Sandwell Commercial Finance No 1 plc

Directors' Report and financial statements

For the year ended 31 March 2010

Registered number 05088299

Sandwell Commercial Finance No 1 plc

Directors' Report and financial statements

Contents

Sandwell Commercial Finance No 1 plc

Directors and Advisers

Directors

TM Lynch
M McDermott
J Traynor
Wilmington Trust SP Services (London) Limited

Secretary

Wilmington Trust SP Services (London) Limited

Auditors

KPMG Audit Plc
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Solicitors

Clifford Chance LLP
London

Bankers

Barclays Bank Plc
London

Registered Office
C/o Wilmington Trust SP Services (London) Limited
Fifth Floor
6 Broad Street Place
London
EC2M 7JH

Registered Number
05088299

Sandwell Commercial Fınance No 1 plc

Dırectors' Report

The Dırectors present theır annual report and the audıted financıal statements for the year ended 31 March 2010

Prıncıpal actıvıtıes

The prıncıpal actıvıty of the Company ıs that of holdıng a commercıal mortgage portfolıo The entıre ıssued share capıtal of the Company ıs owned by Sandwell Fınance Holdıngs Lımıted The entıre ıssued share capıtal of Sandwell Fınance Holdıngs Lımıted ıs held on trust by the share Trustee, a professıonal trust company based ın England and Wales The Seller, West Bromwıch Commercıal Lımıted has no ownershıp ınterest ın the above entıtıes

On 19th May 2004, the Company acquıred a commercıal loan book secured on a commercıal portfolıo of propertıes located ın England and Wales The assets orıgınated from West Bromwıch Commercıal Lımıted The acquısıtıon of these loans was financed wholly by the ıssue of mortgage backed floatıng rate loan notes

The actıvıtıes of the Company are managed through a serıes of agreements The securıtısatıon structure has been establıshed as a means of raısıng finance for West Bromwıch Buıldıng Socıety and ıts subsıdarıes ("West Bromwıch Group") Deferred consıderatıon ıs payable to West Bromwıch Group to the extent to whıch surplus ıncome ıs generated by the commercıal assets, to whıch the company holds the beneficıal tıtle

Under the terms of the securıtısatıon, the Company retaıns 0 01% of the average loan notes balance each year as profit subject to there beıng suffıcıent avaılable revenue receıpts Profits ın excess of 0 01% accrue to West Bromwıch Group as the orıgınator of the underlyıng commercıal mortgages Profits retaıned wıthın the Company wıll be dıstrıbuted to charıtıes for charıtable purpose at the dıscretıon of the Share Trustees

Revıew of busıness and results

Under the terms of the securıtısatıon the Company retaıns the rıghts to a maxımum of 0 01% of avaılable revenue receıpts from the beneficıal ınterest ın the mortgage loan portfolıo Thıs ıs reflected ın the ıncome statement net of any movements ın faır value gaıns and losses on derıvatıves Profits ın excess of thıs amount accrue to West Bromwıch Commercıal Lımıted, the orıgınator of the mortgages, as deferred consıderatıon

The Company's tax charge ıs based on the tax regıme for securıtısatıon companıes

The prıncıpal asset of the Company ıs a sıngle loan to the orıgınator whıch ıs subject to an annual ımpaırment revıew Thıs loan represents a beneficıal ınterest ın a mortgage loan portfolıo and ıs subject to economıc factors affectıng the commercıal loan market

The key performance ındıcators used by management ın assessıng the performance of the Company are the monıtorıng of actual cash flows agaınst planned cash flows wıthın the scheduled waterfall of payments and the level of arrears ın the underlyıng mortgage portfolıo

Durıng the year the busıness generated posıtıve operatıng cash flows The Company was able to make all payments contractually requıred to the holders of the loan notes and to pay all normal operatıng expenses

Once all of these payments had been made, there were ınsuffıcıent funds avaılable for deferred consıderatıon to be paıd ın the year

The Company suffered £1 4m of credıt losses durıng the year and had to draw down thıs amount from the reserve funds It dıd not need to utılıse the lıquıdıty facılıty In recognıtıon of the unavaılabılty of deferred consıderatıon ın the year, the Dırectors have revıewed the carryıng value of the deemed loan and have made provısıons of £2 4m durıng the year

At 31 March 2010 there were 2 loans ın arrears by more than 3 months (31 March 2009 1 account) There were no propertıes ın possessıon at the current or prevıous year end

The loss for the year ıs £3,988,000 *(2009 loss £5,219,622)* The Dırectors do not propose the payment of a dıvıdend *(2009 £ nıl)*

As can be seen from the Income statement on page 6, the Company has made an operatıng profit thıs year as a result of the revaluatıon at the year end of the Company's derıvatıves These revaluatıons do not gıve rıse to any cash flows and are expected to reverse ın future perıods Any cash outflows that do occur ın the future on these derıvatıves wıll be matched by posıtıve margın gaıns on the Company's underlyıng fixed rate loans

