

# **West Bromwich Commercial Limited**

## **Annual report and financial statements**

**for the year ended 31 March 2014**

**Registered number: 05285783**

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# **West Bromwich Commercial Limited**

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## **West Bromwich Commercial Limited**

### **Directors and advisors**

#### **Directors**

A Conroy (from 24 June 2013 to 24 July 2014)  
C Miller  
J Westhoff

#### **Secretary**

A Mann

#### **Auditor**

KPMG Audit Plc  
*Chartered Accountants*  
One Snowhill  
Snow Hill Queensway  
Birmingham  
B4 6GH

#### **Registered office**

374 High Street  
West Bromwich  
West Midlands  
B70 8LR

#### **Registered number**

05285783

## **West Bromwich Commercial Limited**

### **Strategic report**

The Directors present their strategic report for West Bromwich Commercial Limited.

### **Business model, objectives and future developments**

West Bromwich Commercial Limited (the Company) is a wholly owned subsidiary of West Bromwich Building Society (the Society) and operates as part of the Commercial division of the West Bromwich Building Society Group (the Group).

The Company's principal activity is the provision of loans secured on land and commercial property. For the foreseeable future, the Company will concentrate on managing its existing portfolio of loans including, where appropriate, re-financing of existing facilities.

### **Review of the business and key performance indicators**

The Company's loss for the year is £10,365,000 (2013: £16,479,000). The retained loss for the year has been transferred to reserves.

The ongoing impact of the economic downturn on commercial real estate has impacted negatively on financial performance over recent years. The operating loss for the year has decreased primarily as a result of the improvement in net interest income and a reduced impairment charge. However the Company continues to be exposed to the commercial real estate sector which has experienced a more tentative recovery compared with the residential lending market.

Prudent credit risk management policies were employed throughout the year with provisions recognised wherever there was objective evidence of impairment. The impairment charges on loans and advances to customers of £10.4m (2013: £15.3m) were the main contributor to the loss before tax of £9.5m (2013: £16.2m).

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

As shown in the Company's income statement on page 8, interest receivable has reduced this year, primarily as a result of lower average balances. However, as a result of improvements in the cost of funding, net interest income increased to £2.4m (2013: expense of £5.2m).

West Bromwich Building Society manages its operations on a Group basis. For this reason the Company's Directors believe that further key performance indicators of the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the Group is discussed in West Bromwich Building Society's Annual Report which does not form part of this report.

### **Principal risks and uncertainties**

The Company actively manages the various risks that arise from its operations. It is the responsibility of the Board to identify the principal risks which the Company faces and to establish an effective system of internal control. Management are charged with managing these risks within the control framework established by the Group Board. The control systems consist of plans and budgets combined with regular internal management information, established risk limits, clear responsibilities and delegated authorities, together with other control procedures.

A number of Group Committees, including the Risk Committee, Assets & Liabilities Committee, Audit Committee, Commercial Loans Risk Committee, Operational Risk Committee and Group Capital Committee, support the Company Board in the effective measurement and management of risk.

## **West Bromwich Commercial Limited**

### **Strategic report (continued)**

The key risks and uncertainties faced by the Company are set out below:

#### ***Credit risk***

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

The Company faces this risk in respect of commercial lending. More details of the controls and processes in place to address this risk are set out in note 19 to the financial statements.

The controlled management of credit risk is critical to the Group's overall strategy. The Group has therefore embedded a comprehensive and robust credit risk management framework with clear lines of accountability and oversight as part of its overall governance framework. The Group has effective policies and procedures to identify, monitor, control, mitigate and manage credit risk within the Group's risk appetite.

The Risk Committee is responsible for the management of the credit risk appetite that has been established by the Group Board and for approving lending policy and setting limits on credit exposures, which are monitored and reviewed on a monthly basis. The minutes of this committee are presented to the Group Board. This committee is supported by an Executive sub-committee; the Commercial Loans Risk Committee.

The Commercial Loans Risk Committee reviews individual commercial loans at levels mandated by the Board. This may involve reviewing each case on a quarterly, half yearly or annual basis.

The maximum credit risk exposure is the carrying value as shown in the carrying and fair value table in note 19 to the financial statements. The Company's most significant exposures to credit risk are loans secured on UK commercial property.

