Sandwell Commercial Finance No. 1 Plc

Annual report and financial statements

for the year ended 31 March 2021

Registered number: 05088299

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Directors and advisors

Directors

C J Duffy
D J Wynne
Wilmington Trust SP Services (London) Limited

Secretary

Wilmington Trust SP Services (London) Limited
Third Floor
1 King's Arms Yard
London
EC2R 7AF

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants
One Chamberlain Square
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B3 3AX

Solicitors

Clifford Chance LLP
10 Upper Bank Street
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E14 5JJ

Bankers

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5 The North Colonnade
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Registered office

c/o Wilmington Trust SP Services (London) Limited
Third Floor
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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 2021.

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 (the Seller), 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 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.

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 £292,000 (2020: loss £597,000). The retained loss 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 2021 there were no loans in arrears by more than 3 months (2020: none).

The Directors have assessed the carrying value of the deemed loan and recognised a provision of £nil at 31 March 2021 (2020: nil).

Principal risks and uncertainties

The Company's financial instruments comprise a deemed loan to West Bromwich Commercial Limited (equivalent to the value of its investment in the mortgages held in trust), cash and liquid resources, derivatives, subordinated loan, 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.

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.

Now the UK has left the EU, Brexit is not expected to directly impact the Company's operations, with its activities being entirely UK-based. However there remains uncertainty around the UK's future relationship that could impact the wider economy.

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.

Sandwell Commercial Finance No. 1 Plc

Strategic report (continued)

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.

The FCA has confirmed that LIBOR will cease after 31st December 2021. As the Loan Notes are linked to Libor, the Company is currently considering the course of action to be taken in order to ensure no negative affect on the Company's interest rate risk exposure after Libor cessation.

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

The Company has included a Section 172 statement to explain how the directors have considered the views of stakeholders as part of long-term decision making.

Obligations included within the 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.

On behalf of the Board

Daniel Wynne

Director

19 August 2021

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 2021.

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
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 (2020: £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 auditors

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 auditors are 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 auditors are aware of that information.

Independent Auditors

In accordance with the relevant sections of the Companies Act 2006, the Company has dispensed with the requirements to re-appoint the auditor annually. At the annual general meeting of the Company, KPMG LLP resigned as the Company's auditors and PricewaterhouseCoopers LLP were appointed.

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 the directors have prepared the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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 applicable international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.

The Company is out of the scope of the Streamlined Energy and Carbon Reporting (SECR), as it does not meet the numerical thresholds in relation to turnover and number of employees.

On behalf of the Board

Daniel Wynne

Director

19 August 2021

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

Report on the audit of the financial statements

Opinion

In our opinion, Sandwell Commercial Finance No. 1 Plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2021 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the annual report and financial statements (the "Annual Report"), which comprise: statement of financial position as at 31 March 2021; statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the directors.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

We have provided no non-audit services to the company in the period under audit.

Our audit approach

Context
This is our first year of engagement as auditors.

Overview
Audit scope

- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment and other qualitative factors (including evaluation of history of misstatement through fraud or error).
- We tailored the scope of our audit to ensure that we performed sufficient work to enable us to opine on the financial statements.
- We identified all material financial statement line items and disclosures, including those that were considered qualitatively material, and conducted our work over these accordingly.

Key audit matters
- Incentive for the Servicer to mis-represent performance of the underlying asset pool
- Errors in the accounting due to lack of understanding of the underlying transaction
- Errors in the priority of payments (the "Waterfalls")
- Impact of COVID-19

Materiality
- Overall materiality: £26,440 based on 1% of total assets.
- Performance materiality: £19,830.

The scope of our audit
As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, 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. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

