

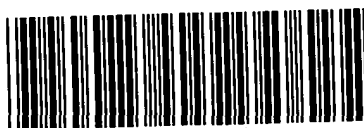
Sandwell Commercial Finance No. 1 Plc

Annual report and financial statements

for the year ended 31 March 2015

Registered number: 05088299

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Sandwell Commercial Finance No. 1 Plc

Contents	Page
Directors and advisors	1
Strategic report	2
Directors' report	4
Statement of Directors' responsibilities in respect of the strategic report, Directors' report and the financial statements	4
Independent auditor's report to the members of Sandwell Commercial Finance No. 1 Plc	5
Statement of comprehensive income	6
Statement of changes in equity	6
Statement of financial position	7
Statement of cash flows	8
Notes to the financial statements	9

Sandwell Commercial Finance No. 1 Plc

Directors and advisors

Directors

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

Secretary

Wilmington Trust SP Services (London) Limited

Auditor

KPMG LLP
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 2015 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 £107,000 (2014: profit of £956,000). 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 2015 there was 1 loan in arrears by more than 3 months (2014: 1). There were no properties in possession at the year end date (2014: nil).

The Company incurred credit losses during the year of £987,000 (2014: £574,000). The Directors have reviewed the carrying value of the deemed loan and recognised a provision of £1,919,000 at 31 March 2015 (2014: £2,523,000). 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 despite its negative reserves position. 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

23 July 2015

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 2015.

Directors and Directors' interests

The Directors who held office during the year and up to the date of signing the financial statements were as follows:

T Lynch
M McDermott - resigned on 5 December 2014
J Traynor
Wilmington Trust SP Services (London) Limited
M H Filer - appointed on 1 April 2015

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 (2014: £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

In accordance with the relevant sections of the Companies Act 2006, the Company has dispensed with the requirements to re-appoint the auditor annually.

On 28 October 2014, KPMG Audit Plc resigned from office and on the same day KPMG LLP was appointed as the Company's auditor.

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


23 July 2015

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 2015 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 2015 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 LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

23 July 2015

Sandwell Commercial Finance No. 1 Plc

Statement of comprehensive income

for the year ended 31 March 2015

	Notes	2015 £'000	2014 £'000
Interest receivable and similar income	3	1,129	1,449
Interest expense and similar charges	4	(1,446)	(1,524)
Net interest expense		(317)	(75)
Net fair value gains on derivatives		564	1,183
Administrative expenses		(140)	(152)
Operating profit		107	956
Impairment losses on deemed loan		-	-
Profit before tax	5	107	956
Taxation	7	-	-
Profit for the year		107	956

The profit for the year was derived wholly from continuing operations.

There has been no comprehensive income or expense other than the profit for the year (2014: £nil).

Statement of changes in equity

for the year ended 31 March 2015

	Share capital £'000	Retained losses £'000	Total £'000
Balance at 1 April 2014	13	(4,454)	(4,441)
Profit for the year	-	107	107
Balance at 31 March 2015	13	(4,347)	(4,334)

	Share capital £'000	Retained losses £'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)

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 2015

	Notes	2015 £'000	2014 £'000
Assets			
Cash and cash equivalents	8	863	4,795
Deemed loan due from Group undertaking	9	42,623	55,288
Trade and other receivables	11	181	65
Total assets		43,667	60,148
Liabilities			
Derivative financial instruments	10	3,520	3,983
Debt securities in issue	12	44,348	60,243
Trade and other payables	13	133	363
Total liabilities		48,001	64,589
Equity			
Share capital	15	13	13
Retained losses	16	(4,347)	(4,454)
Total equity attributable to equity holders of parent		(4,334)	(4,441)
Total liabilities and equity		43,667	60,148

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

These financial statements were approved by the Board of Directors on 23 July 2015 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 2015

	Notes	2015 £'000	2014* £'000
Cash flows from operating activities			
Profit before tax		107	956
Provisions for impairment on deemed loan		381	208
Movement in derivative financial instruments		(463)	(1,080)
Adjustment to carrying value of debt securities in issue		(218)	(46)
Net cash outflow from operating activities before changes in operating assets and liabilities		<u>(193)</u>	<u>38</u>
Movement in deemed loan due from Group undertaking		12,284	10,874
Movement in trade and other receivables		(116)	6
Movement in trade and other payables		(230)	181
Net cash inflow from operating activities		<u>11,745</u>	<u>11,099</u>
Cash flows from financing activities			
Repayment of debt securities in issue		(15,677)	(10,828)
Net cash flows from financing activities		<u>(15,677)</u>	<u>(10,828)</u>
Net (decrease)/increase in cash and cash equivalents		(3,932)	271
Cash and cash equivalents at beginning of year		4,795	4,524
Cash and cash equivalents at end of year	8	<u>863</u>	<u>4,795</u>

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

*Restated due to change in accounting policy as described in note 1.

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 2015.

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.

In response to emerging practice within the industry, the subordinated loan liability has been netted off against the deemed loan asset to better reflect the substance of the transaction. The impact of this change on the prior year comparatives is to reduce the total asset by £nil, there is no impact on profit or net assets.

