced increases in property values, whereas the south of the country delivered only modest growth, and house prices in London fell back from their historic peaks. Concern over Brexit has negatively affected consumer confidence and the public is starting to put off big financial decisions like those associated with moving home. As such, property prices and housing market transaction levels are expected to be relatively flat in 2019.

With demand waning and the presence of many more 'Challenger Banks' this has resulted in an effective over supply of credit which has held down mortgage yields and encouraged greater rates of re-mortgaging. Despite faltering economic growth and a ferociously competitive mortgage market in 2018, the Society achieved an overall net growth rate of 1.3% in its mortgage book.

With customers expecting future interest rates to rise, demand for fixed rate mortgages has been a substantial part of the whole mortgage market. For the first half of 2018, the Society was unable to offer fixed rate products due to a regulatory constraint on the level of fixed rate business that the Society could undertake and this lack of capacity held back overall gross lending in 2018. A successful application to the Prudential Regulation Authority in the second half of 2018 has enabled the Society to increase the maximum level of fixed rate mortgages that it could hold. As at 31 December 2018, fixed rate mortgage applications accounted for approximately 58% of the Society's total level of new business.

Although the Society's 2018 gross lending figure of £42.2m (2017: £47.6m) was lower than that for 2017, it compares favourably with the Society's historic performance. Furthermore, the average yield achieved in 2018 on new lending was substantially in excess of the Society's budgetary expectation, although despite this success, the average yield over the whole mortgage book reduced in 2018. This was due to the Society's retention strategy that aims to be fair to loyal customers by offering the best new rates to existing borrowers when their mortgage deal matures.

In 2018, the primary focus of the Society's lending strategy was to concentrate on increasing the distribution of its current mortgage products to more intermediaries. Over the course of the year, the Society successfully increased the number of mortgage brokers and mortgage clubs that introduced mortgage business to it. The Society also developed an online portal for brokers aimed at speeding up the introduction of business from them. By year-end, it had several hundred brokers using the system and by the last quarter of 2018 a majority of the Society's new business applications were being received via the system.

A secondary focus was to further develop the Society's range of niche mortgage products. The Society successfully introduced a Retirement Interest Only (RIO) mortgage in 2018. This product is aimed at retired borrowers who have sufficient pension income to support a mortgage and who wish to draw equity from their property.

There was a strong growth in the Society's Self Build product. Since inception in 2009, the Society has now financed the construction of over 250 homes to self-builders and this product remains a potential growth area for the future.

The Society also experienced strong demand for its Rent a Room product over the course of the year. This product permits borrowers to bring income from renting a spare room into the mortgage affordability calculation, effectively permitting more borrowers to have access to a mortgage that is sufficient to allow them to purchase their own homes. The Society continues to accept parental guarantees as another method of improving mortgage affordability, particularly amongst the young.

As well as offering mechanisms to improve the affordability of mortgages, the Society continues to recognise that the requirement to place a large initial deposit remains a big problem for new borrowers. The Society's Mortgage Indemnity Guarantee product reduces the need for borrowers to stump up large deposits whilst protecting the Society against any increased risk. By taking collateral charges over parental homes, the Society's Buy For Uni and Parent Assisted Mortgage products achieve the same result. The Society is planning to introduce further features to its range of intergenerational support mortgages in the future in line with its strategy to promote home ownership.

The Society continues to manage mortgage arrears sympathetically but firmly. The number of cases being two or more months in arrears had fallen to 11 by year-end (2017: 13) and the Society also managed to reduce the number of cases requiring individual impairment charges to 2 (2017: 5). As at the end of 2018, the Society had no properties in possession (2017: 1).

In August 2018, the Bank of England increased its base rate by 0.25% to 0.75%. In order to protect its borrowing customers, the Society chose to increase its Standard Variable Rate by only 0.15%.

Savings and Funding

The average rate of interest that the Society receives on its liquid assets remains 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 carefully manages the level of new savings that it recruits from its Members and from other funding sources. If it cannot immediately apply new savings to fund mortgages, it has to restrict the level of new savings that it receives. In November 2017, the Society passed on the

Chief Executive's Report (continued) For the year ended 31 December 2018

full increase in the Bank of England base rate to its savers but the majority of competitors did not do the same. When the Bank of England moved interest rates higher by a further 0.25% in August 2018, the Society chose not to respond immediately to the increase to avoid its product range being overly attractive compared to rates offered by other financial institutions. Instead, the Society chose to selectively increase rates paid to existing savers when their current products matured. The Society's policy remains one of protecting loyal savers as best it can. Overall, the Society paid out £655,000 more in interest to its savers in 2018 than it did in 2017.

The Society successfully grew its base of funding by a net 3.3% over 2018 with all of this growth coming from share accounts held by individuals rather than from deposits owed to other customers such as limited companies.

In 2018, the Society changed the supplier of its Bath Online service and introduced the ability for Members to access their account information via smart phones and to request electronic payments from the Society back to their designated bank accounts.

Noel Broomfield retired from the Society in December 2018 and Mark Wiltshaw is also due to retire before the 2019 Annual General Meeting. They have been stalwarts of the Society's Savings Department for many years and they leave a great legacy for their successors. We wish them both a well-earned retirement and all success for their futures.

Property Letting

The Society's old subsidiary company, 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 dependant on the size of the portfolio of landlords remaining with the purchaser. In 2018, the Society received a final payment of £70,647.

Information Technology and Operational Resilience

Over 2018, the Society continued investing in its Information Technology infrastructure. This included introducing a major software upgrade to its core savings and mortgage system; replacing all desktop personal computers; upgrading all network systems to Windows 10; introducing a new treasury system and implementing upgrades to its regulatory reporting software. These upgrades will keep the Society compliant with new regulations and speed up customer transactions performed in Branches and Agencies.

The Society successfully planned and conducted a major test of its business continuity arrangements. It has access to a secondary site that is capable of maintaining core functionality and operations in the event of a major incident negatively impacting on the Society's Head Office at Queen Square, Bath. The Society's business continuity response team has also participated in a cyber simulation exercise held in London in conjunction with other Societies, business advisers and the Society's trade body, the Building Societies Association.

Community Involvement

Over the years, the Society has supported Bath College in a number of different ways including providing support for their apprenticeship scheme, conducting mock recruitment interviews and providing talks to their business and accountancy trainees. In 2018, the Society also funded a team from the college to participate in the Young Enterprise Scheme and provided a member of the Society's management team to act as a mentor to support the team's business venture.