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

Key audit matter	How our audit addressed the key audit matter
Incentive for the Servicer to mis-represent performance of the underlying asset pool West Bromwich Commercial Limited is acting as a Servicer and the Originator of the underlying assets and as such could have an incentive to mis-represent the performance of the underlying asset pool in order to hide the breach of triggers which would result in the default of the securitisation structure. This would have a significant impact on the going concern assumption with related disclosures in the financial statements: Note 1 - Accounting policies - Going concern.	We undertook the following procedures to test the measurement of balances reported by the Servicer during the year: • Tested a sample of Mortgages owned by the Company and agreed these are correctly flagged in the Servicer's system to ensure the completeness of balances recorded as being owned to the Company. • Tested a sample of collections and matched the amounts recorded in the Servicer's system to cash recorded by the Company to evidence the closing value and to provide evidence over the accuracy of revenue recorded within the Company. *We found no material exceptions in performing these tests.*
Errors in the accounting due to lack of understanding of the underlying transaction With any securitisation transaction there is a risk that the measurement of the deemed loan does not fully reflect all aspects of the underlying transaction. The Originator has retained substantially all of the risks and rewards in respect of the pool of the Mortgages as they are the most junior creditor within the securitisation structure. For management disclosure see Note 1 - Accounting policies - Deemed Loan.	We undertook the following procedures to test the measurement and recognition of the Deemed loan: • Agreed the Deemed Loan balance in note 9 to the breakdown of audited mortgage balances. We tested the reconciliation of opening balance, movements (additions, collections and repurchase), and subordinated loan to the closing balance. • Reviewed the initial transaction documentation and assessed management's accounting treatment of the securitisation transaction. We found no material exceptions in performing these tests.
Errors in the priority of payments (the "Waterfalls") As a special purpose entity, the Company is required on each Interest Payment Date to make payments in accordance with the priority of payments, which are set out in the underlying transaction documents and referred to as the Waterfall. The priority of payments in the Waterfall is key to ensuring that expenses, principal repayments and interest payments are being paid in the correct *order of seniority.* Related disclosures in the financial statements: Note 4 - Interest Expense.	We undertook the following procedures to test the Waterfall: • Agreed the priority of payments to the transaction documents for each quarterly payment made; • For each Interest Payment Date occurring during the period, we compared the available amounts for distribution to the amounts received in respect of the Receivables, and verified the split of interest and principal received by recalculating the interest for a sample of payment dates; • Recalculated the interest expense for each Note class and the Subordinated Loan for the period using independently obtained interest rates, and agreed this *to interest paid on the Interest Payment Dates.* We found no material exceptions in performing these tests.
Impact of COVID-19 During 2020 there has been a global pandemic from the outbreak of coronavirus (COVID-19). During finalisation of the financial statements, the potential financial and social impacts of COVID-19 became significant and are causing widespread disruption to financial markets and normal patterns of business activity across the world, including the UK. In response, the UK and other governments, and the Bank of England, have announced measures designed to ameliorate resulting adverse impacts on the economy. The directors have considered the potential implications of these events on the financial statements, including their going concern assessment and post-balance sheet disclosures. Related disclosures in the financial statements: Note 1 - Accounting policies (Basis of preparation - Going concern).	In assessing the Directors' consideration of the impact of COVID-19 on the financial statements, we have undertaken the following audit procedures: • We discussed the impact of COVID-19 on the Company's financial statements and operations with those charged with governance during the year. • We critically assessed the directors' conclusions on their going concern assessment and their consideration of the impact of COVID-19 on the financial statements. • We challenged the year end value of impairment recognised on the Group's loans and advances to customers given the potential impact of the pandemic on customer behaviour, and audited the appropriateness of the assumptions used within their forecasting, as explained by the above key audit matters. As a result of these procedures, we concluded that the impact of COVID-19 has been appropriately evaluated and reflected in the preparation of the financial statements.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall company materiality	£26,440
How we determined it	1% of total assets
Rationale for benchmark applied	As an SPE is established as a not for profit entity, funded almost entirely by debt, it follows that users may focus their attention on the SPE's total assets as suggested by ISA (UK) 320 paragraph A3. It is therefore considered appropriate that overall materiality can, in the context of an SPE audit, be calculated as 1% of total assets.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £19,830 for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the directors. that we would report to them misstatements identified during our audit above £1,300 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Inspection of transaction documents to verify that Notes are limited recourse in all circumstances and that certain expenses can be deferred if there are insufficient funds;
- Inspection of post year-end investor reports for pertinent changes in cash flows, such as deterioration in the performance of the mortgage loans or uncleared write offs on the principal deficiency ledgers;
- Review of the events of default set out in the transaction documents and verification that no trigger breaches had occurred; and
- Enquiries of the Servicer to understand the current impact of COVID-19 on the mortgage loans and its ability to continue to service the mortgage loans.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Statement of Directors' responsibilities in respect of the strategic report, Directors' report and the financial statements, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

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

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Statement of Directors' responsibilities in respect of the strategic report, Directors' report and the financial statements for the year ended 31 March 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Statement of Directors' responsibilities in respect of the strategic report, Directors' report and the financial statements.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements
As explained more fully in the Statement of Directors' responsibilities in respect of the strategic report, Directors' report and the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also 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.

