



Annual Report & Accounts 2023

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Key Highlights of the 2023 Financial Year



Profit on ordinary activities before tax increased by 2.8% to:

↑£3.3m

(2022: £3.2m)



Society reserves increased by 5.6% to:

↑£47.1m

(2022: £44.5m)



Gross mortgage lending of £53.3m:

↑10.9%

(2022: £48.1m)



Net Promoter Score remained high at:

74.3

But had dropped back over the year (2022: 78.3)



Total assets of the Society increased to:

↑£370.9m

2.4% higher than 2022 (£362.1m)



Savings book increased by 3.1% to:

↑£317.7m

(2022: £308.3m)



Liquid assets ratio reduced to:

↓25.6%

(2022: 27.7%)



Arrears cases reduced to:

↓7

(2022: 8 cases)

Chair's Report

The United Kingdom (UK) economy faced continuing pressure from rising inflation over 2023 and this forced the Bank of England (BoE) to respond by increasing the BoE base rate on five separate occasions. Higher interest rates slowed business growth and led to a flattening of property values. Although UK savers continued to benefit from higher market interest rates, the ability to grow their savings was restricted by continuing pressure on household budgets due to cost of living pressures. Higher interest rates also reduced mortgage affordability, particularly for first-time buyers. Against a generally deteriorating economic environment, Bath Investment & Building Society ("the Society") delivered a strong set of financial results and advanced its strategic programme of investment in the transformation of its systems infrastructure.

Good as the Society's 2023 results are, financial success is not the main goal of the Society. As a mutual organisation, the Society is driven by a higher social purpose. It is in business to improve the lives of its Members by promoting saving as a means of building their financial resilience and by offering loans to enable them to become home owners. The Society has adopted a purpose-led strategy that balances its financial aspirations with its other equally important priorities. These include growing its membership and improving customer service, improving the productivity of the business, demonstrating its ethical credentials and becoming an employer of choice. As the Society celebrates its 120th anniversary in 2024, I am proud that it is still leveraging the power of collective ownership for the mutual benefit of all its Members and it continues to put the interests of its Members at the heart of its decision making.

The money markets have assumed that the UK has passed the peak in the interest rate cycle and as a result the interest rates on fixed rate bonds and mortgages have reduced from their peak. This has been driven by some welcome evidence that inflation is coming back under control. When the BoE base rate begins to reduce it is inevitable that the Society will have to respond by cutting rates on its own savings and loan products. However, due to the rapid rise in rates over the last two years, there may still be significant ongoing pain for some borrowers whose mortgages are repricing in 2024 from a low historic base.

As ever, the Society will balance the needs of its savers and borrowers in establishing the appropriateness of its future rates. The Society is expecting the market for new

savings to be more competitive in 2024 and it anticipates that it will have to raise more funding from retail bonds. A combination of increasing pressure on the Society's interest rate margin and increasing investment costs are likely to result in reduced profitability for the Society over the next few years, starting in 2024. The Society's balance sheet will remain strong and the anticipated lower profitability is affordable whilst significant investment is being made in technology, systems and people.

Although there were no changes to the Society's Board of Directors over 2023, 2024 will be a year of more significant transition. Angela Cha will stand down from the Board at the forthcoming Annual General Meeting. I would like to thank Angela for her significant contribution as a Non-Executive Director over the last nine years. As part of Board succession, Andrew Payton joined the Board as a Non-Executive Director on 1 January 2024. The Society wishes Angela every success for her future, and welcomes Andrew.

After more than 21 years as an Executive Director, with the last six as Chief Executive, Kevin Gray retired from the Board on 7 March 2024. On behalf of the Board, I want to take this opportunity to thank Kevin for his huge contribution to the Society's success over the last two decades and we wish him every success with his future. Subject to regulatory approval, Richard Ingle will assume the duties of Chief Executive from 8 March 2024. The recruitment to replace Richard's vacated role of Chief Financial Officer and Board Member has started.

I would like to thank the Members, mortgage intermediaries and suppliers for their continuing support over 2023. Furthermore, I would like to acknowledge the hard work and professionalism of the Society's colleagues who continue to deliver success. They are a credit to the Society and to themselves.



Joanne Evans
Chair of the Board
7 March 2024

Chief Executive's Review

Over 2023, the Society delivered a strong set of financial results and made significant progress with its key strategic projects.

Mortgage lending

The size of the UK mortgage market contracted over 2023 as borrowers found it more difficult to raise sufficient funds for their property purchases. Loan affordability was negatively impacted by a combination of increased market interest rates and inflation in household budgets. In response to increases in the BoE base rate, the Society increased its own Standard Variable Rate (SVR) on five separate occasions over 2023. As the number of purchasers reduced, property values came under pressure and actually fell in many parts of the UK.

Despite the difficult economic conditions, the Society processed a record level of mortgage applications in 2023 from which it advanced £53.3m (2022: £48.1m) of new loans. This is the second highest level of annual lending that the Society has ever achieved.

A combination of three main factors helped the Society to deliver this increased volume of mortgage business. Firstly, the Society operated with nearly a full complement of people in its mortgage teams over the course of the year. Secondly, the Society maintained its relative pricing competitiveness by being more agile in its response to the rapid changes in mortgage pricing in the marketplace. Thirdly, it implemented improved internal processes and communication to brokers and new Members which reduced the time between applications received to issuing a mortgage offer and also speeded up completions.

In 2023 the Society introduced a more rigorous process for managing the retention of current mortgage customers whose loans were approaching the end of their initial product terms. This resulted in reduced levels of redemptions. A combination of this improved retention, higher gross lending and favourable fair value assessments of the Society's fixed rate loans and associated interest rate swaps resulted in net mortgage book growth of 6.33% (2022: -1.80%) for the year.

Approximately two thirds of the Society's new lending in 2023 was to customers who were buying or building their own homes. The remaining third was to residential and commercial customers who were buying investment properties.

By increasing up-front checks on affordability and asset quality, and implementing improvements to its processes, the Society successfully managed to reduce the average time taken for it to process mortgage applications through to the offer stage. Reduced processing times help the Society to improve the service that it offers to its borrowers and to grow its future lending more productively.

In common with most other building societies, the Society has signed up to the UK Government's Mortgage Charter which was launched in 2023 and is aimed at supporting borrowers in difficulty. Over the course of the year, the Society received 14 enquiries about possible support and granted concessions to 13 borrowers.

The Society continues to take a sympathetic approach that still recognises the need to protect financial interests of all the Society's Members. The number of cases being three or more months in arrears or otherwise in default, reduced to seven (2022: eight). The number of cases requiring individual impairment charges increased to two (2022: one). The Society had no cases in possession at the end of 2023 (2022: none).

Savings growth

The cost-of-living crisis has forced many UK households to dip into their savings to support their living costs. Therefore, the market for new savings became very competitive in 2023. This led to a reduction in the Society's inflow of new funding. Despite positive net funding in the first half of the year, net funding reduced in the second half to end the full year broadly in line with the prior year. However, after the year-end capitalisation of interest onto savings accounts had taken place, the balance sheet figure for shares and deposits increased by £9.4m (2022: -£8.3m) or 3.1% (2022: -2.6%). The main reason for the savings and

Strategy & Performance

Chief Executive's Review (continued)

deposits outflows in 2022 was the closure of the last of the Society's five agencies, that had relatively low utilisation by Members.

Profit Before Tax

In a rising interest rate market, such as in 2023, the Society experienced a widening of its margins as it immediately receives higher interest on its substantial pool of liquid and swap assets as soon as the BoE announces an increase in its base rate. This is normally a month ahead of when the Society is able to increase rates to its savers and borrowers. Furthermore, the Society has a larger pool of liquid and mortgage assets that gain from interest rate rises compared to its pool of funding liabilities that it has to pay higher interest on. Despite significant increases in administrative costs over 2023, and the fact that the Society balanced the value of its increases in interest rates to borrowers with its rate increases to savers, the Society delivered a healthy Profit Before Tax of £3.3m (2022: £3.2m).

Strategic projects

The Society tackled four major strategic projects in 2023. The first of these related to the Financial Conduct Authority's (FCA) new Consumer Duty Regulations, this focused on the areas of products and services, price and value and ensuring customers and Members understand the products they have and receive appropriate support when needed. This multi-workstream project involved a considerable amount of effort from many colleagues working across different departments. I am happy to report that the project outcomes were successfully delivered before the deadline set by the FCA.

The Society also successfully launched its Mobile App in 2023. This was a significant achievement that puts the Society amongst only a very few within its sector that can offer this additional channel of communication to its Members. The Society also successfully launched a replacement portal that supports its mortgage intermediary business. This both offers greater functionality to its brokers and improves the way the Society processes mortgages.

In 2023, for contractual and operational reasons, the Society replaced its Bath Online system that supports its

online savers. Although the new system did successfully go live at the end of September without issue for most users, there were significant unforeseen problems with the launch that took several months to resolve. I offer a sincere apology to those Members who were negatively impacted by this. By the end of 2023, the Society had approximately 3,700 of its Members who had successfully enrolled to use the Mobile App and the new Bath Online system.

The Society had considerable success in 2023 with other commercial projects. These include the launch of the Bath Electronic Assistant (BEA), an AI chatbot that supports customer enquiries in out-of-hours periods, and the launch of a cash Lifetime ISA product which is targeted at the important 18-35 year old demographic.

Membership and customer service

I am delighted to report that the Society's Membership rose sharply over 2023 to end the year at a higher level than it was before it closed its agency operation in 2022. With over 1,300 accounts opened since its launch in the year, the main contributor to the increase was the success of the new Lifetime ISA product.

The Society has an ambition to deliver the best possible service that it can to its Members and it measures certain outcomes to ascertain how it is doing against this aim. The Society monitors its handling of customer enquiries that are made over the telephone or via the Society's Live Chat function. It aims to answer customers' calls promptly and action is taken to improve matters when its internal service levels are not met. The Society also monitors customers' responses to its AGM and online surveys and sets challenging expectations with regards to average customer satisfaction and whether customers would promote the Society after their personal experience of doing business with us. Even with a temporary reduction in service levels as a result of the Bath Online issues, I am pleased to say that the Society is making good progress towards the aspiration of achieving excellent service.

In 2023, the Society refurbished its Oldfield Park Branch to provide a bright and modern space for its Members to transact and to offer improved working and break-out space for the Society's colleagues. It is the

Strategy & Performance

Chief Executive's Review (continued)

Society's intention to similarly refurbish the Wood Street Branch in 2025. Investment in the Branch network demonstrates the Society's medium-term commitment to its retail Branches.

