Sandwell Commercial Finance No. 1 Plc

Annual report and financial statements

for the year ended 31 March 2019

Registered number: 05088299

Sandwell Commercial Finance No. 1 Plc

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Sandwell Commercial Finance No. 1 Plc

Directors and advisors

Directors

E M Hughes
T M Lynch
D J Wynne
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 for the year ended 31 March 2019.

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, a 100% owned subsidiary of West Bromwich Building Society, 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 Seller). The acquisition of these loans was financed by the issue of mortgage backed floating rate loan notes. As the assets do not meet the derecognition criteria of IFRS 9, or its predecessor IAS 39, they continue to be recognised in the accounts of West Bromwich Commercial Limited. The Company therefore recognises its interest in the residential mortgage book as a deemed loan from the Seller. As a result, the principal asset of the Company is a single loan to the Seller which is held at amortised cost. This loan represents a beneficial interest in the mortgage loan portfolio mentioned above and is subject to economic factors affecting the commercial loan market.

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). 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 retained within the Company will be distributed to charities for charitable purposes at the discretion of the Share Trustee. 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. No deferred consideration was payable to West Bromwich Commercial Limited during the year.

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

Review of the business

The Company's profit for the year is £802,000 (2018 restated: £1,004,000). The retained profit for the year has been transferred to reserves.

The statement of financial position on page 11 of the financial statements shows the Company's financial position at the year end date.

During the year, the Company revised its interpretation of the Application Guidance set out in IFRS 9 and its predecessor, IAS 39, as a consequnce of which the financial statements have been retrospectively restated. Details of the prior year restatement are given in note 18.

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 made all its payments in accordance with the scheduled waterfall of payments.

At 31 March 2019 there were no loans in arrears by more than 3 months (2018: none).

Credit losses of £nil (2018: £nil) were realised on the underlying mortgage portfolio during the year. The Directors have assessed the carrying value of the deemed loan, under the new accounting standard IFRS 9, and recognised a provision of £2,000 at 31 March 2019 (2018: £nil on an IAS 39 basis).

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, start up loan and debt securities in issue. The Company is a securitisation company and has been structured so as to avoid, as far as possible, all forms of financial risk. It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments is undertaken.

The outcome of Brexit is not expected to directly impact the Company's operations, with its activities being entirely UK-based. Furthermore, as the Company is only required to make repayments of interest and principal to the extent that repayments are received from the mortgage administrator in respect of the mortgage loans, any wider economic impact of the UK's departure from the EU is not expected to affect the Company's abilities to continue to meet its liabilities as they fall due.

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.

Sandwell Commercial Finance No. 1 Plc

Strategic report (continued)

Credit risk

Credit risk can be described as the risk of customers or counterparties being unable to meet their financial obligations to the Company as they become due.

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

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. However due to the limited recourse nature of the Notes the Company is only obliged to make repayments of interest and principal in respect of the Notes to the extent that repayments are received in respect of the mortgage loans. Further details of the loan notes are given in note 11.

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 on the Company resulting from inadequate or failed internal processes, systems or people, or from external events.

The activities of the Company are strictly governed by the transaction documents and Prospectus which are designed to facilitate effective and efficient operations whilst managing the risk of failure to achieve business objectives. The Company does not have any employees and has entered into contracts with a number of third parties whose responsibilities are determined by the transaction agreements.

The Company's operations are managed by West Bromwich Commercial Limited under a thorough operational risk framework established by its parent entity, West Bromwich Building Society. This framework involves a Group Operational and Conduct Risk team, which co-ordinates regular reviews with the function managers and collates the output for review by executive management, the Operational, Conduct and Information Risk Group and the Group Risk Committee.

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

Going concern

The Company is strictly governed by a number of agreements established at the outset of the securitisation transaction. Agreements with the Company's creditors determine the amount and timing of any payments and such payments are only required to be made if the Company has the funds available to make the payments. Accordingly the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the next 12 months, despite its negative reserves position, and have adopted the going concern basis in preparing the financial statements.

By order of the Board

T M Lynch
Director
30th Sept 2019

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 2019.

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:

E M Hughes
T M Lynch
D J Wynne
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 (2018: £nil).

Information included in the Strategic report

In accordance with Section 414(c) of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, the Company has prepared a strategic report that contains information that would have previously been included in the Directors' report.

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.

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 as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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 M Lynch
Director
30th Sept 2019

Sandwell Commercial Finance No. 1 Plc

Independent auditor's report to the members of Sandwell Commercial Finance No. 1 Plc

1. Our opinion is unmodified

We have audited the financial statements of Sandwell Commercial Finance No. 1 plc ("the Company") for the period ended 31 March 2019 which comprise the statement of comprehensive income, the statement of changes of equity, the statement of financial position, the statement of cash flows, and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:
• give a true and fair view of the state of Company's affairs as at 31 March 2019 and of the profit for the period then ended;
• have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
• have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to those charged with governance.