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 2015:

- Amendment to IAS 32 'Financial Instruments: Presentation'

The amendment clarifies requirements for offsetting financial assets and financial liabilities.

- Amendments to IAS 36 'Recoverable Amount Disclosures for Non-Financial Assets'

This amendment limits the circumstances for which disclosure of recoverable amounts for non-financial assets is required. The application of the amendments has had no impact on the financial statements.

The following new or amended accounting standards and interpretations have been issued but are not effective for the twelve months ended 31 March 2015. These standards when applied are not expected to have any material impact on the Annual Accounts:

- Amendments to IAS 19 'Defined Benefit Plans: Employee Contributions'

This amendment is applicable to annual periods beginning on or after 1 July 2014 and clarifies the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service.

- Amendments to IFRS 11 'Accounting for Acquisitions of Interests in Joint Operations'

This amendment is applicable to annual periods beginning on or after 1 January 2016 and requires an acquirer of an interest in a joint operation, which constitutes a business, to apply the principles and disclosure requirements of other relevant IFRSs.

- Amendments to IAS 16 and IAS 38 'Clarification of Acceptable Methods of Depreciation and Amortisation'

This amendment is applicable to annual periods beginning on or after 1 January 2016 and indicates appropriate depreciation and amortisation methods and those which should no longer be used.

The following accounting standards were neither adopted by the European Union nor effective for the twelve months ended 31 March 2015:

- 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.

- IFRS 15 'Revenue from Contracts with Customers'

This standard will be effective for reporting periods beginning on or after 1 January 2017. This standard specifies how and when an entity should recognise revenue, providing a simple, principles based five-step model to be applied to all contracts with customers. The standard also prescribes further disclosure requirements in this area. The Company is monitoring developments and considering the associated impact.

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

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)

I 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

The Company has elected to be taxed as a securitisation company under the Taxation of Securitisation Companies Regulations 2006 ("the permanent regime"). Under the permanent regime the Company will be taxed on an amount which broadly represents its net cashflows as determined by the transaction documents. This is different to the basis on which the accounting profit is reported in these financial statements.

All differences between the Company's accounting profits and taxable net cashflows are therefore treated as permanent differences and as no timing difference with future tax consequences arise, no deferred tax is required to be recognised.

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 2015, 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 £61,000 (2014: £100,000). 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 5 years £'000	Over 5 years £'000	No specific maturity £'000	Total £'000
At 31 March 2015					
Financial assets					
Cash and cash equivalents	863	-	-	-	863
Deemed loan due from Group undertaking	14,089	17,418	13,035	(1,919)	42,623
	14,952	17,418	13,035	(1,919)	43,486
Financial liabilities					
Debt securities in issue	14,238	17,418	15,904	(3,212)	44,348
Derivative financial instruments	-	-	3,520	-	3,520
	14,238	17,418	19,424	(3,212)	47,868
At 31 March 2014					
Financial assets					
Cash and cash equivalents	4,795	-	-	-	4,795
Deemed loan due from Group undertaking	16,146	26,454	15,211	(2,523)	55,288
	20,941	26,454	15,211	(2,523)	60,083
Financial liabilities					
Debt securities in issue	16,303	26,454	20,480	(2,994)	60,243
Derivative financial instruments	-	-	3,983	-	3,983
	16,303	26,454	24,463	(2,994)	64,226

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:

	2015 £'000	2014 £'000
Concentration by loan type		
Loans secured on commercial property	44,542	57,811
Gross balances	44,542	57,811
Impairment provision	(1,919)	(2,523)
	42,623	55,288

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

	2015 £'000	2014 £'000
East Anglia	727	731
East Midlands	2,141	4,121
Greater London	3,095	3,428
North	3,519	3,588
North West	2,778	3,982
South East	17,716	21,171
South West	4,978	5,342
Wales	3,875	5,912
West Midlands	1,081	4,285
Yorkshire	4,633	5,251
	44,542	57,811

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

	2015 £'000	2014 £'000
Healthcare and leisure	4,857	7,153
Industrial and warehouse	13,404	13,898
Office	15,279	19,804
Retail	11,002	16,956
	44,542	57,811

The average indexed loan to value is 79.8% (2014: 91.9%).

The table below provides further information on the commercial loan portfolio by payment due status at 31 March 2015.

	2015 £'000	2014 £'000
Loans neither past due or impaired	36,540	40,951
Not past due but impaired	3,550	12,433
Past due but not impaired		
Past due over 12 months	4,451	
Impaired		
Past due 6 to 12 months	-	4,427
	44,542	57,811

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)	2015 £'000	2014 £'000
Not impaired	57,524	60,562
Impaired	2,415	14,693
	<u>59,939</u>	<u>75,255</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 £987,000 (2014: £574,000) 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 2015	Loans and receivables £'000	Fair value through profit or loss £'000	Total £'000
Assets			
Cash and cash equivalents	863	-	863
Deemed loan due from Group undertaking	42,623	-	42,623
Total financial assets	<u>43,486</u>	<u>-</u>	<u>43,486</u>
Non-financial assets			181
Total assets			<u>43,667</u>

