Annual Report & Accounts 2022

Bath Building Society
We're different because you are

Directors

Joanne Evans	Non-Executive Director and Chair
Angela Cha	Non-Executive Director, Vice-Chair and Senior Independent Director
Robert Derry-Evans	Non-Executive Director and Chair (Retired on 31 December 2022)
Chris Smyth	Non-Executive Director, Vice-Chair (Retired on 28 April 2022)
Kevin Gray	Chief Executive
Tonia Lovell	Director of Risk Management
Tom Leach	Chief Financial Officer (Resigned 14 July 2022)
Richard Ingle	Chief Financial Officer (Appointed 22 August 2022)
David Smith	Non-Executive Director
Fionnuala Earley	Non-Executive Director
Kevin Hayes	Non-Executive Director (Appointed 1 January 2022)
Sameer Rahman	Non-Executive Director (Appointed 1 May 2022)

Officers

Colin McDougall	Chief Commercial Officer
Jason Wilmot	Chief Operations Officer
Steve Burnard	Chief Transformation Officer (Appointed 1 January 2023)

Professional Advisers

Independent Auditors

PricewaterhouseCoopers LLP
2 Glass Wharf
Bristol
BS2 0FR

Internal Auditors

RSM Risk Assurance Services LLP
14th Floor
20 Chapel Street
Liverpool
L3 9AG

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Chair's Report

For the year ended 31 December 2022

In a year where Bath Building Society ('the Society') has had to cope with a multitude of operational challenges, it has delivered an acceptable set of financial results.

Business Highlights

Gross mortgage lending of:

£48.1m

2% lower than previous year
(2021: £49.2m);

Society reserves
up by 5.9% to:

£44.5m

(2021: £42.0m);

Shares and borrowings net outflow of:

£8.3m

(2021: £6.3m net inflow)

which reduced the Society's savings book by 2.6% to a level of **£308.3m**
(2021: £316.6m);

Society profit on ordinary activities before taxation increased by 52.4% to:

£3.2m

(2021: £2.1m);

Liquid assets ratio increased to:

27.7%

of shares and borrowings
(2021: 27.3%);

Total assets of the Society increased by 0.3% (2021: 2.2%) to a level of:

£362.2m

(2021: £361.2m); and

Cases with arrears more than 2 months reduced to

9

(2021: 11).

The key 2022 economic influences on the Society's business

Although the general economic impact from Covid continued to decrease in 2022, the virus remained in widespread circulation and as such, the Society retained some measures to minimise the risk of colleague and customer infection. The sudden outbreak of the war in Ukraine in February 2022 resulted in significant increases in international energy prices which rapidly pushed up the rate of inflation in the United Kingdom and elsewhere. In order to try and subdue these inflationary pressures the Bank of England (BOE) sharply increased its base rate over the year. This resulted in the Society having to process increases in its savings rates and its standard variable rate for mortgages on seven separate occasions.

The increases in our savings rates have positively impacted the majority of our Membership but those of our borrowing Members who do not have fixed rate mortgages will have experienced significant increases in their monthly repayments. The Society closely monitors the potential signs of payment difficulties however there wasn't any uptick in arrears or repayment issues during 2022. It is possible that these may increase in the future if interest rates continue to rise and the cost-of-living crisis impacts our customers more. The Society remains committed to assisting its borrowers who fall into difficulties with their loan repayments as best as it can and encourages those Members to contact the Society as early as possible.

The rapid increase in interest rates improved the Society's 2022 earnings. The majority of the Society's liquid assets are held on deposit at the BOE and for the first time in over a dozen years, the Society earned a positive margin on holding liquid assets. This was a major factor in the improvement in the Society's profitability.

With rapidly rising interest rates, it was no surprise that throughout 2022, demand from potential borrowers was strongly in favour of fixed rate mortgage products. The Society hedges fixed rate loans by buying interest rate swaps. The severe volatility in UK financial markets caused by the mini-budget in September 2022 resulted in swap pricing rising very quickly to the point where fixed rate lending rapidly became uneconomic for the Society and all such products had to be withdrawn from the market immediately. Although this situation thankfully reversed back to some semblance of normality, the Society was unable to offer fixed rate products to new customers in the final quarter of 2022 and this had a negative impact on its annual lending figures as a result.

Key operational challenges faced by the Society in 2022

The large number of interest rate changes that had to be processed and the requirement to appropriately resource business change projects were both significant operational challenges for the Society. The high workload was exacerbated by a combination of increased colleague absence due to the Omicron variant of Covid. 2022 also saw a higher than average colleague turnover and a tight labour market meant it took longer than average to recruit to fill those vacancies and additional created positions.

At times reduced staffing levels did result in the Society restricting new mortgage applications and temporary closures of branch counters at short notice. Unfortunately, these actions did respectively contribute to the reduction in annual gross advances compared with the prior year and a temporary increase in customer complaints. In its key commercial and operations areas, the Society managed to fill the majority of its vacancies by year-end and this has relieved pressure on the business.

Agency closures

The Society permanently closed its remaining five agencies on 30 September 2022. The decision to close was taken after the results of a strategic appraisal indicated that agencies were becoming increasingly costly to operate and that their contribution to the Society's strategic ambitions were likely to be limited. The Society made maximum efforts to retain the support of as many Members that were using the agencies as possible. Nevertheless, the Society anticipated that there would be some negative customer impact from the closures and that they would result in a reduction in balances and Membership. Indeed, the reduction in the Society's savings balances over 2022 was almost completely due to the agency closure programme. I would like to place on record my thanks to our ex-agents who have worked with us in a spirit of partnership over many years. We wish them every success for their futures.

Risk management

In 2022 the Society expanded its Risk Management and Compliance Department in order to enhance its abilities to critique and challenge the Society’s risk assumptions, its risk management processes and its review of key prudential risk management documents. The Society will look to further strengthen its risk management capabilities in the year ahead.

Forward to the future

The Society commissioned two major pieces of consultancy work in 2022 that were focussed on ascertaining the best way forward for it to deliver transformative improvements in its productivity and its customer journeys. The recommendations from these consultations now form one of the major themes of the Society’s future business strategy and it will result in material investment being made into the Society’s people, systems and technology over the next five years. Once the benefits of this investment are fully realised, the Society will have a solid foundation, capable of growing its asset base and Membership at a faster pace in future years and reducing the probability of additional operational risks. This in turn will deliver the Society’s future financial success.

The Society’s Board of Directors

After nine years of stalwart service to the Society, Robert Derry-Evans stood down from the Board at the end of 2022. On behalf of his Board colleagues, I would like to thank him for his significant contribution as a Non-Executive Director and especially for his wise stewardship during his term as Society Chair.

After four successful years as Chief Financial Officer, Tom Leach left the Society in July 2022 to be replaced by Richard Ingle on 22 August 2022. I want to take this opportunity to thank Tom for his productive four years of service to the Society and particularly the prudential risk management improvements he made in this time. As part of Board succession planning, Sameer Rahman joined the Board as a Non-Executive Director on 1 May 2022. We wish Robert and Tom every success for their respective futures and we welcome Richard and Sameer.

I would like to acknowledge the continued support that the Society has received from its Members, mortgage intermediaries and suppliers during what was another challenging year. Finally, I would like to thank the Society’s colleagues for their continued hard work and professionalism. Their efforts have been truly appreciated by the Board having advanced numerous strategic projects over 2022 that will lay the foundations for a sustainable and profitable future.

Joanne Evans
Chair of the Board
7 March 2023

Chief Executive's Report

For the year ended 31 December 2022

Mortgages

Over recent years, Britain's housing market experienced a surge in demand from buyers which led to sharp increases in property values. However, rising interest rates has hit momentum and 2022 house price growth reduced to 1.9%, the weakest rise in three years. Despite a slowing market, the Society attracted the highest level of customer applications for its mortgages in its history. However, due to a combination of factors, it has reported a year-end mortgage book of £264.2m (2021: £269.1m), this being 1.8% lower (2021: 0.7% higher) than the prior year.

The sharp increase in market interest rates and the spiralling cost of living led to more applicants failing the Society's loan affordability test. Furthermore, anticipating a reduction in house prices, property surveyors were more prudent in their valuations, and this resulted in more applications failing due to insufficient security. The Society intentionally reduced application volumes in the second quarter of the year to avoid over working staff who were having to cope with temporary staff shortages and high demands to support business change projects.

Conveyancer difficulties throughout 2022 led to a significant market-wide increase in the time taken between applications reaching their contractual offer stage and loans actually advancing. This meant that many applications received by the Society in the third and fourth quarters of the year had not proceeded to advance by year-end. The Society experienced a significantly higher level of capital repayments in 2022 compared with the prior year as more borrowers chose to make part repayment of their loans.

Fair value assessments of the Society's fixed rate loans and their associated interest rate swap instruments are undertaken annually. With a background of rapidly rising market interest rates, the fair values of fixed rate loans were reduced by £6.9m compared with only £1.4m in 2021 and this is why the Society has reported negative book growth for 2022.

The principal part of the Society's lending business continues to be mortgages to private individuals to facilitate the buying of their own homes. In 2022, lending to owner occupiers was £30.7m (2021: £34.9m) which constituted 64% (2021: 71%) of the Society's gross lending.

Compared with 2021, the Society experienced increased demand for its prime residential mortgages, for student mortgages, and for mortgages for those who wished to buy an equity share in their existing housing association homes. The Society advanced fewer mortgages to those building their own homes and to those with residential mortgages that were supported by indemnity insurance.

In 2022, lending to borrowers who bought properties that were rented out to tenants was £17.4m (2021: £14.5m) and this formed 36% (2021: 29%) of the Society's annual gross lending. The Society experienced a reduction in demand for mortgages to purchase holiday properties in favour of increased demand for lending to buy properties that were rented on longer-term tenancies.

The Society updated its mortgage fee structure in 2022 with product fees generally becoming a higher fixed monetary level rather than being a variable proportion of loan size. This has improved the reporting of the Society's mortgage range on intermediary sourcing systems and has attracted larger loan applications.

Over the course of 2022, the Society made progress with projects aimed at improving productivity and customer journeys. The Society launched a new loan affordability calculator on its website with functionality that permits intermediaries and potential borrowers to more accurately self-test their enquiries against the Society's affordability rules. This has significantly reduced the need for mortgage sales staff to service enquiries, subsequently freeing them up to do more productive work.

The Society also successfully completed the first part of a project that will eventually result in the adoption of a paperless direct debit process. The first phase of a major project to streamline the processing of mortgage applications completed in 2022, with the aim of reducing the time taken for the Society to issue customers with contractually binding mortgage offers. To complement its popular Live Chat facility, the Society introduced the Bath Electronic Assistant (BEA) in August 2022. This is an AI chatbot that has been trained to accurately answer hundreds of frequently asked questions from intermediaries about the Society's mortgage range and its lending policies. BEA supports these enquiries in real time and it is especially useful in out of hours periods when Society staff are not available. Since its launch, it has accurately answered over 1,200 enquiries without the need for human intervention.

It is the Society's future intention to extend BEA's use to answer questions from a wider range of the Society's customers.

The Society continues to take a firm but sympathetic approach to the management of arrears. The number of cases being three or more months in arrears or otherwise in default reduced to eight (2021: 11). The number of cases requiring individual impairment charges has increased to two (2021: one). The Society had no properties in possession at year-end (2021: none).

Savings

With the Society starting 2022 with substantial liquid assets and with net mortgage growth being weaker than expected, the Society had a very limited requirement for new funding. Nevertheless, retaining the savings balances remained a challenge. With a constant series of market interest rate rises there was very little clarity about the positioning of competitor pricing in the savings marketplace over 2022 and this complicated the Society's job of setting its savers' rates at just the right level to give a fair return and ensure retention of balances. Over the course of the year, the seven increases in the Society's savings rates resulted in the annual interest paid to the Society's savers rising to £2.8m (2021: £1.2m). With the exception of savings balances lost due to the closure of agency offices, the Society was successful in holding its balances of shares and deposits.

The Society launched a number of new savings accounts in 2022. New issues of its 12 month and 24 month fixed rate ISA products proved very popular with Members. To appeal to savers who wished to track the rising Bank of England (BOE) base rate, a new Base Rate Tracker Bond was issued that attracted over £5m of funding within only a few weeks. The Society launched a cash Lifetime ISA product in late 2022. This important product comes with a generous Government bonus and is aimed at young people saving towards a deposit for their first home or their retirement.