Social investment

Over 2023, the Society continued to support its local community through various initiatives including the provision of financial education in Bath state schools, support for local small charities and the sponsorship of the long running fireworks safety poster competition. 2023 was the first full year of the Society's sponsorship of Team Bath and opportunities from this relationship continue to develop.

In 2023 the Society launched a Colleague Volunteering Programme. All colleagues are given one day off a year to volunteer either as part of Society team activities or for a charity close to their heart. Team volunteering days included sessions with More Trees Bath and North East Somerset (BANES), to start the planting of 1,200 saplings to improve local public spaces in Bath, to mark its 120th anniversary in 2024. Some of these saplings have been grown in the tree nursery in the garden at the Wood Street Branch. Colleagues also worked at the Bath Foodbank warehouse sorting food donations.

For 2024, Members and the Society's colleagues have jointly elected Mentoring Plus to be the Society's Charity of the Year. This important charity provides one-to-one mentoring and support for children and young people aged 7 to 25 years old in the BANES area who are facing tough challenges such as family breakdown, domestic violence or bereavement.

The Society's total contribution into the Bath community for 2023 has been measured at £1,123 per employee (2022: £740).

Investing in our people

As the Society's business has continued to grow so has the team of colleagues required to run it. In 2023 the Society recruited a dedicated HR Manager and has also developed a People Strategy that is aimed at supporting the Society's desire to become an employer of choice in the Bath area.

Having served 21 years as a Director of the Society, with the last six as Chief Executive, I decided last Autumn that the Spring of 2024 was the right time to retire from the Board and to move on to new opportunities. I have spent the best part of my working life at the Society, and I have grown to love it. It has been a privilege to lead an exceptional team of colleagues over the years and I will miss them. I wish my successor and the Society every success for the future.



Kevin Gray
Chief Executive
7 March 2024

Strategy & Performance

Chief Executive's Review (continued)

Looking ahead

In recent years the Society has provided friendly and helpful service to Members and enjoyed financial success. As the Society plans for how it needs to evolve over the coming years it is clear that it needs to invest in the systems and people in order to secure a sustainable future. The Bath Future Architecture programme was initiated in early 2023, with a planned three-year time horizon, to enable it to improve the service it offers to Members and attract new Members. The investment will also support the ambition to grow steadily, so that in future years the Society's income can grow at least as quickly as its costs inevitably will.

The Bath Future Architecture programme includes major investment in both the Society's IT systems and its people, so that it can deliver on the customer service ambition. The new and improved systems that it has already delivered include a new Mobile App and enhanced Bath Online internet browser-based customer portal, both of which it will continue to incrementally improve. The Society is refurbishing both Branches as well as improving the digital service to Members.

This is an ambitious programme of investment and at the same time the Society is investing heavily in developing its colleagues' skills whilst making it an attractive place for its people to work and collaborate. To support this the Society will be upgrading the interior of its head office building on Queen Square in Bath, in 2024.

I will shortly be inviting Members to share their views on what more their Society can do to develop customer service, improve their financial resilience, be a supportive part of the local community it operates in and help its mortgage customers invest in improving the energy efficiency of their properties.



Richard Ingle
Chief Financial Officer &
Chief Executive-elect
7 March 2024

Strategic Report

Business objectives/purpose

The 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 volume of mortgages it offers to Members. It funds these mortgages through the savings balances held by individual customers and deposits from small businesses. The Society therefore seeks to accelerate the rate of savings and deposits growth, to support the growth in mortgages.

Business strategy

The Society’s strategy is to offer to its Members good value mortgages that meet otherwise unmet borrowing demand and good value savings and deposits accounts. The Society has developed innovative mortgage products to help university students buy a home (“Buy for University” product) and for customers who are looking to take in a lodger and use the rental income to support being able to afford to buy a property (“Rent a Room” product). The Society wants to grow these products faster than the other products it offers to support realisation of the otherwise unfulfilled lending need.

Due to the strength of its relationship with intermediaries and its underwriting expertise the Society also has a particularly strong reputation and capability to offer Buy to Let mortgages. The Society’s ability to identify and mitigate the risks associated with this type of lending means that it can generate above average returns, allowing it to invest in improving the service offered to customers and provide better interest rates for saving Members.

The Society funds the cash advanced for mortgages by offering savings and deposit accounts to individuals and small business customers. The Society aims to consistently offer well above industry average administered rate savings account rates. The Society delivers sustained value to Members through higher interest rates and better customer service than its competitors, which means the benefits of its mutual business model are shared fairly. New and existing savings customers get the same great savings rates, on variable rate and notice accounts, so loyal customers always get the best rates and don’t need to move their money around or keep checking the latest interest rate.

The Society is increasing its membership base overall, and particularly in the 18-35 year old population. The launch of the Lifetime ISA in early 2023 supported the Society to attract over 1,000 new Members across last year.

The Society generates the regulatory capital that is required to be held to cover the risk of credit risk losses on mortgages and other risks, by retaining the profit after tax that is generated each year. It is therefore important for the Society to make a modest profit each year, in order to be able to continue to grow and therefore generate income to cover the cost of running and developing the service that the Society offers to Members.

At the end of 2023 the Society had:

- 18,970 Savings and Deposits customers, of whom 17,615 (2022: 16,639) were Members; and
- 2,343 mortgage customers, of whom 1,325 (2022: 1,316) were Members.

Customer Type	2023	2022	% increase
Savings	18,970	17,877	6.1%
Mortgages	2,343	2,268	3.3%
Total Customers*	21,271	20,106	5.8%

* Total customers is not the sum of savings and mortgage customers due to some customers existing in both groups.

Financial review and future developments

Inflation started climbing through 2021 due to the combined impact of fiscal and monetary policy stimulus and covid-related supply interruptions, with CPI reaching 5.4% at the end of 2021. Inflation then accelerated through 2022, as Russia restricted gas supplies to Europe then invaded Ukraine, peaking at 11.1% in October 2022. The fourteen consecutive rises in the BoE base rate from December 2021 through to August 2022 reduced net household income and therefore aggregate demand, bringing inflation down to 4.0% at the end of 2023.

The mortgage market shrank in 2023 as the higher level of interest rates reduced the affordability of borrowing to buy a home or move into a larger property. In the latest available industry statistics, to the end of Q3 2023, the total UK-wide

value of gross mortgage advances was 27.6% lower than a year earlier and commitments were down even more, by 41.4%.

UK house prices ended 2023 down 1.8% compared with December 2022, leaving them almost 4.5% below the all-time high recorded in late summer 2022. When inflation is taken into account, real house prices are much lower than these notional value reductions.

Despite this difficult context the Society has performed well, growing mortgage balances and having strong profitability, greatly helped by the step up in the interest rate level. The strength of the balance sheet increased further, with the key capital ratio increasing to 32.9% (2022: 30.4%) and liquidity as a proportion of total savings and deposits balance, decreasing to 25.6% (2022: 27.7%).

Key Performance Indicators - Financials

	2023	2022	2021
Mortgage Asset Growth	4.4%	0.2%	1.6%
Profit Before Tax £M	3.30	3.20	2.13
Net Interest Margin	3.17%	2.50%	2.13%
Management Expenses Ratio	2.07%	1.76%	1.52%
Common Equity Tier 1 Ratio	32.9%	30.4%	31.8%
Leverage Ratio	11.9%	11.2%	10.9%
Liquidity Coverage Ratio	239%	245%	291%

Profitability

Profit Before Tax showed a small increase in 2023 to £3.3m compared to 2022 (£3.2m). Both years' results were helped by the increase in market interest rates. 2024 profitability is expected to be significantly lower than in 2023 as the short-term uplift from higher interest rates is outweighed by the cost of the investments that the Society is making in improving its systems. Profitability as well as Member service performance is forecast to improve in later years as the new systems come online.

Net Interest Income increased to £11.6m in 2023 (2022: £9.0m) as interest rates increased rapidly and also due to the larger mortgage book.

Costs increased by £1.3m to £7.7m (2022: £6.4m) as the Society invested in year one of the Bath Future Architecture programme with third parties and also its own Business Change team, to deliver the systems improvements that will support better and more efficient customer service in the future, as well as enable faster growth. This will support the Society's long term financial sustainability, with income rising at least as fast as inevitably growing costs.

Impairment charges for loan losses were £101k (2022: £14k) in the year, reflecting a small anticipated reduction in the collateral value of mortgage customer's properties and therefore a potentially slightly higher credit risk loss on those loans that are significantly in arrears.

Strategy & Performance

Strategic Report (continued)

The Society uses interest rate swaps to reduce the risk that arises when it makes fixed interest rate mortgage loans to customers. The Society only ever uses interest rate swaps to reduce risk. There is a small gap between the updated valuation of these interest rate swaps and the fixed rate mortgages that these are hedging, which amounted to a small loss of £0.5m (2022: gain of £0.7m).

Assets

The (notional) mortgage book grew by £12.0m (4.4%) in 2023, to £283.5m (2022: £271.5). The proportion of the total mortgage book that comprises of owner-occupier customers is 62.1%, with Buy to Let making up 35.3% and legacy Commercial property loans comprising the final 2.6%.

Shares and Deposits

Total Shares and Deposits grew by £9.4m in 2023, to £317.7m (2022: £308.3m), of which £255.4m are Shares held by personal customers and £62.3m are Deposits

held by Small Businesses, Charities and Pensions Savings customers.

Reserves

At the end of 2023, total reserves stood at £47.1m, an increase of £2.5m in the year, almost all due to retained Profit After Tax. These reserves represent Members equity in the business and form the principal part of the Society's regulatory capital resources. These capital resources form a buffer that protect depositors from potential losses arising from credit risk on the mortgages made by the Society and other risks to which the Society is exposed to.

Solvency

The main measure of the Society's capital strength is the "Core Equity Tier 1" ratio. The Society has one of the highest CET1 ratios in the building society sector, at 31.2% (2022: 28.6%), excluding profit after tax.

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

Unaudited	2023	2022
	£000	£000
Capital available:		
General reserve	46,096	43,594
Revaluation reserve	955	955
Total capital per Statement of financial position	47,051	44,549
Regulatory adjustments to obtain Common Equity Tier 1 and Tier 1 capital		
Intangible assets	(546)	(614)
Prudent Valuation Adjustment	(93)	-
Common Equity Tier 1 capital and Tier 1 capital	46,412	43,935
Tier 2 capital - collective allowance for impairment	180	132
Total regulatory capital	46,592	44,067
Total capital requirement	11,287	11,556
Surplus over Total Capital Requirement	35,305	32,511

Strategy & Performance

Strategic Report (continued)

Liquidity

The Society maintained strong liquidity despite a competitive funding market including from challenger banks with teaser rates, reduced market liquidity as quantitative easing

unwinds (“Quantitative Tightening”) and peers needing to replace central bank “TFSME funding” with retail funding.