	Other financial liabilities £'000	Fair value through profit or loss £'000	Total £'000
Liabilities			
Debt securities in issue	44,348	-	44,348
Derivative financial instruments	-	3,520	3,520
Total financial liabilities	<u>44,348</u>	<u>3,520</u>	<u>47,868</u>
Non-financial liabilities			133
Total liabilities			<u>48,001</u>

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>

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

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 2015					
Financial assets					
Cash and cash equivalents	863	863	-	-	863
Deemed loan due from Group undertaking	42,623	-	-	42,344	42,344
Financial liabilities					
Debt securities in issue	44,348	-	44,058	-	44,058
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

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 2015		
Financial liabilities		
Derivative financial instruments	3,520	3,520

	Level 2 £'000	Total £'000
At 31 March 2014		
Financial liabilities		
Derivative financial instruments	3,983	3,983

3 Interest receivable and similar income	2015	2014
	£'000	£'000
On deemed loan	1,970	2,403
Bank interest	5	4
Net expense on derivative financial instruments	(846)	(958)
	<u>1,129</u>	<u>1,449</u>

Included within interest receivable and similar income is interest accrued on impaired commercial mortgage assets of £539,000 (2014: £586,000).

4 Interest expense and similar charges	2015	2014
	£'000	£'000
On debt securities in issue	1,283	1,362
Other interest	163	162
	<u>1,446</u>	<u>1,524</u>

5 Profit before tax	2015	2014
	£'000	£'000
Profit before tax is stated after charging:		
Inter-group charges (note 19)	79	98
Fair value gains on financial instruments	564	1,183
Auditor's remuneration: audit services	14	15

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 2015 or the preceding year.

Employees

The average number of persons (excluding Directors) employed directly by the Company during the year was nil (2014: nil). The aggregate payroll costs during the year ended 31 March 2015 were £nil (2014: £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 before tax in the income statement as follows:

	2015 £'000	2014 £'000
Profit before tax	<u>107</u>	<u>956</u>
	21	191
Profit before tax multiplied by the UK standard rate of tax of 20% (2014: 20%)		
Permanent differences as a result of permanent regime	<u>(21)</u>	<u>(191)</u>
Tax charge	<u>-</u>	<u>-</u>
8 Cash and cash equivalents	2015 £'000	2014 £'000
Bank deposits	<u>863</u>	<u>4,795</u>
9 Deemed loan due from Group undertaking	2015 £'000	2014 £'000
Repayable in:		
Less than 12 months	14,089	16,146
1 to 5 years	17,418	26,454
Over 5 years	<u>13,035</u>	<u>15,211</u>
	44,542	57,811
Impairment provisions	<u>(1,919)</u>	<u>(2,523)</u>
	<u>42,623</u>	<u>55,288</u>
10 Derivative financial instruments	2015 £'000	2014 £'000
Liabilities		
Interest rate swaps	<u>3,520</u>	<u>3,983</u>
11 Trade and other receivables	2015 £'000	2014 £'000
Other receivables	<u>181</u>	<u>65</u>
12 Debt securities in issue	2015 £'000	2014 £'000
Due within 1 year:		
Class A Notes due 2039	-	15,929
Class B Notes due 2039	<u>14,089</u>	<u>217</u>
	14,089	16,146
Due in more than 1 year:		
Class A Notes due 2039	-	-
Class B Notes due 2039	3,276	17,283
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	2,695	2,308
Carrying value adjustment	<u>(3,212)</u>	<u>(2,994)</u>
	<u>30,259</u>	<u>44,097</u>
	<u>44,348</u>	<u>60,243</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 more senior notes (B Notes) are secured by the same security as the junior notes (C 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. All A Notes were redeemed in February 2015.

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
	2015 £'000	2014 £'000	
A	-	15,929	44 basis points
B	17,365	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.

Sandwell Commercial Finance No. 1 Plc

Notes to the financial statements (continued)

13 Trade and other payables	2015 £'000	2014 £'000
Amounts due to related parties	81	122
Other payables	52	241
	<u>133</u>	<u>363</u>

14 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 2015 and payable to West Bromwich Commercial Limited at the year end date was £nil (2014: £nil).

15 Share capital

	2015 £	2014 £
<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.

16 Retained losses	2015 £'000	2014 £'000
At beginning of year	(4,454)	(5,410)
Profit for the year	107	956
At end of year	<u>(4,347)</u>	<u>(4,454)</u>

17 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)

18 Related party transactions

Transactions with West Bromwich Commercial Limited	2015 £'000	2014 £'000
Interest receivable on deemed loan	1,808	2,251
Interest payable on start up loan	(11)	(11)
Administration and cash management fees	<u>(79)</u>	<u>(98)</u>

Transactions with Wilmington Trust SP Services (London) Limited	2015 £'000	2014 £'000
Administration fees	<u>18</u>	<u>12</u>

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

Outstanding balances with West Bromwich Commercial Limited	2015 £'000	2014 £'000
Loans owed to Group undertaking	(81)	(122)
Deemed loan due from Group undertaking	<u>42,623</u>	<u>55,288</u>