

Sandwell Commercial Finance No. 1 Plc

Annual report and financial statements

for the year ended 31 March 2014

Registered number: 05088299

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Sandwell Commercial Finance No. 1 Plc

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Sandwell Commercial Finance No. 1 Plc

Directors and advisors

Directors

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

Secretary

Wilmington Trust SP Services (London) Limited

Auditor

KPMG Audit Plc
Chartered Accountants
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
Third Floor
1 King's Arms Yard
London
EC2R 7AF

Registered number

05088299

Sandwell Commercial Finance No. 1 Plc

Strategic report

The Directors present their strategic report for Sandwell Commercial Finance No. 1 Plc.

Business model, objectives and future developments

The principal activity of Sandwell Commercial Finance No. 1 Plc (the Company) is that of holding a commercial mortgage portfolio. The entire issued share capital of the Company is owned by Sandwell Finance Holdings Limited. The entire issued share capital of Sandwell Finance Holdings Limited is held on trust by the Share Trustee, a professional trust company based in England and Wales. The Seller of the mortgage portfolio, West Bromwich Commercial Limited, has no ownership interest in the above entities. There have not been any significant changes in the Company's principal activities in the year under review. The Directors are not, at the date of this report, aware of any likely major changes in the Company's activities in the next year.

On 19 May 2004, the Company acquired a commercial loan book secured on a commercial portfolio of properties located in England and Wales. The assets originated from West Bromwich Commercial Limited. The acquisition of these loans was financed wholly by the issue of mortgage backed floating rate loan notes.

The activities of the Company are managed through a series of agreements. The securitisation structure has been established as a means of raising finance for West Bromwich Building Society and its subsidiaries (the Group). Deferred consideration is payable to West Bromwich Commercial Limited to the extent to which surplus income is generated by the commercial assets, to which the Company holds the beneficial title. There was no surplus income generated during the year ended 31 March 2014 and therefore no deferred consideration was payable to West Bromwich Commercial Limited.

Under the terms of the securitisation, the Company retains 0.01% of the average loan notes balance each year as profit subject to there being sufficient available revenue receipts. Amounts in excess of 0.01% accrue to West Bromwich Commercial Limited, the originator of the underlying commercial mortgages, as deferred consideration. Amounts retained within the Company will be distributed to charities for charitable purposes at the discretion of the Share Trustee.

The Company's tax charge is based on the tax regime for securitisation companies.

The principal asset of the Company is a single loan to the originator which is subject to an annual impairment review. This loan represents a beneficial interest in a mortgage loan portfolio and is subject to economic factors affecting the commercial loan market.

Review of the business

The Company's profit for the year is £956,000 (2013: loss of £1,429,000). The retained profit for the year has been transferred to reserves.

The statement of financial position on page 7 of the financial statements shows the Company's financial position at the year end date.

Key performance indicators

The key performance indicators used by management in assessing the performance of the Company are the monitoring of actual cash flows against planned cash flows within the scheduled waterfall of payments and the level of arrears in the underlying mortgage portfolio.

During the year, the Company was able to make all payments contractually required to the holders of the loan notes and to pay all normal operating expenses. The Directors expect the business to be able to continue to meet such expenditure.

At 31 March 2014 there was 1 loan in arrears by more than 3 months (2013: 3). There were no properties in possession at the year end date (2013: nil).

The Company incurred credit losses during the year of £574,000 (2013: £1,781,000). The Directors have reviewed the carrying value of the deemed loan and recognised a provision of £2,523,000 at 31 March 2014 (2013: £2,891,000). As the impairment losses on the deemed loan are borne by the Seller and the holders of the mortgage backed floating rate notes, the impairment losses shown in the income statement are £nil.

Principal risks and uncertainties

The Company's financial instruments comprise a deemed loan to West Bromwich Commercial Limited (equivalent to the value of its investment in the mortgages held in trust), cash and liquid resources, derivatives, subordinated loan and start up loan. The Company is a securitisation company and has been structured so as to avoid, as far as possible, all forms of financial risk.

Sandwell Commercial Finance No. 1 Plc

Strategic report (continued)

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 the financial statements.

Credit risk

Credit risk is the risk that a customer or counterparty is unable to honour its obligations as they fall due. The Company faces this risk in respect of 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 Commercial Limited to monitor repayments on the mortgage loans in accordance with its credit policies. West Bromwich Commercial Limited is 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.