The Society continues to investigate participation in the government's Reclaim Fund initiative which would allow unclaimed savings balances to be used for local charitable work rather than being lost into a national scheme. The Society has identified a need to expand its future involvement in the promotion of financial and business education to young people and it is the intention that any extra future funding that crystallises from the Reclaim Fund initiative will be put to use in this area.

The Society continues to support local charities. In 2018, 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 The Community Bus, Bath FoodCycle and The Bath Area Play Project. In the first half of 2018, the Society's charity of the year was Focus Counselling. From the middle of the year Bath City Farm became our charity of the year for 2018-19. For the 43rd year, the Society sponsored the children's Firework Safety Poster Competition and associated Fireworks Display organised by The Rotary Club of Bath. This event not only helps to reduce the incidence of fireworks accidents in Bath, but also provides a means of generating a substantial sum for the Society's charity of the year. The 2018 event led to a £4,500 donation to Bath City Farm. The Society's staff also held a Charity Race Night in November 2018 which raised over £4,000, with the monies going to Bath City Farm, Bath Young Carers and the Wiltshire Air Ambulance.

As my first 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 year of change. Bath Building Society remains in rude health and the business will move forward to meet the challenges of the future. We remain committed to keeping the Society a forward looking and confident organisation that keeps its Members' best interests at the heart of everything it does.



Kevin Gray
Chief Executive
8 March 2019

Strategic Report

For the year ended 31 December 2018

The Directors have pleasure in presenting their Strategic Report for the year ended 31 December 2018.

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 requiring 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 2018, 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.

Over the Society's strategic planning period to 2023, the withdrawal of the Bank of England's Term Funding Scheme and Funding for Lending Scheme is likely to increase competition for funding in the savings market. The mortgage market remains highly competitive, with new entrants and established participants competing for business in an environment of static or declining volumes of housing transactions. These factors combine to place downward pressure on margins over the strategic planning period. 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 over the strategic planning period. 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.

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 4. 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 26.
- '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 25.
- 'Common Equity Tier 1 Ratio' is the percentage given by dividing Common Equity Tier 1 regulatory capital of £35.9m (2017: £32.8m) by the sum of risk weighted assets.
- 'Leverage Ratio' is the percentage given by dividing Tier 1 regulatory capital of £35.9m (2017: £32.8m) 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.

Strategic Report (continued) For the year ended 31 December 2018

Key Performance Indicator

	2018	2017
Mortgage Asset Growth	1.3%	4.9%
Profit Before Tax	£3,212,000	£4,235,000
Net Interest Margin	2.37%	2.46%
Management Expense Ratio	1.35%	1.39%
Common Equity Tier 1 Ratio	29.6%	26.9%
Leverage Ratio	10.7%	10.4%
Liquidity Coverage Ratio	335%	259%

The Board's aims for 2018 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 IT.

The Society achieved 1.3% (2017: 4.9%) growth in mortgage assets in a challenging and competitive market whilst net interest margin remained strong at 2.37% (2017: 2.46%). The Society generated profit before tax of £3,212k (2017: £4,235k) which contributed to an increase in its Common Equity Tier 1 Ratio to 29.6% (2017: 26.9%) and in its Leverage Ratio to 10.7% (2017: 10.4%). The management expense ratio was broadly in line with prior year at 1.35% (2017: 1.39%) with the investment in the Society's capabilities through higher staff and equipment costs offset by lower legal and professional fees in the year. Further details on the Liquidity Coverage Ratio is set out in the 'Liquidity risk' section on page 8.

In 2018, the Society recognised a net charge for impairment of £88k (2017: £162k net credit) and utilised £560k (2017: £20k) of individual impairment allowances as a result of the crystallisation of losses against previously impaired loans. As a result of this utilisation, total allowances for impairment decreased to £737k (2017: £1,137k). The collective allowance for impairment decreased to £31k (2017: £75k).

As at 31 December 2018, the Society held 4 (2017: 8) 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 £1,304k (2017: £2,253k) and the total arrears outstanding were £49k (2017: £192k). The Society holds individual impairment allowances of £706k (2017: £1,062k) against these loans.

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, moving loans onto fixed rates of interest, 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 £2,626k (2017: £3,533k). Gross capital at 31 December 2018 was £36,227k (2017: £33,041k), representing the aggregate of the general and revaluation reserves. Free capital at 31 December 2018 was £32,677k (2017: £30,208k), representing the aggregate of gross capital and collective impairment on loans and advances to customers, less tangible fixed assets. At 31 December 2018 the ratios of gross capital and free capital, as a percentage of shares and borrowings, were 12.6% (2017: 11.9%) and 11.4% (2017: 10.9%) respectively. Throughout 2018, the Society fully complied with its regulatory capital requirement.

Strategic Report (continued) For the year ended 31 December 2018

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

	2018 £000	2017 £000
Capital available:		
General reserve	35,319	32,693
Revaluation reserve	908	348
Total capital per statement of financial position	36,227	33,041
Regulatory adjustments to obtain Common Equity Tier 1 and Tier 1 capital		
Intangible assets	(344)	(263)
Common Equity Tier 1 capital and Tier 1 capital	35,883	32,778
Tier 2 capital – collective allowance for impairment	31	75
Total regulatory capital	35,914	32,853
Total capital requirement	12,142	12,167
Surplus over Total Capital Requirement	23,772	20,685

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, 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 2018, the Society repossessed 1 residential property (2017: 1).

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 2018, the Society crystallised a loss against one commercial property of £318k (2017: £nil) leaving specific impairment allowances of £nil against the commercial lending portfolio (2017: £242k). There were no commercial loans in default at the year-end (2017: 1).

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.

Strategic Report (continued) For the year ended 31 December 2018

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 the European Investment Bank. 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 25.7% (2017: 23.6%) 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 the methodology for its calculation has been prescribed.

The Society is required to maintain a pool of high quality liquid assets to cover 100% of its total net cash outflows calculated over a 30 day stressed period (the LCR requirement). As at 31 December 2018, the Society's pool of high quality liquid assets was £56.9m, well in excess of the total net cash outflows of £17.0m, giving an LCR of 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.