The Society aims to offer its savers as much choice as it can regarding the distribution channels that they wish to use to transact on their accounts. For the foreseeable future, the Society remains committed to operating its two branches located in Bath and it plans to start a branch refurbishment programme in 2023. Work continues apace to test an application that will provide the Society's Members with the functionality to securely access their savings accounts via their mobile phones. The application is due to launch in 2023.

The Society is intending to replace its Bath Online internet portal with a new system later in 2023.

Investment in people

The Society's strategy plans for increased investment in people, processes and technology to help deliver improved productivity and higher levels of future asset growth. Over 2022, the total number of Society colleagues increased to 73 individuals, a net increase of ten over the year. These new colleagues have primarily been recruited into the Society's savings support, mortgage sales, risk and compliance and business change functions. It is anticipated that the Society's headcount will continue to grow in future years but at a slower rate.

Customer satisfaction

The Society continues to assess the opinions of its customers via online surveys by Smart Money People. A Net Promoter Score (NPS) is measured that in simple terms balances customers' positive and negative views of the Society. An NPS of 70 or above is considered to be an excellent score. Data from 395 (2021: 389) participants in the survey resulted in a Society NPS of 80.3 (2021: 83.5). The participants in the surveys again mentioned good service, helpful staff and the absence of waiting times as particular strengths of the Society. Despite these very encouraging results, the Society will continue to seek improvements in its service and it will retain its focus on consistently delivering high customer satisfaction where it can.

A focus on Members

The Society wishes to grow its Membership and in recent years it had been successful in doing this. The closure of the agency network in 2022 stalled this progress and unfortunately resulted in a net loss of approximately £9m from 500 Members with savings accounts. Although this is disappointing, the levels of account closures were below expectations and it is anticipated that the Society will quickly revert back to its Membership growth agenda in 2023. In November 2022, the Society held the inaugural meeting of its new Member Forum at 15 Queen Square, Bath. The Members who participated had the opportunity to hear from me as the Chief Executive about current Society thinking and to pose any questions on any subjects of interest or concern. The Society gathered very useful feedback from its Member attendees including on the role of branches and the planned new mobile app. Due to its success, the Society intends to hold further Member Forum meetings in 2023.

Environment, social and governance

The Society takes its responsibilities towards achieving the UK Government's 'net-zero' carbon emissions target by 2050 extremely seriously. Initiatives are planned for 2023 and 2024 that will attempt to reduce the Society's own usage of electricity and gas, as well as reduce its general environmental footprint. The Society is also investigating how best to incentivise its borrowers to improve the thermal efficiency of their mortgaged properties.

In celebration of the Society's upcoming 120th anniversary in 2024, the Society has paid for 1,200 trees to be planted in and around the City of Bath in association with More Trees BANES, an organisation established to promote local tree planting. The Society is also intending to establish a small tree nursery on part of its grounds at its Wood Street branch in Bath city centre.

On an annual basis, the Society selects a Charity of the Year. The Society's colleagues make initial proposals to the Chief Executive who then selects a short list of suitable charities. Members and Society colleagues then elect their preferred charity from the short list. BillyChip, a local charity that aims to support rough sleepers through gifts of food and warm drinks, was the Society's Charity of the Year until 31 December 2022. Bath Mind has been selected to be Charity of the Year for 2023. Bath Mind is a local and independently run mental health charity that supports the mental health and wellbeing of people across Bath & North East Somerset.

Over 2022, the Society expanded its provision of financial education to young people in association with WizeUp, a charity that partners with many local and regional societies to provide this specialised and valued service. Over the course of 2022, over 4,000 hours of face to face and online training were provided to 2,300 sixth formers from 11 Bath state schools and local colleges. The scale of the Society's partnership with WizeUp now comfortably makes it their largest society relationship.

The Society again sponsored the Fireworks Safety Poster Competition which is organised by The Rotary Club of Bath. This long running sponsorship aims to improve the awareness of the dangers of fireworks amongst Primary School aged children in the Bath area. The Society also supported the Rotary Christmas Carol Service held in Bath Abbey, half of the collection from which went to benefit the Society's Charity of the Year.

The Society's Small Charities Awards is now in its 16th year and it continues to provide local charities with small grants that make a real difference to their operations. In 2022, eight small charities benefitted from the Society's awards.

Over the course of 2022, the Society held four Dementia Awareness training sessions for its colleagues and one session for the benefit of interested Members. These sessions are immensely informative about the subject of dementia and are widely appreciated by the attendees. The Society aims to hold more such sessions in the future.

In June 2022, the Society started a major partnership with Team Bath, the University of Bath's elite sports team. A significant amount of Society branding can now be found at the University's Sports Campus and on Team Bath sports outfits. The partnership supports sport and fitness at all levels within Team Bath and offers the Society an excellent opportunity to promote its name and products to a larger audience and to benefit from wider TV coverage of Team Bath events and its sporting successes.

The Society has a strategic ambition to grow its investment in environmental and social programmes that benefit the local community. This reflects the Society's strong belief that this is the right thing for a forward thinking and responsible business to do when it can afford to do so. The Society's total contribution into the Bath community for 2022 was £740 per employee (2021: £686).

As my fifth year as Chief Executive comes to an end, I would like to thank all of our colleagues for their hard work and support in what was another challenging period. Over 2022, the Society made real progress with projects that will advance its strategic ambitions. Although weaker asset growth was undoubtedly disappointing, the increase in profitability in 2022 is welcomed as it further strengthens the Society's reserves and it provides a strong platform to finance planned future increases in business investment.

Kevin Gray
Chief Executive
7 March 2023

Strategic Report

For the year ended 31 December 2022

The Directors have pleasure in presenting their Strategic Report for the year ended 31 December 2022.

Business objectives

Bath Building Society is in business to improve the lives of its Members by providing savings and mortgage products to help them grow their financial resilience and achieve their property-owning aspirations. 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 personalised underwriting techniques to the assessment of prime mortgage cases that are complex in nature and require a high level of manual intervention, and for which higher margins are appropriate. The Society's strategy focuses on delivering strong profitability through offering a range of innovative mortgage products to customers who demand a personal and flexible mortgage service.

In 2022 the Society realised modest growth in customer mortgage balances though this was offset by a significant negative impact from accounting adjustments following the increase in interest rates in the year. The Society rationalised its distribution channels by closing the remaining five agencies, so as to be able to focus customer service through the branches and from March 2023 through the new mobile app. There had been dwindling demand from customers to be served through the agencies and there were substantial costs associated with keeping them open. The saved costs here mean that the Society is able to offer improved savings account interest rates.

After a huge contraction in the UK economy in 2020 due to the Covid lockdowns and then recovery in the following year, 2022 saw the tragic invasion of Ukraine and escalation of energy prices, general inflation and interest rates. The UK economy narrowly avoided a recession in the second half of 2022 but is widely forecast to experience a small recession in the first half of 2023. Despite the decline in output, unemployment held steady, finishing the year at 3.7%.

The unprecedented drop in real wages saw a wave of industrial action at the end of 2022, with the Government seeking to balance its fiscal position, avoid a wage-price inflation spiral but also support lower income households who have been particularly badly affected by high energy and food price inflation. The further evolution of these industrial disputes, and developments in Ukraine and in energy prices more generally, will significantly impact the expected downwards trajectory of inflation in 2023 and beyond. The development of actual and expected inflation will shape the future path of interest rates.

Bank of England base rate rose from 0.25% at the start of 2022 to 3.5% at the end of the year, one of the most rapid monetary policy cycle tightenings of the last three decades. The events around the mini-budget on 23rd September led to a spike in interest rates, with forward rates increasing by over 2%-points in the space of a month. The Society withdrew all fixed rate mortgages on 26th September to protect the Society and with that Members' interests. The Society was then able to offer fixed rate mortgages again to existing customers from 1st November, as it extended its approach to managing interest rate risk by hedging the pipeline of mortgage offers.

House prices began to dip at the end of 2022, with market forecasts of a further decline, of around 5-10% in 2023. With more knowledge workers spending a larger proportion of the working week in the office compared to home the demand for large rural properties has slowed compared to the surge seen during the Covid era.

The Society continues to have well diversified funding from its savings products. The closure of the agencies led to a related outflow of savings balances of £9m. Other deposits and savings balances realised a modest growth of £1m for an overall net £8.3m (2.6%) reduction in the year. Savings and deposits balances are targeted to grow significantly in 2023, supported by the recently launched Lifetime ISA as well as improved onboarding processes, including the facility to become a new savings customer via the new mobile app.

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. Given the changes in the way that many Members choose to transact, the Society recognises the importance of investing in technology to ensure systems and processes best support colleagues in continuing to offer market leading service levels.

The economic outlook for 2023 is for a contraction of the economy following the increase in interest rates through 2022 and early 2023 to dampen inflation. It is expected that the interest rate cycle will peak early in 2023 but the further development from here depends significantly on the evolution of key current uncertainties including the lagged impact that monetary policy tightening will have, including on unemployment and wage expectations as well as the future path of energy prices.

Only nine of our mortgage customers were more than two months in arrears at the end of 2022 (2021: 11) but the level of customers experiencing repayment difficulties is expected to increase through 2023, potentially leading to increased credit loss impairments.

A potential further reduction in house prices would help first time buyers realise their property-owning ambitions, but the increase in interest rates increases mortgage repayments, making them less affordable for customers who have moved onto a higher rate. Despite these external pressures the Society enters 2023 in a strong position with robust margins, a low level of arrears, and a range of mortgage products to support customers in realising their property-owning aspirations.

Business review and future developments

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

- 'Mortgage Asset Growth' is the percentage growth in the Society's total of loans and advances to customers (excluding allowances for impairment, unamortised loan origination fees and fair value adjustments) as measured between calendar year-ends, as stated in Note 17 to the accounts on page 47.

- 'Net Interest Margin' is the ratio of the Society's net interest income for the year as stated in the Income Statement on page 33 to the average of the current and prior year end total asset figures as stated in the Statement of Financial Position on page 34.

- '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's profit before taxation as stated in the Income Statement.

- 'Common Equity Tier 1 Ratio' is the percentage given by dividing Common Equity Tier 1 regulatory capital of £43.9m (2021: £41.3m) by the sum of risk weighted assets.

- 'Leverage Ratio' is the percentage given by dividing Tier 1 regulatory capital of £43.9m (2021: £41.5m) by total assets as adjusted for mortgage pipeline commitments, intangible assets, allowances for impairment and financial derivatives.

- 'Liquidity Coverage Ratio' is the percentage given by dividing high quality liquid assets by total net cash outflows calculated over a 30 day stressed period.

Key Performance Indicator	2022	2021
Mortgage Asset Growth	**0.2%**	1.6%
Profit Before Tax	**£3,196,000**	£2,126,000
Net Interest Margin	**2.5%**	2.13%
Management Expense Ratio	**1.76%**	1.52%
Common Equity Tier 1 Ratio	**30.4%**	31.8%
Leverage Ratio	**11.2%**	10.9%
Liquidity Coverage Ratio	**245%**	291%

The Board's aims for 2022 were to achieve modest growth in the Society's mortgage portfolio whilst maintaining a strong interest margin and to invest in the capabilities of the Society with particular focus on increasing efficiency in mortgage operations and improving the digital offering for savings Members.

The Society achieved 0.2% (2021: 1.6%) growth in mortgage assets in 2022. The reduction in growth rate year on year was driven by operational constraints in the Society's mortgage operations team. Net interest margin increased from 2.13% to 2.5% in the year due to the increase in market interest rates.

The increase in the Society's net interest margin supported improved profit before tax, of £3,196k (2021: £2,126k). While the increased profit contributed to an increased buffer, risk weighted assets increased faster due to interest rate swaps becoming strongly in the money due to increase in the yield curve. The Society's Common Equity Tier 1 Ratio therefore reduced to 30.4% (2021: 31.8%). The Society's Leverage Ratio increased to 11.2% (2021: 10.9%) driven again by the increase in the level of capital held.

The management expense ratio increased to 1.76% (2021: 1.52%) due to the investment in the Society's digital capabilities and operational capacity and resilience, together with supplier cost inflation. This ratio will increase further in 2023 as the Society intensifies its investment in systems, processes and people to improve customer service and long-term productivity. This investment programme will enable improved mortgage asset growth and with that income, to cover the fixed costs of running the society and support its long-term success. The investment programme is planned to run across 2023-2025. The management expenses ratio will improve after the peak of the programme, from 2025 onwards.