The dırectors expect that the Company wıll contınue to meet the scheduled repayment dates for the ıntercompany loans for the comıng year No changes ın actıvıty are planned

Sandwell Commercial Finance No 1 plc

Directors' Report (cont)

Risk Management

The Company's financial instruments comprise a loan to West Bromwich Commercial Limited (equivalent to the value of its investment in the mortgages held in trust), cash and liquid resources, derivatives, sub-ordinated loans and start up loan

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments is undertaken

The principal risks arising from the Company's financial instruments are credit risk and interest rate risk These and other risks which may affect the Company's performance are detailed below and in note 2 to these accounts

Credit Risk

Credit risk arises on the individual loans within the mortgage loan portfolio which are in turn secured on the underlying UK commercial properties The performance of these loans is therefore influenced by the economic background and the UK commercial property market Under International Financial Reporting Standards ("IFRSs") the beneficial interest in the mortgage portfolio is classified as a "deemed loan" in the Company's statement of financial position

The ability of the Company to make payments under its various agreements is dependent on the amount and timing of payment of interest on the mortgage loans and the repayment of principal by the borrower

In terms of administrator/cash management, the Company has engaged West Bromwich Building Society to monitor repayments on the mortgage loans in accordance with its credit policies West Bromwich Building Society are also responsible for ensuring commercial loans in the trust loan pool meet the eligibility criteria at loan and pool level

Interest Rate Risk
Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times The Company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of assets and liabilities are similar, where this is not possible the Company uses derivative financial instruments to mitigate interest rate risk Interest rate swaps have therefore been entered into to manage the Company's exposure to interest rate risk

Business Risk

The Loan Notes are obligations solely of the Company and will not be the responsibility of, or guaranteed by, any other entity In particular, the Loan Notes will not be obligations or responsibilities of or guaranteed by the Seller or any of their affiliates

Operational Risk

The Company is bound by agreements to make payments to meet the third party expenses which includes fees to parties providing operational support in accordance with the Administration/Cash Management Agreement

The Company's operations are subject to periodic review by the Internal Audit function at the West Bromwich Building Society

Financial risk management

The directors have considered the financial risks affecting the Company and have disclosed the relevant policies in the notes to the financial statements The Company is a securitisation Company and has been structured so as to avoid, as far as possible all forms of financial risk An analysis of the Company's exposure to financial risk is set out in note 2

Directors and directors' interests

The Directors who held office during the year were as follows

TM Lynch
M McDermott
J Traynor
Wilmington Trust SP Services (London) Limited

Certain directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report

Going Concern

As noted in the principal activities section above, the Company is strictly governed by a number of agreements set out at the outset of the securitisation These set out agreements with the Company's creditors as to the amount and timing of any payments that the Company is obliged to make and such payments are only required to be made if the Company has the funds available to make these payments and thus should always be able to meet its obligations as they fall due It is on this basis that the Directors consider that is appropriate to prepare the accounts on a Going Concern basis

Sandwell Commercial Finance No 1 plc

Directors' Report (cont)

Statement of Directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs as adopted by the EU, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

Auditors

In accordance with the relevant Sections of the Companies Act 2006, the company dispensed with the requirements to re-appoint the auditors annually

By order of the board

Tom Lynch
Director
22 September 2010

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SANDWELL COMMERCIAL FINANCE NO 1 PLC

We have audited the financial statements of Sandwell Commercial Finance No 1 plc for the year ended 31 March 2010 set out on pages 6 to 18 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www frc org uk/apb/scope/UKNP

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Jonathan Holt (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants

One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

22 September 2010

Sandwell Commercial Finance No 1 plc

Income Statement

for the year ended 31 March 2010

	Notes	2010 £'000	2009 £'000
Interest receivable and similar income	3	**3,243**	9,097
Interest payable and similar charges	4	**(2,902)**	(8,805)
Net interest income		**341**	292
Net fair value gains and losses on derivatives		**1,525**	(6,623)
Other operating expenses		**(226)**	(276)
Operating profit/(loss)		**1,640**	**(6,607)**
Impairment of loans		**(3,855)**	-
Loss before taxation	5	**(2,215)**	**(6,607)**
Taxation	7	**(1,773)**	1,388
Loss for the financial year		**(3,988)**	(5,219)

All results relate to the Company's continuing operations

Statement of Comprehensive income

for the year ended 31 March 2010

	2010 £'000	2009 £'000
Loss for the financial year	**(3,988)**	(5,219)
Total comprehensive income for the year	**(3,988)**	(5 219)

Statement of Changes in Equity

for the year ended 31 March 2010

	2010 Share capital £'000	**2010** Retained earnings £'000	**2010** Total £'000	2009 Share capital £'000	2009 Retained earnings £'000	2009 Total £'000
Balance at 1 April	13	(6,613)	(6,600)	13	(1,394)	(1,381)
Total Comprehensive Income	-	(3,988)	(3,988)	-	(5,219)	(5,219)
Balance at 31 March	**13**	**(10,601)**	(10,588)	13	(6,613)	(6,600)