We were first appointed as auditor by the directors in 2007. The period of total uninterrupted engagement is for the 12 financial years ended 31 March 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter (unchanged from 2018) in arriving at our audit opinion above, together with our key audit procedures to address that matter and, as required for public interest entities, our results from those procedures. This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	**Our response**
The impact of uncertainties due to the UK exiting the European Union on our audit Refer to page 2 (principal risks and uncertainties)	**Unprecedented levels of uncertainty:** All audits assess and challenge the reasonableness of estimates, in particular as described in the valuation of the deemed loan below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the company's future prospects and performance. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: **Our Brexit knowledge:** We considered the directors' assessment of Brexit-related sources of risk for the company's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks; **Sensitivity analysis:** When addressing the valuation of the deemed loan and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty; **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on the valuation of the deemed loan, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risk. **Our results** As reported under the valuation of the deemed loan, we found the resulting estimates and related disclosures of the valuation of the deemed loan to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Independent auditor's report to the members of Sandwell Commercial Finance No. 1 Plc (continued)

	The risk	Our response
Amortised cost of deemed loan from group undertaking (Deemed loan £3,509k, 2018: £8,473k) Refer to pages 15 to 17 (accounting policy) and notes 2 and 9 (financial disclosures)	**Subjective estimate** The Company recognises a deemed loan asset, being the beneficial interest in a mortgage portfolio secured on commercial properties. The amortised cost of the deemed loan is subject to the performance of the underlying loan portfolio and to economic factors affecting the commercial loan market. The Directors consider the amortised cost carrying value of the deemed loan by assessing the underlying commercial mortgage loans individually for impairment. Under IFRS 9, the incurred credit loss models used under IAS 39 are replaced with forward-looking expected credit loss ('ECL') models. The measurement of the ECLs depends on the change in credit quality of each loan since initial recognition. ECLs are determined relative to the stage of changes in credit quality. ECLs in a 12 month period are recognised on loans where there has been no significant increase in credit risk since the loan was originally recognised (stage 1). A lifetime ECL is recognised where there has been a significant increase in credit risk since initial recognition of the loan (stage 2) or where there is objective evidence of impairment and the loan is considered to be in default, or otherwise credit impaired (stage 3). The Directors use models to determine the level of ECL required to be recognised on each loan. Given the subjectivity inherent in estimating the recoverability of loan balances on a forward-looking basis, the assessment of ECLs becomes highly judgemental. In particular, there is subjectivity in the following key assumptions and judgements: - The determination of a 'significant increase in credit risk'; - The probability of an account falling into arrears and subsequently defaulting; - Loss given default; and - Forward-looking economic forecasts. The effect of these matters is that, as part of our risk assessment, we determined that the deemed loan has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and potentially many times that amount.	Our procedures included: **Our sector experience:** We critically assessed the assumptions inherent in the models against our understanding of the loan portfolio, their recent performance and industry developments. **Historical comparisons:** We critically assessed certain assumptions used in the model, being loss given default and probability of default, against historical experience. **Benchmarking assumptions:** We compared assumptions and judgements made by management, for example regarding significant increase in credit risk criteria and the definition of default, against comparable peers to assess their reasonableness. **Our market expertise:** Our economics specialists assessed the forward economic guidance applied in the ECL models to consider the reasonableness of assumptions against market data, our own independent assumptions and peer experience. This included considering the potential impacts of Brexit on the market and economy. **Sensitivity analysis:** We performed stress testing on the key assumptions to assess the sensitivity of the resulting expected credit loss to these. **Assessing transparency:** We considered the adequacy of the disclosures in respect of the sensitivity of expected credit losses to these assumptions. **Our results** We found the resulting estimate of the amortised cost of the deemed loan to be acceptable.

Independent auditor's report to the members of Sandwell Commercial Finance No. 1 Plc (continued)

	The risk	Our response
Complexity of the securitisation structure contractual terms present a risk to the accounting of interest income, interest expense, deemed loan and borrowings. Interest income £790k (2018: £63k) Interest expense £74k (2018 restated: £406k) Deemed loan due from Group Undertaking £3,509k (2018: 8,473k) Debt Securities in Issue £10,598k (2018 restated: £17,422k)	**Securitisation structure** The company was set up by West Bromwich Building Society Group with the sole purpose being to issue asset-backed notes as part of the securitisation of a pool of loans. The complex structure can lead to a lack of understanding of transactions and the contractual terms of the various financial instruments, hence there is risk that interest income and principal balances receivable from loans (referred to as 'Deemed loan due from Group undertaking'), interest expense and principal balances of asset backed notes payable to investors (referred to as 'Debt securities in issue') are not appropriately accounted and reported.	Our procedures included: **Inspection of documents:** We compared the underlying transaction flows and accounting against key legal and contractual documents and reports. These included: • The base prospectus and final terms of the Deemed loan due from Group undertaking and Debt Securities in Issue which govern the operation of the Company and its transaction flows to understand the securitisation structure and accounting impact of the securitisation transaction. • All minutes of board of directors meetings for the year to identify and investigate any unusual trends or incidents that would indicate a misstatement in the balances of the Deemed loan due from Group Undertaking, Debt Securities in Issue and associated interest income and interest expense. Test of details: We have recalculated interest income and interest expense arising from the Deemed loan due from Group Undertaking and Debt Securities in Issue respectively. Our results: We found the accounting and reporting of the Deemed Loan due from Group Undertaking, Debt Securities in Issue, interest income and interest expense to be acceptable (2018: please refer to prior year adjustments in note 18)

3. Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £45k (2018: £100k), determined with reference to a benchmark of total assets of £4,544k (2018: £10,679k), of which it represents 0.99% (2018: 1.0%).

We consider total assets to be the most appropriate benchmark for materiality as the Company is not set up to make a statutory profit and accordingly its strategy is not one purely of profit maximisation. Total assets are deemed to be the benchmark which users of the financial statements focus their attention on.

We agreed to report to those charged with governance any corrected or uncorrected identified misstatements exceeding £2.25k (2018: £5k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Independent auditor's report to the members of Sandwell Commercial Finance No. 1 Plc (continued)

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:
- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial period is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:
- adequate accounting records have not been kept by the Company, 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.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 4, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Sandwell Commercial Finance No. 1 Plc

Independent auditor's report to the members of Sandwell Commercial Finance No. 1 Plc (continued)

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

The company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Whilst the company is subject to many other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. The purpose of our audit work and to whom we owe our responsibilities

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.