Liquidity risk

Liquidity risk is the risk that the Company either does not have sufficient financial resources to enable it to meet its obligations as they fall due or can secure such resources only at excessive cost. 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.

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 its affiliates.

The Company's approach to management of this risk is described in note 2 to the financial statements.

Operational risk

Operational risk is the risk of loss and/or negative impact to the Company resulting from inadequate or failed internal processes or systems, inability to attract, retain and motivate people, or from external events. Responsibility for managing operational risks lies with individual business areas who identify and assess risks in line with the predefined processes. These risks are managed as an integral part of the operations of the Company.

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

Going concern

The Company is strictly governed by a number of agreements established at the outset of the securitisation, including agreements with the Company's creditors as to the amount and timing of any payments that the Company is obliged to make. Such payments are only required to be made if the Company has the funds available to make these payments and thus the Company should always be able to meet its obligations as they fall due. It is on this basis that the Directors consider it appropriate to prepare the accounts on a going concern basis.

By order of the Board



T Lynch
Director

26 August 2014

Sandwell Commercial Finance No. 1 Plc

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 March 2014.

Directors and Directors' interests

The Directors who held office during the year were as follows:

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

The Directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Dividend

The Directors do not recommend the payment of a dividend (2013: £nil).

Disclosure of information to the auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each Director has taken all of the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Following a review of their corporate structure, our auditor, KPMG Audit Plc, has instigated an orderly wind down of business, with future audit work being undertaken by KPMG LLP. The Board has decided to put KPMG LLP forward to be appointed as auditor and a resolution for their appointment will be proposed to the forthcoming Annual General Meeting of the Company. There is no difference in liability terms between KPMG Audit Plc and KPMG LLP.

Statement of Directors' responsibilities in respect of the strategic report, Directors' report and the financial statements

The Directors are responsible for preparing the strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

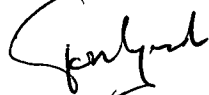
Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (the EU) and applicable law.

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.

By order of the Board



T Lynch
Director

26 August 2014

Sandwell Commercial Finance No. 1 Plc

Independent auditor's 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 2014 set out on pages 6 to 21. 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 auditor's 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 auditor

As explained more fully in the statement of Directors' responsibilities 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, and express an opinion on, 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 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 Financial Reporting Council's website at: www.frc.org.uk/auditscopeukprivate.

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 2014 and of its profit 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 strategic report and 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.



Simon Clark (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

26 August 2014

Sandwell Commercial Finance No. 1 Plc

Income statement

for the year ended 31 March 2014

	Notes	2014 £'000	2013 £'000
Interest receivable and similar income	3	1,449	1,498
Interest expense and similar charges	4	(1,524)	(1,843)
Net interest expense		(75)	(345)
Net fair value gains on derivatives		1,183	616
Administrative expenses		(152)	(178)
Operating profit		956	93
Impairment losses on deemed loan		-	(1,522)
Profit/(Loss) before tax	5	956	(1,429)
Taxation	7	-	-
Profit/(Loss) for the year		956	(1,429)

The profit/(loss) for the year was derived wholly from continuing operations.

There has been no comprehensive income or expense other than the profit/(loss) for the year (2013: £nil).

Statement of changes in equity

for the year ended 31 March 2014

	Share capital £'000	Retained earnings £'000	Total £'000
Balance at 1 April 2013	13	(5,410)	(5,397)
Profit for the year	-	956	956
Balance at 31 March 2014	13	(4,454)	(4,441)
	Share capital £'000	Retained earnings £'000	Total £'000
Balance at 1 April 2012	13	(3,981)	(3,968)
Loss for the year	-	(1,429)	(1,429)
Balance at 31 March 2013	13	(5,410)	(5,397)

The notes on pages 9 to 21 form part of these financial statements.

Sandwell Commercial Finance No. 1 Plc

Statement of financial position

at 31 March 2014

	Notes	2014 £'000	2013 £'000
Assets			
Cash and cash equivalents	8	4,795	4,524
Deemed loan due from Group undertaking	9	55,288	66,370
Trade and other receivables	11	65	71
Total assets		60,148	70,965
Liabilities			
Derivative financial instruments	10	3,983	5,063
Debt securities in issue	12	60,243	71,117
Other interest bearing loans and borrowings	13	-	-
Trade and other payables	14	363	182
Total liabilities		64,589	76,362
Equity			
Share capital	16	13	13
Retained earnings	17	(4,454)	(5,410)
Total equity attributable to equity holders of parent		(4,441)	(5,397)
Total liabilities and equity		60,148	70,965

The notes on pages 9 to 21 form part of these financial statements.

