Sandwell Commercial Finance No. 1 Plc

Annual report and financial statements

for the year ended 31 March 2020

Registered number: 05088299

Sandwell Commercial Finance No. 1 Plc

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Sandwell Commercial Finance No. 1 Plc

Directors and advisors

Directors

C J Duffy (appointed on 30 September 2019)
E M Hughes (resigned on 30 September 2019)
T M Lynch (resigned on 3 April 2020)
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 2020.

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, they continue to be recognised in the accounts of West Bromwich Commercial Limited. The Company therefore recognises its interest in the commercial 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, the administrator and cash manager and its subsidiaries (WBBS 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.

As with the financial impact on the economy, the longer-term impact of COVID-19 on the Company is, as yet, unquantifiable with any degree of confidence. The sheer scale of the government's various support initiatives for individuals and businesses is targeted at minimising the adverse impact on the economy. The Company revisited assumptions used in its ECL calculations as a result of the pandemic and the introduction of UK government support schemes that followed.

The outcome of Brexit is not expected to directly impact the Company's operations, with its activities being entirely UK-based. However, there are risks that could impact the wider economy in the transitional period.

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

Review of the business

The Company's loss for the year is £597,000 (2019: profit £802,000). The retained loss / profit for the year has been transferred to reserves.

The statement of financial position on page 10 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 made all its payments in accordance with the scheduled waterfall of payments.

At 31 March 2020 there were no loans in arrears by more than 3 months (2019: none).

The Directors have assessed the carrying value of the deemed loan and recognised a provision of £nil at 31 March 2020 (2019: £2,000).

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 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 refers to the risk that a customer or counterparty to a contract will not be able to meet their obligations as they fall due. For the purposes of the Company, this normally means the risk that a borrower will not repay their loan.

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 WBBS 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.

Section 172 Statement

A new requirement for firms is to explain how the directors have considered the views of stakeholders as part of long-term decision making, in the form of a Section 172 Statement.

Obligations included within the new statement require directors to act in the way they consider, in good faith, would be most likely to promote the success of the organisation and in doing so have regard to a number of key areas:
- The likely consequences of any decision in the long term;
- How constructive relationships with wider stakeholder groups are fostered;
- How any community and environmental impacts of our operations are considered;
- How a reputation for high standards of business conduct is maintained; and
- The need to act fairly and balance the interests of stakeholders

The entity's key stakeholders are its administrator and cash manager, West Bromwich Building Society (WBBS) and noteholders, West Bromwich Commercial Ltd (WBCL), its customers as well as the regulator. The entity does not have any employees and does not occupy stand-alone premises thereby minimising the community and environmental impacts.
A summary of the entity's engagement with its key stakeholders is presented below. Additionally, the WBBS Group makes use of feedback from engagement with its wider stakeholder group including investors, intermediaries and suppliers to ensure it is achieving high standards of business conduct.

Our Stakeholders	How the Board has considered views within decision making	How else we engage to ensure views are considered
Administrator and Cash Manager	The operations of West Bromwich Building Society and West Bromwich Commercial Ltd are managed on a WBBS Group basis as discussed in its annual report. Results of the commercial lending book are reviewed on a group basis, providing comfort to the WBCL and WBBS Boards. A number of Group Committees support the Company Board in the effective measurement and management of risk as described in the principal risks and uncertainties section.	- Decisions taken at WBBS Group level are aligned to the long term strategic objectives of the Group and factor in the views of the Group's Employee and Member Councils as well as the wider stakeholders of the Group as described below.
Our Customers	The WBBS Group has a Member Council which acts as a formal body that helps to inform the Group Board's long-term strategic decision making. Examples include the importance of extending the Society's digital capabilities.	- Management information supplied to the Group Board monthly covering key customer metrics - An active programme of Members' ViewPoint Events providing an opportunity for members to ask questions of Group Executive Directors and senior management.
Our Regulators	The West Bromwich Building Society's Board maintains an open and transparent relationship with both the FCA and the PRA. Key engagement includes: - The management of any actions raised by regulatory reviews at Board level with key updates provided at regular intervals; and - Attendance of Board members, both Executive and non-Executive, at key regulatory update meetings so that all regulated entities' positions are considered in light of emerging developments.	- Monthly updates provided on key regulatory items covered within the material supplied to the Group Board. - The Group engages in regular dialogue with regulatory supervisors covering principal risks and other matters. Regular regulatory 'horizon scanning' completed by the Group Legal and Regulatory Team to remain well informed regarding latest updates and actions required.