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. 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 is an ever growing and challenging issue 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:

	2018 £000	2017 £000
Total High Quality Liquid Assets		
Cash in hand and balances with the Bank of England	57,532	47,891
Loans and advances to credit institutions	16,255	17,590
Total liquid resources	73,787	65,481

Uncertainties

The outlook for 2019 is uncertain, particularly in respect of the outcome of the Brexit negotiations and the shape of any eventual withdrawal deal with the EU. As such, the economic impact cannot be fully understood at this stage, and political and economic commentators differ significantly in their assessment of the potential severity of the risks associated with each outcome.

Whilst the Society is wholly UK based and therefore not directly impacted by changes to future trading arrangements with the EU and the rest of the world, the future levels of unemployment, and the path for UK interest rates and house prices could all be impacted by the course Brexit takes. These in turn may impact on 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 however well placed to meet any challenges ahead with robust levels of capital and liquidity and a strong business model, and can look forward with confidence to the opportunities 2019 may bring.

Risk management objectives and policies

The Board of Directors 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 of Directors 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

8 March 2019

Directors' Report

For the year ended 31 December 2018

The Directors have pleasure in presenting the Annual Report and Accounts for the year ended 31 December 2018. 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 place on record their sincere appreciation of the commitment and dedication shown by the Society's staff during the year. The professionalism and skill demonstrated across all aspects of the Society's operations is a credit to all concerned and cannot be underestimated in the context of the success achieved. 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 2018 trade creditors outstanding represented 17 days of purchases (2017: 25 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 the Royal Bank of Scotland 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

Following the 2018 Annual General Meeting, a rigorous tender process was undertaken for the role of external auditors. As a result of this process, Deloitte LLP resigned as auditors and PricewaterhouseCoopers LLP (PwC) were appointed. A resolution for PwC's appointment as auditors of the Society will be proposed at the 2019 Annual General Meeting.

Directors' Responsibilities Statement

Preparing the Annual Accounts

The following statement, which should be read in conjunction with the statement of the auditor's responsibilities on page 23, 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 Building Societies Act 1986 or the Companies Act 2006 (as relevant); and
- Adheres to financial risk management objectives with regards to its use of financial instruments (see page 9 of the Strategic Report); and

Directors' Report (continued) For the year ended 31 December 2018

- 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 do not involve consideration of these matters and, accordingly, the auditors accepts 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 mortgage asset growth and successful management of margins.

In the coming year, the Society expects to achieve a slightly higher level of mortgage asset growth to that which it achieved in 2018. 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 2022 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, and the uncertainty in respect of the Brexit outcome described on page 9, 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:

Dick Jenkins, Kevin Gray, Tonia Lovell, Tom Leach, Fionnuala Earley, Chris Smyth, Robert Derry-Evans, Denzil Stirk, Angela Cha and David Smith. Fionnuala Earley joined the Board as Non-Executive Director as from 1 January 2018, and Tom Leach joined the Board as an Executive Director as from 26 April 2018. In accordance with the Society's rules, Angela Cha, Chris Smyth and Denzil Stirk will retire from the Board at the Annual General Meeting. Being eligible, they offer themselves for re-election. Tom Leach will present himself for election at the Annual General Meeting for the first time.

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
8 March 2019

Report of the Directors on Corporate Governance

For the year ended 31 December 2018

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 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 15. The Board has 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 3 Non-Executive Directors – David Smith (Chair), Angela Cha, and Fionnuala Earley. The purpose of 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 4 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 audit plans and assesses the adequacy of audit and compliance arrangements. 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 2018, the areas of particular focus for the committee included lending and arrears management, capital planning and management, IT and operational resilience, liquidity management, risk governance and compliance oversight. The committee also managed the internal and external audit tender processes. The committee examined the adequacy of the Society's allowances for the impairment of mortgages and the Society's accounting under the effective interest method.

In each of these areas the committee was provided with papers discussing key assumptions and issues, and any impact on the accounts. 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 3 Non-Executive Directors – Chris Smyth (Chair), Denzil Stirk, and Robert Derry-Evans. Meetings are held at least 4 times per year and it is normal for Executives to attend by invitation. The committee reviews and approves all policy documents as considered by its sub-committees, and receives reports from the Audit Committee in respect of matters relevant to the management of risk. In 2018, 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 3 Non-Executive Directors – Angela Cha (Chair), 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 3 Non-Executive Directors – Robert Derry-Evans (Chair), Angela Cha and David Smith. The Nominations Committee has terms of reference that include Executive

Report of the Directors on Corporate Governance (continued)

For the year ended 31 December 2018

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 sub-committees 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 Investments – Mark Wiltshaw and Senior Underwriter – 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, 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 Investments – Mark Wiltshaw, Head of Accounts – Gemma Stock 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 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. The committee is chaired by Head of Investments – Mark Wiltshaw. 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 Management Team where appropriate. The committee reports to the Risk Committee.

Information Technology and Operational Resilience Committee:

This committee consists of Chief Executive – Kevin Gray, Finance Director – Tom Leach and Head of Information Technology – 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 thought to be 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 3 Executive Directors and 6 Non-Executive Directors (including the Chairman). 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 business requirements. 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 2018, the Board consisted of 9 Directors (2017: 9) of which 3 were female (2017: 3). All Directors meet the tests of fitness and propriety laid down by the regulators and all Directors are registered with the regulators, with the 3 Executive Directors and 4 of the 6 Non-Executive Directors holding Senior Manager Functions under the regulators' Senior Managers Regime. The remaining 2 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.

Report of the Directors on Corporate Governance (continued)

For the year ended 31 December 2018

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.

All Directors are submitted for election at the Annual General Meeting (AGM) following their first appointment to the Board. If any Director has served for more than 9 years or is 70 years or older, they will be submitted for re-election annually at the AGM. One third of Directors retire by rotation and apply for re-election at the AGM. Directors are only submitted for re-election if the appraisal confirms their ongoing contribution and the Nomination Committee recommends re-election based on the specialist knowledge, skills, experience and independence of character of the individual Director.

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 10 to 11.

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 Auditors provide 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, Mortgage Forbearance and Arrears 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. The risk register element of the Risk Management Framework is subject to ongoing review by the Risk Sub-Committee and has been updated during the year to ensure the Board is satisfied that all significant risks are documented and have systems of controls, which continue to be effective and appropriate to the nature, scale and complexity of the Society's business in the current environment. Management has responsibility for operating within the control framework. The register reflects the risk categories used in the Capital Requirement Directives, 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 12.