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

	2023 £000	2022 £000
Total High Quality Liquid Assets		
Cash in hand and balances with the Bank of England	62,782	65,024
Loans and advances to credit institutions	18,536	20,313
Total liquid resources	81,318	85,337

Sustainable Future

The Society has developed a clear approach to improving its sustainability performance by initially focusing on reducing its direct Scope 1 & 2 CO₂ emissions then developing green mortgage products to help customers reduce the much larger Scope 3 emissions from the heating of mortgage customers’ homes.

and therefore reduce energy use in rooms when they are not occupied.

The development and launch of green mortgage products will be the key enabler for realising Scope 3 emissions reductions, but this requires market development and more Government support to realise significant mortgage volumes.

In 2023 the electricity consumption in the Queen Square Head Office and Oldfield Park Branch were reduced by installing LED lighting and also zonal lighting in the Branch. The refurbishment of the Queen Square building in 2024 will give the opportunity to install more zonal lighting

The Society’s Scope 1 and 2 emissions in the year to 31 December 2023, together with comparatives for 2022, 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.

Carbon dioxide (CO₂e)¹ in tonnes

	Year to 31 December 2023	Year to 31 December 2022
Scope 1 emissions – travel & gas ²	12.5	12.6
Scope 2 emissions – electricity ²	16.2	16.1
Total Scope 1 & 2 emissions	28.7	28.7

1. CO₂e is an abbreviation of ‘carbon dioxide equivalent’, the internationally recognised measure of greenhouse gas emissions.

2. The DEFRA 2023 conversion factors have been used to calculate carbon emissions based on consumption (estimated where accurate readings are not available).

Serving customers digitally is more convenient for many customers than offering service through Branches or by post. Sending electronic communications also reduces the environmental footprint. The Society has continued the journey to digital onboarding of Savings customers with the launch of the Mobile App and improvement of Bath Online banking platform.

In the second half of the year the Society made the first step towards a full paperless mortgage application process for Intermediaries with upgrades to Broker Online decision in principle and full mortgage application process.

Similarly the Society encourages Members who would prefer a paperless method of contact to sign up for the email version of the Annual General Meeting pack.

Strategy & Performance

Strategic Report (continued)

In 2023 the Society upgraded the recycling scheme at Head Office to increase the proportion of office waste that is recycled. Colleagues work in a hybrid model, spending part of the week working from home as well as some days in the office. This reduces the environmental impact of travel to work as well as saving commuting time.

Through the More Trees partnership the Society has planted another 300 trees in local public spaces to benefit the local community as well as make a small contribution towards improving air quality.

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

31 December 2023

EPC Rating	Residential % by volume	Buy to Let % by volume	Total % by volume
A-C	38.2%	33.7%	35.9%
D-E	53.9%	61.3%	57.3%
F-G	6.0%	3.7%	4.8%
Unknown	1.9%	1.3%	2.0%

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%

Approach to Risk Management

The Society manages risk through a formal structure of Board and management committees, as shown in the Board governance structure on page 32.

The Board is responsible for setting the Society's strategy and risk appetite, and ensuring overall risk management is appropriate and effective.

The Board operates a Risk Committee that oversees the Society's risk management function and an Audit Committee that oversees the Society's systems of procedures and controls that are designed to mitigate risk.

The Society also operates a number of management committees, namely a Credit Committee, an Assets and Liabilities Committee (ALCO), a Conduct and Operations Committee and an IT and Operational Resilience Committee. These committees are first line decision making committees, and report to the Board through the Risk Committee.

The Society's day to day operations are managed by the Executive Committee (ExCo). The ExCo meets weekly (or more frequently if required).

The Society operates a 'Three Lines of Defence' model for mitigating risk. The Society's first line of defence consists of its colleagues, its management and its systems of procedures and controls. The second line of defence consists of the Society's risk functions and the third line of defence is the Society's internal audit function.

The Three Lines of Defence model is supported by the Risk Management Framework (RMF), which sets out the Society's risk management governance, risk appetite and key elements of the risk management process. It also details the roles and responsibilities of the Three Lines of Defence model.

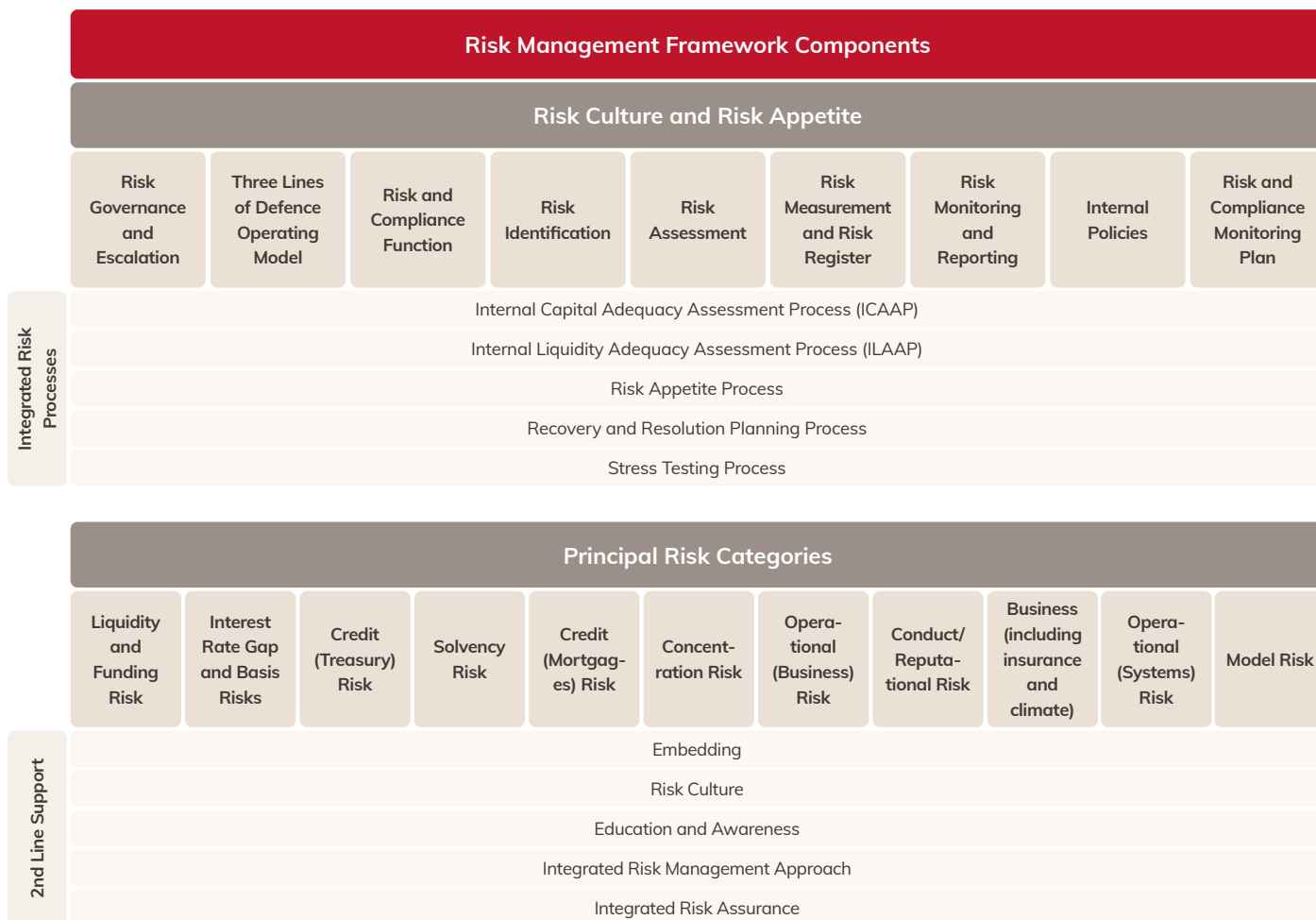
In addition, the RMF identifies the key risks across the taxonomy and associated mitigation, which are then captured in detail in the Society's risk management system, 4Risk GRC.

The RMF is centred on the embedding of a strong risk culture that includes both prudential and conduct risk outcomes. It is applicable to all employees of the Society and is subject to annual approval by the Board of Directors.

Risk Management Report

Approach to Risk Management (continued)

Structure of the Risk Management Framework



Management of risk is a continuous process which involves both first and second lines of defence to ensure that material risks are identified, assessed, and managed in accordance with the risk appetite defined by the Board. The Society approaches the risk it takes through careful and frequent consideration of risks in the risk register. It takes steps to ensure that risks identified are discussed and appreciated by managers within the business as well as by the Risk Committee and management committees.

Risk Appetite

The Society's risk appetite identifies, at a high level, how much risk the Society's Board is prepared to accept in the pursuit of its strategic objectives, the nature of risks that

are and are not acceptable to the Society and the Society's approach to monitoring that its activities are in line with its risk appetite. It takes account of external and wider environmental factors including the state of and prospects for the UK economy and guidance from the Prudential Regulation Authority (PRA).

Risk Appetite Statement

The Society, in pursuit of a market penetration strategy with elements of niche mortgage products and straightforward savings products, has a prudent and proportionate approach to risk management.

Principal Risks & Uncertainties

The table below shows the principal risks faced by the Society, the risk appetite defined by the Board and the related mitigants in place.

Interest Rate Gap and Basis Risks

Risk Type	Risk Appetite Statement	Mitigation
<p>The risk that the Society is exposed to capital or income volatility due to mismatches between the interest rate exposures on its assets and liabilities.</p> <p>Interest rate risk arises from imperfect matching of different interest rate features, re-pricing dates and maturities relating to mortgages and savings products and treasury investments.</p>	<p>Interest Rate Gap Risk: The Society manages its exposure to interest rate risk on the gap between assets and liabilities in different time buckets within set limits. The Board has a low risk appetite for interest rate risk preferring low overall levels of risk exposure and simple mitigation techniques.</p> <p>Basis Risk: The Society controls and monitors the total level of its assets and liabilities that can be priced against an interest rate base other than on an administered rate basis. This reduces the Society's susceptibility to basis risk. The Board has a low risk appetite for basis risk preferring low overall levels of risk exposure and simple mitigation techniques.</p>	<ul style="list-style-type: none"> • Board approved risk appetite and risk policy limits through the Financial Risk Management Policy • Ongoing monitoring of Risk Appetite Measures through weekly and monthly management information (MI) • Assets and Liabilities Committee oversight • Control framework through 4Risk GRC • Internal Audit Programme.