By order of the Board

Ioannis Kyriakopoulos
Authorised Signatory
For Wilmington Trust SP Services (London) Limited

Director
14 September 2020

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 2020.

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:

C J Duffy (appointed on 30 September 2019)
E M Hughes (resigned on 30 September 2019)
T M Lynch (resigned on 3 April 2020)
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.

Going concern

After considering the principal risks and uncertainties within the strategic report, the directors have reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future. This is further discussed in note 1.

Dividend

The Directors do not recommend the payment of a dividend (2019: £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, which includes the principal activity of the company and review of the business.

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. New auditors will be proposed at the forthcoming annual general meeting of the Company.

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

Ioannis Kyriakopoulos
Authorised Signatory
For Wilmington Trust SP Services (London) Limited

Director
14 September 2020

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 2020 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 2020 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 13 financial years ended 31 March 2020. 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 Material uncertainty related to going concern

	The risk	Our response
Going concern We draw attention to note 1 of the financial statements which indicates that since May 2009 the Company has the option, at any interest payment date, to repay all of its outstanding external borrowings at their carrying value at the time. At the date of signing the audit report the directors are uncertain whether, and if so, when the outstanding external borrowings will be repaid. These events and conditions, along with the other matters explained in note 1 to the financial statements, constitute a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.	**Disclosure quality** The directors' described on page 4, the risks and circumstances that resulted in a material uncertainty over the ability of the company to continue as a going concern for a period of at least a year from the date of approval of the financial statements. Clear and full disclosure of the facts and the directors' rationale for the use of the going concern basis of preparation, including that there is a related material uncertainty, is a key financial statement disclosure and so was the focus of our audit in this area. Auditing standards require that to be reported as a key audit matter.	**Our procedures included:** • **Assessing transparency** – Assessing the completeness and accuracy of the matters covered in the going concern disclosure by considering the structure of the entity by reference to the prospectus and enquiry of the directors as to the likelihood of exercise of the option. - Assessing the going concern disclosure for adequacy, including that there is a disclosure of a material uncertainty. **Our results** We found the disclosure of the material uncertainty to be acceptable.

3 Other key audit matters: including 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. Going concern is a significant key audit matter and is described in section 2 of our report. We summarise below the other key audit matters, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were 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
Valuation of deemed loan Deemed loan: £2,811k (2019: £3,509k) Refer to pages 14 to 16 (accounting policy) and notes 2 and 9 (financial disclosures)	
Subjective estimate The Company recognises a deemed loan asset, being the beneficial interest in a loan portfolio secured on commercial properties. The value 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 valuation of the deemed loan by assessing the underlying commercial loans for impairment. The expected credit loss ('ECL') on the commercial loans is derived from a model which determines the present value of estimated future cash flows attributable to the individual loans. This methodology is predicated on a work out strategy followed by management in optimising the recovery of loans. Given the subjectivity inherent in estimating the recoverability of loan balances on a forward-looking basis, the assessment of ECLs is highly judgemental. The subjectivity in respect of these assumptions has increased further at the current year end as a result of the uncertainties arising from COVID-19. In particular, judgement is required on the key areas of: -**Significant increase in credit risk ('SICR'):** The criteria selected to identify a significant increase in credit risk is a key area of judgement within the Company's ECL calculation as these criteria determine whether a 12 month or lifetime provision is recorded. -**Model estimations:** Inherently judgemental assumptions are used to estimate ECLs, particularly in determining collateral valuation and property exit yields; rental yields and income forecasts; the expected date of sale; and discount rates. These assumptions are the key drivers of the ECL results and are therefore the most significant judgemental aspect of the Company's ECL modelling approach. -**Economic scenarios:** IFRS 9 requires the Company to measure ECLs on an unbiased-forward looking basis reflecting a range of future economic conditions. Significant management judgement is applied in determining the economic scenarios used and the probability weightings applied to them. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of 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: **Tests of details:** We performed credit file review procedures for a selection of loans to critically assess the ECL stage applied to individual loans and the ECL recognised against each loan. **Benchmarking assumptions:** We compared the key assumption of exit yields to externally available data on market yields for equivalent property types and critically assessed the assumptions applied. **Test of details:** We challenged the appropriateness of assumptions regarding collateral values, rental yields and other cash flows on individual accounts by comparing to supporting documentation, such as lease agreements, market valuations and other evidence, including considering the impact of uncertainties arising from COVID-19. **Historical comparisons:** We considered the appropriateness of assumptions regarding rental yields and other cash flows on individual accounts by comparing these to actual rental or other income received in recent periods. **Our market expertise:** Our in-house valuation specialists critically assessed the discount rate curve applied in the impairment assessment against market data and forecasts. **Benchmarking assumptions:** We critically assessed management's economic assumptions by comparing against market forecasts and other comparable information to consider their reasonableness. **Evaluating directors' intent:** We performed procedures to critically assess the Company's ability and intent to apply the workout strategy to support the forecast scenarios in the ECL assessment. **Assessing transparency:** We evaluated the adequacy of the Company's disclosures in note 1 regarding the estimation uncertainty inherent in arriving at the expected credit loss amount. This included an assessment of the disclosures made in light of the increased uncertainty arising from COVID-19. **Our results** We found the resulting estimate of the valuation of the deemed loan to be acceptable (2019: acceptable).