In preparing the financial statements, the directors are responsible for 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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements
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 error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Sandwell Commercial Finance No. 1 Plc

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to a breach of the listing requirements of the London Stock Exchange under which the offering circular dated 13 May 2004 was issued or of the underlying transaction documents, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to inappropriate adjustments in preparing the financial statements. Audit procedures performed by the engagement team included:

- Making inquiries of those charged with governance in relation to known or suspected instances of non-compliance with laws and regulation and fraud.
- Testing of the reconciliation and consistency of the year end servicer's reports to the financial statements and underlying bank statements of the Company.
- Testing, on a sample basis, that the priority of payments has been applied in accordance with the transaction documents.
- Testing journals using a risk-based approach and evaluating whether there was evidence of bias.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- 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
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the directors, we were appointed by the directors on 9 April 2021 to audit the financial statements for the year ended 31 March 2021 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.

Daniel Brydon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
B3 3AX

19 August 2021

Sandwell Commercial Finance No. 1 Plc

Statement of comprehensive income
for the year ended 31 March 2021

	Note	2021 £'000	2020 £'000
Interest receivable and similar income	3	**(147)**	687
Interest expense and similar charges	4	**(254)**	(1,432)
Net interest expense		**(401)**	(745)
Net fair value gains on derivatives		**5**	33
Administrative expenses		**(49)**	(58)
Operating loss before recovery		**(445)**	(770)
Allowance for losses on deemed loan	9	**153**	173
Loss before tax	5	**(292)**	(597)
Taxation	7	**-**	-
Loss for the year		**(292)**	(597)

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 (2020: £nil).

Statement of changes in equity
for the year ended 31 March 2021

	Share capital £'000	Retained losses £'000	Total £'000
Balance at 1 April 2020	**13**	**(8,787)**	**(8,774)**
Loss for the year	**-**	**(292)**	**(292)**
Balance at 31 March 2021	13	(9,079)	(9,066)

	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)

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

Sandwell Commercial Finance No. 1 Plc

Statement of financial position
at 31st March 2021

	Note	2021 £'000	2020 £'000
Assets			
Cash and cash equivalents	8	169	180
Deemed loan	9	2,475	2,811
Total assets		2,644	2,991
Liabilities			
Derivative financial instruments	10	1,291	1,276
Debt securities in issue	11	9,177	9,292
Trade and other payables	12	1,242	1,197
Total liabilities		11,710	11,765
Equity			
Share capital	14	13	13
Retained losses	15	(9,079)	(8,787)
Total equity attributable to equity holders of parent		(9,066)	(8,774)
Total liabilities and equity		2,644	2,991

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

These financial statements were approved by the Board of Directors on 19 August 2021 and were signed on its behalf by:

Daniel Wynne

Director

Registered number: 05088299

Sandwell Commercial Finance No. 1 Plc

Statement of cash flows
for the year ended 31 March 2021

	Note	2021 £'000	2020 £'000
Cash flows from operating activities			
Loss before tax		**(292)**	(597)
Movement in fair value of derivative financial instruments		**15**	-
Adjustment to carrying value and accrued interest of debt securities in issue	*11*	**(106)**	(115)
Impairment on deemed loan		**(153)**	(173)
Net cash outflow from operating activities before changes in operating assets and liabilities		**(536)**	(885)
Repayment of deemed loan		**489**	871
Increase in trade and other payables		**45**	350
Net cash (outflow)/inflow from operating activities		**(2)**	336
Cash flows from financing activities			
Repayment of debt securities in issue		**(9)**	(1,191)
Net cash flows from financing activities		**(9)**	(1,191)
Net decrease in cash and cash equivalents		**(11)**	(855)
Cash and cash equivalents at beginning of year		**180**	1,035
Cash and cash equivalents at end of year	*8*	**169**	180

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 accounting standards in conformity with the requirements of the Companies Act 2006.

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.

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. The Company has made a loss in the financial year and has a net liability position, however no default triggers have been met which would require the winding up of the Company and neither is this anticipated in the next going concern period. 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.

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 International Accounting Standards Board (IASB) have issued a number of new amended accounting standards and interpretations but are not effective for the twelve months ended 31 March 2021. Other than the change noted below, which is undergoing assessment, all other changes are not expected to have a significant impact on the Companys's financial statements.

• Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
In August 2020, the IASB issued Phase 2 of Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7. The amendments provide practical expedients in respect of accounting for changes to financial assets and liabilities where the modification is as a direct result of the IBOR reforms. The amendments allow firms to account for the modification to the asset or liability by applying the updated effective interest rate following a transition to a new benchmark interest rate to value the financial asset or liability, rather than continuing to discount the asset or liability at the original discount rate and recognising a gain or loss in the Income Statement as per the usual requirements under IFRS 9 for modifications of financial assets and liabilities.