Risk Management Report

Principal Risks & Uncertainties (continued)

Credit (Treasury)

Risk Type	Risk Appetite Statement	Mitigation
Credit (Treasury) risk is the risk of treasury counterparties failing to meet their obligations to the Society as they fall due.	The Society deposits funds with low risk counterparties selected for their capital strength in line with Policy. The Board has a low risk appetite for treasury credit risk preferring instead to invest in short duration investments of high credit quality.	<ul style="list-style-type: none"> • Board approved risk appetite and risk limits • Ongoing monitoring of Risk Appetite Measures through monthly MI • Assets and Liabilities Committee oversight • Counterparty limits and reviews • Separate Back Office from Front/Middle Office • Internal Audit Programme • Control framework through 4Risk GRC

Solvency

Risk Type	Risk Appetite Statement	Mitigation
Solvency risk is the risk of being unable to absorb losses, generated by all types of risks, with the available capital.	To hold sufficient capital above minimal regulatory or market expectations in order to maintain confidence that the Society has adequate buffers to cover all conceivable losses.	<ul style="list-style-type: none"> • Board approved risk appetite and risk policy limits through the Financial Risk Management Policy. The Society's Internal Capital Adequacy Assessment Process (ICAAP) and Board approved risk appetite • Ongoing monitoring of capital metrics and all other risks • Risk Appetite Measures through monthly MI • Stress testing of Society-specific vulnerabilities and BoE stressed macroeconomic scenarios • ALCO and Board oversight of capital metrics and all other risks • ALCO, Risk Committee and Board review then approval of capital stress test scenarios and results pre and post management actions • Recovery Planning including maintaining realistic recovery options • Control framework through 4Risk GRC • Internal Audit Programme.

Risk Management Report

Principal Risks & Uncertainties (continued)

Credit (Mortgages)

Risk Type	Risk Appetite Statement	Mitigation
<p>Credit (mortgages) risk is the risk of customers failing to meet their obligations to the Society as they fall due. Credit risk arises from mortgage loans to private customers and historic commercial customers and includes the whole and timely payment of principal, interest, collateral, and other receivables.</p>	<p>The Society differentiates itself on niche lending which is mitigated by careful and robust manual underwriting from highly experienced and knowledgeable staff in line with the agreed Policy. To seek to act within the Sourcebook guidance in all areas as a 'limited' lender within the PRA's sourcebook stratification except with regard to its legacy positions where it has a high level of Buy to Let lending.</p>	<ul style="list-style-type: none"> • Board approved risk appetite and risk limits • Ongoing monitoring of Risk Appetite Measures through monthly MI • Robust underwriting criteria • Stress testing • Credit Risk Committee oversight • Asset and Liability Committee oversight • Capital Planning as part of the Society's Internal Capital Adequacy Assessment Process (ICAAP) • Credit risk reporting, including layering of risk metrics • Control framework through 4Risk GRC • Internal Audit Programme.

Concentration

Risk Type	Risk Appetite Statement	Mitigation
<p>Concentration risk is the risk of losses incurred due solely to certain concentrations existing within the Society's asset base or its activities.</p>	<p>The Society monitors the level of concentration of its lending geographically and across sector/product type.</p>	<ul style="list-style-type: none"> • Monthly Credit Committee oversight • Capital Planning as part of the Society's Internal Capital Adequacy Assessment Process (ICAAP) • Ongoing monitoring of Risk Appetite Measures through monthly MI • Control framework through 4Risk GRC.

Risk Management Report

Principal Risks & Uncertainties (continued)

Operational (Business)

Risk Type	Risk Appetite Statement	Mitigation
Operational (Business) risk is the risk of losses arising from inadequate processes, through human error, fraud and money laundering.	To have controls in place to mitigate losses arising from inadequate processes/systems through human error, fraud, money laundering and recruit and manage staff in line with the Society's agreed culture and values.	<ul style="list-style-type: none"> • Board approved risk appetite limits • IT and and Operational Committee MI • Continued investment in developing risk management frameworks, policies, systems and processes • Continuous improvement, learning from internal and external risk events • Control framework through 4Risk GRC • Near Misses and Breaches Register • Internal Audit Programme.

Conduct/Reputational

Risk Type	Risk Appetite Statement	Mitigation
<p>The risk of financial or reputational loss as a result of treating customers unfairly and delivering inappropriate outcomes that lead to customer detriment.</p> <p>The risk that arises from the Society's conduct in its direct relationship with customers which creates a negative perception by Members, regulators, counterparties, potential customers or other stakeholders and damages the Society's brand and reputation and adversely affects its business, earnings, capital or access to funding.</p>	To seek to provide excellent levels of service and have controls and processes in place to achieve good customer outcomes and market integrity.	<ul style="list-style-type: none"> • Board approved risk appetite limits • Members are placed at the heart of the decision making • Conduct and Operations Committee oversight • Conduct and Operations MI • Control Framework through 4Risk GRC • Internal Audit Programme.

Risk Management Report

Principal Risks & Uncertainties (continued)

Business (including Insurance)

Risk Type	Risk Appetite Statement	Mitigation
<p>Business risk is the exposure of the Society's business to uncertainty and competition in the macro-economic environment with specific consideration of earnings volatility and cost over runs in severely adverse conditions. It also covers areas where regulation has an adverse impact on the Society's business model.</p> <p>Insurance – The adoption of outsourced policies and warranties to mitigate the effects of losses within the business generally and through niche lending. General insurance policies against threats and perils which may affect the Society or Society premises.</p>	<p>The Society will take sufficient risk to deliver consistent profitability that is in the top quartile of all building societies while maintaining arrears levels no larger than the industry average.</p> <p>Insurance Risk: To mitigate the effects of losses within the business generally and through niche lending via outsourced policies and warranties.</p>	<ul style="list-style-type: none"> • Society Governance processes (Board/Risk Co/ALCO/Credit Co, Conduct and Operations Co) • Monthly Board Performance Pack presented to the Board • Comprehensive business insurance policies • Specific insurance policies to cover niche lending • Control framework through 4Risk GRC • Internal Audit Programme.

Risk Management Report

Principal Risks & Uncertainties (continued)

Climate Change Risk

Risk Type	Risk Appetite Statement	Mitigation
<p>Climate Risk includes the risks and opportunities presented by rising temperatures, climate-related policy, and emerging technologies in a changing world, as well as the risk of insufficient or unclear information on the impacts of climate change on the Society.</p> <p>Climate change risks can be classified as physical risks or transitional risks.</p> <p>Physical risks relate to specific weather events. The Society has determined that its primary physical risks are river or surface water flooding, storm damage and sea level rise.</p> <p>Transitional risks arise from the process of adjustment towards a net-zero carbon economy. The Society has determined that its primary transitional risks are employment in climate unfriendly roles or 'stranded industries' and adaptation of property collateral.</p>	<p>Board risk appetite for the combination of physical and transitional climate change risks is for a maximum loss of 0.5% of capital.</p>	<ul style="list-style-type: none"> • Society Governance processes (Board/Risk Co/ALCO/Credit Committee) • Annual external report from Landmark Information Group which provides detail of the inherent physical risks in the Society's lending portfolio • Climate change scenario severity analysis • Lending decisions • Capital Planning as part of the Society's Internal Capital Adequacy Assessment Process (ICAAP) • Monthly Capital metrics • Monthly Credit Committee EPC related metrics.

Risk Management Report

Principal Risks & Uncertainties (continued)

Operational (systems)

Risk Type	Risk Appetite Statement	Mitigation
Operational risk (systems) is the risk of failed or inadequate systems and processes adopted by the Society.	To maintain the integrity and confidentiality of systems and data whilst providing availability in line with the impact tolerances outlined in the Operational Resilience Framework.	<ul style="list-style-type: none"> • Board approved risk appetite and risk limits • IT and OR Committee oversight • Ongoing monitoring of Risk Appetite Measures through monthly MI • Internal Control Framework • Investment in operational resilience through the Bath Future Architecture programme monitored through monthly Business Change Forum • Annual Penetration Testing • Annual Disaster Recover Test • Operational resilience scenario testing • Control framework through 4Risk GRC • Internal Audit Programme.

The Board of Directors



Joanne Evans

Independent Non-Executive Director

Joanne joined the Board in 2021 and was elected as Chair in January 2023.

Roles

Chair of the Board & Chair of
Nomination Committee
Member of Risk Committee
Member of Remuneration, People
& Culture Committee



Kevin Hayes

Independent Non-Executive Director

Kevin joined the Board in 2022.

Roles

Chair of Risk Committee

Governance

The Board of Directors (continued)



David Smith

Independent Non-Executive Director

David joined the Board in 2016.

Roles

Chair of Audit Committee

Member of Nomination Committee



Fionnuala Earley

Independent Non-Executive Director

Fionnuala joined the Board in 2018.

Roles

Chair of Remuneration, People

& Culture Committee

Member of Audit Committee

Governance

The Board of Directors (continued)



Angela Cha

Independent Non-Executive Director & Senior Independent Director

Angela joined the Board in 2014 and is Vice Chair.

Roles

Member of Audit Committee



Sameer Rahman

Independent Non-Executive Director

Sameer joined the Board in 2022.

Roles

Member of Risk Committee
Member of Nomination Committee
Member of Remuneration, People
& Culture Committee

Governance

The Board of Directors (continued)



Independent Non-Executive Director

Andrew joined the Board in January 2024.

Roles

Member of Audit Committee



Chief Executive (retiring March 2024)

Kevin joined the Society in 1998 and joined the Board in 2002. He was Deputy Chief Executive from 2006 and became the Chief Executive in 2018.

Roles

Executive Director/Board Member

Governance

The Board of Directors (continued)



Richard Ingle

Chief Financial Officer
(Chief Executive Elect March 2024)

Richard joined the Board in 2022.

Roles

Executive Director/Board Member



Tonia Lovell

Director of Risk Management
& Society Secretary

Tonia joined the Society in 2008 and was appointed to the Board in 2017.

Roles

Executive Director/Board Member

Board Composition

The composition of the Board of Management remained unchanged during 2023, however it was announced in December that Kevin Gray would be retiring as Chief Executive in the spring of 2024. Angela Cha will also be retiring in the spring of 2024 following the end of her nine-year tenure and Andrew Payton was appointed as a Non-Executive Director on 1 January 2024.

Inclusion and diversity are important to the Society to ensure there is diversity of thought, a range of lived experiences and it remains innovative and relatable. The Board has concluded that it is of an appropriate size, with the necessary balance of skills and experience to meet the needs of the business.

Gender Diversity of the Board

As at 31 December 2023



■ Male **56%**
■ Female **44%**

Tenure of Non-Executive Directors

As at 31 December 2023



■ 0 years – 3 years **56%**
■ 4 years – 6 years **18%**
■ 6 years – 9 years **26%**

As detailed in the Directors' Report, all Directors are submitted for election or re-election at the Annual General Meeting (AGM). Directors are only submitted for re-election

if the annual appraisal process with the Chair confirms their ongoing contribution and the specialist knowledge, skills, experience and independence continues to be required.