These financial statements were approved by the Board of Directors on 26 August 2014 and were signed on its behalf by:



T Lynch
Director

Registered number: 05088299

Sandwell Commercial Finance No. 1 Plc

Statement of cash flows

for the year ended 31 March 2014

	Notes	2014 £'000	2013 £'000
Cash flows from operating activities			
Profit/(Loss) before tax		956	(1,429)
Provisions for impairment on deemed loan		208	(608)
Movement in derivative financial instruments		(1,080)	(461)
Adjustment to carrying value of other interest bearing loans and borrowings		(162)	(170)
Adjustment to carrying value of debt securities in issue		(46)	2,301
Net cash outflow from operating activities before changes in operating assets and liabilities		(124)	(367)
Movement in deemed loan due from Group undertaking		10,874	13,538
Movement in trade and other receivables		6	(69)
Movement in trade and other payables		181	(46)
Net cash inflow from operating activities		10,937	13,056
Cash flows from financing activities			
Repayment of debt securities in issue		(10,828)	(11,082)
Movement in other interest bearing loans and borrowings		162	170
Net cash flows from financing activities		(10,666)	(10,912)
Net increase in cash and cash equivalents		271	2,144
Cash and cash equivalents at beginning of year		4,524	2,380
Cash and cash equivalents at end of year	8	4,795	4,524

The notes on pages 9 to 21 form part of these financial statements.

Sandwell Commercial Finance No. 1 Plc

Notes to the financial statements

1 Accounting policies

Sandwell Commercial Finance No. 1 Plc (the Company) is a company incorporated in the United Kingdom.

The principal accounting policies applied consistently in the preparation of these financial statements are set out below.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations as adopted by the European Union (EU) and effective at 31 March 2014.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of derivatives at fair value through profit or loss.

The financial statements are presented in pounds Sterling and, except where otherwise indicated, have been rounded to the nearest thousand.

Going concern

As noted in the strategic report, the Company is strictly governed by a number of agreements established at the outset of the securitisation, including agreements with the Company's creditors as to the amount and timing of any payments that the Company is obliged to make. Such payments are only required to be made if the Company has the funds available to make these payments and thus the Company should always be able to meet its obligations as they fall due. It is on this basis that the Directors consider it appropriate to prepare the accounts on a going concern basis.

Accounting developments

The following new or amended accounting standards, which are relevant to the Company, have been adopted during 2014:

- IFRS 13, 'Fair Value Measurement' - The new standard defines fair value and provides a single framework for measuring fair value, replacing existing IFRS guidance in this area. The application of IFRS 13 has not had a significant financial impact on these financial statements.
- Amendments to IFRS 7, 'Financial Instruments: Disclosures' - Disclosures - Offsetting Financial Assets and Financial Liabilities - The amendments require new disclosures for financial instruments which are offset in the statement of financial position. The application of the amendments has had no impact on the financial statements.

The following accounting standard amendments were issued but not effective for 2014:

- IAS 27 (revised) 'Separate Financial Statements'. The amendment is effective for annual periods beginning on or after 1 January 2013 and endorsed by the EU for application from 1 January 2014. The application of this revised standard is not expected to have a material impact on the financial statements.
- IAS 28 (revised) 'Investments in Associates and Joint Ventures'. The amendment is effective for annual periods beginning on or after 1 January 2013 and endorsed by the EU for application from 1 January 2014. The application of this revised standard is not expected to have a material impact on the financial statements.
- IFRS 10 'Consolidated Financial Statements'. The new standard is effective for annual periods beginning on or after 1 January 2013 and endorsed by the EU for application from 1 January 2014. It introduces a single consolidation model for all entities based on control. The application of this new standard is not expected to have a material impact on the financial statements.
- IFRS 11 'Joint Arrangements'. The new standard is effective for annual periods beginning on or after 1 January 2013 and endorsed by the EU for application from 1 January 2014. It requires a party to a joint arrangement to account for its rights and obligations in accordance with the type of joint arrangement. The application of this new standard is not expected to have a material impact on the financial statements.
- IFRS 12 'Disclosure of Interests in Other Entities'. The new standard is effective for annual periods beginning on or after 1 January 2013 and endorsed by the EU for application from 1 January 2014. It requires extensive disclosures with respect to interests in other entities. The application of this new standard is not expected to have a significant impact on the financial statements.
- Amendment to IAS 32 'Financial Instruments: Presentation'. The amendment is effective for annual periods beginning on or after 1 January 2014 and clarifies requirements for offsetting financial assets and financial liabilities. The application of this revised standard is not expected to have a material impact on the financial statements.