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

<table>
<tr><td colspan="2">Complexity of the securitisation structure contractual terms present a risk to the accounting of interest income, interest expense, deemed loan and borrowings

Interest income £687k (2019 £790k)
Interest expense £1,432k (2019: £74k)
Deemed loan £2,811k (2019: £3,509k)
Debt securities in issue £9,292k (2019: £10,598k)

Refer to pages 13 to 16 (accounting policy) and notes 3,4,9 and 11 (financial disclosures)</td></tr>
<tr><td>Securitisation structure

The company was set up by West Bromwich Commercial Ltd 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 the principal balances receivable from loans (referred to as 'Deemed loan'), interest expense and the principal balances of asset backed notes payable to investors (referred to as 'Debt securities in issue') are not appropriately accounted and reported.</td><td>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 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, 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 and Debt Securities in Issue respectively.

Our results

We found the accounting and reporting of the Deemed Loan, Debt Securities in Issue, interest income and interest expense to be acceptable (2019: acceptable).</td></tr>
</table>

We continue to perform procedures over the impact of uncertainties due to the UK exiting the European Union on our audit. However, as time has passed since Article 50 was first triggered, and the UK has now left the EU, the Company has had more time to plan for different scenarios of exit and the level of understanding about how Brexit might impact the Company has increased. Therefore, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

4 Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £29.5k (2019: £45k), determined with reference to a benchmark of total assets, of which it represents 0.99% (2019: 0.99%).

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 £1.5k (2019: £2.25k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

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.

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

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.

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
18 September 2020

Sandwell Commercial Finance No. 1 Plc

Statement of comprehensive income
for the year ended 31 March 2020

	Notes	2020 £'000	2019 £'000
Interest receivable and similar income	3	687	790
Interest expense and similar charges	4	(1,432)	(74)
Net interest (expense)/income		(745)	716
Net fair value gains on derivatives		33	13
Administrative expenses		(58)	(41)
Operating (loss)/profit before recovery		(770)	688
Recovery on deemed loan	9	173	114
(Loss)/Profit before tax	5	(597)	802
Taxation	7	-	-
(Loss)/Profit for the year		(597)	802

The loss for the year was derived from continuing operations.

There has been no comprehensive income or expense other than the loss for the year (2019: £nil).

Statement of changes in equity
for the year ended 31 March 2020

	Share capital £'000	Retained losses £'000	Total £'000
Balance at 1 April 2019	13	(8,190)	(8,177)
Loss for the year	-	(597)	(597)
Balance at 31 March 2020	13	(8,787)	(8,774)

	Share capital £'000	Retained losses £'000	Total £'000
Balance at 1 April 2018	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)

The notes on pages 12 to 25 form part of these financial statements.