The Executive Committee

As Executive Directors of the Board, Kevin Gray, Richard Ingle and Tonia Lovell are also Members of the Executive Committee along with:



Jason Wilmot

Chief Operations Officer

Jason joined the Society in 2017.

Key Responsibilities are Information Technology and Mortgage Operations.



Colin McDougall

Chief Commercial Officer

Colin joined the Society in 2019.

Key Responsibilities are Mortgage and Savings sales and distribution.



Steve Burnard

Chief Transformation Officer

Steve joined the Society in 2021.

Key Responsibilities are Business Change and Transformation.

Directors' Report

The Directors have pleasure in presenting the Annual Report and Accounts for the year ended 31 December 2023.

Colleagues

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 colleagues 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, its 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 and who are aligned to the Society's values.

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 2023 trade creditors outstanding represented 40 days of purchases (2022: 13 days) due to the timing of invoice payments.

Charitable and political donations

In 2023, the Society made donations to charities of £8,200 (2022: £7,000). 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 26 April 2023 the Members passed a resolution appointing PricewaterhouseCoopers LLP ('PwC') as auditors of the Society. A resolution to reappoint PwC will be proposed at the 2024 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 46, 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

Governance

Directors' Report (continued)

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 Risk Management 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 further 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 2026 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 the continuing cost of living crisis 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.

Governance

Directors' Report (continued)

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:

Joanne Evans, Angela Cha, Fionnuala Earley, David Smith, Kevin Hayes, Sameer Rahman, Kevin Gray, Richard Ingle and Tonia Lovell. There were no retirements or appointments during 2023. Kevin Gray is retiring on 7 March 2024. In line with the principles of the UK Corporate Governance Code 2018, all Directors who served in 2023 will retire from the Board at the Annual General Meeting and, being eligible, all Directors will then offer themselves for re-election other than Angela Cha who will be retiring at the 2024 AGM following the end of her nine year tenure. 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.

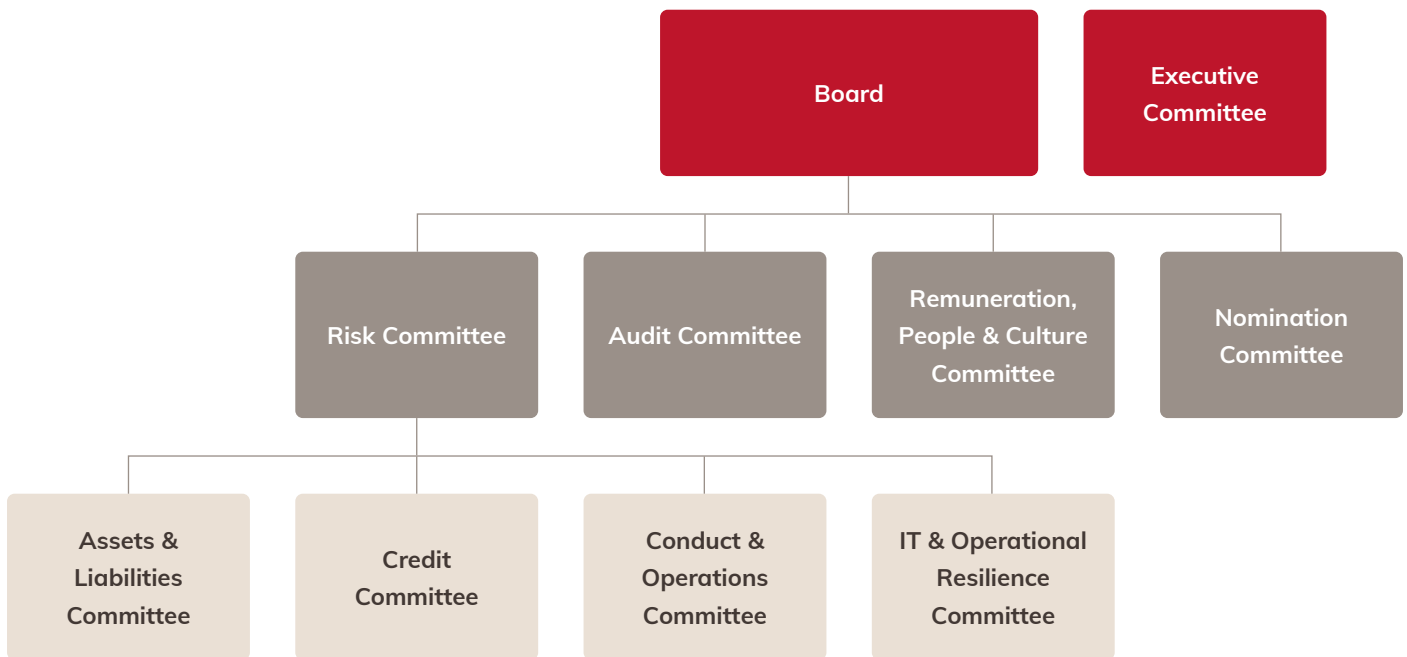


On behalf of the Board

Joanne Evans
Chair
7 March 2024

Directors' Report on Corporate Governance

Corporate Governance Structure



- Board
- Board Sub Committees
- Management Committees

The Role and Responsibilities of the Board and its Committees

The primary role of the Board is to provide leadership and challenge and ensure its long term success whilst meeting the needs of current and future Members.

The Board is responsible for the setting and implementation of the strategy, which will enable the Society to fulfil its purpose. The Society's Board Manual provides detail of all Board and Committee terms of reference. The Board meets as often as necessary for the proper conduct of business (usually monthly). The attendance record is detailed on page 37.

The Non-Executive Directors hold 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 its Board committees.

The Board

Principal Functions

- Set the Society's strategy policy and internal limits.
- Approve the annual budget.
- Annually approve the Society's risk appetite.
- Annually approve policies and internal limits as recommended by the Risk Committee.
- Monitor the performance of the Society and its capital and liquidity requirements.
- Ensure robust systems and controls are in place.
- Ensure the Society operates within its constitution, regulation and legislation.
- Ensure appropriate resources are available to meet objectives.

Risk Committee

Constituted by three Non-Executive Directors. Meetings are held at least four times per year and it is normal for Executives and Executive Committee members to attend by invitation.

Principal Functions

- The forward looking perspective on risk matters.
- The oversight, quality and performance of the Society's risk management/compliance functions.
- Reviewing matters referred to it by the Board and Audit Committee.
- Providing advice to the Board on the overall risk strategy (including the Risk Management Framework and risk appetite).
- Reporting to the Board on all risk matters.
- Ensuring compliance with regulatory policy requirements.
- Ensuring that the risk and compliance functions have adequate resources to carry out their responsibilities.

Audit Committee

Constituted by three Non-Executive Directors. Meetings are held at least four times per year and it is normal for Executives, Executive Committee members and representatives from the Society's external and internal auditors to attend by invitation.

Principal Functions

- Assist the Board in exercising its governance and oversight responsibilities.
- Monitor the integrity of the financial statements of the Society including its annual and interim management statements.
- Ensure the effectiveness of systems and controls.
- Reviews the outputs from the auditors.

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.

Governance

Directors' Report on Corporate Governance (continued)

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 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 2022 or 2023, 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.

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.

Remuneration, People & Culture Committee

Constituted by three Non-Executive Directors. One meeting was held in 2023 and this will increase to quarterly in 2024 following a change in terms of reference which will see the Committee extending its remit to also cover people and culture. The Chief Executive is invited to attend this Committee.

Principal Function

- The Remuneration, People and Culture Committee is a Board Sub-Committee which is responsible for governance, oversight and making recommendations to the Board for approval on all aspects of people, culture and remuneration of the Non-Executive, Executive Directors and ExCo.

Nomination Committee

Constituted by three Non-Executive Directors. Two main meetings of the Committee were held in 2023 along with additional meetings relating to the recruitment of key positions including the Chief Executive, Chief Risk Officer and a new Independent Non-Executive Director. Fletcher Jones Limited were appointed to assist with the recruitments. Outside of this engagement on commercial terms, Fletcher Jones Limited has no connection with the Society or any individual Directors.

Principal Function

- The Nomination Committee is a Board Sub-Committee. The main responsibilities of the Committee in accordance with the UK Corporate Governance Code and the Senior Managers Regime are to recommend the appointment of Non-Executive Directors, Executive Directors and ExCo members along with terms of employment and Service Contracts (where appropriate).

Management Committees

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:

Management Committee	Membership	Overview
Credit Committee Meets Monthly	Six members of the Executive Committee plus the Head of Underwriting, Head of Intermediary Mortgage Sales, Head of Compliance and Credit Controller. The Committee is chaired by the Chief Financial Officer.	The 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 receives comprehensive management information, quarterly reports 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 & Liabilities Committee Meets Monthly	Six members of the Executive Committee plus the Head of Treasury & Prudential Risk, Head of Enterprise Risk, Head of Direct Mortgage Sales and the Savings Distribution Manager. The Committee is chaired by the Chief Executive.	The Committee has terms of reference that include all aspects of financial risk management, treasury matters and liquidity. The Committee receives comprehensive management information and reviews reports from the Head of Treasury & Prudential Risk 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 & Operations Committee Meets Quarterly	Six members of the Executive Committee plus Head of Compliance, Head of Savings Operations, Head of Mortgage Operations, Head of Intermediary Mortgage Sales. The Committee is chaired by Chief Commercial Officer.	The Committee has terms of reference that include responsibility for reviewing the Society's processes and practices with a view to ensuring that customers are treated fairly in line with the consumer duty. The Committee receives comprehensive management information and reviews feedback from customers and customer complaints and recommends process changes to the Executive Team where appropriate. The Committee reports to the Risk Committee.
IT & Operational Resilience Committee Meets Quarterly	Six members of the Executive Committee plus the Head of IT. The Committee is chaired by Director of Risk Management.	The Committee has terms of reference that include 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.

Evaluating Board Effectiveness

In 2023 the Board carried out an external Board Effectiveness Review. Having an externally facilitated review enabled the Board to stand back and assess its strengths and areas for development through an independent lens and identify changes to enable the achievement of full potential. Overall, the Board and Board Sub-Committees were found to be operating effectively and agreed an action plan for future development.

UK Corporate Governance Code

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 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 promotes debate and challenge and ensures that there is contribution from all Members of the Board. The Chief Executive is responsible for managing the Society's business within the parameters set by the Board.

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

Members and Annual General Meeting

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, questionnaires and Member Forums. All feedback is welcomed and considered through the governance structure 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) 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.