Further detail on the Liquidity Coverage Ratio is set out in the 'Liquidity risk' section below.

As at 31 December 2022 the Society held eight (2021: 11) mortgage loans that were three months or more in arrears or otherwise considered to be in default. The total balance outstanding on these loans without considering specific impairment was £1,791k (2021: £2,886k) and the total arrears outstanding were £48k (2021: £57k).

The Society holds individual impairment allowances of £460k (2021: £412k) against these loans. The collective allowance for impairment at the end of the year was £132k (2021: £155k). This collective impairment allowance amount includes £100k for properties potentially impacted by unsafe cladding. Following a Government announcement in 2021 (that it will fund cladding remediation for properties over 18 meters in height), in January 2022 the Levelling-Up Secretary announced an intention to hold those builders who installed unsafe cladding to account for the rectification costs. Successful progress of this initiative in 2023 should enable reconsideration of the cladding impairment at the end of the year.

In 2022 the Society recognised a net charge for impairment of £14k (2021: £73k net charge) and made no utilisation of individual impairment allowances (2021: no utilisation) as a result of the crystallisation of losses against previously impaired loans. Total allowances for impairment increased to £592k (2021: £567k).

The Society uses certain forbearance techniques to help borrowers whose finances are stressed. These techniques include moving loans from a 'capital and interest' basis to an 'interest-only' basis, acceptance of temporary reductions in mortgage payments, and taking an active part in managing the collection of rental income to move defaulting buy-to-let and holiday home loans out of arrears. The impact of all forbearance activity 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 £2,593k (2021: £1,643k). Total capital at 31 December 2022 was £44,549k (2021: £41,956k), representing the aggregate of the general and revaluation reserves. Free capital at 31 December 2022 was £41,411k (2021: £38,772k), representing the aggregate of gross capital and collective impairment on loans and advances to customers, less tangible fixed assets. At 31 December 2022 the ratios of gross capital and free capital, as a percentage of shares and borrowings, were 14.5% (2021: 13.3%) and 13.4% (2021: 12.3%) respectively. Throughout 2022, the Society fully complied with its regulatory capital requirement.

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

Unaudited	2022 £000	2021 £000
Capital available:		
General reserve	43,594	41,001
Revaluation reserve	955	955
Total capital per Statement of financial position	**44,549**	**41,956**
Regulatory adjustments to obtain Common Equity Tier 1 and Tier 1 capital		
Intangible assets	(614)	(658)
Common Equity Tier 1 capital and Tier 1 capital	**43,935**	**41,298**
Tier 2 capital - collective allowance for impairment	132	155
Total regulatory capital	**44,067**	**41,453**
Total capital requirement	11,556	10,376
Surplus over Total Capital Requirement	32,511	31,077

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 29 ci)

Credit risk in the mortgage book is managed through the application of stringent lending criteria where a focus is placed on ensuring that the quality of new lending remains high. The Board monitors the level of arrears in the Society's existing loan book and how individual arrears cases are progressing. In common with all lenders, the Society's arrears levels are negatively impacted by rising unemployment, falling house prices and rising interest rates. The Society has generally experienced a low level of new residential arrears cases but it recognises that any deterioration in the economic outlook for the UK could increase levels of unemployment and impact adversely on house prices, and thereby increase the probability of future loan arrears and defaults. In 2022 the Society repossessed no residential properties (2021: none).

Credit risk – lending secured on commercial property (See Note 29 cii)

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

The Society's lending secured on commercial property 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 lending secured on commercial property 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 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 2022 the Society did not crystallise a loss against any commercial property loan (2021: none) and no specific impairment allowances were held against loans secured on commercial property (2021: £nil). There were no loans secured on commercial property in default at the year end (2021: none).

Credit risk – treasury portfolio (See Note 29 d)

Credit risk in the treasury portfolio is primarily managed by limiting the maximum size of investments and by only investing directly with counterparties that are of a predetermined credit quality. The Society does not invest in structured investments. As part of its treasury credit risk control processes, the Society utilises the published data from international credit ratings agencies and takes professional advice from treasury market experts. The Society believes that there is a low likelihood of a loss from direct exposure to any of its counterparties; however, the Society prudently limits its exposure to most individual market counterparties to £2m but will place larger investments with the main UK clearing banks, the UK Government, the Bank of England and multilateral development banks. The Society has no exposure to foreign banks and all investments are denominated in Sterling.

Liquidity risk (See Note 29 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 business in normal and stressed economic circumstances. The Society continues to maintain a robust liquidity position, with liquid assets at year-end being 27.7% (2021: 27.3%) of shares, deposits and loans (SDL). The Society also assesses the adequacy of its liquidity through the use of the Liquidity Coverage Ratio (LCR). The LCR is a measure of the Society's ability to withstand a short-term liquidity stress and is calculated using a methodology prescribed by the Society's regulators.

The Society is required to maintain a pool of high quality liquid assets to cover 100% of its total stressed net cash outflows over a 30 day period (the LCR requirement). As at 31 December 2022, the Society's available pool of high quality liquid assets (adjusted for expected operating expenses over the 30 day period) was £64.4m (2021: £71.9m), well in excess of the total net cash outflows of £35.9m (2021: £24.7m), giving an LCR of 245% (2021: 291%). 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.

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

	2022 £000	2021 £000
Total High Quality Liquid Assets		
Cash in hand and balances with the Bank of England	**65,024**	72,405
Loans and advances to credit institutions	**20,313**	14,014
Total liquid resources	**85,337**	**86,419**

Interest rate risk (See Note 29 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 magnitude and future repricing profiles of the Society's assets and liabilities are often different, and the movements in different interest bases may not be perfectly aligned. When such mismatches are present, and market interest rates move, the Society is exposed to interest rate risk.

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

Conduct risk

As a regulated deposit-taker and mortgage lender, the Society risks regulatory censure, fines and remediation costs if its activities were 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 consistently delivers fair outcomes for the Society's customers.

Operational risk

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

Climate change

The Society is committed to playing its part in achieving the UK net-zero carbon emissions target by 2050. Following the principles of the Taskforce on Climate Related Financial Disclosures (TCFD) recommendations, the following provides a summary of the impact of climate change on the Society, how the associated risks and opportunities are managed and governed by the Society, and the development of metrics and targets to monitor it.

Climate change – risk identification, assessment and management

The Executive Team has primary responsibility for identifying, assessing and managing climate-related risks, with oversight from the Risk Committee.

The Society recognises that climate change presents a combination of risks which need to be identified and managed. These risks can be classified as physical and transitional risks, as described below:

Physical risks

Physical risks from climate change arise from a number of factors and relate to specific weather events (such as heatwaves, floods, wildfires and storms) and longer-term shifts in the climate (such as changes in precipitation, extreme weather variability, sea level rise, and rising mean temperatures).

The Society has determined that its primary physical risks in relation to climate change are as follows:

River or surface water flooding – increased frequency and severity of storms will cause a higher level of flooding (potentially generating affordability issues for borrowers and/or collateral valuation decreases) and also a longer-term increase in insurance premiums in areas prone to flooding, which again could cause both affordability and collateral valuation issues.

Storm damage – increased frequency and severity of storms will cause a higher level of idiosyncratic issues due to storm damage and also a longer term increase in insurance premiums in areas prone to storm damage, which could cause both affordability and collateral valuation issues.

Sea level rise – sea level rise could over time lead to the abandonment of some low-lying areas and an increase in the frequency of storm surges impacting on coastal communities. As awareness of this issue increased over time this would lead to a reduction in the desirability of such locations, depressing collateral values.

Transitional risks

Transitional risks arise from the process of adjustment towards a net-zero carbon economy. A range of factors influence this adjustment, including climate-related developments in policy and regulation, the emergence of disruptive technology or business models, shifting sentiment and societal preferences, or evolving evidence, frameworks and legal interpretations.

The Society has determined that its primary transitional risks in relation to climate change are as follows:

Employment in climate unfriendly roles or 'stranded industries' – borrowers employed in high carbon or otherwise climate unfriendly occupations or industries may experience an income shock due to economic adjustments necessary to deliver a long-term sustainable economy, creating affordability problems.

Adaptation of property collateral – properties which do not meet high energy efficiency standards may require substantial investment to meet future standards or norms. This increases the likelihood of affordability challenges for the borrower and/or decreasing the desirability and therefore value of the property collateral.

The Society assesses the potential impact of these risks, including through the use of scenario analysis, as part of its annual capital adequacy assessment process.

In addition, the Society has again commissioned an external report from Landmark Information Group to identify and understand the climate-related risks inherent in its lending portfolio in a more granular way. These include the exposure of the collateral properties against which the Society's mortgage loans are secured to the physical risks of flood, subsidence and coastal erosion, and the transitional risk of energy inefficiency.

This information has allowed the Society to quantify the impact of differing severity of climate change scenarios on its portfolio at a mortgage level, which is the first step toward making lending decisions based on the future risk characteristics of collateral security. While the Society is exposed to a broad range of climate-related risks the expected impact is quite small and well within the conservatively set risk appetite level.

The Society's portfolio of mortgages secured on residential and buy to let properties had the following energy efficiency ratings:

31 December 2022

EPC Rating	Residential % by volume	Buy to Let % by volume	Total % by volume
A-C	36.0%	30.3%	34.0%
D-E	53.5%	62.7%	56.7%
F-G	6.8%	3.1%	5.5%
Unknown	3.7%	3.9%	3.8%

31 December 2021

EPC Rating	Residential % by volume	Buy to Let % by volume	Total % by volume
A-C	32.1%	29.7%	31.4%
D-E	60.1%	64.1%	61.4%
F-G	5.2%	3.0%	4.4%
Unknown	2.6%	3.2%	2.8%

Climate change – governance

The Board has ultimate accountability for all climate change related matters. The Risk Committee is responsible for oversight of all risks, including those which are climate-related. The Executive Team has responsibility for day-to-day management of all climate-related risks and the identification of climate-related opportunities. Responsibility for climate change risk rests with the Chief Financial Officer under the FCA and PRA's Senior Managers Regime.

The risks and opportunities associated with climate change are a standing agenda item at the Board's annual Strategy Day.

Climate change – quantification of carbon emissions

The Society's Scope 1 and 2 emissions in the year to 31 December 2022, together with comparatives for 2021, are set out in the table below. Scope 1 covers Society-owned vehicles and natural gas burned on site for heating, and Scope 2 covers emissions from electricity consumption.

	Year to 31 December 2022	Year to 31 December 2021
Carbon dioxide (CO_2e)[1] in tonnes:		
Scope 1 emissions – travel & gas[2]	12.6	11.5
Scope 2 emissions – electricity[2]	16.1	22.1
Total Scope 1 & 2 emissions	**28.7**	**33.6**

1. CO_2e is an abbreviation of 'carbon dioxide equivalent', the internationally recognised measure of greenhouse gas emissions.
2. The DEFRA 2022 conversion factors have been used to calculate carbon emissions based on consumption (estimated where accurate readings are not available).

Climate change – future developments

The Society has updated its estimate of the carbon footprint of the residential properties within its mortgage portfolio based on the EPC score, which are the main Scope 3 emissions. As this is a recently developed capability, the Society does not have data for loans secured against commercial property, but will continue to develop, measure and monitor this metric in future periods. The total estimated emissions for residential properties in 2022 was 7,195 tonnes CO_2e (2021: 7,392 tonnes CO_2e).

The Society has followed the methodologies developed by the Partnership for Carbon Accounting Financials, an industry-led partnership to facilitate transparency and accountability of the financial industry in respect of carbon emissions, for attributing carbon emissions from lending secured against residential property. Under this methodology (in the absence of more direct data sources such as smart meter data for individual properties), carbon emissions are apportioned to the lender in line with the ratio of the current loan to the latest property. Using this methodology, the emissions attributable to the Society's residential lending portfolio were 3,424 tonnes CO_2e (2021: 4,300 tonnes CO_2e, based on loan valuation at origination).

The measurement of CO_2 emissions is an evolving practice and data has recently become available to estimate the Scope 3 emissions associated with working from home. Based on our headcount of 73 FTE working from home approximately 3 days per week on average our estimated emissions are 19.0 tonnes CO_2e.

Further work on developing an understanding of the Society's Scope 3 emissions (those emissions from assets not owned or controlled by the Society but which the Society indirectly generates through its activities) is planned for 2023, together with enhancement of the Society's metrics and targets in respect of climate change. The Society also plans to further reduce or offset the amount of Scope 1 and 2 emissions generated through its head office building and branches, by investing in thermal efficiency improvements.