During the year the Audit Committee entered into rigorous tender processes for both the external and internal audit appointments. Deloitte LLP had been the Society's external auditors for 13 years and performed the function to a high standard, but in order to ensure continued confidence in the independence of the external auditors they were not invited to re-tender.

The very limited number of audit firms who can undertake the specialist audits of financial institutions combined with the professional bar on individual firms performing both external audit and internal audit functions at the same time, meant that a combined re-tender process offered the Society the widest possible choice of firms, enabling the Society to select the most appropriate firm for each role.

As a result of this tender process, the Audit Committee determined that PricewaterhouseCoopers LLP ('PwC') in the role of external auditors, and RSM Risk Assurance Services LLP ('RSM') in the role of internal auditors, would offer the best and most cost-effective service to the Society. PwC is responsible for the audit of the Annual Accounts for the year ended 31 December 2018, whilst RSM will assume their internal audit responsibilities from 1 January 2019.

Report of the Directors on Corporate Governance (continued)

For the year ended 31 December 2018

The Audit Committee conducts a formal annual review of the level and split of total fees 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 2018, the Audit Committee considered that independence, effectiveness and objectivity were not being compromised.

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 closely 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	10/10	4/4		2/2	2/2
Chris Smyth	10/10	4/4			
Fionnuala Earley	10/10		5/5		2/2
Denzil Stirk	10/10	4/4			
Angela Cha	9/10		4/5	2/2	2/2
David Smith	10/10		5/5	2/2	
Dick Jenkins	4/4				
Tonia Lovell	9/10				
Kevin Gray	9/10				
Tom Leach	6/6				

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



On behalf of the Board
Robert Derry-Evans
 Chairman

8 March 2019

Report of the Directors on Remuneration

For the year ended 31 December 2018

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 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. In lieu of his entitlement to pension contributions, Dick Jenkins opted to receive a cash equivalent sum at no extra gross cost to the Society. The Society operates no final salary pension arrangements.

Dick Jenkins and 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 paid professional subscriptions and 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

Robert Derry-Evans, Fionnuala Earley and Angela Cha (Chair) constituted 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 5% rise in fees for 2019.

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 2018

Audited information

Table 2: Executive Directors' Emoluments

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

2017	Basic Salary £	Salary in lieu of pension contributions £	Annual bonus £	Benefits £	Pension Contributions £	Total 2017 £
Dick Jenkins	149,583	15,773	12,715	9,098	-	187,169
Kevin Gray	121,875	-	10,359	11,207	14,625	158,066
Tonia Lovell (appointed 1 May 2017)	50,000	-	7,227	4,309	6,000	67,536
TOTAL 2017	321,458	15,773	30,301	24,614	20,625	412,771

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

	2018 £	2017 £
Robert Derry-Evans (Society Chairman)	34,337	33,337
Chris Smyth (Society Vice-Chairman)	24,526	23,812
Ann Berresford (retired 31 December 2017)	-	23,812
Angela Cha	24,526	23,812
Fionnuala Earley (appointed 1 January)	24,526	-
Denzil Stirk	24,526	23,812
David Smith	24,526	23,812
TOTAL	156,967	152,397



On behalf of the Remuneration Committee.

Robert Derry-Evans

Chairman

8 March 2019

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 2018 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 2018* (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2018; the income statement, the cashflow statement and statement of changes in equity for the year then ended; the accounting policies; and the notes to the annual accounts.

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 2018 to 31 December 2018.

Independent Auditors' Report to the Members of Bath Investment & Building Society (continued) For the year ended 31 December 2018

Our audit approach

Overview

Materiality	<ul style="list-style-type: none">• £362,000.• Based on 1% of Society net assets.
Key audit matters	<ul style="list-style-type: none">• 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.

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.

Independent Auditors' Report to the Members of Bath Investment & Building Society (continued) For the year ended 31 December 2018

Impairment losses on loans and advances to customers

Key audit matter

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 charge on loans and advances to customers ("loans") of £88,000 (2017: gain of £162,000) in the year. An individually identified provision of £706,000 (2017: £1,062,000) and a collectively identified provision of £31,000 (2017: £75,000) are included in the statement of financial position at 31 December 2018. 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 during 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.

How our audit addressed the key audit matter

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 tested 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.

Independent Auditors' Report to the Members of Bath Investment & Building Society (continued) For the year ended 31 December 2018

Effective interest rate ("EIR") accounting

Key audit matter

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 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.

How our audit addressed the key audit matter

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 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.

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) For the year ended 31 December 2018

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

Overall materiality	£362,000
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 £17,000 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 on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, 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) For the year ended 31 December 2018

Reporting on other information (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 2018 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 10, 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.

Independent Auditors' Report to the Members of Bath Investment & Building Society (continued) For the year ended 31 December 2018

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 1 year, covering the year ended 31 December 2018.

Kevin Williams (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Cardiff

8 March 2019

Income Statement

For the year ended 31 December 2018

	Notes	2018 £000	2017 £000
Interest receivable and similar income	3	10,259	9,573
Interest payable and similar charges	4	(2,722)	(2,067)
Net interest income		7,537	7,506
Fees and commissions receivable	5	168	210
Fees and commissions payable	6	(306)	(319)
Net fee and commission expense		(138)	(109)
Other operating income		29	47
Fair value gain from financial instruments	7	104	351
Investment property – change in fair value	21	15	20
Profit on sale of investment property		-	15
Income from subsidiary		-	330
Net operating income		7,547	8,160
Administrative expenses	8	(4,047)	(4,030)
Depreciation, amortisation and profit on disposal of fixed asset		(256)	(211)
Operating expenses		(4,303)	(4,241)
Impairment (loss)/release on loans and advances to customers	12	(88)	162
Provision for other liabilities and charges	26	(15)	(7)
Profit on sale of subsidiary	18	71	161
Profit before taxation		3,212	4,235
Taxation expense	11	(586)	(702)
Profit for the year		2,626	3,533

The notes on pages 29 to 48 form part of these accounts.