The WBBS Group has not chosen to early apply these amendments, which are mandatory for annual reporting periods beginning on or after 1 January 2021. In the year ended 31 March 2020, the Group chose to early adopt Interest Rate Benchmark Reform – Phase 1 (Amendments to IFRS 9, IAS 39 and IFRS 7) which was mandatorily effective for annual reporting periods beginning on or after 1 January 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. When updating the ECL calculations, consideration has been given to the impact of ongoing government support measures, including impacts to unemployment and arrears as these approach their end, the proposed route out of lockdown and the progress of the vaccine rollout in the UK. The following assumptions have been updated when assessing the year end ECL:

• The macroeconomic scenarios have been updated following changes announced in the UK up to the reporting date, for example, recognising that unemployment will likely increase once support measures come to an end. This yields more pessimistic assumptions in late 2021 and into 2022.
• Account level assumptions for commercial provisions have been refined to reflect the latest developments on an individual account level. Factors such as strategy, rental cover and exit value valuation assumptions have been considered when informing these decisions.

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. As described in the ECL calculation sections which follow, the criteria applied vary across portfolios depending on the nature of the portfolio and availability of relevant credit risk information but all include the IFRS 9 'backstop' of 30 days past due as a stage 2 trigger.

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.

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%, 10%, 25% 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 2021, 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 (2020: 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.*

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 31st March 2021					
Financial assets					
Cash and cash equivalents	169	-	-	-	169
Deemed loan	1,657	818	-	-	2,475
	1,826	818	-	-	2,644
Financial liabilities					
Debt securities in issue	1,690	818	6,337	332	9,177
Derivative financial instruments	-	-	1,291	-	1,291
	1,690	818	7,628	332	10,468

	Less than 12 months £'000	1 to 5 years £'000	Over 5 years £'000	No specific maturity £'000	Total £'000
At 31st 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

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:

	2021	2020
	£'000	£'000
Concentration by loan type		
Loans secured on commercial property	2,475	2,811
Gross exposures	2,475	2,811
Impairment provisions	-	-
	2,475	2,811

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 31st March 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	£'000	£'000	£'000	£'000
Strong	1,657	-	-	1,657
Good	818	-	-	818
Satisfactory	-	-	-	-
	2,475	-	-	2,475

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

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

	2021	2020
	£'000	£'000
Not past due	2,475	2,811

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 31st March 2021	**Gross exposure £'000**	**Expected credit loss provision £'000**	**Provision coverage %**
Commercial loans			
Stage 1	2,475	-	0.00%
Stage 2	-	-	0.00%
Stage 3	-	-	0.00%
	2,475	-	0.00%

At 31st 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%

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 2020	1,927	884	-	2,811
Transfers due to decreased credit risk:				
From stage 2 to stage 1	884	(884)	-	-
Net redemptions and repayments	(336)	-	-	(336)
At 31 March 2021	2,475	-	-	2,475

2 **Financial instruments (continued)**

Gross exposure	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'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

Expected credit loss allowance	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
At 1 April 2020	-	-	-	-
Remeasurement of expected credit losses with no stage transfer	-	-	-	-
Redemptions	-	-	-	-
At 31 March 2021	-	-	-	-

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

Industry analysis

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

	2021 £'000	2020 £'000
Industrial and warehouse	**1,657**	1,868
Retail	**818**	943
	2,475	2,811

Geographical analysis

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

	2021 £'000	2020 £'000
South East	**818**	884
Wales	**-**	60
Yorkshire	**1,657**	1,867
	2,475	2,811

Collateral

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

Value of collateral held (unindexed)	**2021 £'000**	2020 £'000
Stage 1	**6,920**	5,650
Stage 2	**-**	1,520
	6,920	7,170

The average indexed loan to value is 30.93% (2020: 38.17%), 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 31st March 2021	**Amortised cost £'000**	**Fair value through profit or loss £'000**	**Total £'000**
Assets			
Cash and cash equivalents	169	-	169
Deemed loan	2,475	-	2,475
Total financial assets	2,644	-	2,644
Non-financial assets			-
Total assets			2,644

	Amortised cost £'000	**Fair value through profit or loss £'000**	**Total £'000**
Liabilities			
Debt securities in issue	9,177	-	9,177
Derivative financial instruments	-	1,291	1,291
Total financial liabilities	9,177	1,291	10,468
Non-financial liabilities			1,242
Total liabilities			11,710

At 31st 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

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 31st March 2021					
Financial assets					
Deemed loan	2,475	-	-	2,455	2,455
Financial liabilities					
Debt securities in issue	9,177	-	9,177	-	9,177

	Carrying value £'000	Fair value Level 1 £'000	Fair value Level 2 £'000	Fair value Level 3 £'000	Fair value Total £'000
At 31st March 2020					
Financial assets					
Deemed loan	2,811	-	-	2,827	2,827
Financial liabilities					
Debt securities in issue	9,292	-	9,292	-	9,292

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.

