Sandwell Commercial Finance No. 1 Plc

Annual report and financial statements

for the year ended 31 March 2018

Registered number: 05088299

Sandwell Commercial Finance No. 1 Plc

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Sandwell Commercial Finance No. 1 Plc

Directors and advisors

Directors

A S Demosthenous (Resigned on 1 March 2018)
M H Filer (Resigned on 11 April 2017)
E M Hughes (Appointed on 1 March 2018)
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

Strategic report

The Directors present their strategic report for Sandwell Commercial Finance No. 1 Plc for the year ended 31 March 2018.

Business model, objectives and future developments

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

On 19 May 2004, the Company acquired a commercial loan book secured on a commercial portfolio of properties located in England and Wales. The assets originated from West Bromwich Commercial Limited (the 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 IAS 39 derecognition criteria, 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 subject to an annual impairment review. 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. There was no surplus income generated during the year ended 31 March 2018 and therefore no deferred consideration was payable to West Bromwich Commercial Limited.

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 £685,000 (2017: loss £489,000). The retained profit for the year has been transferred to reserves.

The statement of financial position on page 9 of the financial statements shows the Company's financial position at the year end date.

Key performance indicators

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

During the year, the Company was able to make all payments contractually required to the holders, external from the Group, of the loan notes and other creditors under the terms of the loan agreements and to pay all normal operating expenses. The Directors expect the business to be able to continue to meet its operating expenditure.

At 31 March 2018 there was no loans in arrears by more than 3 months (2017: 1).

The underlying mortgage portfolio incurred credit losses during the year of £nil (2017: £2,352,000). The Directors have reviewed the carrying value of the deemed loan and recognised a provision of £nil at 31 March 2018 (2017: £nil). As the impairment losses on the deemed loan are borne by the Seller and the holders of the mortgage backed floating rate notes, the impairment losses shown in the income statement are £nil.

A key strategy in mitigating the losses incurred on commercial loans is identifying circumstances whereby the appointment of a Law of Property Act Receiver (LPAR), to manage future cash flows, results in improved prospects of debt recovery. At 31 March 2018, £4.2m of commercial mortgage assets were LPAR-managed (2017: £9.7m).

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.

Strategic report (continued)

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

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

Credit risk

Credit risk is the risk that a customer or counterparty is unable to honour its obligations as they fall due. The Company faces this risk in respect of the individual loans within the mortgage loan portfolio which are in turn secured on the underlying UK commercial properties. The performance of these loans is therefore influenced by the economic background and the UK commercial property market. Under International Financial Reporting Standards (IFRSs) the beneficial interest in the mortgage portfolio is classified as a deemed loan in the Company's statement of financial position.

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

Interest rate risk

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

Liquidity risk

Liquidity risk is the risk that the Company either does not have sufficient financial resources to enable it to meet its obligations as they fall due or can secure such resources only at excessive cost. The Company's policy to mitigate liquidity risk is through the use of a start up and subordinated loan from West Bromwich Commercial Limited and a liquidity facility.

The loan notes are obligations solely of the Company and will not be the responsibility of, or guaranteed by, any other entity. In particular, the loan notes will not be obligations or responsibilities of, or guaranteed by, the Seller or any of its affiliates.

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

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. Responsibility for managing operational risks lies with individual business areas who identify and assess risks in line with the predefined processes. These risks are managed as an integral part of the operations of the Company.

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

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

By order of the Board

Mignon Clarke-Whelan for and on behalf of Wilmington Trust SP Services (London) Limited
Director
20 September 2018

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 2018.

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:

A S Demosthenous (Resigned on 1 March 2018)
M H Filer (Resigned on 11 April 2017)
E M Hughes (Appointed on 1 March 2018)
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 (2017: £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

Mignon Clarke-Whelan for and on behalf of Wilmington Trust SP Services (London) Limited
Director
20 September 2018

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 year ended 31 March 2018 which comprise the Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Financial Position, 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 the Company's affairs as at 31 March 2018 and of its profit for the year 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 the Audit Committee.