Statement of financial position

As at 31 December 2018

	Notes	2018 £000	2017 £000
Assets			
Liquid Assets:			
Cash in hand and balances with the Bank of England		57,532	47,891
Loans and advances to credit institutions	13	16,255	17,590
		73,787	65,481
Derivative financial instruments	14	230	162
Loans and advances to customers:			
Loans fully secured on residential property	15	232,273	227,684
Other loans fully secured on land	16	13,435	14,791
	17	245,708	242,475
Intangible fixed assets	19	344	263
Property, plant and equipment	20	3,182	2,523
Investment properties	21	400	385
Prepayments and accrued income		403	420
Total Assets		324,054	311,709
Liabilities			
Shares	23	227,846	214,583
Deposits owed to other customers	24	58,931	62,883
Derivative financial instruments	14	128	198
Other liabilities	25	434	655
Deferred tax liability	22	194	63
Accruals and deferred income		229	227
Provisions for liabilities and charges	26	65	59
Total liabilities		287,827	278,668
Total equity attributable to Members		36,227	33,041
Total equity and liabilities		324,054	311,709

Approved by the Board of Directors on 8 March 2019 and signed on its behalf by:

Robert Derry-Evans
Chairman



Kevin Gray
Chief Executive



Tom Leach
Finance Director



The notes on pages 29 to 48 form part of these accounts.

Statement of changes in equity

For the year ended 31 December 2018

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	20	-	691	691
Deferred tax on revaluation reserve	22	-	(131)	(131)
As at 31 December 2018		35,319	908	36,227

As at 31 December 2017	General Reserve £000	Revaluation Reserve £000	Total equity attributable to Members £000
As at 1 January 2017	29,160	348	29,508
Total comprehensive income for the year	3,533	-	3,533
As at 31 December 2017	32,693	348	33,041

Cash flow statement

For the year ended 31 December 2018

	Notes	2018 £000	2017 £000
Profit on ordinary activities before tax		3,212	4,235
Adjusted for:			
Impairment loss/(release) on loans and advances to customers	12	88	(162)
Depreciation and amortisation		262	211
Change in value of investment property	21	(15)	(20)
Dividend from subsidiary		-	(330)
Profit on disposal of fixed assets		(6)	(9)
Profit on disposal of investment properties		-	(15)
Profit on disposal of subsidiary	18	(71)	(161)
Cash generated from operations		3,470	3,749
Changes in operating assets and liabilities			
Decrease/(Increase) in prepayments and accrued income		71	(5)
Increase in loans and advances to customers		(3,321)	(11,070)
Increase in accruals and deferred income		2	54
Net increase in shares		13,263	10,908
Change in derivative financial instruments	14	(138)	(352)
Net decrease in deposits owed to other customers		(3,952)	(1,095)
Net decrease in loans and advances to credit institutions		500	500
Net decrease in other liabilities		(122)	(1)
Increase/(Decrease) in provisions for liabilities and charges	26	6	(33)
Taxation paid		(685)	(670)
Net cash inflow from operating activities		9,094	1,985
Purchase of intangible assets and property, plant and equipment		(318)	(313)
Sale of property, plant and equipment		13	20
Sale of Investment Properties		-	345
Dividend received from subsidiary		-	330
Proceeds from sale of subsidiary		-	300
Net cash flows from investing activities		(305)	682
Net increase in cash and cash equivalents		8,789	2,667
Cash and cash equivalents at beginning of the year		56,455	53,788
Cash and cash equivalents at the end of the year		65,244	56,455
Represented by:			
Cash and balances with the Bank of England	30	57,532	47,891
Loans and advances to credit institutions repayable on demand	13	7,712	8,564
		65,244	56,455

Notes to the Accounts

For the year ended 31 December 2018

1. Accounting policies

The principal accounting policies are summarised below. They 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 5 to 9.

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 are 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.

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 and savings 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 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 within the 'Fair value gains less losses from financial instruments' caption. 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.

1. Accounting policies (continued)

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 6 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 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 effective interest rate 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.

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:

Effective Interest Rate (EIR)

The Society is required to use the EIR method to recognise interest and net fee income from mortgage contracts over the estimated

Notes to the Accounts (continued) For the year ended 31 December 2018

behavioural lives of mortgage products. An EIR calculation should ideally incorporate all expected cash flows in a single model for best results. The Society has judged that materially correct EIR outcomes can however be derived by combining the outputs from a 3 stage model that combines separate calculations of interest, applicable fees and early release charges.

The most significant areas where estimates and assumptions 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 this period were to increase to 18 months, the increase in stated individual impairments would be £9,000. If the discount rate applied were to increase by 0.5%, the increase in stated individual impairments would be £24,000.

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.

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 2018 would have decreased the value of loans and advances secured on residential property in the statement of financial position by £6,586.

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 £2,579 in the statement of financial position.

3. Interest receivable and similar income

	2018 £000	2017 £000
On loans fully secured on residential property	9,250	8,884
On other loans fully secured on land	739	810
On other liquid assets:		
Interest and similar income	396	217
Net expense on derivative financial instruments	(126)	(338)
	10,259	9,573

4. Interest payable and similar charges

	2018 £000	2017 £000
On shares held by individuals	2,228	1,664
On deposits owed to other customers	494	403
	2,722	2,067

Notes to the Accounts (continued) For the year ended 31 December 2018

5. Fees and commissions receivable

	2018 £000	2017 £000
Mortgage related fees	154	195
Other fees and commissions	14	15
	168	210

6. Fees and commissions payable

	2018 £000	2017 £000
Mortgage related fees	120	136
Commission to investment agents and introducers	181	174
Other fees and commissions	5	9
	306	319

7. Fair value gains less losses from financial instruments

	2018 £000	2017 £000
Change in fair value of derivative financial assets	54	67
Change in fair value of derivative financial liabilities	50	284
	104	351

8. Administrative expenses

	2018 £000	2017 £000
Wages and salaries	2,001	1,882
Social security costs	219	211
Other pension costs	110	89
	2,330	2,182
Other administrative expenses:	1,717	1,848
Total administrative expenses	4,047	4,030

Other administrative expenses include: £000 £000

Auditors' remuneration:

For audit of the Society's annual accounts	72	71
Total audit fees	72	71

Assurance services other than the auditing of the Society's accounts	-	19
Total auditors' remuneration	72	90

Operating lease charges:

Land and buildings	86	86
Office equipment	7	10

9. Employees

The average monthly number of staff employed during the year was:

	2018 Full-time	2017 Full-time	2018 Part-time	2017 Part-time
Head Office	42	36	5	7
Branches	4	8	4	4
Total Society	46	44	9	11

Notes to the Accounts (continued) For the year ended 31 December 2018

10. Directors' emoluments and transactions with Directors

	2018 £	2017 £
a) Remuneration of Directors		
For services as Non-Executive Directors	156,967	152,397
For Executive services	450,376	412,771
	607,343	565,168

Full details are given in the Report of the Directors on Remuneration on pages 16 and 17.

b) Transactions with Directors and connected persons

Mortgage Loans

At 31 December 2018 there were no outstanding mortgage loans to Directors (2017: 0).