While climate change poses many risks to the Society there are also opportunities to grow lending by offering green mortgage products as further advances or at mortgage origination. Future product development here will support the UK aim to realise net-zero carbon emissions by 2050.

Environmental Impact Working Group

In 2022 the Society's Environmental Impact Working Group made up of colleagues from across the Society, progressed its work to reduce the environmental impact of the Society and its business activities. Improvements made include digital onboarding of savings customers, emailing rather than printing mortgage packs, reduced leaflets in branches, moved to electronic AGM packs, encouraged Members to sign up for email communication to reduce paper as well as improve customer experience.

We have made our kitchen water heaters more efficient, increased the energy efficiency of our computers and saved on travel by embracing hybrid working. For 2023 the Environmental Impact Working Group is investigating further actions the Society can take to become more energy efficient, with an objective to reduce our own Scope 1 and 2 CO_2 emissions by 5%, and also, how we can best support homeowners to make their properties better insulated.

Uncertainties

The most significant economic challenge at the start of 2023 is high inflation, driven by the rising global price of energy, exacerbated by the war in Ukraine. High inflation reduces household disposable income and, combined with the impact of interest rate rises for those borrowers with variable rate mortgages and those coming to the end of a fixed initial mortgage term, could cause some borrowers to fall behind on mortgage payments.

After cautious, 25bps increases in Bank of England (BoE) base rate in the early part of 2022 the BoE base rate was increased in larger increments in the later part of the year. It is likely that the peak of the rate cycle will be reached in the first half of 2023 then remain around this level for some time, before potentially reducing around the end of the year, depending on the very uncertain future path of inflation.

House prices continued to grow in the first part of 2022 before beginning to fall after the mini-budget and shock increase in forward interest rates in September, which dramatically slowed the housing market. House prices are widely expected to show a further small decline in 2023.

Given its careful management of interest rate risk the Society has fared well during the economic and political turbulence of the latter part of 2022 and is in a strong position to manage the challenges of 2023. The principal impact of reduced house prices is a reduction in the value of the collateral the Society holds to mitigate the risk of customers not being able to repay their mortgages and defaulting.

Taking into account the Society's cautious lending policy and disciplined assessment of customers' ability to meet their mortgage payments, the expected impact on impairments of falling house prices is expected to be relatively small. The reduced number of mortgage approvals across the market in late 2022 and early 2023 does point to a reduced mortgage market size in 2023 and therefore some increased competition to realise target mortgage book growth for 2023. However, given the small share of most mortgage products/markets that the Society has, this impact should not be large.

The Society also recognises the risks and challenges posed by the impact of climate change, both in terms of the transition to a low carbon economy and the physical risks associated with sea level rise and more frequent severe weather events. This has the potential to change the mortgage lending and savings markets in which the Society participates, and the regulatory environment in which the Society operates. The Society will continue to develop its approach to identifying and managing these risks and will play its part in assisting the Society-wide changes and adaptations that are necessary to mitigate the level and impact of climate change.

The Society is well placed to meet any challenges ahead with robust levels of capital and liquidity and a strong business model, and despite the economic uncertainties can look forward with confidence to the opportunities in 2023 and beyond.

Risk management objectives and policies

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

Approved and signed on behalf of the Board of Directors

Joanne Evans
Chair
7 March 2023

Directors' Report

For the year ended 31 December 2022

The Directors have pleasure in presenting the Annual Report and Accounts for the year ended 31 December 2022.

Staff

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

Creditors' payment policy

The Society's policy is to pay trade creditors in accordance with agreed terms once such creditors have fulfilled all aspects of the contract. At the end of 2022 trade creditors outstanding represented 13 days of purchases (2021: 32 days).

Charitable and political donations

In 2022, the Society made donations to charities of £7k (2021: £9k). No political donations were made by the Society in the current or prior year.

Asset encumbrance policy

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

Independent Auditors

At the Annual General Meeting on 28 April 2022 the Members passed a resolution appointing PwC as auditors of the Society. A resolution to reappoint PwC will be proposed at the 2023 Annual General Meeting.

Statement of Directors' responsibilities in respect of the financial statements

Preparing the Annual Accounts

The following statement, which should be read in conjunction with the statement of the auditors' responsibilities on page 32, is made by the Directors to explain their responsibilities in relation to the preparation of the Annual Accounts, Annual Business Statement and Directors' Report.

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

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

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

Accounting Records and Internal Control

The Directors are responsible for ensuring that the Society:

- Keeps accounting records in accordance with the Act or the Companies Act 2006 (as relevant);
- Adheres to financial risk management objectives with regards to its use of financial instruments (see page 15 within the Strategic Report); and

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

Disclosure of information to the auditors

Each person who is a Director at the time when the Directors' Report is approved must:

- Ensure that there is no relevant audit information of which the Society's auditors are unaware; and
- Ensure that all steps have been taken that ought to have been taken to make themselves aware of any relevant audit information and to establish that the Society's auditors are aware of that information.

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

Going concern

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

In the coming year the Society expects to achieve significant mortgage portfolio growth. 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 four 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 robust 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 140% of its Liquidity Coverage Ratio requirement. The Board has stress-tested its planned liquidity and capital positions over a four year period to 31 December 2025 to demonstrate that adequate capital and liquidity will be available throughout this strategic period, even in severe but plausible stressed scenarios. Notwithstanding the challenges presented by higher inflation and the resulting pressures on household finances, the Board expects the Society to continue to deliver robust profits, and for the Society to maintain a substantial surplus of capital over its regulatory requirements.

The Directors also considered whether there were other events subsequent to the balance sheet date which could have a bearing on the going concern conclusion. The Directors are satisfied that the Society has adequate resources to continue in business for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

Directors

The following persons served as Directors during the year:

Angela Cha, Robert Derry-Evans, Fionnuala Earley, Joanne Evans, Kevin Gray, Tom Leach, Tonia Lovell, David Smith, Chris Smyth, Sameer Rahman and Richard Ingle. Kevin Hayes was appointed as a Non-Executive Director on 1 January 2022. Sameer Rahman was appointed as a Non-Executive

Director on 14 July 2022. Chris Smyth retired on 28 April 2022. Tom Leach resigned on 14 July 2022. Robert Derry-Evans retired on 31 December 2022. Richard Ingle was appointed on 22 August 2022.
In accordance with the principles of the UK Corporate Governance Code 2018, all Directors will retire from the Board at the Annual General Meeting and, being eligible, they offer themselves for re-election. None of the Directors holds any shares in, or debentures of, any connected undertaking of the Society.

Approval

The Directors consider that the Annual Report and Accounts, comprising the Annual Accounts, Strategic Report, 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.

On behalf of
the Board

Joanne Evans
Chair
7 March 2023

Report of the Directors on Corporate Governance

For the year ended 31 December 2022

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

The principal functions of the Board are to provide leadership and challenge; set the Society's strategy, policy and internal limits; ensure appropriate resources are available to meet objectives; ensure there are robust systems and controls in place; ensure the Society operates within its constitution, regulation and legislation; consider and, if appropriate, approve any proposed new initiatives; and review business performance against objectives. The Society's Board Manual describes how decisions relating to these matters are reserved for the Board. The Board meets as often as necessary for the proper conduct of business (usually monthly). The attendance record is detailed in Table 1 on page 23. The Non-Executive Directors holds a minuted meeting at least once a year without the Executive Directors being present. The Board takes an interest in all aspects of the business but delegates certain decisions and responsibilities to the following committees:

Risk Committee:

Constituted by four Non-Executive Directors – Joanne Evans (Chair), Robert Derry-Evans, Kevin Hayes and Sameer Rahman. Meetings are held at least four times per year and it is normal for executives to attend by invitation. The committee reviews and approves all relevant policy documents as considered by its management subcommittees and receives reports from the Audit Committee in respect of matters relevant to the management of risk. In 2022, the committee examined the Society's approach to climate change risk, information security, financial crime prevention, IT remote working, arrears & forbearance, complaints, lending and outsourcing policies, people risk and operational resilience framework. The committee monitored the performance of the Society against risk limits and triggers. The committee also reviews and recommends to the Board for approval the Society's Internal Capital Adequacy Assessment Process, Internal Liquidity Adequacy Assessment Process and Recovery Plan and reports to the Board on all matters considered by the committee.

Audit Committee:

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

In 2022 the areas of particular focus for the committee included strategy & planning, governance practices, Recovery Plan & Resolution Pack, digital onboarding of savings customers, HR & training practices, cyber risk management, operational resilience, credit risk management and mortgage underwriting & processing.

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

The committee resolved to commend the Annual Report to the Board for approval.

Remuneration Committee:

Constituted by three 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 three Non-Executive Directors in 2022 – Robert Derry-Evans (Chair), Angela Cha and David Smith. The Nominations Committee has terms of reference that include executive appointments, Board succession planning, review of Board skill requirements and appointments of new Non-Executive Directors. The Executive Directors attend meetings by invitation.

During 2022 the Society engaged Fletcher Jones Limited to assist with Non-Executive Director recruitment. Outside of this engagement on commercial terms, Fletcher Jones Limited has no connection with the Society or any individual Directors.

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

Credit Committee:

This committee consists of Chief Executive, Director of Risk Management, Chief Commercial Officer, Chief Operating Officer and Head of Underwriting. The committee is chaired by the Chief Financial Officer. The Credit Committee has terms of reference that include maintaining the quality of the Society's mortgage book, and oversight of the Society's lending policy and underwriting. The committee reviews quarterly reports from the Chief Operating Officer 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:

This committee consists of Chief Financial Officer, Director of Risk Management, Chief Commercial Officer, Chief Operating Officer, Head of Finance and Treasury, and Treasury and Regulatory Reporting Analyst. The committee is chaired by Chief Executive. The Assets and Liabilities Committee has terms of reference that include all aspects of financial risk management, treasury matters and liquidity. The committee reviews reports from the Treasury and Reporting Analyst 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, Chief Financial Officer, Director of Risk Management and Chief Operating Officer, together with departmental operational managers. The committee is chaired by Chief Commercial Officer. 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 Executive Team where appropriate. The committee reports to the Risk Committee.

Information Technology and Operational Resilience Committee:

This committee consists of the Chief Executive, Chief Financial Officer, Chief Commercial Officer and Chief Operating Officer. The committee is chaired by Director of Risk Management. 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 Chair 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 Chair is responsible for leading the Board, communication with Members and ensuring that Directors receive accurate, timely and clear information. The Chair is independent. The Chief Executive is responsible for managing the Society's business within the parameters set by the Board.

The Chair sets the Board agenda with the Chief Executive and ensures that adequate time is available for all discussions. The Chair 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 Chair's performance is appraised on an annual basis. The role is performed by Angela Cha. The Society maintains liability insurance for all Board members who also have access to independent legal advice.

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

At the year end the Board comprised three Executive Directors and six Non-Executive Directors (including the Chair). The Board is of an appropriate size, with the necessary balance of skills and experience to meet the needs of the business.

The Nominations Committee considers the balance of skills and experience on the Board and the requirements of the Society. Board composition and succession planning are regularly reviewed. Appointments are made on merit objectively against defined criteria, but with due regard to the benefits of diversity within the Board. As at 31 December 2022, the Board consisted of nine Directors (2021: nine) of which four were female (2021: four). All Directors meet the tests of fitness and propriety laid down by the regulators and all Directors are registered with the regulators, with the three Executive Directors and four of the six Non-Executive Directors at the end of the year holding Senior Manager Functions under the Bank of England's Senior Managers Regime. The remaining two Non-Executive Directors are 'notified Non-Executive Directors' under the regime rules. Letters of appointment relating to Non-Executive Directors are available for inspection on request.

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

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. Ongoing training and development needs are identified during annual appraisals.

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

The Chair follows a formal annual appraisal process for all Directors. The Senior Independent Director evaluates the Chair, 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. Following the principles set out in the UK Corporate Governance Code 2018 all Directors retire and are subject to re-election at the AGM on an annual basis. Directors are only submitted for re-election if the appraisal process confirms their ongoing contribution and the specialist knowledge, skills, experience and independence required.

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 16 to 18.