#### ***Market risk***

Market risk is the potential adverse change in Company income or the value of Company net worth arising from movements in interest rates or other market prices.

The Group's exposure to market risk is governed by the Group Board approved Treasury and Financial Risks Management Policy, which sets out the nature of risks that may be taken and defines aggregate risk limits. Within this Policy, the Group Board has delegated responsibility for the management and control of market rate risk to the Assets & Liabilities Committee (ALCo). At each meeting, ALCo reviews reports which show the Group's current and forecast exposure to market risks together with the results of extensive stress testing.

The Society's Treasury function is responsible for operational management of the Group's exposure to market risk. It achieves this by taking advantage of natural hedges arising within the Group's businesses and transacting appropriate hedging instruments where no natural hedges exist.

More details of the controls and processes in place to address this risk are set out in note 19 to the financial statements.

#### ***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. These obligations primarily include repayment of loan capital.

The Company's approach to management of this risk is described in note 19 to the financial statements.

## **West Bromwich Commercial Limited**

### **Strategic report (continued)**

#### ***Operational risk***

Operational risk is the risk of loss and/or negative impact to the Company resulting from inadequate or failed internal processes or systems, inability to attract, retain and motivate people, or from external events. Responsibility for managing operational risks lies with individual business areas who identify and assess risks in line with the predefined processes. These risks are managed as an integral part of the operations of the Company.

Management have a responsibility to understand how operational risk impacts their area of the business and for putting in place controls or mitigating activities. They are supported in this role by the Group's risk functions which enforce and ensure co-ordination of risk assessment and resulting control activities. The Group risk functions make regular reports to the Operational Risk Committee, Audit Committee, Risk Committee and Group Board.

#### **Environment**

The Company recognises its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to mitigate any adverse impact that might be caused by its activities. The Company operates in accordance with policies as described in West Bromwich Building Society's Annual Report, which does not form part of this report.

#### **Employees**

Details of the number of employees and related costs can be found in note 5 to the financial statements.

#### **Going concern**

Notwithstanding the net liability position, the Company's main creditor, its ultimate parent undertaking, has indicated that it will continue to support the Company for the foreseeable future. The accounts have therefore been prepared on a going concern basis.

By order of the Board



**J Westhoff**  
Director

26 August

2014

## **West Bromwich Commercial Limited**

### **Directors' report**

The Directors present their annual report and the audited financial statements for the year ended 31 March 2014.

### **Directors and Directors' interests**

The Directors who held office during the year and subsequently were as follows:

A Conroy (from 24 June 2013 to 24 July 2014)  
C Miller  
J Westhoff

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 (2013: £nil)

### **Disclosure of information to the auditor**

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each Director has taken all of the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### **Auditor**

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

## West Bromwich Commercial Limited

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

The Directors are responsible for preparing the strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (the EU) and applicable law.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

By order of the Board



**J Westhoff**

Director

26 August

2014



## **West Bromwich Commercial Limited**

### **Independent auditor's report to the members of West Bromwich Commercial Limited**

We have audited the financial statements of West Bromwich Commercial Limited for the year ended 31 March 2014 set out on pages 8 to 27. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of Directors and auditor**

As explained more fully in the statement of Directors' responsibilities set out on page 6, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2014 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

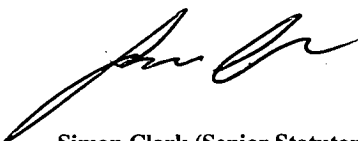
### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



**Simon Clark (Senior Statutory Auditor)**  
**for and on behalf of KPMG Audit Plc, Statutory Auditor**  
*Chartered Accountants*  
One Snowhill  
Snow Hill Queensway  
Birmingham  
B4 6GH

26 August 2014

## West Bromwich Commercial Limited

### Income statement

for the year ended 31 March 2014

	Notes	2014 £'000	2013 £'000
Interest receivable and similar income	2	41,825	54,132
Interest expense and similar charges	3	(39,468)	(59,345)
<b>Net interest receivable/(expense)</b>		<b>2,357</b>	<b>(5,213)</b>
Fair value gains on financial instruments		-	1,548
Fees and commissions receivable		582	616
Other operating income		1,073	-
Administrative expenses		(2,518)	(2,547)
<b>Operating profit/(loss)</b>		<b>1,494</b>	<b>(5,596)</b>
Impairment on loans and advances to customers	8	(10,378)	(15,274)
Impairment on other financial assets	10	(649)	4,632
<b>Loss before tax</b>	4	<b>(9,533)</b>	<b>(16,238)</b>
Taxation	6	(832)	(241)
<b>Loss for the year</b>		<b>(10,365)</b>	<b>(16,479)</b>

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

There has been no comprehensive income or expense other than the loss for the year (2013: £nil).