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.

11. Taxation

	2018 £000	2017 £000
<i>Current Tax:</i>		
Corporation tax at 19% (2017: 19.25%)	586	700
Adjustments in respect of prior years	-	4
<i>Deferred Tax:</i>		
Current year	16	2
Adjustments in respect of prior years	(1)	(4)
Effect of rate changes	(15)	-
Tax on profit on ordinary activities	586	702

	2018 £000	2017 £000
Factors affecting tax charge for the year		
Profit before tax	3,212	4,235
Profit multiplied by effective rate of corporation tax of 19% (2017: 19.25%)	610	815
<i>Effects of:</i>		
Adjustments in respect of prior years	-	1
Expenses not deductible for tax purposes	5	6
Income not taxable	(14)	(120)
Effect of rate changes	(15)	-
Total tax charge for the year	586	702

Notes to the Accounts (continued) For the year ended 31 December 2018

12. Impairment losses on loans and advances to customers

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

In 2018, further impairment charges of £89,000 were made against three loans in default at the previous period end, taking the total of the individual impairment allowances for these loans to £560,000 (2017: £20,000). Losses were subsequently crystallised in the period against these loans, resulting in the utilisation of these allowances in full. One further loan entered into default in the period which required an individual impairment allowance of £124,000 to be made. One continuing loan improved its arrears position to move out of default and this resulted in the release of £7,000 of individual impairment allowances. One loan which continues to be in default was reassessed based on changes to property valuations and this resulted in the release of £2,000 of individual impairment allowances. The level of collective impairment allowance reduced by £44,000 as a result of lower levels of arrears within the portfolio, and a reduced propensity for loans to progress to default status compared with the prior period.

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.

2017

At 1 January 2017:			
Collective impairment	163	99	262
Individual impairment	830	227	1,057
	<u>993</u>	<u>326</u>	<u>1,319</u>
Income and expenditure account charge/(credit) for the year:			
Collective impairment	(88)	(99)	(187)
Individual impairment	10	15	25
	<u>(78)</u>	<u>(84)</u>	<u>(162)</u>
Amount utilised during the year:			
Collective impairment	-	-	-
Individual impairment	(20)	-	(20)
	<u>(20)</u>	<u>-</u>	<u>(20)</u>
At 31 December 2017:			
Collective impairment	75	-	75
Individual impairment	820	242	1,062
	<u>895</u>	<u>242</u>	<u>1,137</u>

Notes to the Accounts (continued) For the year ended 31 December 2018

13. Loans and advances to credit institutions

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

	2018	2017
	£000	£000
Accrued interest	43	26
Repayable on demand	7,872	8,614
Repayable within three months	5,000	5,500
Repayable in more than three months and less than one year	3,500	3,500
Credit Support Annex (CSA) liabilities	(160)	(50)
	16,255	17,590

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 2018, £160,000 had been received (2017: £50,000 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	
	2018	2017	2018	2017
	£000	£000	£000	£000
Derivative assets:				
Interest rate swaps	49,960	32,465	230	162
Total recognised derivative assets	49,960	32,465	230	162
Derivative liabilities:				
Interest rate swaps	22,485	42,065	(128)	(198)
Total recognised derivative liabilities	22,485	42,065	(128)	(198)

Over 2018, the overall net asset from derivative financial instruments increased by £138,000 to £102,000 from a net liability of £36,000.

15. Loans fully secured on residential property

	2018	2017
	£000	£000
Gross balances	232,919	228,460
Allowance for impairment	(732)	(895)
Unamortised loan origination fees	86	119
	232,273	227,684

Notes to the Accounts (continued) For the year ended 31 December 2018

16. Other loans fully secured on land

	2018 £000	2017 £000
Gross balances	13,440	15,033
Allowance for impairment	(5)	(242)
	<u>13,435</u>	<u>14,791</u>

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:

	2018 £000	2017 £000
On call and at short notice	742	1,672
In not more than three months	1,150	1,145
In more than three months but not more than one year	5,598	5,331
In more than one year but not more than five years	29,523	29,068
In more than five years	209,346	206,277
	<u>246,359</u>	<u>243,493</u>
Allowances for impairment (see note 12)	(737)	(1,137)
Unamortised loan origination fees	86	119
	<u>245,708</u>	<u>242,475</u>

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 repositioned 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 provision for future consideration to pass to the Society on the anniversary of the disposal, the scale of that consideration being dependant on the size of the portfolio of landlords remaining with the purchaser. In 2018, the Society recognised a final payment of £70,647.

Notes to the Accounts (continued) For the year ended 31 December 2018

19. Intangible fixed assets

	Computer software £000
<i>At cost or valuation</i>	
At 1 January 2018	1,388
Additions	221
Disposals	(14)
At 31 December 2018	1,595
<i>Accumulated amortisation</i>	
At 1 January 2018	1,125
Charge	140
Disposals	(14)
At 31 December 2018	1,251
<i>Net book value</i>	
At 31 December 2018	344
At 31 December 2017	263

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

20. Property, plant and equipment

	Land and buildings			Equipment, fixtures and fittings and vehicles £000	Total £000
	Freehold premises £000	Leasehold premises (short) £000			
<i>At cost or valuation</i>					
At 1 January 2018:	2,290	64	868		3,222
Revaluation	660	-	-		660
Additions	-	-	97		97
Disposals	-	-	(37)		(37)
At 31 December 2018	2,950	64	928		3,942
<i>Accumulated depreciation</i>					
At 1 January 2018:	15	64	620		699
Charge	15	-	107		122
Revaluation	(30)	-	-		(30)
Disposals	-	-	(31)		(31)
At 31 December 2018	-	64	696		760
<i>Net book value</i>					
At 31 December 2018	2,950	-	232		3,182
At 31 December 2017	2,275	-	248		2,523

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 values basis. The Society conducts a full external revaluation every 5 years with an interim valuation conducted 3 years after each full revaluation.