New Directors receive induction training which provides information on 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.

Governance

Directors' Report on Corporate Governance (continued)

Table 1: Directors' Attendance Record

Director	Board	Risk	Audit	Nomination	Remuneration
Joanne Evans	10/10	4/4		2/2	1/1
Fionnuala Earley	10/10		5/5		1/1
Angela Cha	10/10		5/5		
David Smith	10/10		5/5	2/2	
Kevin Hayes	10/10	4/4			
Sameer Rahman	8/10	3/4		1/2	0/1
Kevin Gray	10/10	4/4 (invited)	5/5 (invited)	2/2 (invited)	1/1 (invited)
Tonia Lovell	10/10	4/4 (invited)	5/5 (invited)	2/2 (invited)	1/1 (invited)
Richard Ingle	10/10	4/4 (invited)	5/5 (invited)		

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



On behalf of the Board

Joanne Evans

Chair

7 March 2024

Directors' Remuneration Report

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. Richard Ingle and Tonia Lovell received the benefit of a car allowance. Kevin Gray, Richard Ingle and Tonia Lovell all 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

Joanne Evans, Fionnuala Earley and Sameer Rahman constituted the Remuneration Committee in 2023. 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 5% rise in fees for 2024, in line with the current rate of inflation.

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.

Governance
Directors' Remuneration Report (continued)

Audited information

Table 2: Executive Directors' Emoluments

2023	Basic salary £	Annual bonus £	Benefits £	Pension contributions £	Total 2023 £
Kevin Gray	181,527	10,396	9,378	21,783	223,084
Richard Ingle	146,315	13,222	7,515	16,711	183,763
Tonia Lovell	114,665	8,541	7,764	12,913	143,883
Total 2023	442,507	32,159	24,657	51,407	550,730

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

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

	2023 £	2022 £
Robert Derry-Evans (Society Chair) (retired 31 December 2022)	-	39,670
Chris Smyth (Society Vice-Chair) (retired 28 April 2022)	-	10,811
Angela Cha	32,248	30,477
Fionnuala Earley	30,138	28,477
Joanne Evans (Society Chair from 1 January 2023)	44,095	32,588
David Smith	35,589	33,634
Kevin Hayes (appointed 1 January 2022 and elected 28 April 2022)	34,534	29,477
Sameer Rahman (appointed 1 May 2022)	31,193	19,711
Total	207,798	224,846

Note: Chris Smyth retired on 28 April 2022 and Robert Derry-Evans retired on 31 December 2022 and as such neither received any remuneration in 2023.



On behalf of the
Remuneration Committee

Joanne Evans
Chair of the Board
7 March 2024

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 2023 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 2023; the Income statement for the year ended 31 December 2023, 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.

Financial Statements

Independent auditors' report (continued)

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 2023 to 31 December 2023.

Our audit approach

Overview

Materiality	<ul style="list-style-type: none">• £470,000 (2022: £445,490)• Based on 1% of the Society's net assets
Scoping	<ul style="list-style-type: none">• 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• We performed audit procedures over all material account balances and financial information of the Society.
Key audit matter	<ul style="list-style-type: none">• 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 the 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 the risk of understatement of the impairment provision. 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;
- reviewing internal audit reports, and relevant meeting minutes including those of the Audit Committee and the Board;

Financial Statements

Independent auditors' report (continued)

- incorporating unpredictability into the nature, timing and/or extent of our testing;
- 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

Impairment losses on loans and advances to customers

The Society has incurred an impairment charge on loans and advances to customers ("loans") of £53,000 (2022: charge of £48,000) in the year. An individually identified provision of £513,000 (2022: £460,000) and a collective provision of £180,000 (2022: £132,000) are included in the Statement of financial position at 31 December 2023.

The individually identified provision covers loans where the customer is in arrears by three months or more, 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.

How our audit addressed the key audit matter

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;

Financial Statements

Independent auditors' report (continued)

Key audit matter

The collectively assessed impairment calculation is impacted by assumptions around the probability of default and loss given default, and includes a model overlay in respect of cladding. 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 with a forced sale discount applied.

The highest degree of estimation uncertainty is considered to relate to the incomplete capturing of specific provision indicators and the valuation of mortgage collateral used within the loss given default calculation.

The Society has limited loss data on which to base assumptions in general so there is a high degree of estimation uncertainty in deriving impairment provisions.

Our work focused on the reasonableness of assumptions used in these provisions.

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.

How our audit addressed the key audit matter

- 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;
- Assessing the reasonableness of the probability of default estimates by comparing with historic experience; and
- Testing the reasonableness of the forced sale discount assumption applied.

We challenged management on the appropriateness of collateral value haircuts applied by reference to industry data and previous loss experience of the Society, which is limited and external sales data.

We evaluated the adequacy of the disclosure of estimation uncertainty relating to impairment of loans and advances to customers and considered whether the disclosures are compliant with accounting standards.

Based on the procedures we performed and the evidence obtained we concluded that the calculation of the impairment provision is 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.

We performed audit procedures over all material account balances and financial information of the Society. Our audit procedures on the Society provided us with sufficient audit evidence as a basis for our audit opinion on the Society's annual accounts.

Financial Statements

Independent auditors' report (continued)

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the process management adopted to assess the extent of the potential impact of climate risk on the Society's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk.

Our procedures did not identify any material impact in the context of our audit of the financial statements as a whole, or our Key audit matters for the year ended 31 December 2023.

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:

<i>Overall materiality</i>	£470,000 (2022: £445,490).
<i>How we determined it</i>	1% of net assets.
<i>Rationale for benchmark applied</i>	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 £352,500.

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 £23,500 (2022: £22,275) 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:

Financial Statements

Independent auditors' report (continued)

- 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.

Financial Statements

Independent auditors' report (continued)

Annual Business Statement and Directors' Report

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

- The Annual Business Statement and the Directors' Report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- the information given in the Directors' Report for the year ended 31 December 2023 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.

Financial Statements

Independent auditors' report (continued)

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's 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 6 years, covering the years ended 31 December 2018 to 31 December 2023.

Daniel Pearce (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Bristol

7 March 2024

Income statement

For the year ended 31 December 2023

	Notes	2023 £000	2022 £000
Interest receivable and similar income	3	20,830	11,871
Interest payable and similar charges	4	(9,228)	(2,825)
Net interest income		11,602	9,046
Fees and commissions receivable	5	56	151
Fees and commissions payable	6	(75)	(327)
Net fee and commission expense		(19)	(176)
Other operating income		10	11
Net (losses)/gains from derivatives and hedge accounting	7	(504)	721
Investment property - change in fair value	20	-	-
Net operating income		11,089	9,602
Administrative expenses	8	(7,299)	(5,959)
Depreciation, amortisation and profit on disposal of fixed asset		(384)	(423)
Operating expenses		(7,683)	(6,382)
Impairment charge on loans and advances to customers	12	(101)	(14)
Provision for other liabilities and charges	25	(20)	(10)
Profit before taxation		3,285	3,196
Taxation expense	11	(771)	(603)
Profit and total comprehensive income for the year		2,514	2,593

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 52 to 74 form part of these accounts.

Statement of financial position

As at 31 December 2023

	Notes	2023 £000	2022 £000
Assets			
Cash in hand and balances with the Bank of England		62,782	65,024
Loans and advances to credit institutions	13	18,536	20,313
		81,318	85,337
Derivative financial instruments	14	4,354	8,058
Loans and advances to customers:			
Loans fully secured on residential property	15	273,424	256,271
Other loans fully secured on land	16	7,409	7,926
	17	280,833	264,197
Intangible fixed assets	18	546	614
Property, plant and equipment	19	3,052	3,145
Investment properties	20	125	125
Prepayments and accrued income		635	684
Total Assets		370,863	362,160
Liabilities			
Shares	22	255,449	248,291
Deposits owed to other customers	23	62,266	60,001
Derivative financial instruments	14	1,460	369
Other liabilities	24	3,676	8,101
Deferred tax liability	21	355	386
Accruals and deferred income		401	290
Provisions for liabilities and charges	25	193	173
Total liabilities		323,800	317,611
Total equity attributable to Members		47,063	44,549
Total equity and liabilities		370,863	362,160

Approved by the Board of Directors on 7 March 2024 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 52 to 74 form part of these accounts.

Statement of changes in equity

For the year ended 31 December 2023

As at 31 December 2023	Notes	General Reserve £000	Revaluation Reserve £000	Total equity attributable to Members £000
As at 1 January 2023		43,594	955	44,549
Profit and total comprehensive income for the year		2,514	-	2,514
As at 31 December 2023		46,108	955	47,063

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
As at 31 December 2022		43,594	955	44,549

The accounting policies and notes on pages 52 to 74 form part of these accounts.

Cash flow statement

For the year ended 31 December 2023

	Notes	2023 £000	2022 £000
Profit on ordinary activities before tax		3,285	3,196
Adjusted for:			
Impairment loss on loans and advances to customers	12	101	14
Depreciation and amortisation		384	407
Loss on disposal of fixed assets		-	16
Cash generated from operations		3,770	3,633
Changes in operating assets and liabilities			
Increase in prepayments and accrued income		(97)	(398)
Decrease/(increase) in loans and advances to customers		(16,737)	4,916
Increase/(decrease) in accruals and deferred income		111	(80)
Net increase/(decrease) in shares		7,158	(8,224)
Change in derivative financial instruments	14	4,795	(6,523)
Net increase/(decrease) in deposits owed to other customers		2,265	(82)
Net decrease/(increase) in loans and advances to credit institutions		2,750	(5,750)
Net (decrease)/increase in other liabilities		(4,508)	6,337
Increase in provisions for liabilities and charges	25	20	10
Taxation paid		(719)	(445)
Net cash outflow from operating activities		(1,192)	(6,606)
Purchase of intangible assets and property, plant and equipment		(223)	(309)
Net cash outflows		(223)	(309)
Net decrease in cash and cash equivalents		(1,415)	(6,915)
Cash and cash equivalents at beginning of the year		72,497	79,412
Cash and cash equivalents at the end of the year		71,082	72,497
Represented by:			
Cash and balances with the Bank of England	29	62,782	65,024
Loans and advances to credit institutions repayable on demand	13	8,300	7,473
		71,082	72,497

The accounting policies and notes on pages 52 to 74 form part of these accounts.

Notes to the accounts

For the year ended 31
December 2023

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 (“the 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 8 to 12.

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 2 to 10 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
Office and Computer equipment	14% - 33% 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.

Financial Statements

Notes to the accounts (continued)

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 financial statement whether, there is objective evidence that loans and advances to customers are impaired, as a result of one or more events that occurred after initial recognition. 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.