Sandwell Commercial Finance No. 1 Plc

Statement of financial position
at 31 March 2020

	Notes	2020 £'000	2019 £'000
Assets			
Cash and cash equivalents	*8*	180	1,035
Deemed loan	*9*	2,811	3,509
Total assets		2,991	4,544
Liabilities			
Derivative financial instruments	*10*	1,276	1,276
Debt securities in issue	*11*	9,292	10,598
Trade and other payables	*12*	1,197	847
Total liabilities		11,765	12,721
Equity			
Share capital	*14*	13	13
Retained losses	*15*	(8,787)	(8,190)
Total equity attributable to equity holders of parent		(8,774)	(8,177)
Total liabilities and equity		2,991	4,544

The notes on pages 12 to 25 form part of these financial statements.

These financial statements were approved by the Board of Directors on 14 September 2020 and were signed on its behalf by:

Ioannis Kyriakopoulos
Authorised Signatory
For Wilmington Trust SP Services (London) Limited

Director

Registered number: 05088299

Sandwell Commercial Finance No. 1 Plc

Statement of cash flows
for the year ended 31 March 2020

	Notes	2020 £'000	2019 £'000
Cash flows from operating activities			
(Loss)/Profit before tax		(597)	802
Movement in fair value of derivative financial instruments		-	21
Adjustment to carrying value and accrued interest of debt securities in issue		(115)	(354)
Impairment on deemed loan		(173)	(114)
Net cash (outflow)/inflow from operating activities before changes in operating assets and liabilities		(885)	355
Repayment of deemed loan		871	4,970
Increase/(decrease) in trade and other payables		350	(26)
Net cash inflow from operating activities		336	5,299
Cash flows from financing activities			
Repayment of debt securities in issue		(1,191)	(6,470)
Net cash flows from financing activities		(1,191)	(6,470)
Net decrease in cash and cash equivalents		(855)	(1,171)
Cash and cash equivalents at beginning of year		1,035	2,206
Cash and cash equivalents at end of year	*8*	180	1,035

The notes on pages 12 to 25 form part of these financial statements.

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 2020.

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

The financial statements have been prepared on the going concern basis, as defined in IAS 1 – 'Presentation of Financial Statements'. In order to prepare financial statements on this basis, the directors must conclude that management does not intend to liquidate the Company or cease trading, and that the Company has the ability to continue to trade and will be able to satisfy its liabilities as they fall due.

Since May 2009, the Company has the option, at any interest payment date, to repay all of its outstanding external borrowings at their carrying value at that time. In order for the call option to be exercised, the directors must certify to the Trustee of the Notes that the Company will be able to repay all amounts due and payable on the interest payment date on which the option would take effect.

Such repayment would only take place in conjunction with the disposal of the Company's loan assets and the effective cessation of its trade, followed by the orderly settlement of any remaining assets and liabilities and ultimately the dissolution of the Company. At the date of signing these accounts no decision to exercise the option had been taken and there is no intention for the Company to do so.

The existence of this option creates a material uncertainty as to whether the Company will continue to trade for the whole of the coming year and hence whether IAS 1 would permit the use of the going concern preparation.

Repayments of the principal liabilities of the Company, the mortgage backed floating rate notes described in note 11, are limited to available principal cash received on the Company's loan portfolio until the final repayment date. This, together with other structural features of the borrowing arrangements, gives the Company the ability to trade until the final repayment date, or until all the Notes are repaid in the normal course of business, if earlier, if the call option is not exercised. Therefore, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and satisfy any liabilities which fall due.

On that basis, the directors have concluded that it is appropriate to continue to adopt the going concern basis in the preparation of these financial statements. However, the material uncertainty referred to above may cast significant doubt on the Company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business.

In the paragraph above, "ability to continue as a going concern" is used as it is in ISA (UK) 570. The term 'ability to continue as a going concern' is equivalent to the term 'ability to adopt the going concern basis of accounting in the future'.