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

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

Management has responsibility for operating within the prescribed control framework. The categories within the risk register reflect the key risk types to which the Society is exposed. For example, credit risk (risk that a customer or counterparty will fail to meet their obligations to the Society as they fall due); concentration risk (risk of losses incurred due solely to certain concentrations existing within the Society's asset base or its activities; 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); conduct/reputation risk (risk of negative perception by Members, regulators and other stakeholders which damages the Society brand and reputation); liquidity and funding 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); interest rate/basis risk (risk that arises from imperfect matching of different interest rate features, re-pricing dates and maturities relating to mortgages and savings products and treasury investments; and solvency risk (risk of holding insufficient capital to satisfy regulatory and market expectations). 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 Chair 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 Chair of the Audit Committee reports to the Board. The Audit Committee's main responsibilities are described on page 19.

The Audit Committee conducts a formal annual review of the level and split of total fees paid to the internal and external auditors (RSM Risk Assurance Services LLP ('RSM') and PricewaterhouseCoopers LLP ('PwC') respectively) 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 2021 or 2022 other than the review of the Country-By-Country Reporting disclosure within this document, the Audit Committee considered that independence, effectiveness and objectivity were not being compromised. In addition, PwC as external auditor confirmed to the Committee that it considers itself to be independent as defined by the Financial Reporting Council (whose responsibilities are due to be taken on by the ARGA (Auditing, Reporting and Governance Authority) from 2024).

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 Chair also liaises with the Chief Executive, Chief Financial Officer 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 through Smart Money People. 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 (online or postal depending on Member preference), 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 Chair 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	Board	Risk	Audit	Nominations	Remuneration
Robert Derry-Evans (Retired 31 December 2022)	10/10	4/4		4/4	2/2
Chris Smyth (Retired 28 April 2022)	4/4	1/1			
Fionnuala Earley	10/10		5/5		1/2
Joanne Evans	10/10	4/4			
Angela Cha	10/10		5/5	4/4	2/2
David Smith	10/10		5/5	4/4	
Kevin Hayes	10/10	4/4			
Sameer Rahman (Appointed 1 May 2022)	5/6	3/3			
Kevin Gray	10/10				
Tonia Lovell	10/10				
Tom Leach (Resigned 14 July 2022)	6/6				
Richard Ingle (Appointed 22 August 2022)	3/3				

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

On behalf of
the Board

Joanne Evans
Chair
7 March 2023

Report of the Directors on Remuneration

For the year ended 31 December 2022

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 2018 relating to the setting of remuneration.

Level and components of remuneration

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

Executive Directors' emoluments

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

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

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

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

Executive Directors' contractual terms

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

Non-Executive Directors

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

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

Procedure for determining remuneration

Angela Cha, Fionnuala Earley and Robert Derry-Evans constituted the Remuneration Committee in 2022. The committee is responsible for setting Executive Director remuneration and Non-Executive Director fees.

After a review of the responsibilities and workload of Non-Executive Directors, the Committee approved a 6% rise in fees for 2023, significantly less than CPI inflation of 10.5%.

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 2022

Audited information

Table 2: Executive Directors' Emoluments

2022	Basic salary £	Annual bonus £	Benefits £	Pension contributions £	TOTAL 2022 £
Kevin Gray	171,512	8,603	9,371	20,581	**210,067**
Tonia Lovell	101,366	6,630	7,505	12,164	**127,665**
Tom Leach (resigned 14 July 2022)	72,272	4,424	3,892	8,673	**89,261**
Richard Ingle (appointed 22 August 2022)	48,062	3,520	2,598	5,767	**59,947**
TOTAL 2022	**393,212**	**23,177**	**23,366**	**47,185**	**486,940**

2021	Basic salary £	Annual bonus £	Benefits £	Pension contributions £	TOTAL 2021 £
Kevin Gray	165,241	9,927	8,685	19,829	**203,682**
Tonia Lovell	94,279	5,664	7,158	11,313	**118,414**
Tom Leach	128,746	8,379	6,833	15,450	**159,408**
TOTAL 2021	**388,266**	**23,970**	**22,676**	**46,592**	**481,504**

Table 3: Non-Executive Directors' Emoluments (comprising total fees)	2022 £	2021 £
Robert Derry-Evans (Society Chair) (retired 31 December 2022)	39,670	37,905
Chris Smyth (Society Vice-Chair) (retired 28 April 2022)	10,811	30,496
Angela Cha	30,477	27,788
Fionnuala Earley	28,477	27,121
Joanne Evans	32,588	27,788
Denzil Stirk (retired 26 April 2021)	-	8,582
David Smith	33,634	30,829
Kevin Hayes (appointed 1 January 2022 and elected 28 April 2022)	29,477	-
Sameer Rahman (appointed 1 May 2022)	19,711	-
TOTAL	**224,846**	**190,509**

Note: Kevin Hayes was appointed on 1 January 2022 and as such did not receive any remuneration in 2021. Sameer Rahman was appointed on 1 May 2022 and as such did not receive any remuneration in 2021.

On behalf of the Remuneration Committee

Joanne Evans
Chair
7 March 2023

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 2022 and of the Society's income and expenditure and cash flows for the year then ended;
- the annual accounts 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
- the annual accounts 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 (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2022; the income statement, the cash flow statement, and the statement of changes in equity for the year then ended; and the notes to the annual accounts which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

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

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

Other than those disclosed in note 8 to the annual accounts, we have provided no non-audit services to the Society in the period from 1 January 2022 to 31 December 2022.

Our audit approach

Overview

Materiality	• £445,490 (2021: £410,000) • Based on 1% of the Society's net assets
Scoping	• The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment of the operations of the Society
Key audit matters	• Impairment losses on loans and advances to customers

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. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the annual accounts section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Society and market, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles, such as those governed by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority ('PRA'), and we considered the extent to which non-compliance might have a material effect on the annual accounts. We also considered those laws and regulations that have a direct impact on the annual accounts such as UK tax legislation and the Building Societies Act 1986. We evaluated management's incentives and opportunities for fraudulent manipulation of the annual accounts (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 included:

- Discussions with management and those charged with governance to enquire of any known instances of non-compliance with laws and regulations or fraud;
- reviewing correspondence with the Society's regulators, the FCA and the PRA, 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 (see the related key audit matter below); and
- identifying and testing a sample of journal entries, including those posted with unusual account combinations or posted by senior management.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the annual accounts. 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. The key audit matter below is consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Impairment losses on loans and advances to customers The Society has incurred an impairment charge on loans and advances to customers ("loans") of £25,000 (2021: charge of £74,000) in the year. An individually identified provision of £460,000 (2021: £412,000) and a collective provision of £132,000 (2021: £155,000) are included in the statement of financial position at 31 December 2022. The individually identified provision covers loans where the customer is in arrears or is subject to 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 identify loans where an impairment event has occurred and, once identified, in determining the estimate of loss on a loan. Such a loss is calculated by models to discount the future cash flows expected to be received on a loan. The calculation is impacted by a number of assumptions which we focused on, including the value of the underlying security, adjusted for house price indexation to the balance sheet date, and an estimated forced sale discount, at the forecast disposal date, once a loss event has occurred. The collectively assessed impairment calculation is impacted by:	We discussed the basis of allowance for impairment with management and the Audit Committee, including rationale for the accounts identified within the individual assessed provision. We tested the data used within the calculations to evidence from underlying customer records. This included obtaining evidence on a sample basis over the accuracy of third party independent valuations and recalculating the period end collateral valuations using independently sourced House Price indices. We confirmed that the provision calculations were mathematically accurate and captured all loan data through reconciliation of the models to the loan book. We read the impairment disclosures given by management and reperformed the disclosed sensitivity analysis. We tested the significant assumptions used to determine the individually identified provision, including those related to the security value by: • Agreeing that all loans under forbearance measures, or that were in arrears by three months or more, were included within the provision; • Agreeing a sample of property valuations to latest valuations prepared by external valuers and recalculating indexation to the period end date where appropriate; • Testing the completeness of accounts in arrears by sampling customers who had failed to make a mortgage repayment, ensuring this was flagged correctly in the mortgage system;

Key audit matter	How our audit addressed the key audit matter
• The probability of default assumption; and • The loss given default assumption. and includes a model overlay in respect of cladding. The probability of default is calculated with reference to historical loss data. Loss given default is calculated using assumptions in respect of the underlying valuation of the property. The above are subject to estimation uncertainty and, as a result of the Society's limited recent experience of default, there is an increased risk that actual losses may be materially different to the impairment allowances. The risk of unobserved impairments relating to the cost of living impact on households has increased in the current year. *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.*	• Testing the completeness of further impairment events by sample testing high value loan exposures and reviewing the latest account correspondence; and • Assessing the reasonableness of the probability of default estimates by comparing with historic experience. In order to test the collective provision, which includes the modelled overlay for cladding, we tested the estimates of probability of default and loss given default assumptions by reference to the Society's underlying historical loss data and exposure at default by reference to the Society's loan book data. We also considered alternative assumptions based on industry data and market forecasts. Overall, based on the procedures performed and the evidence obtained, we found management's judgements and estimates used in the determination of the impairment provision to be reasonable.

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 primarily 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.

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

Overall materiality	£445,490 (2021: £410,000).
How we determined it	1% of net assets.

Rationale for benchmark applied	Net assets is 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 use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £334,118.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £22,275 (2021: £20,500) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the Directors' assessment of the Society's ability to continue to adopt the going concern basis of accounting included:

- Critically assessing the Directors' going concern assessment;
- evaluating the impact of management's stress test scenarios and considering the likelihood of successful implementation of management actions to mitigate the impacts. We considered whether the Society would continue to operate above required regulatory capital and liquidity minima during times of stress;
- challenging the reasonableness of the scenarios used by the Directors in their going concern assessment and checking the appropriateness of the assumptions used within their forecasting; and
- evaluating management's disclosures in the Annual Report and checking the consistency of the disclosures with our knowledge of the Society based on our audit.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Society's ability to continue as a going concern for a period of at least twelve months from the date on which the annual accounts are authorised for issue.

In auditing the annual accounts, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the annual accounts is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Society's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

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.

Based on our work undertaken in the course of the audit, the Building Societies Act 1986 requires us also to report certain opinions and matters as described below.

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 2022 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.

In light of the knowledge and understanding of the Society and its environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' Report.

Responsibilities for the annual accounts and the audit

Responsibilities of the Directors for the annual accounts

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements, 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

Use of this report

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

Other required reporting

Building Societies Act 1986 exception reporting

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

- Adequate accounting records have not been kept by the Society; or
- the Society 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

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 5 years, covering the years ended 2018 to 2022.

Daniel Pearce (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
7 March 2023

Income statement

For the year ended 31 December 2022

	Notes	2022 £000	2021 £000
Interest receivable and similar income	3	**11,871**	8,799
Interest payable and similar charges	4	**(2,825)**	(1,182)
Net interest income		**9,046**	7,617
Fees and commissions receivable	5	**151**	210
Fees and commissions payable	6	**(327)**	(337)
Net fee and commission expense		**(176)**	(127)
Other operating income		**11**	10
Net gains from derivatives and hedge accounting	7	**721**	152
Investment property - change in fair value	20	**-**	-
Net operating income		**9,602**	7,652
Administrative expenses	8	**(5,959)**	(5,089)
Depreciation, amortisation and profit on disposal of fixed asset		**(423)**	(354)
Operating expenses		**(6,382)**	(5,443)
Impairment charge on loans and advances to customers	12	**(14)**	(73)
Provision for other liabilities and charges	25	**(10)**	(10)
Profit before taxation		**3,196**	2,126
Taxation expense	11	**(603)**	(483)
Profit and total comprehensive income for the year		**2,593**	1,643

A separate Statement of comprehensive income has not been presented as all comprehensive income has been included above.

The accounting policies and notes on pages 37 to 59 form part of these accounts.

Statement of financial position

As at 31 December 2022

	Notes	2022 £000	2021 £000
Assets			
Cash in hand and balances with the Bank of England		**65,024**	72,405
Loans and advances to credit institutions	13	**20,313**	14,014
		85,337	86,419
Derivative financial instruments	14	**8,058**	1,332
Loans and advances to customers:			
Loans fully secured on residential property	15	**256,271**	260,537
Other loans fully secured on land	16	**7,926**	8,590
	17	**264,197**	269,127
Intangible fixed assets	18	**614**	658
Property, plant and equipment	19	**3,145**	3,214
Investment properties	20	**125**	125
Prepayments and accrued income		**684**	369
Total Assets		**362,160**	361,244
Liabilities			
Shares	22	**248,291**	256,515
Deposits owed to other customers	23	**60,001**	60,083
Derivative financial instruments	14	**369**	166
Other liabilities	24	**8,101**	1,599
Deferred tax liability	21	**386**	392
Accruals and deferred income		**290**	370
Provisions for liabilities and charges	25	**173**	163
Total liabilities		**317,611**	319,288
Total equity attributable to members		**44,549**	41,956
Total equity and liabilities		**362,160**	361,244

Approved by the Board of Directors on 7 March 2023 and signed on its behalf by:

Joanne Evans
Chair

Kevin Gray
Chief Executive

Richard Ingle
Chief Financial Officer

The accounting policies and notes on pages 37 to 59 form part of these accounts.