We were first appointed as auditor by the directors in 2007. The period of total uninterrupted engagement is for the 11 financial years ended 31 March 2018. 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 2017) 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**
Impairment of deemed loan from group undertaking (Deemed loan £8,473k, 2017: £17,728k) Refer to pages 14 to 15 (accounting policy) and notes 2 and 9 (financial disclosures)	**Subjective estimate** The Company recognises a deemed loan asset, being the beneficial interest held in a loan portfolio of 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 impairment of the deemed loan by assessing the underlying commercial mortgage loans individually for impairment. Individual impairment of loans is considered for loans in arrears more than 90 days past due, or in arrears less than 90 days past due but with an arrears balance above a set threshold, loans past their scheduled maturity, loans where an LPA Receiver has been appointed or loans otherwise determined at the further discretion of the Directors. Due to the significance of the deemed loan and the related judgement applied by the directors in assessing the level of impairment, this is considered a key audit risk. The individual impairment provision is derived from a model which determines the present value of estimated future cash flows attributable to the individual loans. In particular, judgement is required on the key assumptions of rental yields achieved on the commercial property, exit yields and interest rates as well as the Group's strategy for management and realisation of security.	Our procedures included: **Benchmarking assumptions**: We compared the key assumption of exit yields to externally available data on market yields for equivalent property types to critically assess the assumptions applied; **Our market expertise:** Our in-house valuation specialists critically assessed the interest rate curve applied in the impairment assessment against market data and forecasts; **Tests of details**: We challenged the appropriateness of assumptions regarding rental yields and other cash flows on individual accounts by comparing these to supporting documentation, such as lease agreements, market valuations and other evidence; **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 results** We found the resulting estimate of the deemed loan carrying value to be acceptable (2017: acceptable).

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

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 £100k (2017: £180k), determined with reference to a benchmark of total assets of £10,679k (2017: £18,004k), of which it represents 1.0% (2017: 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 £5k (2017: £9k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

4. We have nothing to report on going concern

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 twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

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 year 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.

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 sector experience and through discussion with the directors and other management (as required by auditing standards).

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation). We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

In addition we considered the impact of laws and regulations in the specific areas of money laundering and market abuse regulations, recognising the financial nature of the Company's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory and legal correspondence.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

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

Matthew Rowell (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
26 September 2018

Sandwell Commercial Finance No. 1 Plc

Statement of comprehensive income
for the year ended 31 March 2018

	Notes	**2018** **£'000**	2017 £'000
Interest receivable and similar income	*3*	**63**	134
Interest expense and similar charges	*4*	**(725)**	(863)
Net interest expense		**(662)**	(729)
Net fair value gains on derivatives		**1,426**	328
Administrative expenses		**(79)**	(88)
Operating profit/(loss)		**685**	(489)
Profit/(Loss) before tax	*5*	**685**	(489)
Taxation	*7*	**-**	-
Profit/(Loss) for the year		**685**	(489)

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

There has been no comprehensive income or expense other than the profit/(loss) for the year (2017: £nil).

Statement of changes in equity
for the year ended 31 March 2018

	Share capital £'000	**Retained losses £'000**	**Total £'000**
Balance at 1 April 2017	**13**	**(4,874)**	**(4,861)**
Profit for the year	**-**	**685**	**685**
Balance at 31 March 2018	**13**	**(4,189)**	**(4,176)**

	Share capital £'000	Retained losses £'000	Total £'000
Balance at 1 April 2016	13	(4,385)	(4,372)
Loss for the year	-	(489)	(489)
Balance at 31 March 2017	13	(4,874)	(4,861)

The notes on pages 11 to 23 form part of these financial statements.

Sandwell Commercial Finance No. 1 Plc

Statement of financial position

at 31 March 2018

	Notes	2018 £'000	2017 £'000
Assets			
Cash and cash equivalents	8	**2,206**	235
Deemed loan due from Group undertaking	9	**8,473**	17,728
Trade and other receivables	11	**-**	41
Total assets		**10,679**	18,004
Liabilities			
Derivative financial instruments	10	**1,255**	2,656
Debt securities in issue	12	**12,727**	20,188
Trade and other payables	13	**873**	21
Total liabilities		**14,855**	22,865
Equity			
Share capital	15	**13**	13
Retained losses	16	**(4,189)**	(4,874)
Total equity attributable to equity holders of parent		**(4,176)**	(4,861)
Total liabilities and equity		**10,679**	18,004

The notes on pages 11 to 23 form part of these financial statements.