The following accounting standard was neither adopted by the European Union nor effective for 2014:

- IFRS 9 'Financial Instruments'. This standard introduces new requirements with respect to classification and measurement of financial instruments. IFRS 9 is subject to EU endorsement, the timing of which is uncertain. The standard is currently expected to be effective for annual periods beginning on or after 1 January 2018. The Company is monitoring developments and considering the associated impact on the financial statements.

The Company did not early adopt any of the above in the financial year ended 31 March 2014.

Sandwell Commercial Finance No. 1 Plc

Notes to the financial statements (continued)

1 Accounting policies (continued)

Segmental reporting

As the business operates in one business segment and all business is conducted in the UK, the Directors have decided not to present segmental information.

Interest receivable and expense

Interest receivable and expense are recognised in the income statement for all instruments measured at amortised cost or available for sale using the effective interest method. Interest income or expense on other financial instruments is recognised within interest receivable/interest payable. Interest on impaired financial assets is calculated by applying the original effective interest rate of the financial asset to the carrying amount as reduced by any allowance for impairment.

Deferred consideration

Deferred purchase consideration is deducted from interest income, since the Company should not recognise income to which it is not beneficially entitled.

Under the terms of the securitisation, the Company retains the rights to 0.01% of the average value of the mortgage backed loan notes if sufficient funds exist once other contractual payments are made.

Amounts 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.

Effective interest rate

The effective interest rate is the method used to calculate the amortised cost of financial instruments and to recognise interest receivable or payable over the relevant period. The effective interest rate is the rate that exactly discounts estimated cash flows (excluding credit losses) to zero, through the expected life of the instrument. The main impact for the Company relates to mortgage advances where fees, such as application and arrangement fees, and costs are incorporated in the calculation. This has the effect of spreading these fees and costs over the expected life of the mortgage. Expected lives are estimated using historic data and management judgment and the calculation is adjusted when actual experience differs from estimates, with changes in deferred amounts being recognised immediately in the income statement.

Financial instruments

In accordance with IAS 39, all financial assets and liabilities – which include derivative financial instruments – have to be recognised in the statement of financial position and measured in accordance with their assigned category.

a) Financial assets

Management determines the classification of its financial instruments at initial recognition. Purchases and sales of non-derivative financial assets are accounted for at settlement date.

Financial assets at fair value through profit or loss

The Company uses derivative financial instruments to hedge its exposure to interest rate risk arising from operational, financing and investment activities.

Derivative financial instruments (both assets and liabilities) are initially recognised and subsequently held at fair value in the statement of financial position with changes in their fair value going through the income statement.

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 originator has retained significant risk and rewards of ownership and therefore these loans remain on the statement of financial position of the originator. IAS 39 therefore requires the seller to recognise a deemed loan financial liability on its statement of financial position and the resulting deemed loan asset is held on the Company's statement of financial position. 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.

Sandwell Commercial Finance No. 1 Plc

Notes to the financial statements (continued)

1 Accounting policies (continued)

b) Financial liabilities

All financial liabilities held by the Company are recognised initially at fair value, being the issue proceeds, net of premia, discounts and directly attributable transaction costs incurred.

Financial liabilities are subsequently measured at amortised cost using the effective interest method, except for those financial liabilities, for example derivative liabilities, which are measured at fair value through profit or loss.

c) Impairment of financial assets

The Company assesses at each year end date whether there is objective evidence that a financial asset 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.

If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment, and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

If there is objective evidence of an impairment of loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of the loss is recognised in the income statement.

Where a loan is not recoverable, it is written off against the related provision for loan impairment once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the income statement.

d) Derecognition of financial assets and liabilities

The Company's policy is to derecognise financial assets when the contractual right to the cash flows from the financial asset expires. The Company also derecognises financial assets that it transfers to another party provided the transfer of the asset also transfers the right to receive the cash flows of the financial asset and substantially all the risks and rewards of ownership.