Statement of changes in equity

For the year ended 31 December 2022

As at 31 December 2022	**Notes**	**General Reserve £000**	**Revaluation Reserve £000**	**Total equity attributable to Members £000**
As at 1 January 2022		**41,001**	**955**	**41,956**
Profit and total comprehensive income for the year		**2,593**	**-**	**2,593**
Revaluation of fixed assets in the year	19	**-**	**-**	**-**
Deferred tax on revaluation reserve	21	**-**	**-**	**-**
As at 31 December 2022		**43,594**	**955**	**44,549**

As at 31 December 2021	Notes	General Reserve £000	Revaluation Reserve £000	Total equity attributable to Members £000
As at 1 January 2021		39,358	908	40,266
Profit and total comprehensive income for the year		1,643	-	1,643
Revaluation of fixed assets in the year	19	-	59	59
Deferred tax on revaluation reserve	21	-	(12)	(12)
As at 31 December 2021		41,001	955	41,956

The accounting policies and notes on pages 37 to 59 form part of these accounts.

Cash flow statement

For the year ended 31 December 2022

	Notes	2022 £000	2021 £000
Profit on ordinary activities before tax		**3,196**	2,126
Adjusted for:			
Impairment loss on loans and advances to customers	12	**14**	73
Depreciation and amortisation		**407**	353
Loss on disposal of fixed assets		**16**	1
Cash generated from operations		**3,633**	2,553
Changes in operating assets and liabilities			
(Increase)/decrease in prepayments and accrued income		**(398)**	11
Decrease/(Increase) in loans and advances to customers		**4,916**	(1,768)
(Decrease)/increase in accruals and deferred income		**(80)**	77
Net (decrease)/increase in shares		**(8,224)**	9,041
Change in derivative financial instruments	14	**(6,523)**	(2,845)
Net decrease in deposits owed to other customers		**(82)**	(2,782)
Net increase in loans and advances to credit institutions		**(5,750)**	(4,000)
Net increase in other liabilities		**6,337**	1,246
Increase in provisions for liabilities and charges	25	**10**	10
Taxation paid		**(445)**	(410)
Net cash inflow from operating activities		**(6,606)**	1,133
Purchase of intangible assets and property, plant and equipment		**(309)**	(661)
Sale of property, plant and equipment		**-**	-
Sale of Investment Properties		**-**	147
Net cash outflows		**(309)**	(514)
Net increase in cash and cash equivalents		**(6,915)**	619
Cash and cash equivalents at beginning of the year		**79,412**	78,793
Cash and cash equivalents at the end of the year		**72,497**	79,412
Represented by:			
Cash and balances with the Bank of England	29	**65,024**	72,405
Loans and advances to credit institutions repayable on demand	13	**7,473**	7,007
		72,497	79,412

The accounting policies and notes on pages 37 to 59 form part of these accounts.

Notes to the accounts

For the year ended 31 December 2022

1. Accounting policies

The principal accounting policies are summarised below. All accounting policies have been applied consistently throughout the year and the preceding year.

General information and basis of accounting

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

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 where 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 three to six years. The amortisation periods are reviewed annually. Costs associated with establishing technical feasibility or to maintain software and existing levels of performance are expensed as they are incurred.

Property, plant and equipment

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

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

All repairs and maintenance costs are charged to the Income Statement in the period in which they are incurred.

Investment properties

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

Revaluation of properties

Individual freehold properties that are used in the Society's business are revalued to fair value every three years.
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 future cash flows discounted at the original effective interest rate. For assets measured at cost, impairment is calculated as the difference between the carrying amount and the best estimate of the amount that would be received if the asset was sold at the reporting date.

Where the qualifying criteria of FRS 102 are satisfied, the Society applies hedge accounting to those mortgage assets in economic hedging relationships with derivative financial instruments, as described in the 'Hedge accounting' section below.

Other financial instruments

This category covers derivative financial assets and liabilities. The Society utilises derivative financial instruments to reduce interest rate risk arising from offering fixed rate mortgage products. The Society uses derivative financial instruments for economic hedging purposes only. Derivatives are initially recognised at fair value at the date of inception of the contract. 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 under 'Net gains/losses from derivatives and hedge accounting' in the period in which the movement occurs. The initial transaction costs associated with derivatives are taken directly to the Income statement. Fair value is determined in the manner described in Note 29.

Hedge accounting

Hedge accounting is applied when the specific eligibility criteria set out in FRS 102 are fulfilled. The Society designates its derivatives into fair value hedges in order to reduce volatility in the Income statement associated with the difference in the accounting measurement bases for interest rate swap derivatives (the hedging instruments) and fixed rate mortgages (the hedged items) which would otherwise exist.

The Society undertakes individual (known as 'micro') fair value hedge accounting, with interest rate risk being the hedged risk. The Society's fair value hedge relationships involve the designation of a number of fixed rate mortgages into hedge relationships with a single interest rate swap.

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

Where the hedge no longer meets the criteria for hedge accounting, or is terminated for any other reason, the adjustment to the hedged item is recognised in the Income statement over the remaining period of the hedge relationship.

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 three or more months in arrears or if another event has occurred that means the value of the loan is unlikely to be fully repaid without recourse to collateral. 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 the probability 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 for staff, under which the costs of the Society’s contributions are charged to the Income statement 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 loans and advances to credit institutions, debt securities issued by other borrowers and loans and advances to customers. The net expense on derivative financial instruments is recognised on an accruals basis.

Interest payable and similar charges

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

Fees and commissions receivable

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

Fees and commissions payable

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

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

In preparing the Society's financial statements in accordance with FRS 102, it is necessary to make judgements and estimates which affect the reported amounts of assets, liabilities, income and expense. Actual outcomes may differ from those on which the Society's estimates are based. Estimates and assumptions are frequently re-evaluated and are based on historical experience and other factors. The most significant judgements and sources of estimation uncertainty in applying the Society's accounting policies are set out below.

Judgements

Impairment on loans and advances

Where there is objective evidence that a financial asset is impaired, the Society is required under FRS 102 to recognise an impairment loss as the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate.

The most significant judgement in determining the level of impairment loss is in relation to one individually material loan asset where there is a substantial record of performance under a forbearance arrangement. The judgement is whether the future cash flows will be received through continued performance under the forbearance arrangement until the end of the loan term, or alternatively through repossession and realisation of the collateral security in a shorter period. Based on the substantial record of performance against the forbearance arrangement the Society's judgement is that assuming continued payment under this arrangement until the end of the loan term is most appropriate.

If the Society were instead to assume that collateral would be repossessed and realised in a twelve month period (in line with its standard assumptions for defaulted loans), loans and advances to customers in the Statement of financial position would be reduced by £134,000 in recognition of the additional impairment allowance, and an additional charge of £134,000 would be recognised for impairment losses on loans and advances to customers in the Income statement.

Estimation uncertainty

Impairment on loans and advances – specific impairment

The Society assesses all lending at loan level to determine whether there is objective evidence of impairment, with any resultant impairment being a specific impairment.

The significant accounting estimates applied in determining expected specific impairment are:

- estimating the future value of collateral security at the point of repossession;
- estimating the reduction in collateral valuation associated with a forced sale and the costs to sell; and
- estimating the time to realisation of the collateral in the event of repossession.

None of these estimates in isolation present a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. However, collectively, the level of estimation uncertainty could be significant.

For example, assuming the changes in estimates set out below, loans and advances to customers in the statement of financial position would be reduced by £141,000 in recognition of the additional impairment, and an additional charge of £141,000 would be recognised for impairment losses on loans and advances to customers in the Income statement.

- An increase in the forced sale discount from 30% to 40%;
- A reduction in house prices at the time of realisation of collateral of 10%; and
- An increase in the time to realisation of the collateral from one year to two years.

Impairment on loans and advances – collective impairment

In addition to specific impairment, the Society will hold some loans where objective evidence of impairment exists, but where the Society is not yet aware of that evidence (for example where a borrower may have recently lost their job but has not notified the Society or fallen into arrears). The Society estimates the level of impairment necessary to take account of these loans through a collective assessment of the likely exposure based on historical arrears and loss history. This is known as collective impairment.

The collective impairment is calculated as the probability of each borrower progressing to default within the next twelve months multiplied by the estimated loss given default. The probability of default is estimated using historic data about how accounts have progressed through month in arrears bandings in the past. The loss given default is estimated based on the same forced sale and costs to sell assumptions applied for specific impairment purposes.

Estimation uncertainty is present in both the probability of default and the loss given default. If the average probability of default were to be double the actual estimation for each account, loans and advances to customers in the statement of financial position would be reduced by £132,000 in recognition of the additional impairment, and an additional charge of £132,000 would be recognised for impairment losses on loans and advances to customers in the Income statement. Similarly, if the average loss given default were to be double the actual estimation for each account, loans and advances to customers in the Statement of financial position would be reduced by £132,000 in recognition of the additional impairment, and an additional charge of £132,000 would be recognised for impairment losses on loans and advances to customers in the Income statement.

Early repayment charges

Under FRS 102 the Society's loans are measured at amortised cost using the effective interest method. One future cash flow which the Society must consider under this method is the receipt of early repayment charges for mortgages which are partially or fully redeemed whilst in their initial product term.

These charges are estimated using two key variables:

- The average behavioural life of a loan; and
- The propensity of a borrower to redeem within the product term.

These variables are estimated in turn based on historic behavioural life and prepayment data, and estimation uncertainty is present for both variables. If the average behavioural life of 3.4 years were extended by a year, loans and advances to customers in the statement of financial position would be decreased by £78,000 and a reduction in interest revenue of £78,000 would be recognised in the Income statement. If the average propensity to prepay in a year were 1.5 times more, loans and advances to customers in the statement of financial position would be increased by £147,000 and additional interest revenue of £147,000 would be recognised in the Income statement.

3. Interest receivable and similar income

	2022 £000	2021 £000
On loans fully secured on residential property	**9,663**	8,810
On other loans fully secured on land	**426**	417
On other liquid assets:		
Interest and similar income	**1,110**	94
Net income/(expense) on derivative financial instruments	**672**	(522)
	11,871	8,799

4. Interest payable and similar charges

	2022 £000	2021 £000
On shares held by individuals	**2,628**	1,141
On deposits owed to other customers	**197**	41
	2,825	1,182

5. Fees and commissions receivable

	2022 £000	2021 £000
Mortgage related fees	**149**	210
Other fees and commissions	**2**	-
	151	210

6. Fees and commissions payable

	2022 £000	2021 £000
Mortgage related fees	**144**	144
Commission to investment agents and introducers	**172**	185
Other fees and commissions	**11**	8
	327	337

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

	2022 £000	2021 £000
Gain on derivatives in hedging relationships	**6,217**	2,831
Gain on derivatives	**6,217**	2,831
Loss on hedged mortgage assets	**(5,496)**	(2,679)
Net Gain from derivatives and hedge accounting	**721**	**152**

8. Administrative expenses

	2022 £000	2021 £000
Wages and salaries	**2,749**	2,551
Social security costs	**334**	294
Other pension costs	**187**	166
	3,270	3,011
Other administrative expenses:	**2,689**	2,078
Total administrative expenses	**5,959**	5,089

Other administrative expenses include:	2022 £000	2021 £000
Auditors' remuneration:		
For audit of the Society's annual accounts (excl VAT)	**123**	92
Total audit fees	**123**	92
Assurance services other than the auditing of the Society's accounts	**3**	3
Total auditors' remuneration	**126**	95
Operating lease charges:		
Land and buildings	**86**	86

9. Employees

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

	2022 Full-time	2021 Full-time	2022 Part-time	2021 Part-time
Head Office	**53**	44	**7**	7
Branches	**2**	4	**5**	5
Total Society	**55**	48	**12**	12

10. Directors' emoluments and transactions with Directors

	2022 £000	2021 £000
a) Remuneration of Directors		
For services as Non-Executive Directors	**224,846**	190,509
For Executive services	**486,940**	481,504
	711,786	672,013

Full details are given in the Report of the Directors on Remuneration on pages 24 and 25.

b) Transactions with Directors and connected persons

Mortgage Loans

At 31 December 2022 there were no outstanding mortgage loans to a connected entity of a Director (2021: one loan, £40,000).