Sandwell Commercial Finance No 1 plc

Statement of Financial Position
at 31 March 2010

	Notes	2010 £'000	2009 £'000
Assets			
Cash and cash equivalents	*8*	**6,118**	5,458
Deemed loan due from group undertaking	*9*	**112,424**	137,222
Deferred tax assets	*11*	**-**	1,778
Other assets	*12*	**5**	16
Total Assets		**118,547**	144,474
Liabilities			
Derivative financial instruments	*10*	**6,942**	8,467
Debt securities in issue	*13*	**117,340**	137,103
Current tax liabilities		**-**	7
Interest bearing loans and borrowings	*14*	**3,107**	3,107
Other payables	*15*	**1,746**	2,390
Total Liabilities		**129,135**	151,074
Equity			
Called up share capital	*17*	**13**	13
Retained earnings	*18*	**(10,601)**	(6,613)
Total equity attributable to equity holders of the parent		**(10,588)**	(6,600)
Total equity and liabilities		**118,547**	144,474

These financial statements were approved by the Board of Directors on 22 September 2010 and were signed on its behalf by

Tom Lynch
Director

Registered number 05088299

Sandwell Commercial Finance No 1 plc

Statement of Cash Flows

for the year ended 31 March 2010

	Notes	2010 £'000	2009 £'000
Cash flow from operating activities			
Loss before taxation		(2,215)	(6,607)
Amortisation of note issue cost		76	364
Net Movement in deferred consideration		(1,037)	(104)
Movements in derivative instruments		(1,525)	6,623
Tax paid		(2)	-
Cashflows from operating activities before changes in operating assets and liabilities		(4,703)	276
Net movement in deemed loan		24,798	17,880
Net movement in interest bearing loans and borrowings		-	(481)
Net movement in loan notes		(19,839)	(17,438)
Net movement in other assets		11	38
Net movement in other payables		393	(535)
Net Cashflow from operating activities		660	(260)
Movement in cash and cash equivalents			
Opening cash and cash equivalents	*8*	5,458	5,718
Movement in cash and cash equivalents		660	(260)
Closing cash and cash equivalents	*8*	6,118	5,458

Sandwell Commercial Finance No 1 plc

Notes

(formıng part of the financıal statements)

1 Summary of sıgnıficant accountıng polıcıes

Basıs of preparatıon

The prıncıpal accountıng polıcıes of these financıal statements are set out below These polıcıes have been consıstently applıed to all the years presented, unless otherwıse stated These financıal statements have been prepared and approved by the Dırectors ın accordance wıth Internatıonal Fınancıal Reportıng Standards as adopted by the EU ("Adopted IFRS")

The followıng Accountıng Standard amendments have been applıed ın 2009/10

Development	Effectıve date	Impact
IAS 1, Presentatıon of Fınancıal Statements (2007)	01/04/2009 (mandatory)	Thıs standard replaces the current IAS 1, Presentatıon of Fınancıal Statements In summary, IAS 1 sets overall requırements for the presentatıon of financıal statements, guıdelınes for theır structure and mınımum requırements for theır content Thıs standard has had a small ımpact on the presentatıon of the financıal performance of the Company However, ıt has not changed the recognıtıon, measurement or dısclosure of specıfic transactıons and other events requıred by other IFRSs
Amendment to IFRS 7, Fınancıal Instruments Dısclosures	01/01/2009	The amendment requıres enhanced dısclosures about faır value measurements and lıquıdıty rısk These enhanced dısclosures are presented ın note 2 to these Accounts

The followıng standards and ınterpretatıons became effectıve ın 2009/10, but were not relevant for the Company's operatıons

IFRS 2, 'Share-based payment' – Vestıng condıtıons and cancellatıons
IFRS 8, 'Operatıng Segments'
IAS 23, 'Borrowıng Costs (Revısed)'
IAS 32, 'Puttable financıal ınstruments and oblıgatıons arısıng on lıquıdatıon'
IFRIC 13, 'Customer loyalty programmes'
IFRIC 16, 'Hedges of a net ınvestment ın a foreıgn operatıon'

The followıng standards and ınterpretatıons have been ıssued and are mandatory for the Company's accountıng perıods begınnıng on or after 1 July 2009 or later perıods and are expected to be relevant to the Company