The Company derecognises financial liabilities only when the obligation specified in the contract is discharged, cancelled or has expired.

e) 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.

Cash and cash equivalents

For the purposes of the statement of cash flows, cash comprises cash and bank balances repayable on demand. Cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value, with maturities of 90 days or less.

Taxation

Tax on the profit/loss for the year comprises current tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable/receivable on the taxable income/expense for the year, using the tax rate which applies to the accounting period ending at the date of the statement of financial position, and any adjustment to tax payable in respect of previous years.

Sandwell Commercial Finance No. 1 Plc

Notes to the financial statements (continued)

1 Accounting policies (continued)

Critical accounting estimates and judgments in applying accounting policies

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment losses on deemed loan

In accordance with the accounting policy on page 11 the methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Since each commercial mortgage loan is individually assessed for impairment, it is not practical to assess the impact of individual changes in assumptions.

2 Financial instruments

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 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 rates 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 rates 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.

As described above, 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.

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 cash flows 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 2014, 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 £100,000 (2013: £137,000). This adjustment would have no impact on the cash flows of the Company unless the assets were sold and the derivative instruments cancelled.

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 13). 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.

Sandwell Commercial Finance No. 1 Plc

Notes to the financial statements (continued)

2 Financial instruments (continued)

The table below analyses the Company's financial assets and liabilities across maturity periods that reflect the residual duration from the year end date to the contractual maturity date.

	Less than 12 months £'000	1 to 2 years £'000	2 to 5 years £'000	Over 5 years £'000	No specific maturity £'000	Total £'000
At 31 March 2014						
Financial assets						
Cash and cash equivalents	4,795	-	-	-	-	4,795
Deemed loan due from Group undertaking	16,146	6,992	19,462	15,211	(2,523)	55,288
	20,941	6,992	19,462	15,211	(2,523)	60,083
Financial liabilities						
Debt securities in issue	16,303	6,992	19,462	20,480	(2,994)	60,243
Derivative financial instruments	-	-	-	3,983	-	3,983
Other interest bearing loans and borrowings	-	-	-	3,949	(3,949)	-
	16,303	6,992	19,462	28,412	(6,943)	64,226
At 31 March 2013						
Financial assets						
Cash and cash equivalents	4,524	-	-	-	-	4,524
Deemed loan due from Group undertaking	17,183	5,387	17,957	28,734	(2,891)	66,370
	21,707	5,387	17,957	28,734	(2,891)	70,894
Financial liabilities						
Debt securities in issue	17,356	5,387	17,957	33,365	(2,948)	71,117
Derivative financial instruments	-	-	-	5,063	-	5,063
Other interest bearing loans and borrowings	-	-	-	3,787	(3,787)	-
	17,356	5,387	17,957	42,215	(6,735)	76,180

Gross contractual cash flows

The timing and amount of any payments to be made in respect of financial liabilities 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 cash flows to be generated from the underlying mortgages are included in the maturity table above.

Cash and cash equivalents are held with an A rated bank.

Credit risk

Credit risk arises on the individual loans within the mortgage portfolio which are secured on the underlying commercial properties. Under IFRS the commercial portfolio is reclassified as a deemed 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 West Bromwich Commercial Limited. 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 West Bromwich Commercial Limited).

Sandwell Commercial Finance No. 1 Plc

Notes to the financial statements (continued)

2 Financial instruments (continued)

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

	2014 £'000	2013 £'000
Concentration by loan type		
Loans secured on commercial property	57,811	69,261
Gross balances	57,811	69,261
Impairment provision	(2,523)	(2,891)
	55,288	66,370

The table below shows the geographic spread of the commercial loan portfolio at the year end date:

	2014 £'000	2013 £'000
East Anglia	731	772
East Midlands	4,121	6,740
Greater London	3,428	5,822
North	3,588	3,946
North West	3,982	5,661
South East	21,171	23,267
South West	5,342	5,628
Wales	5,912	6,372
West Midlands	4,285	4,487
Yorkshire	5,251	6,566
	57,811	69,261

The analysis of loans secured on commercial property by industry type is as follows:

	2014 £'000	2013 £'000
Healthcare and leisure	7,153	7,306
Industrial and warehouse	13,898	16,178
Office	19,804	23,292
Retail	16,956	22,297
Other	-	188
	57,811	69,261

The average indexed loan to value is 91.9% (2013: 90.0%).