Matthew Rowell (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
30 September 2019

Sandwell Commercial Finance No. 1 Plc

Statement of comprehensive income
for the year ended 31 March 2019

	Notes	2019 £'000	2018 restated £'000
Interest receivable and similar income	3	790	63
Interest expense and similar charges	4	(74)	(406)
Net interest income/(expense)		**716**	(343)
Net fair value gains on derivatives		13	1,426
Administrative expenses		(41)	(79)
Operating profit before impairment		**688**	1,004
Impairment on deemed loan due from Group undertaking	9	114	-
Profit before tax	5	**802**	1,004
Taxation	7	-	-
Profit for the year		**802**	1,004

The statement of comprehensive income for the year ended 31 March 2018 has been restated following a revised interpretation of the Application Guidance set out in IAS 39. Further details of the prior year restatement are given in note 18.

The profit for the year was derived from continuing operations.

There has been no comprehensive income or expense other than the profit for the year (2018: £nil).

Statement of changes in equity
for the year ended 31 March 2019

	Share capital £'000	Retained losses £'000	Total £'000
Balance at 1 April 2018 (restated)	13	(8,884)	(8,871)
Changes on initial application of IFRS 9	-	(108)	(108)
Balance at 1 April 2018 including impact of IFRS 9 adoption	13	(8,992)	(8,979)
Profit for the year	-	802	802
Balance at 31 March 2019	**13**	**(8,190)**	**(8,177)**

	Share capital £'000	Retained losses £'000	Total £'000
Balance at 1 April 2017 (restated)	13	(9,888)	(9,875)
Profit for the year (restated)	-	1,004	1,004
Balance at 31 March 2018 (restated)	13	(8,884)	(8,871)

Retained losses at 1 April 2017 and 31 March 2018 have been restated following a revised interpretation of the Application Guidance set out in IAS 39. Further details of the prior year restatement are given in note 18.

The notes on pages 13 to 29 form part of these financial statements.

Sandwell Commercial Finance No. 1 Plc

Statement of financial position
at 31 March 2019

	Notes	2019 £'000	2018 restated £'000
Assets			
Cash and cash equivalents	*8*	**1,035**	2,206
Deemed loan due from Group undertaking	*9*	**3,509**	8,473
Total assets		**4,544**	10,679
Liabilities			
Derivative financial instruments	*10*	**1,276**	1,255
Debt securities in issue	*11*	**10,598**	17,422
Trade and other payables	*12*	**847**	873
Total liabilities		**12,721**	19,550
Equity			
Share capital	*14*	**13**	13
Retained losses	*15*	**(8,190)**	(8,884)
Total equity attributable to equity holders of parent		**(8,177)**	(8,871)
Total liabilities and equity		**4,544**	10,679

The statement of financial position at 31 March 2018 has been restated following a revised interpretation of the Application Guidance set out in IAS 39. Further details of the prior year restatement are given in note 18.

The notes on pages 13 to 29 form part of these financial statements.

These financial statements were approved by the Board of Directors on 30th Sept 2019 and were signed on its behalf by:

T M Lynch
Director

Registered number: 05088299

Sandwell Commercial Finance No. 1 Plc

Statement of cash flows
for the year ended 31 March 2019

	Notes	2019 £'000	2018 restated £'000
Cash flows from operating activities			
Profit before tax		**802**	1,004
Movement in derivative financial instruments		**21**	(1,401)
Adjustment to carrying value and accrued interest of debt securities in issue		**(354)**	190
Impairment on deemed loan due from Group undertaking		**(114)**	-
Net cash inflow/(outflow) from operating activities before changes in operating assets and liabilities		**355**	(207)
Movement in deemed loan due from Group undertaking		**4,970**	9,255
Decrease in trade and other receivables		**-**	41
(Decrease)/Increase in trade and other payables		**(26)**	852
Net cash inflow from operating activities		**5,299**	9,941
Cash flows from financing activities			
Repayment of debt securities in issue		**(6,470)**	(7,970)
Net cash flows from financing activities		**(6,470)**	(7,970)
Net (decrease)/increase in cash and cash equivalents		**(1,171)**	1,971
Cash and cash equivalents at beginning of year		**2,206**	235
Cash and cash equivalents at end of year	*8*	**1,035**	2,206

The statement of cash flows for the year ended 31 March 2018 has been restated following a revised interpretation of the Application Guidance set out in IAS 39. Further details of the prior year restatement are given in note 18.

The notes on pages 13 to 29 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 public limited company incorporated in the United Kingdom and registered in England and Wales under the Companies Act 2006. The Company's registered office and principal activities are set out on pages 1 and 2 respectively.

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 2019.

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 pounds.

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.

New or amended accounting standards

The following new or amended accounting standards, which are relevant to the Company, have been adopted during the year ended 31 March 2019:

• IFRS 15 'Revenue from Contracts with Customers'
IFRS 15 replaces IAS 18 'Revenue', which 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 adoption of IFRS 15 has not had a material impact on the financial statements.

• IFRS 9 'Financial Instruments'
IFRS 9 'Financial Instruments' has been adopted by the Company with effect from 1 April 2018. The standard replaces IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new rules for classification and measurement and impairment of financial instruments and also establishes new disclosure requirements under IFRS 7 'Financial Instruments: Disclosures'. As permitted by the new standard, comparative figures have not been restated.

a) Impact of IFRS 9 adoption on equity

The impact on the Company's equity, as a result of IFRS 9 adoption at 1 April 2018, is an increase in retained losses of £108,000 attributable to additional impairment provision requirements on the deemed loan.

b) Changes to classification and measurement of financial instruments on IFRS 9 adoption
There have been no changes in measurement basis for any of the Company's financial assets and liabilities.