These financial statements were approved by the Board of Directors on 20 September 2018 and were signed on its behalf by:

Mignon Clarke-Whelan for and on behalf of 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 2018

	Notes	2018 £'000	2017* £'000
Cash flows from operating activities			
Profit/(Loss) before tax		**685**	(489)
Movement in derivative financial instruments		**(1,401)**	(299)
Adjustment to carrying value and accrued interest of debt securities in issue		**509**	502
Net cash outflow from operating activities before changes in operating assets and liabilities		**(207)**	(286)
Movement in deemed loan due from Group undertaking		**9,255**	5,891
Decrease in trade and other receivables		**41**	24
Increase/(Decrease) in trade and other payables		**852**	(7)
Net cash inflow from operating activities		**9,941**	5,622
Cash flows from financing activities			
Repayment of debt securities in issue		**(7,970)**	(7,771)
Net cash flows from financing activities		**(7,970)**	(7,771)
Net increase/(decrease) in cash and cash equivalents		**1,971**	(2,149)
Cash and cash equivalents at beginning of year		**235**	2,384
Cash and cash equivalents at end of year	*8*	**2,206**	235

*The 2017 statement of cash flows has been restated to meet the requirements of Amendments to IAS 7 'Statements of Cash Flows' which became effective during the year ended 31 March 2018.

The notes on pages 11 to 23 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 2018.

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 2018 but have not had a material impact on the financial statements:

• Amendments to IAS 7 'Statement of Cash Flows'
These amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. To satisfy these requirements, a movement analysis table has been added to Note 12, 'Debt securities in issue'.

1 Accounting policies (continued)

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 2018.

• IFRS 9 'Financial Instruments'
IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement and will be implemented in the accounts for the year ended 31 March 2019. The standard introduces new rules for classification and measurement, impairment and hedge accounting for financial instruments.

Classification and measurement
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.

Each of the Company's financial asset portfolios has been reviewed with reference to the IFRS 9 criteria, which has resulted in no anticipated changes to their measurement bases.

'Prepayment Features with Negative Compensation (Amendments to IFRS 9)' was issued in October 2017. The amendments, which are subject to EU endorsement, are effective for accounting periods beginning on or after 1 January 2019 with early adoption permitted. The Company intends to early adopt the amendments for its financial year ended 31 March 2019, with no significant impact expected.

Impairment of financial assets
IFRS 9 replaces the incurred loss model prescribed by IAS 39 with a forward looking expected loss methodology. The impairment requirements apply to all financial assets held at amortised cost or fair value through other comprehensive income, as well as certain loan commitments.

For the Company's mortgage books, an impairment methodology has been developed internally, providing a technically compliant solution appropriate to the size and nature of the portfolios.

IFRS 9 introduces the concept of 'staging'. On initial recognition, a financial asset is categorised as 'stage 1' and provision is made for 12 month expected losses. Accounts in default are termed 'stage 3'. Financial assets which are not in default, but have experienced a significant increase in credit risk since initial recognition, are categorised as 'stage 2'. IFRS 9 dictates the recognition of a lifetime expected loss allowance for assets in stage 2 or stage 3.

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. The commercial impairment model considers migration between credit risk assessment bandings to identify a significant increase in credit risk and also includes the IFRS 9 backstop of 30 days past due as a stage 2 trigger.

IFRS 9 expects the calculation of expected credit losses to be unbiased and incorporate multiple, probability-weighted outcomes taking into account all reasonable and supportable information, including forecasts of future economic conditions. The Group's impairment models incorporate three forward-looking scenarios: a central forecast, an upside scenario and a downside forecast. The assumptions surrounding macroeconomic variables and the relative weightings of the scenarios represent key areas of judgement which will be described in more detail in the 2019 financial statements.

It is currently anticipated that the earlier recognition of credit losses under IFRS 9 will result in an increase in provision requirements of approximately £0.2m due to low confidence levels and risk in the commercial real estate outlook (which result in lower recoverable amounts modelled within the downside economic scenario). The estimated impact is based on a number of assumptions and judgements which may be revised during the course of 2018/19 as the underlying models continue to be validated and refined.

As permitted by the new standard, comparative figures will not be restated in the financial statements for the year ended 31 March 2019.