The table below provides further information on the commercial loan portfolio by payment due status at 31 March 2014.

	2014 £'000	2013 £'000
Loans neither past due or impaired	40,951	49,622
Not past due but impaired	12,433	9,954
Impaired		
Past due 6 to 12 months	4,427	4,295
Past due over 12 months	-	5,390
	57,811	69,261

Sandwell Commercial Finance No. 1 Plc

Notes to the financial statements (continued)

2 Financial instruments (continued)

The following table indicates collateral held against the commercial loan portfolio:

Value of collateral held (unindexed)	2014 £'000	2013 £'000
Not impaired	60,562	77,769
Impaired	14,693	15,945
	<u>75,255</u>	<u>93,714</u>

The collateral held consists of properties, land or other guarantees or cash included within the above categories. The use of such collateral is in line with terms that are usual and customary to standard lending activities.

During the year commercial loan asset write-offs of £574,000 (2013: £1,781,000) were incurred.

Classification of financial assets and financial liabilities

The following tables show the classification of the Company's assets and liabilities:

At 31 March 2014	Loans and receivables £'000	Fair value through profit or loss £'000	Total £'000
Assets			
Cash and cash equivalents	4,795	-	4,795
Deemed loan due from Group undertaking	55,288	-	55,288
Total financial assets	<u>60,083</u>	<u>-</u>	<u>60,083</u>
Non-financial assets			65
Total assets			<u>60,148</u>

	Other financial liabilities £'000	Fair value through profit or loss £'000	Total £'000
Liabilities			
Debt securities in issue	60,243	-	60,243
Derivative financial instruments	-	3,983	3,983
Total financial liabilities	<u>60,243</u>	<u>3,983</u>	<u>64,226</u>
Non-financial liabilities			363
Total liabilities			<u>64,589</u>

At 31 March 2013	Loans and receivables £'000	Fair value through profit or loss £'000	Total £'000
Assets			
Cash and cash equivalents	4,524	-	4,524
Deemed loan due from Group undertaking	66,370	-	66,370
Total financial assets	<u>70,894</u>	<u>-</u>	<u>70,894</u>
Non-financial assets			71
Total assets			<u>70,965</u>

	Other financial liabilities £'000	Fair value through profit or loss £'000	Total £'000
Liabilities			
Debt securities in issue	71,117	-	71,117
Derivative financial instruments	-	5,063	5,063
Total financial liabilities	<u>71,117</u>	<u>5,063</u>	<u>76,180</u>
Non-financial liabilities			182
Total liabilities			<u>76,362</u>

Sandwell Commercial Finance No. 1 Plc

Notes to the financial statements (continued)

2 Financial instruments (continued)

Fair values of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company determines fair values by the following three tier valuation hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Valuation techniques where all inputs are taken from observable market data, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Valuation techniques where significant inputs are not based on observable market data.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and market observable inputs used in valuation techniques include risk-free and benchmark interest rates, equity index prices and expected price volatilities. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length. Observable prices are those that have been seen either from counterparties or from market pricing sources including Bloomberg. The use of these depends upon the liquidity of the relevant market.

Fair values of financial assets and liabilities held at amortised cost

The tables below show the fair values of the Company's financial assets and liabilities held at amortised cost in the statement of financial position, analysed according to the fair value hierarchy described previously.

	Carrying value £'000	Fair value Level 1 £'000	Fair value Level 2 £'000	Fair value Level 3 £'000	Fair value Total £'000
At 31 March 2014					
Financial assets					
Cash and cash equivalents	4,795	4,795	-	-	4,795
Deemed loan due from Group undertaking	55,288	-	-	56,528	56,528
Financial liabilities					
Debt securities in issue	60,243	-	58,468	-	58,468
Other interest bearing loans and borrowings (note 13)	-	-	-	-	-
	Carrying Value £'000	Fair value Level 1 £'000	Fair value Level 2 £'000	Fair value Level 3 £'000	Fair value Total £'000
At 31 March 2013					
Financial assets					
Cash and cash equivalents	4,524	4,524	-	-	4,524
Deemed loan due from Group undertaking	66,370	-	-	65,108	65,108
Financial liabilities					
Debt securities in issue	71,117	-	71,117	-	71,117
Other interest bearing loans and borrowings (note 13)	-	-	-	-	-

a) Deemed loan

The deemed loan is net of provisions for impairment. The estimated fair value 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) 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.

c) Loans and borrowings

The estimated fair value of borrowings with no stated maturity is the amount repayable on demand.