Development	Impact
IAS 39, 'Fınancıal ınstruments Recognıtıon and measurement – Elıgıble hedged ıtems'	The amendment 'Elıgıble hedged ıtems' was ıssued ın July 2008 It provıdes guıdance for two sıtuatıons Fırstly, on the desıgnatıon of a one-sıded rısk ın a hedged ıtem, IAS 39 concludes that a purchased optıon desıgnated ın ıts entırety as the hedgıng ınstrument of a one-sıded rısk wıll not be perfectly effectıve Secondly, the desıgnatıon of ınflatıon as a hedged rısk or portıon ıs not permıtted unless ın partıcular sıtuatıons Thıs wıll not gıve rıse to any changes to the Company's financıal statements
Improvements to IFRS 'Improvements to IFRS' were ıssued ın May 2008	The 'ımprovements' contaın numerous amendments to IFRS that the IASB consıders non-urgent but necessary Applıcatıon wıll result ın accountıng changes for presentatıon, recognıtıon or measurement purposes, as well as termınology or edıtorıal amendments related to a varıety of ındıvıdual standards Most of the amendments are effectıve for annual perıods begınnıng on or after 1 January 2009 and 1 January 2010 respectıvely, wıth earlıer applıcatıon permıtted No materıal changes to accountıng polıcıes are expected as a result of these amendments
IFRS 9, 'Fınancıal ınstruments part 1 Classıficatıon and measurement'	The standard replaces those parts of IAS 39 relatıng to the classıficatıon and measurement of financıal assets Whıle adoptıon of IFRS 9 ıs mandatory from 1 January 2013, earlıer adoptıon ıs permıtted The Group ıs consıderıng the ımplıcatıons of the standard, the ımpact on the Company and the tımıng of ıts adoptıon by the Company
IAS 27 'Consolıdated and Separate Fınancıal Statements' (2008)	The changes to thıs standard requıre the effects of all transactıons wıth non-controllıng ınterests to be recorded ın equıty ıf there has been no change ın control The changes also specıfy the accountıng where control of an entıty ıs lost Thıs amendment should not sıgnıficantly ımpact the Company

The financıal statements have been prepared on an hıstorıcal cost basıs except that derıvatıve financıal ınstruments are stated at theır faır value The preparatıon of financıal statements under IFRS may requıre the use of certaın crıtıcal accountıng estımates and judgement Such ıtems ınclude consıderatıon of the ımpaırment of the deemed loan

Goıng Concern

As stated ın the Dırectors' report, the Company ıs strıctly governed by a number of agreements set out at the outset of the securıtısatıon These set out agreements wıth the Company's credıtors as to the amount and tımıng of any payments and such payments are only requıred to be made ıf the Company has the funds avaılable to make these payments It ıs on thıs basıs that the accounts have been prepared on a Goıng Concern basıs

Notes

(forming part of the financial statements)

Interest receivable and payable

Interest income and expense are recognised in the income statement using the effective interest rate method

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and allocating the interest income or expense over the relevant period The effective interest rate is the rate that exactly discounts estimated future cash flows over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or liability When calculating the effective interest rate , the company estimates cash flows considering all contractual terms of the financial instrument The calculation includes, where appropriate, all amounts payable or receivable by the company that are an integral part of the overall return

Deferred consideration

Deferred purchase consideration is deducted from interest income, since the company should not recognise income to which it is not beneficially entitled Contingent deferred consideration arising in future years is recorded in the income statement in the year in which it arises Under the terms of the securitisation, the Company retains the rights to 0 01% of the average value of the mortgage backed loan notes, although this amount is only paid if sufficient funds exist once other contractual payments are made This is reflected in the income statement net of any movements of fair value gains and losses on derivatives

Profits in excess of 0 01% accrue to West Bromwich Commercial Limited, the originator of the underlying mortgages The payments of deferred consideration are strictly governed by the priority of payments that sets out how cash can be utilised

Deemed Loan

The loans and advances to customers legally sold to the company by the originator fail the derecognition criteria of IAS 39 as the orginator has retained significant risk and rewards of ownership and therefore these loans remain on the balance sheet of the originator IAS 39 therefore requires the seller to recognise a "deemed loan" financial liability on its balance sheet and the resulting "deemed loan" asset is held on the company's balance sheet This deemed loan initially represents the consideration paid by the company in respect of the acquisition and the beneficial ownership of the securitised loans and advances to customers and is subsequently adjusted due to repayments made by the originator to the company

The deemed loan is carried at amortised cost using the effective interest method with all movements being recognised in the income statement

The Company assesses at each balance sheet date whether there is objective evidence that the deemed loan is impaired Objective evidence of impairment can be defined as one or more events occurring after the initial recognition of the asset that have an impact on the estimated future cash flows of the financial asset that can be reliably estimated

Offsetting financial instruments

Financial assets and liabilities, including derivatives are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and where there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously

Financial Liabilities

Financial liabilities are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred Financial liabilities are subsequently stated at amortised cost, any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method

Derivative financial instruments and hedge accounting

The company undertakes transactions in derivative financial instruments to hedge its exposure to interest rates arising from its activities

Derivatives are initially recorded at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative

Changes in the fair value of derivative financial instruments are recognised immediately in the income statement

Cash and cash equivalents

For the purposes of the cash flow statement, cash comprises of bank deposits Cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value, with original maturities of three months or less