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Notes to the accounts (continued)

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 financial statements.

Pension costs

The Society operates an externally managed defined contribution personal pension scheme for employees,

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

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Notes to the accounts (continued)

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 £139,000 in recognition of the additional impairment allowance, and an additional charge of £139,000 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 that would result 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 £281,000 in recognition of the additional impairment, and an additional charge of £281,000 would be recognised for impairment losses on loans and advances to customers in the Income statement.

- An increase in the forced sale discount of 10%
- A reduction in house prices at the time of realisation of collateral of 10%; and

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Notes to the accounts (continued)

- 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 £180,000 in recognition of the additional impairment, and an additional charge of £180,000 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 £180,000 in recognition of the additional impairment, and an additional charge of £180,000 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 £104,000 and a reduction in interest revenue of £104,000 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 £163,000 and additional interest revenue of £163,000 would be recognised in the Income statement.

3. Interest receivable and similar income

	2023 £000	2022 £000
On loans fully secured on residential property	12,948	9,663
On other loans fully secured on land	432	426
On other liquid assets:		
Interest and similar income	3,397	1,110
Net income on derivative financial instruments	4,053	672
	20,830	11,871

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Notes to the accounts (continued)

4. Interest payable and similar charges	2023	2022
	£000	£000
On shares held by individuals	8,174	2,628
On deposits owed to other customers	1,054	197
	9,228	2,825

5. Fees and commissions receivable	2023	2022
	£000	£000
Mortgage related fees	32	149
Other fees and commissions	24	2
	56	151

6. Fees and commissions payable	2023	2022
	£000	£000
Mortgage related fees	34	144
Commission to investment agents and introducers	18	172
Other fees and commissions	23	11
	75	327

7. Net gains/(losses) from derivatives and hedge accounting	2023	2022
	£000	£000
(Loss)/gain on derivatives in hedging relationships	(5,006)	6,217
Gain on derivatives	(5,006)	6,217
Gain/(loss) on hedged mortgage assets	4,502	(5,496)
Net (loss)/gain from derivatives and hedge accounting	(504)	721

8. Administrative expenses	2023	2022
	£000	£000
Wages and salaries	3,377	2,749
Social security costs	378	334
Other pension costs	259	187
	4,014	3,270
Other administrative expenses:	3,285	2,689
Total administrative expenses	7,299	5,959

Other administrative expenses include:	2023	2022
	£000	£000

Auditors' remuneration:		
For audit of the Society's annual accounts (excl VAT)	131	123
Total audit fees	131	123
Assurance services other than the auditing of the Society's accounts	3	3
Total auditors' remuneration	134	126

Operating lease charges:		
Land and buildings	86	86

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Notes to the accounts (continued)

9. Employees

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

	2023	2022	2023	2022
	Full-time	Full-time	Part-time	Part-time
Head Office	63	53	7	7
Branches	4	2	3	5
Total Society	67	55	10	12

10. Directors' emoluments and transactions with Directors

	2023	2022
	£	£
a) Remuneration of Directors		
For services as Non-Executive Directors	207,798	224,846
For Executive services	550,730	486,940
	758,528	711,786

Full details are given in the Report of the Directors on Remuneration on pages 38 and 39.

b) Transactions with Directors and connected persons

Mortgage Loans

At 31 December 2023 there were no outstanding mortgage loans to a connected entity of a Director (2022: £nil).

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

	2023	2022
	£000	£000
Current Tax:		
Corporation tax at 23.5% (2022: 19%)	802	609
Deferred Tax:		
Current year	(29)	(5)
Effect of rate changes	(2)	(1)
Tax on profit on ordinary activities	771	603

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Notes to the accounts (continued)

11. Taxation (continued)

	2023 £000	2022 £000
Factors affecting tax charge for the year		
Profit before tax	3,285	3,196
Profit before tax multiplied by effective rate of corporation tax of 23.5% (2022: 19%)	773	607
Effects of:		
Expenses not deductible for tax purposes	-	1
First year allowances (super deductions) on which no tax	-	(4)
Effect of rate changes	(2)	(1)
Total tax charge for the year	771	603

12. Impairment losses on loans and advances to customers

	Loans fully secured on residential property £000	Loans fully secured on land £000	Total £000
2023			
At 1 January 2023:			
Collective impairment	132	-	132
Individual impairment	460	-	460
	592	-	592
Income and expenditure account charge/(credit) for the year:			
Collective impairment	48	-	48
Individual impairment	53	-	53
	101	-	101
Amount utilised during the year:			
Collective impairment	-	-	-
Individual impairment	-	-	-
	-	-	-
At 31 December 2023:			
Collective impairment	180	-	180
Individual impairment	513	-	513
	693	-	693

In 2023 there was an impairment charge of £53,000 which included provisions against two new loans, taking the total individual impairment to £513,000 (2022: £460,000). The Society released £14,000 in respect of a loan which had been provided for in a prior year.

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.

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Notes to the accounts (continued)

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

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

In 2022 there was an impairment charge of £48,000 against two loans, taking the total individual impairment to £460,000. 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.

13. Loans and advances to credit institutions

Repayable from the date of the Statement of financial position in the ordinary course of business:	2023	2022
	£000	£000
Accrued interest	236	90
Repayable on demand	8,300	7,473
Repayable within three months	3,000	6,000
Repayable in more than three months and less than one year	7,000	6,750
	<u>18,536</u>	<u>20,313</u>

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 2023, £2,810,000 had been received. This amount is showing within other liabilities in note 24 (2022: £7,570,000 received).

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Notes to the accounts (continued)

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 2023 £000	Notional amount 2022 £000	Fair value 2023 £000	Fair value 2022 £000
Derivative assets:				
Interest rate swaps	94,058	124,900	4,354	8,058
Total recognised derivative assets	94,058	124,900	4,354	8,058
Derivative liabilities:				
Interest rate swaps	40,980	15,800	(1,460)	(369)
Total recognised derivative liabilities	40,980	15,800	(1,460)	(369)

In 2023 there was an overall net asset from derivative financial instruments of £2,894,000 (2022: net asset of £7,690,000).

15. Loans fully secured on residential property

	2023 £000	2022 £000
Gross balances	276,062	263,572
Allowance for impairment	(693)	(592)
Unamortised loan origination fees	461	200
Fair value hedge accounting adjustment	(2,406)	(6,909)
	273,424	256,271

16. Other loans fully secured on land

	2023 £000	2022 £000
Gross balances	7,409	7,926
Allowance for impairment	-	-
	7,409	7,926

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Notes to the accounts (continued)

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:

	2023 £000	2022 £000
On call and at short notice	1,064	1,553
In not more than three months	1,255	1,152
In more than three months but not more than one year	5,671	4,643
In more than one year but not more than five years	39,900	40,924
In more than five years	235,581	223,226
	283,471	271,498
Allowances for impairment (see note 12)	(693)	(592)
Unamortised loan origination fees	461	200
Fair value hedge accounting adjustment	(2,406)	(6,909)
	280,833	264,197

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 2023	1,055
Additions	197
Disposals	-
At 31 December 2023	1,252
Accumulated amortisation	
At 1 January 2023	441
Charge	265
Disposals	-
At 31 December 2023	706
Net book value	
At 31 December 2023	546
At 31 December 2022	614

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

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Notes to the accounts (continued)

19. Property, plant and equipment

	Land and buildings		Equipment, fixtures and fittings and vehicles £000	Total £000
	Freehold premises £000	Leasehold premises (short) £000		
<i>At cost or valuation</i>				
At 1 January 2023	2,950	64	455	3,469
Additions	-	-	26	26
Disposals	-	-	(1)	(1)
At 31 December 2023	2,950	64	480	3,494
<i>Accumulated depreciation</i>				
At 1 January 2023	20	64	240	324
Charge	20	-	99	119
Revaluation	-	-	-	-
Disposals	-	-	(1)	(1)
At 31 December 2023	40	64	338	442
<i>Net book value</i>				
At 31 December 2023	2,910	-	142	3,052
At 31 December 2022	2,930	-	215	3,145

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

	2023 £000	2022 £000
At 1 January	125	125
Disposals	-	-
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:

	2023 £000	2022 £000
Within 1 year	10	10
Between 1 and 5 years	30	30
At 31 December	40	40

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Notes to the accounts (continued)

21. Deferred taxation	2023	2022
	£000	£000
Deferred tax liability at 1 January	(386)	(392)
Adjustments in respect of prior years	-	-
Charge to profit and loss account	29	5
Charge to revaluation reserve	-	-
Effect of rate changes	2	1
Deferred tax liability at 31 December	(355)	(386)

The elements of deferred taxation are as follows:

Fixed asset timing differences	(427)	(469)
Short-term timing differences	72	83
Deferred tax liability	(355)	(386)

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:

	2023	2022
	£000	£000
Accrued interest	933	342
Repayable on demand	232,859	221,396
In not more than 3 months	2,713	7,576
In more than 3 months but not more than 1 year	14,097	13,611
In more than one year	4,847	5,366
	255,449	248,291

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:

	2023	2022
	£000	£000
Accrued interest	7	1
Repayable on demand	60,821	59,018
In not more than 3 months	320	593
In more than 3 months but not more than 1 year	1,118	389
	62,266	60,001

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Notes to the accounts (continued)

24. Other liabilities	2023	2022
	£000	£000
<i>Amounts falling due within 1 year:</i>		
Corporation tax	352	269
Other taxation and social security	108	87
Other creditors	388	155
Credit Support Annex (CSA) liability	2,828	7,590
	3,676	8,101

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 2023, £2,810,000 had been received (2022: £7,570,000 received).

25. Provisions for liabilities	2023	2022
	Provision for dilapidations	Provision for dilapidations
	£000	£000
At 1 January	173	163
Charge for the year	20	10
At 31 December	193	173

The £20,000 charge for dilapidations relates to the Society's leased business premises at Wood Street, Bath. This provision will likely be utilised if the Society exits these premises.

26. Commitments

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

	2023	2022
	Property	Property
	£000	£000
Society commitments:		
Within 1 year	86	86
Between 1 and 5 years	344	344
After 5 years	160	246
	590	676

As at 31 December 2023 the Society had approximately seven 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 2023 are £3,431,000 (2022: £1,569,000).

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Notes to the accounts (continued)

27. Pension schemes

During the year ended 31 December 2023 the Society operated a defined contribution personal pension scheme in respect of staff, and the charge for the year was £259,000 (2022: £187,000). As at 31 December 2023 there were outstanding contributions from the Society of £22,000 (2022: £17,000).