1 Accounting policies (continued)

c) Reconciliation of financial instrument balances from an IAS 39 to IFRS 9 basis

The table below reconciles the carrying values of the Company's financial assets and liabilities, as reported under IAS 39, to those applicable on initial adoption of IFRS 9 by measurement category.

	Carrying amount IAS 39 31-Mar-2018 (restated) £'000	Remeasurement £'000	Carrying amount IFRS 9 1-Apr-2018 £'000
Financial assets			
At amortised cost	10,679	(108)	10,571
Total financial assets	10,679	(108)	10,571
Financial liabilities			
At amortised cost	17,422	-	17,422
At fair value through profit or loss	1,255	-	1,255
Total financial liabilities	18,677	-	18,677

The carrying value of financial liabilities at amortised cost at 31 March 2018 on an IAS 39 basis has been restated as explained in note 18.

d) Reconciliation of impairment provisions from an IAS 39 to IFRS 9 basis

	Notes	Impairment provisions Total £'000
Impairment provision		
At 31 March 2018 (IAS 39 basis)		-
Lifetime ECL on assets not individually impaired under IAS 39	(i)	108
At 1 April 2018 (IFRS 9 basis)		108

(i) Under IFRS 9, loans which have experienced a significant increase in credit risk since initial recognition or are in default are allocated to stages 2 or 3, thereby requiring a provision for lifetime ECL. This is a key driver for the increase in loss allowances on IFRS 9 adoption. The Company's commercial loan portfolio is particularly sensitive to uncertainties in the economic outlook which are now captured within the impairment calculation. In accordance with IAS 39, provisions were made only where there was objective evidence of incurred credit losses.

Future accounting developments

The following new or amended accounting standards and interpretations have been issued but are not effective for the twelve months ended 31 March 2019:

• Annual improvements to IFRSs 2015-2017 Cycle

These amendments are effective for annual periods beginning on or after 1 January 2019 and the improvements include amendments to IFRS 3 'Business Combinations', IFRS 11 'Joint Arrangements', IAS 12 'Income Taxes' and IAS 23 'Borrowing Costs'. These amendments, when applied, are not expected to have a material impact on the financial statements.

1 Accounting policies (continued)

Interest receivable and expense
Interest receivable and expense are recognised in the statement of comprehensive income for all instruments measured at amortised cost using the effective interest method. Interest income on defaulted loans categorised as 'stage 3' under IFRS 9 is recognised by applying the effective interest rate to the balances net of provisions for expected credit losses.

Deferred consideration
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 seller 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 future cash flows or receipts through the expected life of the instrument, or where appropriate, a shorter period, to its carrying amount.

Financial instruments

a) Financial assets
Under IFRS 9, financial assets are classified as amortised cost or fair value (through other comprehensive income or through profit or loss), based on the business model under which they are held and the characteristics of their contractual cash flows. Financial assets are measured at amortised cost if they are held for the purpose of collecting contractual cash flows and have contractual terms which give rise on specified dates to cash flows which are solely payments of principal and interest (SPPI) on the outstanding amount.

Amortised cost
This category comprises cash and cash equivalents and the deemed loan. With respect to the deemed loan, all of the mortgages within the underlying portfolio were originated or purchased for the purposes of collecting contractual cash flows and the contractual terms of the mortgages indicate that the cash flows to be collected comprise capital and interest on the outstanding balance.

Assets measured at amortised cost are initially recognised at fair value, being the cash consideration to originate or purchase the asset including any directly attributable transaction costs, and measured subsequently using the effective interest method.

Deemed loan
The loans and advances to customers legally sold to the Company fail the derecognition criteria of IFRS 9 as the Seller has retained significant risk and rewards of ownership and therefore these loans remain on the statement of financial position of the Seller. IFRS 9 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 Seller to the Company. The deemed loan balance is reported net of any start up loan and subordinated loan payable to West Bromwich Commercial Limited. Similarly, interest receivable on the deemed loan is presented net of any start up loan and subordinated loan interest payable.

Accounting policy for the year ended 31 March 2018

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 fail the derecognition criteria of IAS 39 as the Seller has retained significant risk and rewards of ownership and therefore these loans remain on the statement of financial position of the Seller. 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 Seller to the Company.

The deemed loan is carried at amortised cost using the effective interest method. The deemed loan balance is reported net of any start up loan and subordinated loan payable to West Bromwich Commercial Limited. Similarly, interest receivable on the deemed loan is presented net of any start up loan and subordinated loan interest payable.

1 Accounting policies (continued)

b) Financial liabilities
In accordance with IFRS 9, all of the Company's financial liabilities are subsequently measured at amortised cost except for financial liabilities at fair value through profit or loss.

Amortised cost
This category comprises debt securities in issue. Liabilities subsequently measured at amortised cost are recognised initially at fair value, being the issue proceeds, net of premia, discounts and directly attributable transaction costs incurred. They are subsequently measured at amortised cost using the effective interest method.

Fair value through profit or loss
This category includes derivative liabilities for which changes in fair value are presented within fair value gains/(losses) on financial instruments in the statement of comprehensive income. Interest arising on derivative financial instruments is recognised within net interest on an accruals basis.

The fair values of derivative liabilities are determined in accordance with the three tier valuation hierarchy as defined within IFRS 13 'Fair Value Measurement' and in note 2 to the financial statements.

Accounting policy for the year ended 31 March 2018

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
Expected credit losses (ECLs) are recognised for all financial assets carried at amortised cost under IFRS 9.