The estimated fair value of fixed interest-bearing loans and other borrowings without quoted market prices is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Sandwell Commercial Finance No. 1 Plc

Notes to the financial statements (continued)

2 Financial instruments (continued)

Financial assets and financial liabilities held at fair value through profit or loss

The tables below show the fair values of the Company's financial assets and liabilities held at fair value in the statement of financial position, analysed according to the fair value hierarchy described previously.

	Level 2 £'000	Total £'000
At 31 March 2014		
Financial liabilities		
Derivative financial instruments	3,983	3,983
	<hr/>	<hr/>
	Level 2 £'000	Total £'000
At 31 March 2013		
Financial liabilities		
Derivative financial instruments	5,063	5,063
	<hr/>	<hr/>

3 Interest receivable and similar income	2014 £'000	2013 £'000
On deemed loan	2,403	3,031
Bank interest	4	11
Net expense on derivative financial instruments	(958)	(1,544)
	<hr/>	<hr/>
	1,449	1,498

Included within interest receivable and similar income is interest accrued on impaired commercial mortgage assets of £586,000 (2013: £1,142,000).

4 Interest expense and similar charges	2014 £'000	2013 £'000
On debt securities in issue	1,362	1,637
Other interest	162	206
	<hr/>	<hr/>
	1,524	1,843

5 Profit/(Loss) before tax	2014 £'000	2013 £'000
Profit/(Loss) before tax is stated after charging:		
Inter-group charges (note 19)	98	115
Fair value gains on financial instruments	1,183	616
Auditor's remuneration: audit services	15	13
	<hr/>	<hr/>

6 Information regarding Directors and employees

Directors

None of the Directors received any emoluments for their qualifying services to Sandwell Commercial Finance No. 1 Plc during the year ended 31 March 2014 or the preceding year.

Employees

The average number of persons (excluding Directors) employed directly by the Company during the year was nil (2013: nil). The aggregate payroll costs during the year ended 31 March 2014 were £nil (2013: £nil).

Sandwell Commercial Finance No. 1 Plc

Notes to the financial statements (continued)

7 Taxation

The tax charge for the year is reconciled to the profit/(loss) before tax in the income statement as follows:

	2014 £'000	2013 £'000
Profit/(Loss) before tax	<u>956</u>	<u>(1,429)</u>
	191	(286)
Profit/(Loss) before tax multiplied by the UK standard rate of tax of 20% (2013: 20%)		
Permanent differences as a result of permanent regime	<u>(191)</u>	<u>286</u>
Tax charge	<u>-</u>	<u>-</u>

8 Cash and cash equivalents

	2014 £'000	2013 £'000
Bank deposits	<u>4,795</u>	<u>4,524</u>

9 Deemed loan due from Group undertaking

	2014 £'000	2013 £'000
Repayable in:		
Less than 12 months	16,146	17,183
1 to 2 years	6,992	5,387
2 to 5 years	19,462	17,957
Over 5 years	<u>15,211</u>	<u>28,734</u>
	57,811	69,261
Impairment provisions	<u>(2,523)</u>	<u>(2,891)</u>
	<u>55,288</u>	<u>66,370</u>

10 Derivative financial instruments

	2014 £'000	2013 £'000
Liabilities		
Interest rate swaps	<u>3,983</u>	<u>5,063</u>

11 Trade and other receivables

	2014 £'000	2013 £'000
Other receivables	<u>65</u>	<u>71</u>

12 Debt securities in issue

	2014 £'000	2013 £'000
Due within 1 year:		
Class A Notes due 2039	15,929	17,183
Class B Notes due 2039	<u>217</u>	<u>-</u>
	16,146	17,183
Due in more than 1 year:		
Class A Notes due 2039	-	9,966
Class B Notes due 2039	17,283	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
Accrued interest	2,308	1,916
Carrying value adjustment	<u>(2,994)</u>	<u>(2,948)</u>
	<u>44,097</u>	<u>53,934</u>
	<u>60,243</u>	<u>71,117</u>

Sandwell Commercial Finance No. 1 Plc

Notes to the financial statements (continued)