1 Accounting policies (continued)

• IFRS 15 'Revenue from Contracts with Customers'
This standard is effective for reporting periods beginning on or after 1 January 2018. This standard specifies how and when an entity should recognise revenue, providing a simple, principles based five-step model to be applied to all contracts with customers. The standard also prescribes further disclosure requirements in this area. Given the nature of the Company's activities it is not currently expected that IFRS 15 will have a significant impact.

Interest receivable and expense

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

Deferred consideration

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 trictly 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. The main impact for the Company relates to mortgage advances where fees, such as application and arrangement fees, and costs are incorporated in the calculation. This has the effect of spreading these fees and costs over the expected life of the mortgage. Expected lives are estimated using historic data and management judgment and the calculation is adjusted when actual experience differs from estimates, with changes in deferred amounts being recognised immediately in the income statement.

Financial instruments

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

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

Financial assets at fair value through profit or loss
The Company uses derivative financial instruments to hedge its exposure to interest rate risk arising from operational, financing and investment activities.

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

1 Accounting policies (continued)

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 shown net of any deferred consideration, start up loan and subordinated loan payable to West Bromwich Commercial Limited. Similarly, interest receivable on the deemed loan is presented net of deferred consideration, start up loan and subordinated loan interest payable.

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

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

c) Impairment of financial assets
The Company assesses at each year end date whether there is objective evidence that a financial asset is impaired. Objective evidence of impairment can be defined as one or more events occurring after the initial recognition of the asset that have an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

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

If there is objective evidence of an impairment of loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The impairment losses on the deemed loan are borne by the Seller and the holders of the mortgage backed floating rate notes.

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 net cash flows 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 net cash flows are therefore treated as permanent differences and as no timing difference with future tax consequences arise, no deferred tax is required to be recognised.

Sandwell Commercial Finance No. 1 Plc

Notes to the financial statements (continued)

1 Accounting policies (continued)

Critical accounting estimates and judgments in applying accounting policies

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

Impairment losses on deemed loan
For commercial mortgages the key sensitivities are interest rates, rental yields and exit yields, the rental yield impacting on annual returns and also the value of the commercial properties which provide security. A 0.5% increase in the current and projected future interest rates would increase the Company's provision requirements by £43,000. A 0.25% reduction in expected rental income would increase provision requirements by £22,000. A 0.25% increase in expected exit yield requirements would increase provisions by £90,000. Any increase in provision requirements would not result in a loss to the Company but an adjustment to the carrying value of its liabilities. Under the terms of the securitisation, impairment losses on the deemed loan are borne by the Seller (in relation to receipt of deferred consideration and capital and interest on the subordinated and start up loans) and the holders of the mortgage backed floating rate notes.

2 Financial instruments

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

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

The Company's exposure to risk on its financial instruments and the management of such risk is largely set out at the inception of the securitisation transaction. The Company's activities and the role of each party to the transaction are clearly defined and documented.

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

As described above, interest rate swaps are undertaken as part of the securitisation to hedge interest rate exposure arising from the underlying financial instruments. The derivative counterparty is selected as a highly rated, regulated financial institution to reduce the risk of default and loss for the Company.

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.

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

At 31 March 2018, if interest rates had been 25bp higher or lower with all other variables held constant, the net effect on the Company's income statement would be £nil (2017: £11,000). This is because there were no fixed rate loans or derivatives in the Company at the end of the period (2017: £2,700,000).

Sandwell Commercial Finance No. 1 Plc

Notes to the financial statements (continued)

2 Financial instruments (continued)

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

	Less than 12 months £'000	1 to 5 years £'000	Over 5 years £'000	No specific maturity £'000	Total £'000
At 31 March 2018					
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	(3,408)	12,727
Derivative financial instruments	-	-	1,255	-	1,255
	4,778	2,892	9,720	(3,408)	13,982

	Less than 12 months £'000	1 to 5 years £'000	Over 5 years £'000	No specific maturity £'000	Total £'000
At 31 March 2017					
Financial assets					
Cash and cash equivalents	235	-	-	-	235
Deemed loan due from Group undertaking	7,059	9,623	1,046	-	17,728
	7,294	9,623	1,046	-	17,963
Financial liabilities					
Debt securities in issue	7,162	9,623	6,969	(3,566)	20,188
Derivative financial instruments	-	-	2,656	-	2,656
	7,162	9,623	9,625	(3,566)	22,844