Segmental reporting
The business operates in one business segment and all business is conducted in the UK

Taxation
Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the end of the reporting period

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the end of the reporting period where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the year end Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the end of the reporting period

2 Financial Risk Management

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity of another entity The company's activities expose it to a variety of financial risks including interest rate risk, liquidity risk and credit risk

The activities of the Company are conducted primarily by reference to a series of securitisation documents (the programme documentation") The securitisation structure has been set up as a means of raising finance for the West Bromwich Building Society Group and no business activities will be undertaken by the Company beyond those set out in the programme documentation

The Company's exposure to risk on its financial instruments and the management of such risk is largely set out at the inception of the securitisation transaction The Company's activities and the role of each party to the transaction are clearly defined and documented Interest rate swaps are undertaken as part of the securitisation to hedge interest rate exposure arising from the underlying financial instruments The derivative counterparty is selected as a highly rated, regulated financial institution to reduce the risk of default and loss for the Company

Interest rate risk
The loan pool is made up of both fixed and variable rate commercial loans The variable commercial loan rates are reset at the end of each quarter and the interest rate on the loan notes are repriced at each quarterly interest payment date The Company has entered into derivative contracts to mitigate the risk of a mismatch of LIBOR rates both for the fixed/variable commercial loans and the interest rate for loan notes The impact of these derivatives is that all fixed rate loans effectively re-price at each quarterly interest payment date The deemed loan is therefore treated as though it re-prices every 3 months

Interest rate re-pricing gap information is shown in the table below at 31 March 2010 and 31 March 2009 It provides an estimate of the re-pricing profile of the Company's assets and liabilities For the major categories of assets and liabilities, the table shows the carrying values of interest earning assets and liabilities, which re-price within selected timeframes

	2010			2009		
	Not more than 3 months £'000	Non-interest bearing £'000	Total £'000	Not more than 3 months £'000	Non- interest bearing £'000	Total £'000
Assets						
Bank Deposits	6,118	-	6,118	5,458	-	5,458
Deemed loan due from group undertaking	112,424	-	112,424	137,222	-	137,222
Deferred tax assets	-	-	-	-	1,778	1,778
Other assets	-	5	5	-	16	16
	118,542	5	118,547	142,680	1,794	144,474
Liabilities						
Derivative financial instruments	-	6,942	6,942	-	8,467	8,467
Debt securities in issue	117,340	-	117,340	137,103	-	137,103
Current tax liabilities	-	-	-	-	7	7
Interest bearing loans	3,107	-	3,107	3,107	-	3,107
Other liabilities	-	1,746	1,746	-	2,390	2,390
Total equity	-	(10,588)	(10,588)	-	(6,600)	(6,600)
	120,447	(1,900)	118,547	140,210	4,264	144,474

Notes

(forming part of the financial statements)

2 Financial Risk Management (continued)

Sensitivity analysis

As previously noted, the Company has been set up in such a way as to eliminate as far as possible, any impact on the Company's cash flows from changes in market conditions The Company is subject to a number of contractual agreements including the use of derivatives to eliminate market risk from interest rate changes

However, as a result of the Company's requirement to fair value its derivative instruments, whilst the net overall cashflows of the business would not be affected by any potential changes in interest rates, changes to the fair value of the derivative transactions would need to be reflected in the income statement and statement of financial position (including equity)

At 31 March 2010, if interest rates had been 25bp higher or lower with all other variables held constant, the net effect on the Company's income statement would be plus £0 5m if higher and minus £0 5m if lower (2009 £0 9m if higher and minus £0 9m if lower)
The above adjustment would however have no impact on the cash flows of the Company unless the assets were sold and the derivative instruments cancelled

Gross Contractual cash flows

The Company's only significant financial liabilities are amounts owed on debt securities and derivative financial instruments The timing and amount of any payments to be made for both of these items are determined by the waterfall of payments as laid out in the initial prospectus In practical terms, the waterfall of payments only allows for (and expects) payments to be made to the extent that funds have been generated from the underlying mortgage assets If insufficient funds have been generated to meet the full payments expected, then these amounts continue to be accrued until such time as funds are available The current expected cashflows to be generated from the underlying mortgages are included in the liquidity table below

Liquidity risk
The Company's policy to mitigate liquidity risk is through the use of a start-up and subordinated loan from West Bromwich Commercial Limited and a Liquidity facility (see note 14) As the term of the Floating Rate Notes is designed to match the term of the mortgages, there is deemed to be no further liquidity risks facing the Company

The mortgage assets are principally funded by mortgage backed loan notes The maturity profile of the loan notes is matched to that of the assets being funded The loan notes are subject to mandatory redemption in part on each repayment date in accordance with the redemption of the assets Unless otherwise redeemed or cancelled, the notes will be redeemed at the principal amounts outstanding on the interest payment date falling due in May 2039