Staging
At each reporting date, financial assets subject to the impairment requirements of IFRS 9 are categorised into one of three stages:

Stage 1
On initial recognition, financial assets which are not credit impaired are categorised as stage 1 and provision is made for 12-month ECLs, being the losses from default events expected to occur within the next 12 months. Assets remain in stage 1 until such time as they meet the criteria for another stage or are derecognised.

Stage 2 (significant increase in credit risk)

Financial assets which are not in default, but have experienced a significant increase in credit risk since initial recognition, are categorised as stage 2. The loss allowance recognised is equivalent to lifetime ECL, being the loss arising from default events expected to occur over the lifetime of the financial asset.

Determining whether a significant increase in credit risk has occurred is a critical aspect of the IFRS 9 methodology and one which involves judgement, based on a combination of quantitative and qualitative measures, including the IFRS 9 'backstop' of 30 days past due.

Stage 3 (default)
Defaulted or credit-impaired financial assets are categorised as stage 3, requiring recognition of lifetime ECLs.

Transfers to lower stages (curing)
Financial assets in stages 2 or 3 can transfer back to stages 1 or 2, respectively, once the criteria for significant increase in credit risk or default cease to be met for a period of time defined within the ECL methodology for that portfolio, sometimes known as the 'cure' period. In practice, this means that a stage 2 or 3 loan which ceases to breach the threshold(s)/criteria for that stage will remain in the higher stage for a pre-determined number of months. The use of cure periods gives assurance that accounts have rehabilitated before re-entering lower stages and reduces the level of volatility that might otherwise arise from accounts regularly migrating between stages.

Forward-looking ECL approach
ECL is measured as the present value of the difference between the cash flows contractually due on a financial asset and the cash flows expected to be received. In the statement of financial position, the loss allowance is presented as a reduction in the carrying value of the financial asset.

For each of the mortgages underlying the deemed loan, the estimate of ECL is unbiased and probability-weighted, taking into account a range of possible outcomes. In accordance with IFRS 9, forecasts of future economic conditions are integral to the ECL calculations for each loan. The Company currently models four forward-looking macroeconomic scenarios: a central forecast with economic assumptions aligned to the West Bromwich Building Society Group (the Group) Medium Term Plan (and therefore assigned the highest probability), together with upside, downside and stress scenarios. The stress scenario has been developed with due regard to market data available in relation to the UK's planned exit from the European Union.

1 Accounting policies (continued)

ECL calculation – deemed loan
The loss allowance held against the deemed loan is determined based on the IFRS 9 provision requirements for the underlying mortgage portfolio.

The key indicator of a significant increase in credit risk for a commercial loan is a downward migration in the Group's internal credit rating, determined via an established Group credit risk assessment process. The internal grade is determined at an individual account level, combining expert judgement with prescriptive measures including, but not limited to, loan to value and income/debt service coverage ratios.

Commercial loans are categorised as default if they are in arrears by greater than or equal to three months or past scheduled maturity with no formal extension having been agreed. Loans not meeting these criteria may be classified as stage 3 based on expert management judgment of the perceived risk of non-payment.

The ECL requirements for the underlying commercial mortgages are assessed on an individual loan basis, using cash flow scenario modelling. This involves estimating the timing and amount of future cash flows, in the event of default, for one or more probability-weighted account-specific scenarios based on the central forecast of economic conditions. Applying the upside, downside and stress macroeconomic scenarios effectively creates a range of alternative outcomes.

Estimated future cash flows, comprising rental receipts and final sales proceeds (each net of costs), are discounted at the effective interest rate of the loan and compared with its carrying value to determine the ECL under each combination of account-specific and macroeconomic scenarios. The relevant probability weightings are then applied to calculate the overall provision requirement at the reporting date.

Write off of financial assets

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.

Accounting policy for the year ended 31 March 2018

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.

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.

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 retained profits as determined by the transaction documents. This is different to the basis on which the accounting profit or loss is reported in these financial statements.

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

1 Accounting policies (continued)

Critical accounting estimates and judgments in applying accounting policies

In the process of applying accounting policies, the Company makes various judgements, estimates and assumptions which affect the amounts recognised in the financial statements. Estimates and judgements 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.

Significant judgements in applying accounting policies

Impairment
For IFRS 9 impairment, judgement is required to define the staging criteria, i.e. what constitutes a significant increase in credit risk (stage 2) and what circumstances give rise to a default (stage 3). Where assets meet the stage 2 or 3 criteria, lifetime ECL must be recognised.

In accordance with IFRS 9, forecasts of future macroeconomic conditions are integral to the impairment modelling processes. The selection of economic variables which are genuine drivers of credit risk and adequately capture the impact of changes in the economic outlook involves a degree of judgement.

The staging methodologies and macroeconomic scenario selection processes for each portfolio are detailed within the financial assets (impairment) accounting policy above. Model monitoring and model validation procedures are used to continually evaluate the appropriateness of the staging criteria and macroeconomic variable inputs.

Sources of estimation uncertainty

Impairment on deemed loan - forward-looking ECL approach

The estimation of ECLs is inherently uncertain and the IFRS 9 impairment models incorporate a number of assumptions and estimates. However, the impairment provision requirements at 31 March 2019 are not material and the Directors do not consider there to be any critical accounting estimates within the models which would materially affect the carrying amounts of assets and liabilities within the next financial year.

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 original loan pool was 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.

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. 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 risk 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.

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 in cashflow terms.

At 31 March 2019, if interest rates had been 25bp higher or lower with all other variables held constant, the net effect on the Company's statement of comprehensive income would not be material (2018: not material) as both its financial assets and liabilities are variable rate and payments are only required to be made to the extent that the Company has the funds available to make the payments.