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 2020:

• Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
In September 2019, the IASB issued Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

Future accounting developments
There were no new or amended accounting standards and interpretations relevant to the Company that have been issued, and not effective for the period ended 31 March 2020.

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.

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.

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

COVID-19 was declared a pandemic and UK government support measures only came into play towards the end of the Company's financial year. Nevertheless this required an update of certain assumptions used in the Company's ECL calculation as follows:
• The Company has revised its macroeconomic scenarios and revisited the probability weightings assigned to each scenario to reflect a more pessimistic outlook.
• Certain assumptions relating to expected cashflows and exit yields on the commercial loan portfolio have been revisited, with particular focus on those sectors considered most at-risk.

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.

The UK government's fiscal and monetary policies created in the response to the COVID-19 pandemic include the requirement for lenders to offer payment holidays to assist borrowers who may struggle to meet their regular payments.

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 portfolio. The Company currently models four forward-looking macroeconomic scenarios: a central forecast with economic assumptions aligned to the West Bromwich Building Society Group (WBBS Group) Medium Term Plan (and therefore assigned the highest probability), together with upside, downside and stress scenarios. The scenarios have been updated with due regard to the latest market data available following the emergence of the COVID-19 pandemic. A more pessimistic view has been taken when developing the forecasts this year, combined with reduced weightings assigned to the central scenario, offset by a higher weighting assigned to the severe low rate scenario.

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 administator and cash managers internal credit rating, determined via an established WBBS 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.

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, changes in which could materially affect the carrying amounts of assets and liabilities within the next financial year. The IFRS 9 requirements to incorporate forward-looking information within the ECL calculation, including forecasts of future macroeconomic conditions, necessitate judgement thereby increasing the potential for volatility in future periods.

COVID-19 was declared a pandemic and UK government support measures only came into play towards the end of the Company's financial year. Nevertheless this required an update of certain assumptions used in the Group's ECL calculation as follows:
• The Company has revised its macroeconomic scenarios and revisited the probability weightings assigned to each scenario to reflect a more pessimistic outlook.
• Certain assumptions relating to expected cashflows and exit yields on the commercial loan portfolio have been revisited, with particular focus on those sectors considered most at-risk.

The impairment models incorporate four macroeconomic forecasts (central, upside, downside and stress), each comprising a number of economic variables considered to be credit risk drivers.

The IFRS 9 ECL calculation for the commercial portfolio incorporates central, upside, downside and stress economic scenarios with probability weightings of 50%, 5%, 30% and 15% respectively.

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 was 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 2020, 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 (2019: 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 2020					
Financial assets					
Cash and cash equivalents	180	-	-	-	180
Deemed loan	60	2,751	-	-	2,811
	240	2,751	-	-	2,991
Financial liabilities					
Debt securities in issue	98	2,751	5,861	582	9,292
Derivative financial instruments	-	-	1,276	-	1,276
	98	2,751	7,137	582	10,568

	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	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

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)

Deemed loan

The deemed loan is a single financial instrument under IFRS 9 and is allocated within IFRS 9 stage 2.
The table below shows an analysis of the deemed loan:

	2020	2019
	£'000	£'000
Concentration by loan type		
Loans secured on commercial property	2,811	3,511
Gross exposures	2,811	3,511
Impairment provisions	-	(2)
	2,811	3,509

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 underlying commercial loan portfolio by grade and IFRS 9 stage at 31 March is set out in the table below:

At 31 March 2020	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Good	1,927	-	-	**1,927**
Satisfactory	-	884	-	**884**
Default	-	-	-	-
	1,927	**884**	-	**2,811**

At 31 March 2019	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:

	2020	2019
	£'000	£'000
Not past due	2,811	3,511

Expected credit losses

The table below illustrates the IFRS 9 staging distribution of the underlying commercial loans and related expected credit loss provisions at 31 March:

At 31 March 2020	**Gross exposure £'000**	**Expected credit loss provision £'000**	**Provision coverage %**
Commercial loans			
Stage 1	**1,927**	-	**0.00%**
Stage 2	**884**	-	**0.00%**
Stage 3	-	-	**0.00%**
	2,811	-	**0.00%**