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 commercial loan portfolio by type of loan:

	2018	2017
	£'000	£'000
Concentration by loan type		
Loans secured on commercial property	8,473	17,728

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

	2018	2017
	£'000	£'000
East Midlands	-	917
Greater London	-	913
North	-	393
South East	5,195	8,272
South West	860	1,292
Wales	146	2,594
West Midlands	-	880
Yorkshire	2,272	2,467
	8,473	17,728

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

	2018	2017
	£'000	£'000
Healthcare and leisure	473	1,715
Industrial and warehouse	6,450	9,239
Office	-	3,874
Retail	1,550	2,900
	8,473	17,728

The average indexed loan to value is 56.53% (2017: 65.97%).

The table below provides further information on the commercial loan portfolio by payment due status at 31 March 2018.

	2018	2017
	£'000	£'000
Loans neither past due or impaired	8,473	13,350
Impaired		
Past due over 12 months	-	4,378
	8,473	17,728

For the purposes of this disclosure, impaired commercial mortgage assets are those for which an individual impairment provision is held.

2 Financial instruments (continued)

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

Value of collateral held (unindexed)	**2018**	2017
	£'000	£'000
Not impaired	**14,230**	22,785
Impaired	**-**	4,350
	14,230	27,135

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

During the year commercial loan asset write-offs of £nil (2017: £2,352,000) were incurred.

Classification of financial assets and financial liabilities

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

	Loans and receivables	**Fair value through profit or loss**	**Total**
At 31 March 2018	**£'000**	**£'000**	**£'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	**Fair value through profit or loss**	**Total**
	£'000	**£'000**	**£'000**
Liabilities			
Debt securities in issue	**12,727**	**-**	**12,727**
Derivative financial instruments	**-**	**1,255**	**1,255**
Total financial liabilities	**12,727**	**1,255**	**13,982**
Non-financial liabilities			**873**
Total liabilities			**14,855**

	Loans and receivables	Fair value through profit or loss	Total
At 31 March 2017	£'000	£'000	£'000
Assets			
Cash and cash equivalents	235	-	235
Deemed loan due from Group undertaking	17,728	-	17,728
Total financial assets	17,963	-	17,963
Non-financial assets			41
Total assets			18,004

	Other financial liabilities	Fair value through profit or loss	Total
	£'000	£'000	£'000
Liabilities			
Debt securities in issue	20,188	-	20,188
Derivative financial instruments	-	2,656	2,656
Total financial liabilities	20,188	2,656	22,844
Non-financial liabilities			21
Total liabilities			22,865

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 2018					
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	**12,727**	-	12,542	-	**12,542**

	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 2017					
Financial assets					
Cash and cash equivalents	235	235	-	-	235
Deemed loan due from Group undertaking	17,728	-	-	18,255	18,255
Financial liabilities					
Debt securities in issue	20,188	-	19,250	-	19,250

a) Deemed loan
The deemed loan is net of provisions for impairment. The estimated fair value represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

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

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 2018		
Financial liabilities		
Derivative financial instruments	1,255	**1,255**

	Level 2 £'000	Total £'000
At 31 March 2017		
Financial liabilities		
Derivative financial instruments	2,656	2,656

3 Interest receivable and similar income

	2018 £'000	2017 £'000
On deemed loan	**192**	502
Bank interest	-	2
Net expense on derivative financial instruments	**(129)**	(370)
	63	134

Included within interest receivable and similar income is interest accrued on impaired commercial mortgage assets of £nil (2017: £nil). For the purposes of this disclosure, impaired commercial mortgage assets are those for which an individual impairment provision is held.

4 Interest expense and similar charges

	2018 £'000	2017 £'000
On debt securities in issue	**688**	827
Other interest payable	**37**	36
	725	863

5 Profit before tax

	2018 £'000	2017 £'000
Profit/(Loss) before tax is stated after charging/(crediting):		
Inter-group charges (note 18)	**20**	32
Fair value gains on financial instruments	**(1,426)**	(328)
Auditor's remuneration: audit services	**12**	10

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 2018 or the preceding year.

Employees

The average number of persons (excluding Directors) employed directly by the Company during the year was nil (2017: nil). The aggregate payroll costs during the year ended 31 March 2018 were £nil (2017: £nil).