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. The actual repayment profiles of financial assets and liabilities could be significantly different to that shown in the analysis.

	Less than 12 months £'000	1 to 5 years £'000	Over 5 years £'000	No specific maturity £'000	Total £'000
At 31 March 2019					
Financial assets					
Cash and cash equivalents	1,035	-	-	-	1,035
Deemed loan due from Group undertaking	485	3,026	-	(2)	3,509
	1,520	3,026	-	(2)	4,544
Financial liabilities					
Debt securities in issue	527	3,026	6,162	883	10,598
Derivative financial instruments	-	-	1,276	-	1,276
	527	3,026	7,438	883	11,874

	Less than 12 months £'000	1 to 5 years £'000	Over 5 years £'000	No specific maturity £'000	Total £'000
At 31 March 2018 (restated)					
Financial assets					
Cash and cash equivalents	2,206	-	-	-	2,206
Deemed loan due from Group undertaking	4,574	2,892	1,007	-	8,473
	6,780	2,892	1,007	-	10,679
Financial liabilities					
Debt securities in issue	4,778	2,892	8,465	1,287	17,422
Derivative financial instruments	-	-	1,255	-	1,255
	4,778	2,892	9,720	1,287	18,677

The carrying value of debt securities in issue at 31 March 2018 has been restated as explained in note 18.

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 disclosed 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 carrying 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).

2 Financial instruments (continued)

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

	2019	2018
	£'000	£'000
Concentration by loan type		
Loans secured on commercial property	3,511	8,473
Gross exposures	3,511	8,473
Impairment provisions	(2)	-
	3,509	8,473

Credit quality

The internal credit risk grading approach for the underlying commercial loan book does not use scorecards or probability of default calculations. Instead loans are individually assessed against a series of prescriptive and judgmental criteria, by subject matter experts following a clearly defined methodology, to arrive at a risk grade. The distribution of the portfolio by grade and IFRS 9 stage at 31 March 2019 is set out in the table below.

	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
Good	2,200	-	-	2,200
Satisfactory	-	953	-	953
Default	-	-	358	358
	2,200	953	358	3,511

The table below provides further information on the underlying commercial loan portfolio by payment due status at 31 March 2019.

	2019	2018
	£'000	£'000
Not past due	3,511	8,473

Expected credit losses

The table below illustrates the IFRS 9 staging distribution of the underlying commercial loans and related expected credit loss provisions at the year end.

	Gross exposure	Expected credit loss provision	Provision coverage
	£'000	£'000	%
Commercial loans			
Stage 1	2,200	-	0.00%
Stage 2	953	-	0.00%
Stage 3	358	2	0.56%
	3,511	2	0.06%

The tables below analyse the movement in gross exposures and the related expected credit loss allowances for the year ended 31 March 2019.

Gross exposure (IFRS 9 basis)	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
At 1 April 2018	2,882	1,017	4,574	8,473
Net redemptions and repayments	(682)	(64)	(4,216)	(4,962)
At 31 March 2019	2,200	953	358	3,511

Expected credit loss allowance (IFRS 9 basis)	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
At 1 April 2018	-	-	108	108
Remeasurement of expected credit losses with no stage transfer	-	-	2	2
Redemptions	-	-	(108)	(108)
At 31 March 2019	-	-	2	2

Sandwell Commercial Finance No. 1 Plc

Notes to the financial statements (continued)

2 Financial instruments (continued)

Industry analysis

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

	2019 £'000	2018 £'000
Healthcare and leisure	-	473
Industrial and warehouse	2,074	6,450
Retail	1,437	1,550
	3,511	8,473

Geographical analysis

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

	2019 £'000	2018 £'000
South East	952	5,195
South West	358	860
Wales	127	146
Yorkshire	2,074	2,272
	3,511	8,473

Collateral

The following table indicates collateral held against the underlying commercial loans by IFRS 9 stage for the year ended 31 March 2019 and IAS 39 impairment status for the year ended 31 March 2018:

Value of collateral held (unindexed)	2019 £'000	2018 £'000
Stage 1	5,798	-
Stage 2	2,100	-
Stage 3	482	-
Not impaired	-	14,230
	8,380	14,230

The average indexed loan to value is 50.5% (2018: 56.5%), calculated as a simple average across all loans.

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 the terms that are usual and customary to standard lending activities.

Sandwell Commercial Finance No. 1 Plc

Notes to the financial statements (continued)

2 Financial instruments (continued)

Classification of financial assets and financial liabilities

The following tables show the classification of the Company's assets and liabilities on an IFRS 9 basis for the year ended 31 March 2019 and an IAS 39 basis for the year ended 31 March 2018:

At 31 March 2019	**Amortised cost £'000**	**Fair value through profit or loss £'000**	**Total £'000**
Assets			
Cash and cash equivalents	1,035	-	1,035
Deemed loan due from Group undertaking	3,509	-	3,509
Total financial assets	4,544	-	4,544
Non-financial assets			-
Total assets			4,544

	Amortised cost £'000	**Fair value through profit or loss £'000**	**Total £'000**
Liabilities			
Debt securities in issue	10,598	-	10,598
Derivative financial instruments	-	1,276	1,276
Total financial liabilities	10,598	1,276	11,874
Non-financial liabilities			847
Total liabilities			12,721

At 31 March 2018 (restated)	Loans and receivables £'000	Fair value through profit or loss £'000	Total £'000
Assets			
Cash and cash equivalents	2,206	-	2,206
Deemed loan due from Group undertaking	8,473	-	8,473
Total financial assets	10,679	-	10,679
Non-financial assets			-
Total assets			10,679

	Other financial liabilities £'000	Fair value through profit or loss £'000	Total £'000
Liabilities			
Debt securities in issue	17,422	-	17,422
Derivative financial instruments	-	1,255	1,255
Total financial liabilities	17,422	1,255	18,677
Non-financial liabilities			873
Total liabilities			19,550

The carrying value of debt securities in issue at 31 March 2018 has been restated as explained in note 18.