Notes to the Accounts (continued) For the year ended 31 December 2018

21. Investment properties

	2018 £000	2017 £000
At 1 January	385	695
Disposals	-	(330)
Fair value adjustment	15	20
At 31 December	400	385

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:

	2018 £000	2017 £000
Within 1 year	22	32
Between 1 and 5 years	10	30
At 31 December	32	62

22. Deferred taxation

	2018 £000	2017 £000
Deferred tax liability at 1 January	(63)	(64)
Adjustments in respect of prior years	1	4
Charge to profit and loss account	(16)	(3)
Charge to revaluation reserve	(131)	-
Effect of rate changes	15	-
Deferred tax liability at 31 December	(194)	(63)

The elements of deferred taxation are as follows:

Fixed asset timing differences	84	93
Short-term timing differences	(278)	(156)
Deferred tax liability	(194)	(63)

A reduction in the UK corporation tax rate from 21% to 20% (effective 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and 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:

	2018 £000	2017 £000
Accrued interest	316	293
Repayable on demand	205,035	197,776
In not more than 3 months	6,125	6,157
In more than 3 months but not more than 1 year	16,370	10,357
	227,846	214,583

Notes to the Accounts (continued) For the year ended 31 December 2018

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:

	2018	2017
	£000	£000
Accrued interest	1	-
Repayable on demand	46,722	49,922
In not more than 3 months	3,091	3,217
In more than 3 months but not more than 1 year	9,117	9,744
	58,931	62,883

25. Other liabilities

	2018	2017
	£000	£000
<i>Amounts falling due within 1 year:</i>		
Corporation tax	281	380
Other taxation and social security	57	61
Other creditors	96	214
	434	655

26. Provisions for liabilities

	Provision for dilapidations	Provision for Financial Services Compensation Scheme levy	Total
	£000	£000	£000
At 1 January 2018	40	19	59
Charge for the year	20	(5)	15
Paid in the year	-	(9)	(9)
At 31 December 2018	60	5	65

The £20,000 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 40 re the provision for liabilities to the Financial Services Compensation Scheme.

Notes to the Accounts (continued) For the year ended 31 December 2018

27. Commitments

a) As at 31 December 2018, the total of future minimum lease payments under non-cancellable operating leases were as set out below:

	2018 Property £000	2017 Property £000
Society commitments:		
Within 1 year	86	86
Between 1 and 5 years	344	344
After 5 years	590	676
	1,020	1,106

As at 31 December 2018, the Society had approximately 12 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 2018 are £3,698,000 (2017: £2,435,000)

28. Pension schemes

During the year ended 31 December 2018 the Society operated a defined contribution personal pension scheme in respect of staff, and the charge for the year was £109,835 (2017: £89,520). As at 31 December 2018 there were outstanding contributions from the Society of £9,351 (2017: £7,566).

29. Contingent liabilities

Financial Services Compensation Scheme

Payments in respect of levies to the Financial Services Compensation Scheme are made in each fiscal year, based on the Society's share of protected Scheme deposits at the start of each calendar year. The Society's 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. A provision of £4,670 has been made in the current year (2017: £18,855) to ensure that the Society is fully provided against all estimates of current levy liabilities, based on the Society's best estimates of the level of its current expected exposure. There remains uncertainty over the future duration of the current Scheme and as to the level of future interest rates that would apply. There is also uncertainty as to whether the Society will have any further liability to the Scheme if projected capital shortfalls should increase and what the scale of those liabilities would likely be.

Notes to the Accounts (continued) For the year ended 31 December 2018

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 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

As at 31 December 2017	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	47,891	-	47,891
Loans and advances to credit institutions	17,590	-	17,590
Derivative financial instruments	-	162	162
Loans and advances to customers	242,475	-	242,475
Total financial assets	307,956	162	308,118
Total non-financial assets			3,591
Total Society assets			311,709
Society liabilities			
Shares	214,583	-	214,583
Deposits owed to other customers	62,883	-	62,883
Derivative financial instruments	-	198	198
Total financial liabilities	277,466	198	277,664
Total non-financial liabilities			1,004
General reserve and other reserves			33,041
Total Society reserves and liabilities			311,709

Notes to the Accounts (continued) For the year ended 31 December 2018

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.

		2018 £000	2018 £000	2017 £000	2017 £000
	Note	Carrying value	Fair value	Carrying value	Fair value
Society assets					
Cash in hand and balances with the Bank of England	i.	57,532	57,532	47,891	47,891
Loans and advances to credit institutions – excluding CSA receipts	i.	16,415	16,415	17,640	17,640
CSA receipts		(160)	(160)	(50)	(50)
Derivative financial instruments – interest rate swaps	ii.	230	230	162	162
Loans and advances to customers	iii.	245,708	247,104	242,475	243,646
		319,725	321,121	308,118	309,289
Society liabilities					
Shares	iv.	227,846	227,846	214,583	214,583
Deposits owed to other customers	iv.	58,931	58,931	62,883	62,883
Derivative financial instruments – interest rate swaps	ii.	128	128	198	198
		286,905	286,905	277,664	277,664

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.

Notes to the Accounts (continued) For the year ended 31 December 2018

30. Financial instruments (continued)

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.

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 sub-committees.

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

	2018 £000	2018 %	2017 £000	2017 %
Retail mortgages	225,147	91.4	221,956	91.2
Commercial mortgages	21,212	8.6	21,537	8.8
Total gross exposure (contractual amounts)	246,359	100.0	243,493	100.0
Impairment, fair value and EIR adjustments	(651)		(1,018)	
Total net exposure	245,708		242,475	

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 £225,147,000 (2017: £221,956,000) consists of total loans fully secured on residential property (FSRP) of £224,847,000 (2017: £221,654,000) plus £300,000 (2017: £302,000) of loans fully secured on land (FSOL) made to private individuals.

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 2018, approximately 41% (2017: 43%) of first charge retail loans by account and 39% (2017: 42%) 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:

	2018 %	2017 %
Less than 70%	64.0	63.9
More than 70% but less than 80%	18.4	18.1
More than 80% but less than 90%	8.8	8.5
More than 90% but less than 100%	8.3	8.9
More than 100%	0.5	0.6
	100.0	100.0

Notes to the Accounts (continued) For the year ended 31 December 2018

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 49.1% (2017: 49.8%). 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.