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

Other than described above there were no transactions with Directors that constituted related party transactions. The key management of the Society is considered to be the Directors, and therefore no additional disclosures are required.

11. Taxation

	2022 £000	2021 £000
a) *Current Tax:*		
Corporation tax at 19% (2021: 19%)	**609**	325
Adjustments in respect of prior years	**-**	(1)
Deferred Tax:		
Current year	**(5)**	64
Adjustments in respect of prior years	**-**	1
Effect of rate changes	**(1)**	94
Tax on profit on ordinary activities	**603**	483

	2022 £000	2021 £000
b) Factors affecting tax charge for the year		
Profit before tax	**3,196**	2,126
Profit before tax multiplied by effective rate of corporation tax of 19% (2021: 19%)	**607**	404
Effects of:		
Adjustments in respect of prior years	**-**	-
Expenses not deductible for tax purposes	**1**	4
Income not taxable	**-**	(19)
First year allowances (super deductions) on which no tax	**(4)**	
Effect of rate changes	**(1)**	94
Total tax charge for the year	**603**	483

12. Impairment losses on loans and advances to customers

2022	Loans fully secured on residential property £000	Loans fully secured on land £000	Total £000
At 1 January 2022:			
Collective impairment	155	-	155
Individual impairment	412	-	412
	567	-	567
Income and expenditure account charge/(credit) for the year:			
Collective impairment	(23)	-	(23)
Individual impairment	48	-	48
	25	-	25
Amount utilised during the year:			
Collective impairment	-	-	-
Individual impairment	-	-	-
	-	-	-
At 31 December 2022:			
Collective impairment	132	-	132
Individual impairment	460	-	460
	592	-	**592**

In 2022 there was an impairment charge of £48,000 against two loans, taking the total individual impairment to £460,000 (2021: £412,000). The Society recovered £11,000 in respect of a loan which had been written off in a prior year. This was combined with the 2022 charge of £25,000 shown above to give a charge to the 2022 Income statement of £14,000.

The Society has considered whether the recent fire safety concerns in respect of certain external cladding systems on high rise buildings has caused the impairment of any mortgage loans. Whilst the Society is not aware of any specific impairment caused by cladding issues, it has made allowance within its collective impairment for a higher probability of default and a lower recovery given default for properties which could potentially be impacted by cladding systems which do not meet current requirements.

12. Impairment losses on loans and advances to customers (continued)

2021	Loans fully secured on residential property £000	Loans fully secured on land £000	Total £000
At 1 January 2021:			
Collective impairment	40	20	60
Individual impairment	433	-	433
	473	20	493
Income and expenditure account charge/(credit) for the year:			
Collective impairment	115	(20)	95
Individual impairment	(21)	-	(21)
	94	(20)	74
Amount utilised during the year:			
Collective impairment	-	-	-
Individual impairment	-	-	-
	-	-	-
At 31 December 2021:			
Collective impairment	155	-	155
Individual impairment	412	-	412
	567	-	**567**

In 2021 £21,000 was released against two loans, taking the total individual impairment to £412,000 (2020: £433,000). The Society recovered £1,000 in respect of a loan which had been written off in a prior year. This was combined with the 2021 charge of £74,000 shown above to give a charge to the 2021 Income statement of £73,000.

13. Loans and advances to credit institutions

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

	2022 £000	2021 £000
Accrued interest	**90**	7
Repayable on demand	**7,473**	7,007
Repayable within three months	**6,000**	-
Repayable in more than three months and less than one year	**6,750**	7,000
Credit Support Annex (CSA) asset	**-**	-
	20,313	14,014

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 2022, £7,570,000 had been received. This amount is showing within other liabilities in note 24 (2021: £1,210,000 received).

14. Derivative financial instruments

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

	Notional amount 2022 £000	Notional amount 2021 £000	**Fair value 2022 £000**	Fair value 2021 £000
Derivative assets:				
Interest rate swaps	**124,900**	71,740	**8,058**	1,332
Total recognised derivative assets	**124,900**	71,740	**8,058**	1,332
Derivative liabilities:				
Interest rate swaps	**15,800**	35,387	**(369)**	(166)
Total recognised derivative liabilities	**15,800**	35,387	**(369)**	(166)

In 2022 there was an overall net asset from derivative financial instruments of £7,690,000 (2021: net asset of £1,666,000).

15. Loans fully secured on residential property

	2022 £000	2021 £000
Gross balances	**263,572**	262,230
Allowance for impairment	**(592)**	(567)
Unamortised loan origination fees	**200**	286
Fair value hedge accounting adjustment	**(6,909)**	(1,412)
	256,271	260,537

16. Other loans fully secured on land

	2022 £000	2021 £000
Gross balances	**7,926**	8,590
Allowance for impairment	**-**	-
	7,926	8,590

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:

	2022 £000	2021 £000
On call and at short notice	**1,553**	1,791
In not more than three months	**1,152**	1,283
In more than three months but not more than one year	**4,643**	4,161
In more than one year but not more than five years	**40,924**	40,818
In more than five years	**223,226**	222,767
	271,498	270,820
Allowances for impairment (see note 12)	**(592)**	(567)
Unamortised loan origination fees	**200**	286
Fair value hedge accounting adjustment	**(6,909)**	(1,412)
	264,197	269,127

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

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

18. Intangible fixed assets

	Computer software £000
At cost	
At 1 January 2022	**1,059**
Additions	**227**
Disposals	**(231)**
At 31 December 2022	**1,055**
Accumulated amortisation	
At 1 January 2022	**401**
Charge	**267**
Disposals	**(227)**
At 31 December 2022	**441**
Net book value	
At 31 December 2022	**614**
At 31 December 2021	658

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

19. Property, plant and equipment

	Land and buildings			
	Freehold premises £000	Leasehold premises (short) £000	Equipment, fixtures and fittings and vehicles £000	Total £000
At cost or valuation				
At 1 January 2022:	2,950	64	484	3,498
Additions	-	-	82	82
Disposals	-	-	(111)	(111)
At 31 December 2022	2,950	64	455	3,469
Accumulated depreciation				
At 1 January 2022:	-	64	220	284
Charge	20	-	120	140
Revaluation	-	-	-	-
Disposals	-	-	(100)	(100)
At 31 December 2022	20	64	240	324
Net book value				
At 31 December 2022	**2,930**	**-**	**215**	**3,145**
At 31 December 2021	2,950	-	264	3,214

An external revaluation of all the Society's freehold land and buildings was last conducted as at 31 December 2021 by Derek Walker Chartered Surveyors. The valuation of properties used in the Society's business was prepared using a fair value in existing use basis. The Society conducts a full external revaluation every three years.

20. Investment properties

	2022 £000	2021 £000
At 1 January	**125**	272
Disposals	**-**	(147)
At 31 December	**125**	**125**

The investment property consist of a surplus ground floor commercial premises that is no longer used in the Society's business. The investment property is located in the City of Bath. An estimate of the market value is 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:

	2022 £000	2021 £000
Within 1 year	**10**	10
Between 1 and 5 years	**30**	40
At 31 December	**40**	50

21. Deferred taxation

	2022 £000	2021 £000
Deferred tax liability at 1 January	**(392)**	(221)
Adjustments in respect of prior years	-	(1)
Charge to profit and loss account	**5**	(64)
Charge to revaluation reserve	-	(12)
Effect of rate changes	**1**	(94)
Deferred tax liability at 31 December	**(386)**	(392)
The elements of deferred taxation are as follows:		
Fixed asset timing differences	**83**	98
Short-term timing differences	**(469)**	(490)
Deferred tax liability	**(386)**	(392)

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021.

22. 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:

	2022 £000	2021 £000
Accrued interest	**342**	147
Repayable on demand	**221,396**	229,119
In not more than 3 months	**7,576**	811
In more than 3 months but not more than 1 year	**13,611**	18,282
In more than one year	**5,366**	8,156
	248,291	256,515

23. 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:

	2022 £000	2021 £000
Accrued interest	**1**	3
Repayable on demand	**59,018**	58,583
In not more than 3 months	**593**	408
In more than 3 months but not more than 1 year	**389**	1,089
	60,001	60,083

24. Other liabilities

	2022 £000	2021 £000
Amounts falling due within 1 year:		
Corporation tax	**269**	104
Other taxation and social security	**87**	73
Other creditors	**155**	212
Credit Support Annex (CSA) liability	**7,590**	1,210
	8,101	1,599

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 2022, £7,570,000 had been received (2021: £1,210,000 received).

25. Provisions for liabilities

	2022 Provision for dilapidations £000	2021 Provision for dilapidations £000
At 1 January	**163**	153
Charge for the year	**10**	10
At 31 December	**173**	163

The £10,000 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 28 below regarding the provision for liabilities to the Financial Services Compensation Scheme.

26. Commitments

a) At 31 December 2022 the total of future minimum lease payments under non-cancellable operating leases were as set out below:

	2022 Property £000	2021 Property £000
Society commitments:		
Within 1 year	**86**	86
Between 1 and 5 years	**344**	344
After 5 years	**246**	332
	676	762

As at 31 December 2022 the Society had approximately eight 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 2022 are £1,569,000 (2021: £3,330,000).

27. Pension schemes

During the year ended 31 December 2022 the Society operated a defined contribution personal pension scheme in respect of staff, and the charge for the year was £187,000 (2021: £166,000). As at 31 December 2022 there were outstanding contributions from the Society of £17,074 (2021: £14,170).

28. Contingent liabilities

Financial Services Compensation Scheme

The Financial Services Compensation Scheme has the right to require payments in respect of levies in each fiscal year, based on the Society's share of protected Scheme deposits at the start of each calendar year. The Society's potential liability to the Scheme consists of two elements: a management levy and a charge based on the costs of failures of other deposit taking institutions. No provision has been made in the current year (2021: nil) as the Society does not anticipate a levy being raised in respect of 2022 based on the latest available information published by the Financial Services Compensation Scheme. There remains uncertainty as to whether the Society will have any future liability to the Scheme if capital shortfalls should occur and what the scale of those liabilities would likely be.

29. 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 2022	**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	65,024	-	65,024
Loans and advances to credit institutions	20,313	-	20,313
Derivative financial instruments	-	8,058	8,058
Loans and advances to customers	264,197	-	264,197
Total financial assets	**349,534**	**8,058**	**357,592**
Total non-financial assets			4,568
Total Society assets			**362,160**
Society liabilities			
Shares	248,291	-	248,291
Deposits owed to other customers	60,001	-	60,001
Derivative financial instruments	-	369	369
Total financial liabilities	**308,292**	**369**	**308,661**
Total non-financial liabilities			8,950
General reserve and other reserves			44,549
Total Society reserves and liabilities			**362,160**

29. Financial instruments (continued)

As at 31 December 2021	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	72,405	-	72,405
Loans and advances to credit institutions	14,014	-	14,014
Derivative financial instruments	-	1,332	1,332
Loans and advances to customers	269,127	-	269,127
Total financial assets	**355,546**	**1,332**	**356,878**
Total non-financial assets			4,366
Total Society assets			**361,244**
Society liabilities			
Shares	256,515	-	256,515
Deposits owed to other customers	60,083	-	60,083
Derivative financial instruments	-	166	166
Total financial liabilities	**316,598**	**166**	**316,764**
Total non-financial liabilities			2,524
General reserve and other reserves			41,956
Total Society reserves and liabilities			**361,244**

b) Carrying values and fair values

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

	Note	2022 Carrying value £000	2022 Fair value £000	2021 Carrying value £000	2021 Fair value £000
Society assets					
Cash in hand and balances with the Bank of England	i.	**65,024**	**65,024**	72,405	72,405
Loans and advances to credit institutions - excluding CSA payments	i.	**20,313**	**20,313**	14,014	14,014
CSA payments		**-**	**-**	-	-
Derivative financial instruments - interest rate swaps	ii.	**8,058**	**8,058**	1,332	1,332
Loans and advances to customers	iii.	**264,197**	**261,487**	269,127	268,788
		357,592	**354,882**	356,878	356,539
Society liabilities					
Shares	iv.	**248,291**	**248,291**	256,515	256,515
Deposits owed to other customers	iv.	**60,001**	**60,001**	60,083	60,083
Derivative financial instruments - interest rate swaps	ii.	**369**	**369**	166	166
		308,661	**308,661**	316,764	316,764

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:

29. Financial instruments (continued)

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 are assumed to equate to the amount payable at the date of the statement of financial position.

c) Credit risk on loans and advances to customers

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

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:

	2022 **£000**	**2022** **%**	2021 £000	2021 %
Retail mortgages	**236,758**	**87.2**	242,981	89.7
Commercial mortgages	**34,740**	**12.8**	27,839	10.3
Total gross exposure (contractual amounts)	**271,498**	**100.0**	270,820	100.0
Impairment, fair value and EIR adjustments	**(7,301)**		(1,693)	
Total net exposure	**264,197**		269,127	

29. Financial instruments (continued)

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 £236,758,000 (2021: £242,981,000) consists of loans fully secured on residential property (FSRP).