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 2019					
Financial assets					
Cash and cash equivalents	1,035	1,035	-	-	1,035
Deemed loan due from Group undertaking	3,509	-	-	3,509	3,509
Financial liabilities					
Debt securities in issue	10,598	-	10,598	-	10,598

	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 2018 (restated)					
Financial assets					
Cash and cash equivalents	2,206	2,206	-	-	2,206
Deemed loan due from Group undertaking	8,473	-	-	8,329	8,329
Financial liabilities					
Debt securities in issue	17,422	-	17,169	-	17,169

The carrying and fair values of debt securities in issue at 31 March 2018 have been restated as explained in note 18.

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 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.

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 2019		
Financial liabilities		
Derivative financial instruments	1,276	1,276

	Level 2 £'000	Total £'000
At 31 March 2018		
Financial liabilities		
Derivative financial instruments	1,255	1,255

3 **Interest receivable and similar income**

	2019 £'000	2018 £'000
On deemed loan	819	192
Bank interest	9	-
Net expense on derivative financial instruments	(38)	(129)
	790	63

Included within interest receivable and similar income is interest accrued on impaired commercial mortgage assets of £20,000 (2018: £nil). For the purposes of this disclosure, impaired mortgage assets are those which have been categorised as stage 3 under IFRS 9 (2018: those for which an individual impairment provision was held under IAS 39).

4 **Interest expense and similar charges**

	2019 £'000	2018 restated £'000
On debt securities in issue	(7)	369
Other interest payable and similar charges	81	37
	74	406

Interest payable on debt securities in issue for the year ended 31 March 2018 has been restated as explained in note 18.

The interest on debt securities in issue is a credit to the statement of comprehensive income for the year ended 31 March 2019 due to changes in the carrying value adjustment attributable to the debt securities in issue (see note 11).

5 **Profit before tax**

	2019 £'000	2018 £'000
Profit before tax is stated after charging/(crediting):		
Inter-group charges (note 17)	10	20
Fair value gains on financial instruments	(13)	(1,426)
Auditor's remuneration: audit services (excluding VAT)	12	12

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 2019 or the preceding year.

Employees
The average number of persons (excluding Directors) employed directly by the Company during the year was nil (2018: nil). The aggregate payroll costs during the year ended 31 March 2019 were £nil (2018: £nil).

7 Taxation

The tax charge for the year is reconciled to the profit before tax in the statement of comprehensive income as follows:

	2019 £'000	2018 restated £'000
Profit before tax	802	1,004
Profit before tax multiplied by the UK standard rate of tax of 19% (2018: 19%)	152	191
Permanent differences as a result of permanent regime	(152)	(191)
Tax charge	-	-

Profit before tax for the year ended 31 March 2018 has been restated as explained in note 18.

8 Cash and cash equivalents

	2019 £'000	2018 £'000
Bank deposits	1,035	2,206

9 Deemed loan due from Group undertaking

	2019 £'000	2018 £'000
Repayable in:		
Less than 12 months	485	4,574
1 to 5 years	3,026	2,892
Over 5 years	-	1,007
	3,511	8,473
Impairment provisions	(2)	-
	3,509	8,473

Allowance for losses on deemed loan

	2019 £'000
At 1 April 2018 (IFRS 9 basis)	108
Amounts written off net of recoveries	8
Credit for the year comprising:	
Net release of provisions for loan impairment	(106)
Adjustments to provisions resulting from recoveries	(8)
Credit for the year	(114)
At 31 March 2019	2

10 Derivative financial instruments

	2019 £'000	2018 £'000
Liabilities		
Interest rate swaps (inclusive of accrued interest)	1,276	1,255

11 Debt securities in issue

	2019 £'000	2018 restated £'000
Due within 1 year:		
Class D Notes due 2039	485	4,574
	485	4,574
Due in more than 1 year:		
Class D Notes due 2039	528	2,909
Class E Notes due 2039	5,000	5,000
Accrued interest	3,702	3,652
Carrying value adjustment	883	1,287
	10,113	12,848
	10,598	17,422

The carrying value adjustment to debt securities in issue at 31 March 2018 has been restated as explained in note 18.

11 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 are secured by the same security as the junior notes but rank in priority to the junior notes in the amount of security being enforced.

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**
	2019	2018	After the payment date
	£'000	£'000	falling in May 2009
D	**1,013**	7,483	225 basis points
E	**5,000**	5,000	600 basis points

For the purposes of the statement of cash flows, debt securities in issue are classified as liabilities arising from financing activities. The following table analyses movements in debt securities in issue.

	2019	2018 restated
	£'000	£'000
At beginning of year	**17,422**	25,202
Financing cash flows		
Repayments of debt securities in issue	**(6,470)**	(7,970)
Non-cash flows:		
Accrued interest	**50**	351
Changes in carrying value adjustment	**(404)**	(161)
At end of year	**10,598**	17,422

The carrying values of debt securities in issue at 1 April 2017 and 31 March 2018 have been restated as explained in note 18.

12 Trade and other payables

	2019	2018
	£'000	£'000
Amounts due to related parties	**1**	2
Other payables	**846**	871
	847	873

13 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 2019 and payable to West Bromwich Commercial Limited at the year end date was £nil (2018: £nil).