Notes to the financial statements (continued)

7 Taxation

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

	2018 £'000	2017 £'000
Profit/(Loss) before tax	685	(489)
Profit/(Loss) before tax multiplied by the UK standard rate of tax of 19% (2017: 20%)	130	(98)
Permanent differences as a result of permanent regime	(130)	98
Tax charge	-	-

8 Cash and cash equivalents

	2018 £'000	2017 £'000
Bank deposits	2,206	235

9 Deemed loan due from Group undertaking

	2018 £'000	2017 £'000
Repayable in:		
Less than 12 months	4,574	7,059
1 to 5 years	2,892	9,623
Over 5 years	1,007	1,046
	8,473	17,728

10 Derivative financial instruments

	2018 £'000	2017 £'000
Liabilities		
Interest rate swaps	1,255	2,656

11 Trade and other receivables

	2018 £'000	2017 £'000
Other receivables	-	41

12 Debt securities in issue

	2018 £'000	2017 £'000
Due within 1 year:		
Class C Notes due 2039	-	5,453
Class D Notes due 2039	4,574	1,606
	4,574	7,059
Due in more than 1 year:		
Class D Notes due 2039	2,909	8,394
Class E Notes due 2039	5,000	5,000
Accrued interest	3,652	3,301
Carrying value adjustment	(3,408)	(3,566)
	8,153	13,129
	12,727	20,188

12 Debt securities in issue (continued)

The mortgage backed floating rate notes due 2039 (the Notes) are secured over a portfolio of commercial mortgage loans. The more senior notes 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.

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

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

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

Class	Amounts outstanding		Margin over 3 month LIBOR
	2018	2017	After the payment date
	£'000	£'000	falling in May 2009
C	**-**	5,453	144 basis points
D	**7,483**	10,000	225 basis points
E	**5,000**	5,000	600 basis points

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

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

For the purposes of the statement of cash flows, debt securities in issue are classified as liabilities arising from financing activities, and no other items within the statement of financial position are classified as such. The following table analyses movements in debt securities in issue.

	2018	2017
	£'000	£'000
At beginning of year	**20,188**	27,457
Financing cash flows		
Repayments of debt securities in issue	**(7,970)**	(7,771)
Non-cash flows:		
Accrued interest	**351**	278
Changes in carrying value adjustment	**158**	224
At end of year	**12,727**	20,188

13 Trade and other payables

	2018	2017
	£'000	£'000
Amounts due to related parties	**2**	4
Other payables	**871**	17
	873	21

14 Deferred consideration

Deferred contingent consideration payable to West Bromwich Commercial Limited is dependent on the extent to which surplus income is generated by the mortgage assets, to which the Company holds the beneficial title. The surplus income generated during the year ended 31 March 2018 and payable to West Bromwich Commercial Limited at the year end date was £nil (2017: £nil).

15 Share capital

	2018	2017
	£	£
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.

16 Retained losses

	2018	2017
	£'000	£'000
At beginning of year	(4,874)	(4,385)
Profit/(Loss) for the year	685	(489)
At end of year	(4,189)	(4,874)

17 Parent undertakings and ultimate controlling party

The entire ordinary share capital of the Company is owned by Sandwell Finance Holdings Limited. Wilmington Trust SP Services (London) Limited holds 100% of the issued voting share capital of Sandwell Finance Holdings Limited, subject to the terms of a declaration of trust for general charitable purposes. Copies of the parent company's 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.

18 Related party transactions

Transactions with West Bromwich Commercial Limited	2018	2017
	£'000	£'000
Interest receivable on deemed loan	192	502
Administration and cash management fees payable	(20)	(32)

Transactions with Wilmington Trust SP Services (London) Limited	2018	2017
	£'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	2018	2017
	£'000	£'000
Amounts owed to Group undertaking	(2)	(4)
Deemed loan due from Group undertaking	8,473	17,728

The Company has a subordinated loan liability of £4,140,000 (2017: £3,993,000) and a start up loan liability of £457,000 (2017: £447,000), in each case including accrued interest, payable to West Bromwich Commercial Limited. However, a carrying value adjustment reduces the recorded liabilities to £nil (2017: £nil) to reflect the likelihood that they will not be paid under the terms of the securitisation waterfall.