The Society is firmly committed to the management of credit risk at all stages of the lending cycle. The Society closely monitors customer loan affordability and Loan to Value (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, Wales and Scotland and the Society, as a local building society, has a geographical concentration in the South West of England. As at 31 December 2022 approximately 39% (2021: 39%) of first charge retail loans by account and 39% (2021: 39%) by value were concentrated in the South West.

LTV distribution: retail mortgage balances

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:

	2022	2021
	%	%
Less than 70%	**83.5**	81.9
More than 70% but less than 80%	**12.1**	13.1
More than 80% but less than 90%	**3.1**	4.0
More than 90% but less than 100%	**0.6**	0.6
More than 100%	**0.7**	0.4
	100.0	100.0

The overall indexed LTV of the retail mortgage portfolio is 41.4% (2021: 42.5%). In general the lower the LTV 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.

29. Financial instruments (continued)

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.

	2022 £000	**2022 %**	2021 £000	2021 %
Current	**229,784**	**97.1**	237,563	97.8
Past due up to 3 months	**5,643**	**2.4**	3,495	1.4
Past due 3 to 6 months	**1,043**	**0.4**	1,224	0.5
Past due 6 to 12 months	**288**	**0.1**	445	0.2
Past due over 12 months	**-**	**-**	254	0.1
	236,758	**100.0**	242,981	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 2022 the total collateral held against retail lending secured against residential property was estimated to be £572.12m (2021: £571.2m). 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:

	2022 £000	2021 £000
Individual impairment	**460**	412
Collective impairment	**132**	155
	592	567

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. The arrears management section of the Society's Mortgage Operations team maintains forbearance information which is reported regularly to the Society's Credit Committee.

As at 31 December 2022, 8 (2021: 8) retail accounts with balances totalling £1,672,000 (2021: £1,716,000) were in forbearance arrangements with the Society. 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.

29. Financial instruments (continued)

ii) Commercial mortgages

Commercial mortgages are defined by the Society as being loans made to either limited companies or to private individuals that are secured against properties that are primarily used for the purposes of running businesses. The commercial mortgage balance shown on page 53 of £34,740,000 (2021: £27,839,000) consists of total loans fully secured on land (FSOL) of £7,926,000 (2021: £8,590,000) plus £26,814,000 (2021: £19,249,000) 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:

	2022 £000	**2022 %**	2021 £000	2021 %
Loans secured on residential property	**26,814**	**77.2**	19,249	69.1
Loans secured on commercial property	**7,926**	**22.8**	8,590	30.9
	34,740	**100.0**	27,839	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:

	2022 £000	**2022 %**	2021 £000	2021 %
Office	**1,188**	**15.0**	1,497	17.4
Retail	**1,083**	**13.7**	1,405	16.4
Industrial	**1,262**	**15.9**	1,289	15.0
Leisure	**1,949**	**24.6**	1,955	22.8
Land	**654**	**8.3**	653	7.6
Other	**1,790**	**22.5**	1,791	20.8
	7,926	**100.0**	8,590	100.0

The Society provides loans secured on commercial property across England, Wales and Scotland 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:

	2022 £000	**2022 %**	2021 £000	2021 %
South West	**14,012**	**40.4**	13,845	49.7
Greater London	**8,266**	**23.8**	6,018	21.6
North	**3,893**	**11.2**	2,417	8.7
Midlands	**3,303**	**9.5**	1,955	7.0
South East	**2,720**	**7.8**	2,181	7.8
Scotland	**1,469**	**4.2**	661	2
Wales	**1,077**	**3.1**	762	2.8
	34,740	**100.0**	27,839	100.0

29. Financial instruments (continued)

LTV distribution: commercial lending

Estimates of current property values are used to calculate LTV. These are derived from recent external valuations or are estimated by applying quarterly Nationwide price indices to previously recorded external valuations. The overall LTV of the Society's commercial portfolio is 46.4% (2021: 45.0%). Index linked LTV banding is shown below:

	2022	2021
	%	%
Less than 70%	**87.7**	96.9
More than 70% but less than 80%	**12.3**	3.1
	100.0	100.0

As at 31 December 2022, the largest exposure to a single commercial counterparty was £1.37m (2021: £1.37m) or 3.94% 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 2022. The balances exclude fair value adjustments and impairment allowances.

	2022	**2022**	2021	2021
	£000	**%**	£000	%
Current	**34,309**	**98.8**	27,483	98.7
Past due up to 3 months	**431**	**1.2**	356	1.3
	34,740	**100.0**	27,839	100.0

Fair value of collateral held: commercial lending

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

As at 31 December 2022 the total collateral held against lending secured against commercial property was estimated to be £74.8m (2021: £61.9m).

As at 31 December 2022 no commercial properties were in possession and hence no collateral was held against cases in possession (2021: £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.

Allowances for impairment are held against loans and advances to customers in line with the accounting policy which is outlined in Note 1. There are no allowances for impairment of commercial mortgage loans in 2022 (2021: Nil).

Forbearance strategies on commercial loans

See the note on the Society's general forbearance strategy on page 53.

As at 31 December 2022, one commercial account was in a forbearance concession totalling £356,057 (2021: £356,013). 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.

29. Financial instruments (continued)

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.

	2022	2021
	£000	£000
UK government securities and amounts held with central banks	**64,959**	72,292
UK financial institutions	**20,313**	14,014
	85,272	86,306

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. As at 31 December 2022, collateral of £7,570,000 (2021: £1,210,000 pledged) had been received by other financial institutions to mitigate the risk inherent in amounts due to/from the Society relating to derivative financial instruments.

The table below shows treasury exposures categorised by Fitch ratings:

	2022	2021
	£000	£000
AAA to AA-	**64,959**	72,295
A+ to A-	**14,532**	12,007
BBB+ to BBB-	**1,009**	-
Unrated	**4,772**	2,004
	85,272	86,306

The geographical distribution of treasury exposures is as follows:

	2022	2021
	£000	£000
UK	**85,272**	86,306
	85,272	86,306

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.

29. Financial instruments (continued)

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 2022	**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	**221,396**	**7,576**	**5,235**	**8,376**	**5,366**	**247,949**
Deposits owed to other customers	**59,018**	**593**	**15**	**374**	**-**	**60,000**
	280,414	**8,169**	**5,250**	**8,750**	**-**	**307,949**
Society derivative liabilities						
Interest rate swaps	**-**	**-**	**-**	**-**	**336**	**336**
	-	**-**	**-**	**-**	**336**	**336**

31 December 2021	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	229,119	811	11,688	6,594	8,156	256,368
Deposits owed to other customers	58,583	408	358	731	-	60,080
	287,702	1,219	12,046	7,325	-	316,448
Society derivative liabilities						
Interest rate swaps	-	2	13	6	100	121
	-	2	13	6	100	121

Annual commitments under non-cancellable operating leases are outlined in Note 26.

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 2022, if there was a 2% parallel upward shift in interest rates the adverse impact on reserves would be £427,000 (2021: £714,000 adverse impact on reserves).

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

For the year ended 31 December 2022

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 2022:

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 2022	Public subsidies
United Kingdom	Deposit taking, mortgage lending	£8.9m	73	£3.2m	£0.4m	£nil

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

Basis of preparation

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

Independent auditors’ report to the Directors of Bath Investment & Building Society

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

Opinion

In our opinion, Bath Investment & Building Society’s country-by-country information for the year ended 31 December 2022 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 2022 in the Country-by-Country Reporting.

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 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 note of 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

Our evaluation of the Directors' assessment of the Society's ability to continue to adopt the going concern basis of accounting included:

- Critically assessing the Directors' going concern assessment;
- evaluating the impact of management's stress test scenarios and considering the likelihood of successful implementation of management actions to mitigate the impacts. We considered whether the Society would continue to operate above required regulatory capital and liquidity minima during times of stress;
- challenging the reasonableness of the scenarios used by the Directors in their going concern assessment and checking the appropriateness of the assumptions used within their forecasting; and
- evaluating management's disclosures in the Annual Report & Accounts and checking the consistency of the disclosures with our knowledge of the Society based on our audit.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Society's ability to continue as a going concern for a period of at least twelve months from the date on which the country-by-country information is authorised for issue.

In auditing the country-by-country information, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the country-by-country information is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Society's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

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 and accounting policies to the country-by-country information, and for determining that the basis of preparation and accounting policies are acceptable in the circumstances. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of country-by-country information that is free from material misstatement, whether due to fraud or error.

In preparing the country-by-country information, the Directors are responsible for assessing the Society's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the country-by-country information as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this country-by-country information.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Society, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles, such as those governed by the Financial Conduct Authority and the Prudential Regulation Authority, and we considered the extent to which non-compliance might have a material effect on the country-by-country information. We also considered those laws and regulations that have a direct impact on the country-by-country information such as applicable tax legislation and the Capital Requirements (Country-by-Country Reporting) Regulations 2013. We evaluated management's incentives and opportunities for fraudulent manipulation of the country-by-country information (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 included:

- Discussions with management to enquire of any known instances of non-compliance with laws and regulations, or fraud;
- Reviewing correspondence with the Society's regulators, the FCA and the PRA, 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
- Identifying and testing a sample of journal entries, including those posted with unusual account combinations or posted by senior management.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the country-by-country information. 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.

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.

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

Use of this report

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

The engagement partner responsible for this audit is Daniel Pearce.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
7 March 2023

Annual Business Statement (unaudited)

For the year ended 31 December 2022

1. Statutory percentages

	2022 %	Statutory Limit %
Lending Ratio	**6.3**	25.0
Funding Ratio	**19.5**	50.0

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

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

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

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

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

X = shares and borrowings, being the aggregate of-

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

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

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

2. Other percentages

	2022 %	2021 %
As percentage of shares and borrowings:		
Gross capital	**14.5**	13.3
Free capital	**13.4**	12.3
Liquid assets	**27.7**	27.3
Profit for the year as a percentage of mean total assets	**0.72**	0.46
Management expenses as a percentage of mean total assets:	**1.76**	1.52

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

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

3. Directors and Officers (Unaudited)

The Directors and Officers of the Society at 31 December 2022 together with their further particulars were as follows:

Name	Occupation	Appointment	Other Directorships
Kevin Gray	Chief Executive	April 2018	
Angela Cha	Solicitor	June 2014	Cha Sing Ltd Financial Reporting Council
Robert Derry-Evans (resigned 31 December 2022)	Solicitor	June 2014	Bath Philharmonia Ltd Omnia Legal Ltd Romi Behrens Paintings Ltd
David Smith	Chartered Accountant	January 2016	
Tonia Lovell	Director of Risk Management	May 2017	
Fionnuala Earley	Economist	January 2018	
Joanne Evans	Director	January 2021	Maplejak Investment Ltd Pondfield Ltd Mobius Life Ltd Mobius Life Administration Services Ltd Mobius Life Group Ltd
Kevin Hayes	Retired Chief Risk Officer	January 2022	
Sameer Rahman	Consultant	May 2022	Datamonet Millennium Stadium PLC Benenden Health
Richard Ingle	Chief Finance Officer	August 2022	Community Foundation of Gloucestershire

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
Colin McDougall	Chief Commercial Officer
Jason Wilmot	Chief Operations Officer

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, BA1 2JQ
Tel (01225) 330837

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

We're different because you are

Head Office
15 Queen Square,
Bath BA1 2HN

Web
www.bathbuildingsociety.co.uk

Savings enquiries

Telephone
01225 423271

Email
savings@bibs.co.uk

Mortgage enquiries

Telephone
01225 475719

Email
mortgages@bibs.co.uk

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

Bath Building Society