12 Debt securities in issue (continued)

The mortgage backed floating rate notes due 2039 (the Notes) 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 Commercial Limited. 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		Margin over 3 month LIBOR After the payment date falling in May 2009
	2014 £'000	2013 £'000	
A	15,929	27,149	44 basis points
B	17,500	17,500	88 basis points
C	12,500	12,500	144 basis points
D	10,000	10,000	225 basis points
E	5,000	5,000	600 basis points

Under the terms of the securitisation, impairment losses on the deemed loan are borne by the Seller (in relation to receipt of deferred consideration and capital and interest on the subordinated and start up loans) and the holders of the mortgage backed floating rate notes. The carrying values of the start up loan, subordinated loan and debt securities in issue have been decreased to reflect cumulative actual and expected impairment losses.

The start up loan, subordinated loan and debt securities remain as financial liabilities of the Company as the associated contractual obligation has not been extinguished. The carrying value adjustments will be reviewed on a regular basis to reflect the cash flows expected to be achieved by the underlying assets and adjusted accordingly.

13 Other interest bearing loans and borrowings	2014 £'000	2013 £'000
Start up loan	414	403
Subordinated loan	3,535	3,384
Carrying value adjustment	<u>(3,949)</u>	<u>(3,787)</u>
	<u>-</u>	<u>-</u>

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%.

Under the terms of the securitisation, impairment losses on the deemed loan are borne by the Seller (in relation to receipt of deferred consideration and capital and interest on the subordinated and start up loans) and the holders of the mortgage backed floating rate notes. The carrying values of the start up loan, subordinated loan and debt securities in issue have been decreased to reflect cumulative actual and expected impairment losses.

The start up loan, subordinated loan and debt securities remain as financial liabilities of the Company as the associated contractual obligation has not been extinguished. The carrying value adjustments will be reviewed on a regular basis to reflect the cash flows expected to be achieved by the underlying assets and adjusted accordingly.

The liquidity facility stands at £1.4m as at 31 March 2014 (2013: £1.6m). At 31 March 2014, the amount drawn under the liquidity facility amounted to £1.4m (2013: £1.6m), and the maximum amount drawn under the facility during the year was £1.6m (2013: £2.6m). Interest on the drawings is payable to the facility provider at a margin of 1% above 3 month LIBOR.

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Notes to the financial statements (continued)

14 Trade and other payables	2014	2013
	£'000	£'000
Amounts due to related parties	122	64
Other payables	241	118
	<u>363</u>	<u>182</u>

15 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 2014 and payable to West Bromwich Commercial Limited at the year end date was £nil (2013: £nil).

16 Share capital

	2014	2013
	£	£
<i>Authorised</i>		
50,000 ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>
<i>Allotted, called up and partly paid</i>		
50,000 ordinary shares of £1 each, 25p paid	<u>12,500</u>	<u>12,500</u>

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. The Company defines capital as share capital.

17 Retained earnings	2014	2013
	£'000	£'000
At beginning of year	(5,410)	(3,981)
Profit/(Loss) for the year	956	(1,429)
At end of year	<u>(4,454)</u>	<u>(5,410)</u>

18 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 results of the Company are consolidated into the results of the West Bromwich Building Society Group (the Group) under the rules and guidance of Standing Interpretations Committee (SIC) 12.

The Company's ultimate controlling party is West Bromwich Building Society. A copy of the Group financial statements may be obtained from 374 High Street, West Bromwich, B70 8LR, the Group and the Company's principal place of business.

Sandwell Commercial Finance No. 1 Plc

Notes to the financial statements (continued)

19 Related party transactions

Transactions with West Bromwich Commercial Limited	2014 £'000	2013 £'000
Interest receivable on deemed loan	2,403	3,031
Interest payable on start up loan	(11)	(12)
Interest payable on subordinated loan	(152)	(158)
Administration and cash management fees	<u>(98)</u>	<u>(115)</u>

Transactions with Wilmington Trust SP Services (London) Limited	2014 £'000	2013 £'000
Administration fees	<u>12</u>	<u>12</u>

At the year end the following balances were outstanding with related parties:

Outstanding balances with West Bromwich Commercial Limited	2014 £'000	2013 £'000
Loans owed to Group undertaking	(4,071)	(3,851)
Deemed loan due from Group undertaking	<u>55,288</u>	<u>66,370</u>