### Statement of changes in equity

for the year ended 31 March 2014

	Share capital £'000	Retained earnings £'000	Total £'000
<b>Balance at 1 April 2013</b>	-	(68,930)	(68,930)
<b>Loss for the year</b>	-	(10,365)	(10,365)
<b>Balance at 31 March 2014</b>	-	(79,295)	(79,295)
	Share capital £'000	Retained earnings £'000	Total £'000
Balance at 1 April 2012	-	(52,451)	(52,451)
Loss for the year	-	(16,479)	(16,479)
Balance at 31 March 2013	-	(68,930)	(68,930)

The notes on pages 11 to 27 form part of these financial statements.

# West Bromwich Commercial Limited

## Statement of financial position

at 31 March 2014

	Notes	2014 £'000	2013 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Loans and advances to customers	8	475,793	483,546
Deferred tax assets	9	4,983	6,368
Other financial assets	10	2,740	2,819
<b>Total non-current assets</b>		<b>483,516</b>	<b>492,733</b>
<b>Current assets</b>			
Cash and cash equivalents	7	25	20
Loans and advances to customers	8	315,060	433,505
Current tax - Group relief debtor		553	-
Trade and other receivables	11	609	845
<b>Total current assets</b>		<b>316,247</b>	<b>434,370</b>
<b>Total assets</b>		<b>799,763</b>	<b>927,103</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Deemed loans	12	48,765	41,337
Current tax - Group relief creditor		-	531
Trade and other payables	14	246	234
<b>Total current liabilities</b>		<b>49,011</b>	<b>42,102</b>
<b>Non-current liabilities</b>			
Deemed loans	12	109,413	147,874
Other interest bearing loans and borrowings	13	720,634	806,057
<b>Total non-current liabilities</b>		<b>830,047</b>	<b>953,931</b>
<b>Total liabilities</b>		<b>879,058</b>	<b>996,033</b>
<b>Net liabilities</b>		<b>(79,295)</b>	<b>(68,930)</b>
<b>Equity</b>			
Share capital	15	-	-
Retained earnings	16	(79,295)	(68,930)
<b>Total equity</b>		<b>(79,295)</b>	<b>(68,930)</b>

The notes on pages 11 to 27 form part of these financial statements.

These financial statements were approved by the Board of Directors on 26 August 2014 and were signed on its behalf by:



**J Westhoff**

Director

Company number: 05285783

## West Bromwich Commercial Limited

### Statement of cash flows

for the year ended 31 March 2014

	Notes	2014 £'000	2013 £'000
<b>Cash flows from operating activities</b>			
Loss before tax		(9,533)	(16,238)
Amortisation of acquisition premiums		250	340
Impairment on loans and advances to customers		10,378	15,274
Impairment on other financial assets		649	(4,632)
Movement in derivative financial instruments		-	(1,548)
Change in carrying value adjustment on deemed loans		3,774	12,774
Net cash inflow from operating activities before changes in operating assets and liabilities		<u>5,518</u>	<u>5,970</u>
Movement in loans and advances to customers		115,570	106,181
Movement in trade and other payables		12	(14,264)
Movement in trade and other receivables		236	(458)
Tax paid		(531)	-
<b>Net cash inflow from operating activities</b>		<u>120,805</u>	<u>97,429</u>
<b>Cash flows from investing activities</b>			
Movement in other financial assets		(570)	17,994
<b>Net cash flows from investing activities</b>		<u>(570)</u>	<u>17,994</u>
<b>Cash flows from financing activities</b>			
Reduction in deemed loans		(34,807)	(178,473)
(Decrease)/Increase in other interest bearing loans and borrowings		(85,423)	63,052
<b>Net cash flows from financing activities</b>		<u>(120,230)</u>	<u>(115,421)</u>
Net increase in cash and cash equivalents		5	2
Cash and cash equivalents at beginning of year		20	18
<b>Cash and cash equivalents at end of year</b>	7	<u><u>25</u></u>	<u><u>20</u></u>

The notes on pages 11 to 27 form part of these financial statements.