14 Share capital

	2019	2018
	£	£
Authorised		
50,000 ordinary shares of £1 each	50,000	50,000
Allotted, called up and partly paid		
50,000 ordinary shares of £1 each, 2 fully paid and 49,998 25p paid	12,502	12,502

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

15 Retained losses

	2019	2018 restated
	£'000	£'000
At beginning of year	(8,884)	(9,888)
Changes on initial application of IFRS 9 (note 1)	(108)	-
Profit for the year	802	1,004
At end of year	(8,190)	(8,884)

Retained losses at 1 April 2017 and 31 March 2018 have been restated as explained in note 18.

16 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 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 IFRS 10 'Consolidated Financial Statements'.

The Company's ultimate controlling party is West Bromwich Building Society. A copy of the Group financial statements may be obtained from 2 Providence Place, West Bromwich B70 8AF, the address of the ultimate controlling party's registered office.

17 Related party transactions

Transactions with West Bromwich Commercial Limited	2019	2018
	£'000	£'000
Interest receivable on deemed loan	819	192
Administration and cash management fees payable	(10)	(20)

Transactions with Wilmington Trust SP Services (London) Limited	2019	2018
	£'000	£'000
Administration fees	18	18

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

Outstanding balances with West Bromwich Commercial Limited	2019	2018 restated
	£'000	£'000
Trade and other payables	(1)	(2)
Deemed loan due from Group undertaking	3,509	8,473

18 Prior year restatement

In accordance with the Application Guidance integral to IFRS 9, and its predecessor IAS 39, the gross carrying amount of liabilities held at amortised cost is adjusted to reflect actual and revised estimated future contractual cash flows. The gross carrying amount is calculated as the present value of the estimated future contractual cash flows discounted at the financial instrument's original effective interest rate with the adjustment recognised in profit or loss. During the year, the Company reviewed the adjustments previously made under the Application Guidance of IAS 39, together with the contractual documentation for the securitisation transaction, and concluded that:

(i) Whilst reflective of the non-recourse nature of the debt securities in issue, the adjustments made in prior years to reduce the carrying value of these liabilities for incurred and expected credit losses are no longer considered appropriate. This is because, under the terms of the securitisation, where insufficient funds are available to repay the liabilities, they are not contractually extinguished but instead deferred until the following payment date. As this deferral continues up until the final maturity date (or event of default if earlier), the liabilities cannot be adjusted, in advance, to reflect the expectation that the debt securities in issue will not be settled in full.

(ii) In the financial year ended 31 March 2010, the interest rate payable on debt securities in issue increased to include 'step-up amounts' which were not anticipated to be paid at the outset of the securitisation and therefore not reflected in the original effective interest rate. In the financial statements, after the 'step-up date' in May 2009, the debt securities in issue have been discounted at the effective interest rate, adjusted to include the step-up amounts. It would have been appropriate at that time, in accordance with IAS 39 Application Guidance, to adjust the carrying value of the debt securities in issue for the revised estimated future cash flows discounted at the original effective interest rate. This would have resulted in a change to the carrying value of the debt securities in issue with corresponding adjustments to interest payable recognised in the statement of comprehensive income.

Based on the conclusions set out above, the financial statements have been retrospectively restated to adjust the carrying value of the debt securities in issue, the impairment arising on the deemed loan and the interest payable on the debt securities in issue.

The table below shows the effect of the retrospective restatement on the opening prior year statement of financial position.

Statement of financial position

	As reported 31-Mar-2017 £'000	Restatement £'000	Restated 1-Apr-2017 £'000
Assets			
Cash and cash equivalents	235	-	235
Deemed loan due from Group undertaking	17,728	-	17,728
Trade and other receivables	41	-	41
Total assets	**18,004**	**-**	**18,004**
Liabilities			
Derivative financial instruments	2,656	-	2,656
Debt securities in issue	20,188	5,014	25,202
Trade and other payables	21	-	21
Total liabilities	**22,865**	**5,014**	**27,879**
Equity			
Share capital	13	-	13
Retained losses	(4,874)	(5,014)	(9,888)
Total equity attributable to equity holders of parent	**(4,861)**	**(5,014)**	**(9,875)**
Total liabilities and equity	**18,004**	**-**	**18,004**

Sandwell Commercial Finance No. 1 Plc

Notes to the financial statements (continued)

18 Prior year restatement (continued)

The table below shows the effect of the retrospective restatement on the statement of financial position at 31 March 2018.

	As reported 31-Mar-2018 £'000	Restatement £'000	Restated 31-Mar-2018 £'000
Assets			
Cash and cash equivalents	2,206	-	2,206
Deemed loan due from Group undertaking	8,473	-	8,473
Total assets	10,679	-	10,679
Liabilities			
Derivative financial instruments	1,255	-	1,255
Debt securities in issue	12,727	4,695	17,422
Trade and other payables	873	-	873
Total liabilities	14,855	4,695	19,550
Equity			
Share capital	13	-	13
Retained losses	(4,189)	(4,695)	(8,884)
Total equity attributable to equity holders of parent	(4,176)	(4,695)	(8,871)
Total liabilities and equity	10,679	-	10,679

The table below shows the effect of the retrospective restatement on the statement of comprehensive income for the year ended 31 March 2018.

	As reported 2018 £'000	Restatement £'000	Restated 2018 £'000
Interest receivable and similar income	63	-	63
Interest expense and similar charges	(725)	319	(406)
Net interest expense	(662)	319	(343)
Net fair value gains on derivatives	1,426	-	1,426
Administrative expenses	(79)	-	(79)
Operating profit before impairment	685	319	1,004
Impairment on deemed loan due from Group undertaking	-	-	-
Profit before tax	685	319	1,004
Taxation	-	-	-
Profit for the year	685	319	1,004