The following is the maturity profile of the Company's financial assets and liabilities

2010

Assets	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	No Specific maturity	Total
Bank Deposits	6,118	-	-	-	-	6,118
Deemed loan due from group undertaking	9,960	9,025	23,870	71,986	(2,417)	112,424
	16,078	9,025	23,870	71,986	(2,417)	118,542
Liabilities and reserves						
Debt securities in issue	9,960	9,025	23,870	74,485	-	117,340
Derivative financial instruments	-	-	-	6,942	-	6,942
Interest bearing loans and borrowings	357	-	-	2,750	-	3,107
	10,317	9,025	23,870	84,177	-	127,389
2009						
Assets						
Bank Deposits	5,458	-	-	-	-	5,458
Deemed loan due from group undertaking	8,295	8,824	20,603	99,500	-	137,222
	13,753	8,824	20,603	99,500	-	142,680
Liabilities and reserves						
Debt securities in issue	8,295	8,824	20,603	99,381	-	137,103
Derivative financial instruments	-	-	-	8,467	-	8,467
Interest bearing loans and borrowings	357	-	-	2,750	-	3,107
	8,652	8,824	20,603	110,598	-	148,677

Sandwell Commercial Finance No 1 plc

Notes

(forming part of the financial statements)

2 Financial Risk Management (continued)

Credit risk

Credit risk arises on the individual loans within the mortgage portfolio which are secured on the underlying commercial properties Under IFRS's the commercial portfolio is reclassified as a "deemed loan" As a single loan there is no requirement to provide against the individual commercial loans Impairment will only be an issue when mortgage losses exceed the deferred consideration Therefore, there is no effect on the overall yield on the "deemed loan" The directors consider that this will be sufficient to recover the full amount of this loan

To the extent that the income on the deemed loan does not provide sufficient funds to recover the Company's investment in the mortgage portfolio, the Company has no claim on the assets of the West Bromwich Group The Company's maximum gross exposure to credit loss is therefore equal to the fair value of its involvement in the commercial portfolio (subject to mitigation which may result in the elimination of any obligation to pay deferred consideration to the West Bromwich Group)

The table below shows an analysis of the commercial loan portfolio by type of loan

	2010 £'000	2009 £'000
Concentration by loan type		
Loans secured on commercial property	114,841	135,722
Loans to housing associations	-	-
Loans secured on residential property	-	1,500
	114,841	137,222
Impairment provision	(2,417)	-
	112,424	137,222

Loans secured on commercial property are further split down into the following	£'000	£'000
Healthcare & Leisure	8,138	10,125
Industrial & Warehouse	25,311	24,321
Office	41,239	47,755
Retail	40,013	53,389
Other	140	132
	114,841	135,722

The average indexed loan to value is 69 2% (2009 69 1%)

The table below provides further information on the Company's loans and advances to customers by payment due status as at 31 March 2010

	2010 £'000	2009 £'000
Loans neither past due or impaired	104,798	131,154
Not Past Due but Impaired	4,431	822
Past due but not impaired		
- Past due up to 3 months	1,348	2,259
- Past due 3 to 6 months	-	-
- Past due 6 to 12 months	-	1,984
- Past due over 12 months	-	-
Impaired		
- Past due up to 3 months	-	1,003
- Past due 3 to 6 months	3,174	-
- Past due 6 to 12 months	-	-
- Past due over 12 months	1,090	-
- Possessions	-	-
	114,841	137,222

Fair value of collateral held	2010 £'000	2009 £'000
Not impaired	160,416	202,427
Impaired	5,490	2,420
Possessions	-	-
	165,906	204,847

During the year the company wrote off £1 4m (2002 £nil) fully provided loans

Notes
(forming part of the financial statements)

Fair Values of financial assets and liabilities

Set out below is a comparison of book and fair values of the Company's financial instruments at 31 March not held on the statement of financial position at fair value Where available, market values have been used to determine fair values,otherwise fair values of other instruments have been calculated by discounting the expected future cashflows at the prevailing interest rate

	2010		2009	
	Book Value £'000	Fair Value £'000	Book Value £'000	Fair Value £'000
Loans and receivables				
Bank Deposits	6,118	6,118	5,458	5,458
Deemed loan due from group undertaking	112,424	113,222	137,222	138,197
Financial Liabilities held at amortised cost				
Debt securities in issue	117,340	117,340	137,103	137,103
Interest bearing loans and borrowings	3,107	3,107	3,107	3,107

a) Loans and advances
Loans and advances are net of provisions for impairment The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received Expected cash flows are discounted at current market rates to determine fair value

b) Deposits and borrowings
The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand

c) Debt securities in issue

The aggregate fair values are calculated based on quoted market prices For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity

The following table summarises the fair value measurement basis used for assets and liabilities held on the statement of financial position at fair value