All of the Company's taxation is paid or received by the ultimate parent company and recharged through the inter-group loan account.

## **West Bromwich Commercial Limited**

### **Notes to the financial statements**

#### **1 Accounting policies**

West Bromwich Commercial Limited (the Company) is a company incorporated in the United Kingdom.

The Company is exempt by virtue of S228 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group. The results of the Company are consolidated in the financial statements of West Bromwich Building Society, whose financial statements are available from the address given in note 17.

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 2014.

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.

#### **Accounting developments**

The following new or amended accounting standards, which are relevant to the Company, have been adopted during 2014:

- IFRS 13, 'Fair Value Measurement' - The new standard defines fair value and provides a single framework for measuring fair value, replacing existing IFRS guidance in this area. The application of IFRS 13 has not had a significant financial impact on these financial statements.
- Amendments to IFRS 7, 'Financial Instruments: Disclosures' - Disclosures - Offsetting Financial Assets and Financial Liabilities - The amendments require new disclosures for financial instruments which are offset in the statement of financial position. The application of the amendments has had no impact on the financial statements.

The following accounting standard amendments were issued but not effective for 2014:

- IAS 27 (revised) 'Separate Financial Statements'. The amendment is effective for annual periods beginning on or after 1 January 2013 and endorsed by the EU for application from 1 January 2014. The application of this revised standard is not expected to have a material impact on the financial statements.
- IAS 28 (revised) 'Investments in Associates and Joint Ventures'. The amendment is effective for annual periods beginning on or after 1 January 2013 and endorsed by the EU for application from 1 January 2014. The application of this revised standard is not expected to have a material impact on the financial statements.
- IFRS 10 'Consolidated Financial Statements'. The new standard is effective for annual periods beginning on or after 1 January 2013 and endorsed by the EU for application from 1 January 2014. It introduces a single consolidation model for all entities based on control. The application of this new standard is not expected to have a material impact on the financial statements.
- IFRS 11 'Joint Arrangements'. The new standard is effective for annual periods beginning on or after 1 January 2013 and endorsed by the EU for application from 1 January 2014. It requires a party to a joint arrangement to account for its rights and obligations in accordance with the type of joint arrangement. The application of this new standard is not expected to have a material impact on the financial statements.
- IFRS 12 'Disclosure of Interests in Other Entities'. The new standard is effective for annual periods beginning on or after 1 January 2013 and endorsed by the EU for application from 1 January 2014. It requires extensive disclosures with respect to interests in other entities. The application of this new standard is not expected to have a significant impact on the financial statements.
- Amendment to IAS 32 'Financial Instruments: Presentation'. The amendment is effective for annual periods beginning on or after 1 January 2014 and clarifies requirements for offsetting financial assets and financial liabilities. The application of this revised standard is not expected to have a material impact on the financial statements.

## **West Bromwich Commercial Limited**

### **Notes to the financial statements (continued)**

#### **1 Accounting policies (continued)**

The following accounting standard was neither adopted by the European Union nor effective for 2014:

- IFRS 9 'Financial Instruments'. This standard introduces new requirements with respect to classification and measurement of financial instruments. IFRS 9 is subject to EU endorsement, the timing of which is uncertain. The standard is currently expected to be effective for annual periods beginning on or after 1 January 2018. The Company is monitoring developments and considering the associated impact on the financial statements.

The Company did not early adopt any of the above in the financial year ended 31 March 2014.

#### **Securitisation transactions**

The Company has entered into securitisation transactions in which it sells commercial mortgages to special purpose entities (SPEs). In accordance with IAS 39, the Company continues to recognise securitised assets as loans and advances to customers and consequently also shows a deemed loan liability to the SPEs.

#### **Segmental reporting**

As the business operates in one business segment and all business is conducted in the UK, the Directors have decided not to present segmental information.