	2018	2018	2017	2017
	£000	%	£000	%
Current	220,102	97.7	215,534	97.1
Past due up to 3 months	3,319	1.5	4,479	2.0
Past due 3 to 6 months	602	0.3	143	0.1
Past due 6 to 12 months	1,099	0.5	1,513	0.7
Past due over 12 months	25	0.0	287	0.1
	225,147	100.0	221,956	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 2018, the total collateral held against retail lending secured against residential property was estimated to be £458.7m (2017: £445.9m). 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:

	2018	2017
	£000	£000
Individual impairment	706	820
Collective impairment	26	75
	732	895

Notes to the Accounts (continued) For the year ended 31 December 2018

30. Financial instruments (continued)

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

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 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 2018, 4 (2017: 2) retail accounts with balances totalling £860,405 (2017: £188,515) in value were granted forbearance concessions. As at 31 December 2018, 6 (2017: 10) retail accounts with balances totalling £1,825,229 (2017: £2,654,831) remained on special payment arrangements plus a further 1 (2017: 2) retail account with a balance totalling £25,069 (2017: £158,433) 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.

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 43 of £21,212,000 (2017: £21,537,000) consists of total loans fully secured on land (FSOL) of £13,140,000 (2017: £14,731,000) plus £8,071,000 (2017: £6,806,000) 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:

	2018	2018	2017	2017
	£000	%	£000	%
Loans secured on residential property	8,072	38.1	6,806	31.6
Loans secured on commercial property	13,140	61.9	14,731	68.4
	21,212	100.0	21,537	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:

	2018	2018	2017	2017
	£000	%	£000	%
Office	1,989	15.1	2,387	16.2
Retail	2,135	16.3	2,679	18.2
Industrial	1,422	10.8	1,434	9.7
Leisure	3,775	28.7	3,777	25.6
Land	645	4.9	957	6.5
Other	3,174	24.2	3,497	23.8
	13,140	100.0	14,731	100.0

Notes to the Accounts (continued) For the year ended 31 December 2018

30. Financial instruments (continued)

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

ii) Commercial mortgages (continued)

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:

	2018 £000	2018 %	2017 £000	2017 %
South West	14,527	68.5	13,986	64.9
South East	888	4.2	899	4.2
Greater London	2,701	12.7	2,482	11.5
Midlands	1,229	5.8	1,930	9.0
Wales	201	0.9	201	0.9
North	1,666	7.9	2,039	9.5
	21,212	100.0	21,537	100.0

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 44.6% (2017: 44%). Index linked LTV banding is shown below:

	2018 %	2017 %
Less than 70%	93.8	94.9
More than 70% but less than 80%	6.2	3.7
More than 100%	-	1.4
	100.0	100.0

As at 31 December 2018, the largest single commercial loan was £1.37m (2017: £1.37m) or 6.46% of gross balances. The largest combined exposure to a single commercial counterparty, who has multiple mortgages on different properties, was £1.09m (2017: £1.17m) or 5.14% 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 2018. The balances exclude fair value adjustments and impairment allowances.

	2018 £000	2018 %	2017 £000	2017 %
Current	20,718	97.7	20,140	93.5
Past due up to 3 months	-	-	875	4.1
Past due 3 to 6 months	494	2.3	-	-
Past due 6 to 12 months	-	-	210	1.0
Past due over 12 months	-	-	312	1.4
	21,212	100.0	21,537	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 Halifax price index.

As at 31 December 2018, the total collateral held against lending secured against commercial property was estimated to be £47.6m (2017: £48.9m).

As at 31 December 2018, no commercial properties were in possession and hence no collateral was held against cases in possession (2017: £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.

Notes to the Accounts (continued) For the year ended 31 December 2018

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:

	2018 £000	2017 £000
Individual impairment	-	242
Collective impairment	5	-
	5	242

Forbearance strategies on commercial loans

See the note on the Society's general forbearance strategy on page 45.

In 2018, no commercial accounts were granted forbearance concessions (2017: nil). As at 31 December 2018, 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.

	2018 £000	2017 £000
UK government securities and amounts held with central banks	57,413	47,803
UK financial institutions	16,255	17,590
	73,668	65,393

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 £160,000 has been received from (2017: £50,000 pledged to) other financial institutions to mitigate the risk inherent in amounts due to 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 broken down by Fitch ratings:

	2018 £000	2017 £000
AAA to AA-	57,424	47,821
A+ to A-	7,702	2,919
BBB+ to BBB-	1,000	7,632
Unrated	7,542	7,021
	73,668	65,393

Notes to the Accounts (continued) For the year ended 31 December 2018

30. Financial instruments (continued)

d) Credit risk on treasury financial instruments (continued)

The geographical distribution of treasury exposures is as follows:

	2018 £000	2017 £000
UK	73,668	65,393
	73,668	65,393

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 statements of financial position as the tables incorporate only principal amounts and do not reflect accrued interest or fair value adjustments.

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
31 December 2017	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	197,776	6,157	1,331	9,026	-	214,290
Deposits owed to other customers	49,922	3,217	9,506	238	-	62,883
	247,698	9,374	10,837	9,264	-	277,173
Society derivative liabilities						
Interest rate swaps	-	5	13	85	95	198
	-	5	13	85	95	198

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

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 2018, if there was a 2% parallel upward shift in interest rates the adverse impact on reserves would be £307,000 (2017: £224,000 favourable impact on reserves).

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

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 2018:

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 2018	Public subsidies
United Kingdom	Deposit taking, mortgage lending	£7.4m	53	£3.2m	£0.7m	£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 on 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 2018 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 2018 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 company's ability to continue as a going concern.

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.

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 (continued)

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 company'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
8 March 2019

Annual Business Statement

For the year ended 31 December 2018

1. Statutory percentages

	2018 %	Statutory Limit %
Lending Ratio	5.8	25.0
Funding Ratio	20.6	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.

Annual Business Statement (continued) For the year ended 31 December 2018

2. Other percentages

	2018 %	2017 %
As percentage of shares and borrowings:		
Gross capital	12.6	11.9
Free capital	11.4	10.9
Liquid assets	25.7	23.6
Profit for the year as a percentage of mean total assets	0.83	1.16
Management expenses as a percentage of mean total assets:	1.35	1.39

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.

Annual Business Statement (continued) For the year ended 31 December 2018

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

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investments@bibs.co.uk

Mortgage enquiries:

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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 Investment & Building Society is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority, Registration Number 206026.



We're different because you are