	Level 1	Level 2	Level 3	Total
2010	**£'000**	**£'000**	**£'000**	**£'000**
Financial liabilities				
Derivative financial instruments	-	6,942	-	**6,942**
2009				
Financial liabilities				
Derivative financial instruments	-	8,467	-	8,467

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i e as price) or indirectly (i e derived from prices)
Level 3 Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

These definitions have been taken from the March 2009 amendment to IFRS 7 'Improving Disclosures about Financial Instruments'

3 Interest receivable and similar income

	2010 £'000	2009 £'000
Interest on deemed loans	6,240	9,498
Bank interest	44	392
Deferred consideration	1,037	104
Net income/(expense) on financial instruments	(4,078)	(897)
	3,243	9,097

The deemed loan is not regarded as impaired, the interest received on impaired assets is £ *nil* (2009 £ nil)

Sandwell Commercial Finance No 1 plc

Notes

(forming part of the financial statements)

4 Interest payable and similar charges

	2010	2009
	£'000	£'000
Debt Securities	2,723	8,482
Other interest	179	323
	2,902	8,805

5 Profit/(Loss) before tax

	2010	2009
	£'000	£'000
Profit/(Loss) before tax is stated after charging		
Intercompany charges (note 20)	199	221
Gains/(Losses) on hedging instruments	1,525	(6,623)
Auditors remuneration		
Current year (exc VAT)	10	10

6 Information regarding directors and employees

The Company has no employees (2009 nil) The directors received no remuneration from the Company in the period (2009 £ Nil)

7 Taxation

	2010	2009
	£'000	£'000
Current year		
Corporation tax on (losses) for the period	-	3
Adjustment in respect of prior periods	(5)	-
Total current tax	(5)	3
Deferred tax (note 11)	1,778	(1,391)
Tax charge/(credit) for the period	1,773	(1,388)

The tax charge for the year can be reconciled to the profit/(loss) per the income statement as follows

	2010	2009
	£'000	£'000
Profit / (Loss) on ordinary activities before tax	(2,215)	(6,607)
Tax at 21% (2009 21%)	(465)	(1,388)
Permanent differences due to permanent regime	465	-
Adjustments to tax in respect of previous periods	1,773	-
Total tax charge/(credit) for the year	1,773	(1,388)

The Emergency Budget on 22 June 2010 announced that the UK corporation tax rate will reduce from 28% to 24% over a period of 4 years from 2011 The first reduction in the UK corporation tax rate from 28% to 27% was substantively enacted on 20 July 2010 and will be effective from 1 April 2011 This will have minimal impact on Sandwell Commercial Finance No 1 plc

8 Cash and cash equivalents

	2010	2009
	£'000	£'000
Bank deposits	6,118	5,458
	6,118	5,458

9 Deemed loan due from group undertaking

	2010	2009
	£'000	£'000
Repayable		
Within 1 year	9,960	8,295
1 to 2 years	9,025	8,824
2 to 5 years	23,870	20,603
Over 5 years	71,986	99,500
	114,841	137,222
Impairment of deemed loan	(2,417)	-
	112,424	137,222

10 Derivative financial instruments

	2010	2009
	£'000	£'000
Liabilities		
Interest Rate Swaps	6,942	8,467
	6,942	8,467

Notes
(forming part of the financial statements)

11 Deferred tax

Deferred tax is calculated on all temporary timing differences under the liability method using an effective tax rate of 21% (2009 21%)

The movement in the deferred tax asset is as follows	2010 £'000	2009 £'000
At start of period	1,778	387
(Charge)/credit to income statement - current year	-	1,391
Adjustments in respect of prior years	(1,778)	
At 31 March	-	1,778

Deferred tax assets are attributable as follows

	2010	2009
Timing difference in respect of IFRS adjustments	-	1,778

12 Other assets

	2010 £'000	2009 £'000
Accrued interest	5	16
	5	16

13 Debt securities in issue

	2010 £'000	2009 £'000
Due within 1 year.		
Class A Notes due 2039	9,960	8,295
Unamortised issue costs	-	(76)
	9,960	8,219
Due in more than 1 year		
Class A Notes due 2039	62,380	83,884
Class B Notes due 2039	17,500	17,500
Class C Notes due 2039	12,500	12,500
Class D Notes due 2039	10,000	10,000
Class E Notes due 2039	5,000	5,000
Unamortised issue costs	-	-
	107,380	128,884
	117,340	137,103

The Mortgage Backed Floating Rate Notes ("The Notes") due 2039 are secured over a portfolio of commercial mortgage loans The senior notes ("A" Notes) are secured by the same security as the junior notes ("B" to "E" Notes) but rank in priority to the junior notes in the amount of security being enforced

The mortgages originated from West Bromwich Building Society The notes are subject to mandatory redemption in part on each repayment date in an amount equal to the principal received or recovered in respect of the mortgages (except to the extent that substitution takes place during the first 3 years)

If not otherwise redeemed or purchased and cancelled the notes will be redeemed at their principal amount outstanding on the interest payment date falling in May 2039