At 31 March 2019	Gross exposure £'000	Expected credit loss provision £'000	Provision coverage %
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:

Gross exposure	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
At 1 April 2019	2,200	953	358	**3,511**
Net redemptions and repayments	(273)	(69)	(358)	**(700)**
At 31 March 2020	**1,927**	**884**	-	**2,811**

2 Financial instruments (continued)

Gross exposure	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	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
At 1 April 2019	-	-	2	2
Remeasurement of expected credit losses with no stage transfer	-	-	(2)	(2)
Redemptions	-	-	-	-
At 31 March 2020	-	-	-	-

Expected credit loss allowance	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

Industry analysis

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

	2020	2019
	£'000	£'000
Industrial and warehouse	**1,868**	2,074
Retail	**943**	1,437
	2,811	3,511

Geographical analysis

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

	2020	2019
	£'000	£'000
South East	**884**	952
South West	**-**	358
Wales	**60**	127
Yorkshire	**1,867**	2,074
	2,811	3,511

Collateral

The following table indicates collateral held against the underlying commercial loans for the year ended 31 March:

Value of collateral held (unindexed)	**2020**	2019
	£'000	£'000
Stage 1	**5,650**	5,798
Stage 2	**1,520**	2,100
Stage 3	**-**	482
	7,170	8,380

The average indexed loan to value is 38.17% (2019: 50.5%), 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.

2 Financial instruments (continued)

Classification of financial assets and financial liabilities

The following tables show the classification of the Company's assets and liabilities for the year ended 31 March:

At 31 March 2020	**Amortised cost £'000**	**Fair value through profit or loss £'000**	**Total £'000**
Assets			
Cash and cash equivalents	180	-	180
Deemed loan	2,811	-	2,811
Total financial assets	2,991	-	2,991
Non-financial assets			-
Total assets			2,991

	Amortised cost £'000	**Fair value through profit or loss £'000**	**Total £'000**
Liabilities			
Debt securities in issue	9,292	-	9,292
Derivative financial instruments	-	1,276	1,276
Total financial liabilities	9,292	1,276	10,568
Non-financial liabilities			1,197
Total liabilities			11,765

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	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

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.

The carrying value of cash and balances are assumed to approximate their fair value.

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 2020					
Financial assets					
Deemed loan	**2,811**	**-**	**-**	2,827	**2,827**
Financial liabilities					
Debt securities in issue	**9,292**	**-**	9,292	**-**	**9,292**

	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					
Deemed loan	3,509	-	-	3,509	3,509
Financial liabilities					
Debt securities in issue	10,598	-	10,598	-	10,598

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	Total
	£'000	£'000
At 31 March 2020		
Financial liabilities		
Derivative financial instruments	1,276	1,276

	Level 2	Total
	£'000	£'000
At 31 March 2019		
Financial liabilities		
Derivative financial instruments	1,276	1,276

3 Interest receivable and similar income

	2020	2019
	£'000	£'000
On deemed loan	717	819
Bank interest	4	9
Net expense on derivative financial instruments	(34)	(38)
	687	790

Included within interest receivable and similar income is interest accrued on impaired commercial mortgage assets of £nil (2019: £20,000). For the purposes of this disclosure, impaired mortgage assets are those which have been categorised as stage 3 under IFRS 9.

4 Interest expense and similar charges

	2020	2019
	£'000	£'000
On debt securities in issue	196	(7)
Other interest payable and similar charges	1,236	81
	1,432	74

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

	2020	2019
	£'000	£'000
Profit before tax is stated after charging/(crediting):		
Inter-group charges (note 17)	5	10
Fair value gains on financial instruments	(33)	(13)
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 2020 or the preceding year.

Employees

The average number of persons (excluding Directors) employed directly by the Company during the year was nil (2019: nil). The aggregate payroll costs during the year ended 31 March 2020 were £nil (2019: £nil).