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 (2022: nil) as the Society does not anticipate a levy being raised in respect of 2023 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 2023	At amortised cost £000	Fair value through profit and loss £000	Total £000
Society assets			
Cash in hand and balances with the Bank of England	62,782	-	62,782
Loans and advances to credit institutions	18,536	-	18,536
Derivative financial instruments	-	4,354	4,354
Loans and advances to customers	280,833	-	280,833
Total financial assets	362,151	4,354	366,505
Total non-financial assets			4,358
Total Society assets			370,863
Society liabilities			
Shares	255,449	-	255,449
Deposits owed to other customers	62,266	-	62,266
Derivative financial instruments	-	1,460	1,460
Total financial liabilities	317,715	1,460	319,175
Total non-financial liabilities			4,625
General reserve and other reserves			47,063
Total Society reserves and liabilities			370,863

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Notes to the accounts (continued)

29. Financial instruments (continued)

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 and other reserves			44,549
Total Society reserves and liabilities			362,160

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	2023 Carrying value £000	2023 Fair value £000	2022 Carrying value £000	2022 Fair value £000
Society assets					
Cash in hand and balances with the Bank of England	i.	62,782	62,782	65,024	65,024
Loans and advances to credit institutions	i.	18,536	18,536	20,313	20,313
Derivative financial instruments - interest rate swaps	ii.	4,354	4,354	8,058	8,058
Loans and advances to customers	iii.	280,833	280,740	264,197	261,487
		366,505	366,412	357,592	354,882
Society liabilities					
Shares	iv.	255,449	255,449	248,291	248,291
Deposits owed to other customers	iv.	62,266	62,266	60,001	60,001
Derivative financial instruments - interest rate swaps	ii.	1,460	1,460	369	369
		319,175	319,175	308,661	308,661

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

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

Financial Statements

Notes to the accounts (continued)

29. Financial instruments (continued)

- 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:

	2023 £000	2023 %	2022 £000	2022 %
Retail mortgages	246,393	87.0	236,758	87.2
Commercial mortgages	37,078	13.0	34,740	12.8
Total gross exposure (contractual amounts)	283,471	100.0	271,498	100.0
Impairment, fair value and EIR adjustments	(2,638)		(7,301)	
Total net exposure	280,833		264,197	

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 £246,393,000 (2022: £236,758,000) consists of loans fully secured on residential property (FSRP).

Financial Statements

Notes to the accounts (continued)

29. Financial instruments (continued)

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 2023 approximately 37% (2022: 39%) of first charge retail loans by account and 37% (2022: 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:

	2023	2022
	%	%
Less than 70%	74.0	83.5
More than 70% but less than 80%	15.8	12.1
More than 80% but less than 90%	5.7	3.1
More than 90% but less than 100%	3.4	0.6
More than 100%	1.1	0.7
	100.0	100.0

The overall indexed LTV of the retail mortgage portfolio is 44.6% (2022: 41.4%). 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.

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.

	2023	2023	2022	2022
	£000	%	£000	%
Current	239,275	97.1	229,784	97.1
Past due up to 3 months	5,830	2.4	5,643	2.4
Past due 3 to 6 months	424	0.2	1,043	0.4
Past due 6 to 12 months	340	0.1	288	0.1
Past due over 12 months	524	0.2	0	0.0
	246,393	100.0	236,758	100.0

Financial Statements

Notes to the accounts (continued)

29. Financial instruments (continued)

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 2023 the total collateral held against retail lending secured against residential property was estimated to be £560.9m (2022: £572.1m). 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:

	2023	2022
	£000	£000
Individual impairment	513	460
Collective impairment	180	132
	693	592

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 2023, 7 (2022: 8) retail accounts with balances totalling £1,552,000 (2022: £1,672,000) 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.

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 of £37,078,000 (2022: £34,740,000) consists of total loans fully secured on land (FSOL) of £7,409,000 (2022: £7,926,000) plus £29,669,000 (2022: £26,814,000) 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.

Financial Statements

Notes to the accounts (continued)

29. Financial instruments (continued)

Risk concentrations: commercial lending

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

	2023 £000	2023 %	2022 £000	2022 %
Loans secured on residential property	29,669	80.0	26,814	77.2
Loans secured on commercial property	7,409	20.0	7,926	22.8
	37,078	100.0	34,740	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:

	2023 £000	2023 %	2022 £000	2022 %
Office	792	10.7%	1,188	15.0
Retail	995	13.4%	1,083	13.7
Industrial	1,236	16.7%	1,262	15.9
Leisure	1,944	26.2%	1,949	24.6
Land	654	8.8%	654	8.3
Other	1,788	24.2%	1,790	22.5
	7,409	100.0%	7,926	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:

	2023 £000	2023 %	2022 £000	2022 %
South West	14,082	38.0	14,012	40.4
Greater London	9,705	26.2	8,266	23.8
North	3,942	10.6	3,893	11.2
Midlands	3,131	8.4	3,303	9.5
South East	3,407	9.2	2,720	7.8
Scotland	1,734	4.7	1,469	4
Wales	1,077	2.9	1,077	3.1
	37,078	100.0	34,740	100.0

Financial Statements

Notes to the accounts (continued)

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 48.0% (2022: 46.4%). Index linked LTV banding is shown below:

	2023	2022
	%	%
Less than 70%	78.2	87.7
More than 70% but less than 80%	21.3	12.3
More than 80% but less than 90%	0.5	-
	100.0	100.0

As at 31 December 2023, the largest exposure to a single commercial counterparty was £1.37m (2022: £1.37m) or 3.7% (2022: 3.9%) 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 2023. The balances exclude fair value adjustments and impairment allowances.

	2023	2023	2022	2022
	£000	%	£000	%
Current	36,722	99.0	34,309	98.8
Past due up to 3 months	356	1.0	431	1.2
	37,078	100.0	34,740	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 2023 the total collateral held against lending secured against commercial property was estimated to be £77.2m (2022: £74.8m).

As at 31 December 2023 no commercial properties were in possession and hence no collateral was held against cases in possession (2022: £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 2023 (2022: Nil).

Forbearance strategies on commercial loans

See the note on the Society's general forbearance strategy on pages 55-56.

Financial Statements

Notes to the accounts (continued)

29. Financial instruments (continued)

As at 31 December 2023, one commercial account was in a forbearance concession totalling £356,145 (2022: £356,057). The Society takes full consideration of the impact on its arrears position, and hence the impact on its allowances for impairment, from the use of forbearance techniques.

d) Credit risk on treasury financial instruments

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

	2023 £000	2022 £000
UK government securities and amounts held with central banks	62,682	64,959
UK financial institutions	18,536	20,313
	81,218	85,272

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 2023, collateral of £2,810,000 (2022: £7,570,000 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:

	2023 £000	2022 £000
AAA to AA-	62,682	64,959
A+ to A-	13,300	14,532
BBB+ to BBB-	-	1,009
Unrated	5,236	4,772
	81,218	85,272

The geographical distribution of treasury exposures is as follows:

	2023 £000	2022 £000
UK	81,218	85,272
	81,218	85,272

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.

Financial Statements

Notes to the accounts (continued)

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 2023	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	232,859	2,713	7,588	6,509	4,847	254,516
Deposits owed to other customers	60,821	320	193	925	-	62,259
	293,680	3,033	7,781	7,434	-	316,775
Society derivative liabilities						
Interest rate swaps	-	-	-	-	1,427	1,427
	-	-	-	-	1,427	1,427
<hr/>						
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

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 2023, if there was a 2% parallel upward shift in interest rates the adverse impact on reserves would be £629,000 (2022: £427,000 adverse impact on reserves).

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

For the year ended 31 December 2023

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 2023:

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 2023	Public subsidies
United Kingdom	Deposit taking, mortgage lending	£11.6m	76	£3.3m	£0.7m	£nil

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

Basis of preparation

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

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

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

Opinion

In our opinion Bath Investment & Building Society's country-by-country information for the year ended 31 December 2023 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 2023 in the Country-by-Country Report.

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.

Other Information

Independent auditors' report (continued)

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.

Other Information

Independent auditors' report (continued)

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

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

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

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 ('FCA') and the Prudential Regulation Authority ('PRA'), 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 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;
- reviewing internal audit reports, and relevant meeting minutes including those of the Audit Committee and the Board;
- 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.

Other Information

Independent auditors' report (continued)

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

Use of this report

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

The engagement partner responsible for this audit is Daniel Pearce.

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Bristol

7 March 2024

Annual Business Statement (Unaudited)

For the year ended 31 December 2023

1. Statutory percentages

	2023 %	Statutory Limit %
Lending Ratio	4.5	25.0
Funding Ratio	19.6	50.0

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

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

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

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

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

X = shares and borrowings, being the aggregate of-

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

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

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

Other Information

Annual Business Statement (continued)

2. Other percentages

	2023 %	Statutory Limit %
As percentage of shares and borrowings:		
Gross capital	14.8	14.5
Free capital	13.9	13.4
Liquid assets	25.6	27.7
Profit for the year as a percentage of mean total assets	0.69	0.72
Management expenses as a percentage of mean total assets:	2.10	1.76

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.

Other Information

Annual Business Statement (continued)

3. Directors and Officers (Unaudited)

The Directors and Officers of the Society at 31 December 2023 together with their further particulars were as follows:

Name	Occupation	Appointment	Other Directorships
Kevin Gray	Chief Executive	April 2018	
Richard Ingle	Chief Finance Officer and Chief Executive elect	August 2022	Community Foundation of Gloucestershire
Tonia Lovell	Director of Risk Management	May 2017	
Angela Cha	Non-Executive Director	June 2014	Financial Reporting Council
Andrew Payton	Non-Executive Director	January 2024	Cirencester Friendly Society Ltd
David Smith	Non-Executive Director	January 2016	
Fionnuala Earley	Economist	January 2018	
Joanne Evans	Non-Executive Director	January 2021	Maplejak Investment Ltd Pondfield Ltd Mobius Life Ltd Mobius Life Administration Services Ltd Mobius Life Group Ltd
Kevin Hayes	Non-Executive Director	January 2022	Interbridge Mortgages Ltd Interbridge Mortgages Holdings Ltd Equiniti Financial Services Ltd
Sameer Rahman	Non-Executive Director	May 2022	Datamonet Millennium Stadium PLC

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
Steve Burnard	Chief Transformation Officer

Other Information

Your Local Society

Registered name and office

Bath Investment & Building Society

15 Queen Square, Bath, BA1 2HN

Telephone (01225) 423271

Registered No. 30B

Branch offices

Bath

3 Wood Street, BA1 2JQ

Telephone (01225) 330837

Oldfield Park

12/13 Moorland Road, Oldfield Park, Bath, BA2 3PL

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We're different
because you are

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Mortgage enquiries

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Email

mortgages@bibs.co.uk

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

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