Interest on the notes will accrue on a day to day basis and be payable quarterly in arrears (subject to a longer first period) at the following rates above the London Interbank Offer Rate for 3 month sterling deposits ("3 month LIBOR")

Class	Amounts outstanding 2010 £'000	Amounts outstanding 2009 £'000	Margin over 3 month LIBOR: Until the payment date falling in May 2009	Margin over 3 month LIBOR: After the payment date falling in May 2009
A	**72,340**	92,179	22 Basis points	44 Basis points
B	**17,500**	17,500	44 Basis points	88 Basis points
C	**12,500**	12,500	72 Basis points	144 Basis points
D	**10,000**	10,000	125 Basis points	225 Basis points
E	**5,000**	5,000	500 Basis points	600 Basis points

Notes
(forming part of the financial statements)

14 Interest bearing loans and borrowings

	2010 £'000	2009 £'000
Start up loan	357	357
Sub-ordinated loan	2,750	2,750
	3,107	3,107

The liquidity facility stands at £3 5 million as at 31 March 2010 The facility is up to a maximum of £7 5 million or 3% of the loan note balances, whichever is lower At 31 March 2010, the amount drawn under the liquidity facility amounted to £nil, and the maximum amount drawn under the facility was £nil Interest on the drawings is payable to the facility provider at a margin of 0 5% above 3 month LIBOR

The start up loan, which is repayable in instalments up to 11 May 2009 (subject to sufficient funds being available), attracts interest at 3 month LIBOR plus a margin of 2 5%

The subordinated loan, which is only repayable once the remaining liabilities of the company have been repaid attracts interest at 3 month LIBOR plus a margin of 5%

15 Other payables

	2010 £'000	2009 £'000
Deferred consideration (note 16)	-	1,037
Other liabilities	1,746	1,353
	1,746	2,390

16 Deferred consideration

Deferred contingent consideration payable to West Bromwich Commercial Limited is dependent on the extent to which surplus income is generated by the mortgage assets, to which the company holds the beneficial title The surplus income generated during the year ended 31 March 2010 and payable to West Bromwich Commercial Limited is shown below

Movements in deferred consideration due to West Bromwich Commercial Limited during the year were as follows

	2010 £'000	2009 £'000
At start of the year	1,037	1,141
Deferred consideration arising during the year	(1,037)	(104)
Deferred consideration paid during the year	-	-
At end of the year	-	1,037

17 Share capital

	2010 £	2009 £
Authorised		
50,000 Ordinary shares of £1 each	50,000	50,000
Allotted, called up and partly paid		
50,000 Ordinary shares of £1 each, 25p paid	12,500	12,500

Capital disclosures

The Company is not subject to externally imposed capital requirements in either the current or prior year The Company manages its ordinary share capital in order that there is sufficient capital, in the opinion of the directors, to support the transactions and level of business undertaken by the Company

Sandwell Commercial Finance No 1 plc

Notes
(forming part of the financial statements)

18	**Retained earnings**	**2010**	2009
		£'000	£'000
	Brought forward	**(6,613)**	(1,394)
	(Loss) for the year	**(3,988)**	(5,219)
	Carried forward	**(10,601)**	(6,613)

19 Parent undertakings and ultimate controlling party

The entire ordinary share capital of the company is owned by Sandwell Finance Holdings Limited Wilmington Trust SP Services (London) Limited holds 100% of the issued voting share capital of Sandwell Finance Holdings Limited, subject to the terms of a declaration of trust for general charitable purposes Copies of the parent company's consolidated financial statements can be obtained from Wilmington Trust SP Services (London) Limited at the address shown on page 1

The company meets the definition of a Special Purpose Entity as defined in IAS27 and is therefore consolidated within the accounts of the West Bromwich Building Society

Sandwell Commercial Finance No 1 Plc's ultimate controlling party is West Bromwich Building Society Copies of the group accounts are available from 374 High Street, West Bromwich, B70 8LR, the group and the company's principal place of business

20 Related Party transactions

West Bromwich Commercial Limited view the company as being a subsidiary Consequently the directors of the company consider them to be related parties Transactions between the parties are disclosed in the financial statements as follows

	2010	2009
	£'000	£'000
Deferred consideration	(1,037)	(104)
Interest on start up loan	13	51
Interest on subordinated loan	166	272
Other fees	23	40
Administration and cash management fees	199	221

Wilmington Trust SP Services (London) Limited view the company as being a subsidiary Consequently the directors of the company consider them to be related parties Transactions between the parties are disclosed in the financial statements as follows

	2010	2009
	£'000	£'000
Administration and cash management fees	17	18

During the year Sandwell Commercial Finance No 1 plc undertook transactions with the following companies and as at the year end, the following balances were outstanding

	2010	2009
	£'000	£'000
West Bromwich Commercial Limited	3,136	4,177
Wilmington Trust SP Services (London) Limited	-	-