Notes to the financial statements (continued)

2 Financial instruments (continued)

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

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

	Level 2 £'000	Total £'000
At 31st March 2021		
Financial liabilities		
Derivative financial instruments	1,291	1,291

	Level 2 £'000	Total £'000
At 31st March 2020		
Financial liabilities		
Derivative financial instruments	1,276	1,276

3 Interest receivable and similar income

	2021 £'000	2020 £'000
On deemed loan	(122)	717
Bank interest	-	4
Net expense on derivative financial instruments	(25)	(34)
	(147)	687

Included within interest receivable and similar income is interest accrued on impaired commercial mortgage assets of £nil (2020: nil). 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

	2021 £'000	2020 £'000
On debt securities in issue	150	196
Other interest payable and similar charges	104	1,236
	254	1,432

5 Loss before tax

	2021 £'000	2020 £'000
Profit before tax is stated after charging/(crediting):		
Related party transactions (note 17)	4	5
Fair value gains on financial instruments	(5)	(33)
Auditor's remuneration: audit services (excluding VAT)	23	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 2021 or the preceding year.

Employees

The average number of persons (excluding Directors) employed directly by the Company during the year was nil (2020: nil). The aggregate payroll costs during the year ended 31 March 2021 were £nil (2020: £nil).

Sandwell Commercial Finance No. 1 Plc

Notes to the financial statements (continued)

7 Taxation

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

	2021 £'000	2020 £'000
Loss before tax	(292)	(597)
Loss before tax multiplied by the UK standard rate of tax of 19% (2020: 19%)	(55)	(113)
Permanent differences as a result of securitisation regime	55	113
Tax charge	-	-

8 Cash and cash equivalents

	2021 £'000	2020 £'000
Bank deposits	169	180

9 Deemed loan

	2021 £'000	2020 £'000
Repayable in:		
Less than 12 months	1,657	60
1 to 5 years	818	2,751
	2,475	2,811
Impairment provisions	-	-
	2,475	2,811

Allowance for losses on deemed loan

	2021 £'000	2020 £'000
At beginning of year	-	2
Amounts written off net of recoveries	153	171
Credit for the year comprising:		
Net release of provisions for loan impairment	-	(2)
Adjustments to provisions resulting from recoveries	(153)	(171)
Credit for the year	(153)	(173)
At end of year	-	-

10 Derivative financial instruments

	2021 £'000	2020 £'000
Liabilities		
Interest rate swaps (inclusive of accrued interest)	1,291	1,276

11 Debt securities in issue

	2021 £'000	2020 £'000
Due within 1 year:		
Class E Notes due 2039	1,658	-
	1,658	-
Due in more than 1 year:		
Class E Notes due 2039	3,155	4,822
Accrued interest	4,032	3,888
Carrying value adjustment	332	582
	7,519	9,292
	9,177	9,292

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
	2021	2020	After the payment date
	£'000	£'000	falling in May 2009
E	4,813	4,822	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.

	2021 £'000	2020 £'000
At beginning of year	9,292	10,598
Financing cash flows		
Repayments of debt securities in issue	(9)	(1,191)
Non-cash flows:		
Accrued interest	144	186
Changes in carrying value adjustment	(250)	(301)
At end of year	9,177	9,292

12 Trade and other payables

	2021 £'000	2020 £'000
Amounts due to related parties	1	1
Other payables	1,241	1,196
	1,242	1,197

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 2021 and payable to West Bromwich Commercial Limited at the year end date was £nil (2020: £nil).

14 Share capital

	2021 £	2020 £
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. There was no dividend paid in the current or prior year.

15 Retained losses

	2021 £'000	2020 £'000
At beginning of year	(8,787)	(8,190)
Loss for the year	(292)	(597)
At end of year	(9,079)	(8,787)

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.

In the prior 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	2021 £'000	2020 £'000
Interest receivable on deemed loan	(122)	717
Administration and cash management fees payable	(4)	(5)

Transactions with Wilmington Trust SP Services (London) Limited	2021 £'000	2020 £'000
Administration fees	18	13

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

Outstanding balances with West Bromwich Commercial Limited	2021 £'000	2020 £'000
Trade and other payables	(1)	(1)
Deemed loan	2,475	2,811