7 Taxation

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

	2020 £'000	2019 £'000
(Loss)/Profit before tax	(597)	802
(Loss)/Profit before tax multiplied by the UK standard rate of tax of 19% (2019: 19%)	(113)	152
Permanent differences as a result of securitisation regime	113	(152)
Tax charge	-	-

8 Cash and cash equivalents

	2020 £'000	2019 £'000
Bank deposits	180	1,035

9 Deemed loan

	2020 £'000	2019 £'000
Repayable in:		
Less than 12 months	60	485
1 to 5 years	2,751	3,026
	2,811	3,511
Impairment provisions	-	(2)
	2,811	3,509

Allowance for losses on deemed loan

	2020 £'000	2019 £'000
At beginning of year	2	108
Amounts written off net of recoveries	171	8
Credit for the year comprising:		
Net release of provisions for loan impairment	(2)	(106)
Adjustments to provisions resulting from recoveries	(171)	(8)
Credit for the year	(173)	(114)
At end of year	-	2

10 Derivative financial instruments

	2020 £'000	2019 £'000
Liabilities		
Interest rate swaps (inclusive of accrued interest)	1,276	1,276

11 Debt securities in issue

	2020 £'000	2019 £'000
Due within 1 year:		
Class D Notes due 2039	-	485
	-	485
Due in more than 1 year:		
Class D Notes due 2039	-	528
Class E Notes due 2039	4,822	5,000
Accrued interest	3,888	3,702
Carrying value adjustment	582	883
	9,292	10,113
	9,292	10,598

Sandwell Commercial Finance No. 1 Plc

Notes to the financial statements (continued)

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
	2020	2019	After the payment date
	£'000	£'000	falling in May 2009
D	-	1,013	225 basis points
E	**4,822**	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.

	2020	2019
	£'000	£'000
At beginning of year	**10,598**	17,422
Financing cash flows		
Repayments of debt securities in issue	**(1,191)**	(6,470)
Non-cash flows:		
Accrued interest	**186**	50
Changes in carrying value adjustment	**(301)**	(404)
At end of year	**9,292**	10,598

12 Trade and other payables

	2020	2019
	£'000	£'000
Amounts due to related parties	**1**	1
Other payables	**1,196**	846
	1,197	847

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 2020 and payable to West Bromwich Commercial Limited at the year end date was £nil (2019: £nil).

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Notes to the financial statements (continued)

14 Share capital

	2020	2019
	£	£
Authorised		
50,000 ordinary shares of £1 each	50,000	50,000
Allotted		
50,000 ordinary shares of £1 each, 2 fully paid and 49,998 25p paid	12,502	12,502

A dividend shall be declared and paid according to the amounts paid up on the shares.

15 Retained losses

	2020	2019
	£'000	£'000
At beginning of year	(8,190)	(8,884)
Changes on initial application of IFRS 9	-	(108)
(Loss)/Profit for the year	(597)	802
At end of year	(8,787)	(8,190)

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 were consolidated into the results of the West Bromwich Building Society Group (WBBS Group) under the rules and guidance of IFRS 10 'Consolidated Financial Statements', until 31 December 2019.

During the year, it was deemed that the Society has limited exposure to credit losses with the Company, with risk transferred in part to third party investors who have purchased loan note securities issued by the Company. The Society's first loss exposure has been fully written down such that the Group is not exposed to further credit losses made in the Company.

This resulted in a re-evaluation of IFRS 10 'Consolidated Financial Statements' criteria for consolidation of the Company within the WBBS Group. The Group's management deemed that the Society is no longer exposed to variable returns from the Company as the credit enhancement features have been fully utilised and there is no realistic prospect of this reversing, or of any deferred consideration becoming receivable. As a result, the Company was deconsolidated with effect from 31 December 2019. The West Bromwich Building Society Group accounts therefore include the results of these entities up to 31 December 2019.

17 Related party transactions

Transactions with West Bromwich Commercial Limited	2020	2019
	£'000	£'000
Interest receivable on deemed loan	717	819
Administration and cash management fees payable	(5)	(10)

Transactions with Wilmington Trust SP Services (London) Limited	2020	2019
	£'000	£'000
Administration fees	13	18

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

Outstanding balances with West Bromwich Commercial Limited	2020	2019
	£'000	£'000
Trade and other payables	(1)	(1)
Deemed loan	2,811	3,509