#### **Interest receivable and expense**

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

#### **Effective interest rate**

The effective interest rate is the method used to calculate the amortised cost of financial instruments and to recognise interest receivable or payable over the relevant period. The effective interest rate is the rate that exactly discounts estimated cash flows (excluding credit losses) to zero, through the expected life of the instrument. The main impact for the Company relates to mortgage advances where fees, such as application and arrangement fees, and costs are incorporated in the calculation. This has the effect of spreading these fees and costs over the expected life of the mortgage. Expected lives are estimated using historic data and management judgment and the calculation is adjusted when actual experience differs from estimates, with changes in deferred amounts being recognised immediately in the income statement.

#### **Fees and commissions receivable**

Fees and commissions are generally recognised on an accruals basis when the service has been provided. Mortgage arrangement fees and other direct costs are deferred and recognised as an adjustment to the effective interest rate on the loan. Commissions and fees arising from negotiating or participating in the negotiation of a transaction with a third party are recognised on completion of the underlying transaction.

#### **Financial instruments**

In accordance with IAS 39, all financial assets and liabilities 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.

## **West Bromwich Commercial Limited**

### **Notes to the financial statements (continued)**

#### **1 Accounting policies (continued)**

##### *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. However, by applying the hedge accounting rules set out in IAS 39, the changes in fair value of derivatives used to hedge particular risks can be offset in the income statement.

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Company intends to sell immediately or in the short term, which are classified as held for trading, and those that the Company upon initial recognition designates as at fair value through profit or loss; or
- those that the Company upon initial recognition designates as available for sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any directly attributable transaction costs – and measured subsequently at amortised cost using the effective interest method. The Company's loans and advances to customers are classified as loans and receivables. Interest on loans is included in the income statement and is reported as interest receivable and similar income. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the income statement as impairment losses on loans and advances.

##### *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.

##### *Deemed loans*

The loans and advances to customers legally sold by the Company to SPEs fail the derecognition criteria of IAS 39 as the Company has retained significant risk and rewards of ownership and therefore these loans remain on the statement of financial position. IAS 39 therefore requires the Company to recognise deemed loan financial liabilities on its statement of financial position. These deemed loans initially represent the consideration received by the Company in respect of the acquisition and the beneficial ownership of the securitised loans and advances to customers and are subsequently adjusted due to repayments made by the Company to the SPEs.

The carrying value of the deemed loans is assessed at the end of each accounting period in line with the expected future cash flows of the underlying assets.

##### *c) Impairment of financial assets*

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

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

If there is objective evidence of an impairment of loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of the loss is recognised in the income statement.

## **West Bromwich Commercial Limited**

### **Notes to the financial statements (continued)**

#### **1 Accounting policies (continued)**

Where a loan is not recoverable, it is written off against the related provision for loan impairment once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the income statement.

##### ***d) Derecognition of financial assets and liabilities***

The Company's policy is to derecognise financial assets when the contractual right to the cash flows from the financial asset expires. The Company also derecognises financial assets that it transfers to another party provided the transfer of the asset also transfers the right to receive the cash flows of the financial asset and substantially all the risks and rewards of ownership.

The Company derecognises financial liabilities only when the obligation specified in the contract is discharged, cancelled or has expired.

##### ***e) Offsetting financial instruments***

Financial assets and liabilities, including derivatives, are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and where there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

#### **Cash and cash equivalents**

For the purposes of the statement of cash flows, cash comprises cash and bank balances repayable on demand. Cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value, with maturities of 90 days or less.

#### **Taxation**

Tax on the losses for the year comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax receivable/payable on the taxable expense/income for the year, using the tax rate which applies to the accounting period ending at the date of the statement of financial position, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided in full, using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is determined using tax rates (and laws) that have been substantively enacted by the year end date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.



# West Bromwich Commercial Limited

## 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 loans and advances

In accordance with the accounting policy on page 13 the methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Since each loan is individually assessed for impairment, it is not practical to assess the impact of individual changes in assumptions.

#### Deferred tax assets

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. The recognition of the deferred tax asset is dependent upon the projection of future taxable profits and future reversals of existing taxable temporary differences and it is necessary for management to evaluate whether the deferred tax asset has arisen due to temporary factors or is instead indicative of a permanent decline in earnings.

Based on its analysis, management has determined that the tax losses held by the Company primarily result from the recent economic downturn. The commercial property and credit market conditions in existence during the UK recession led to increases in credit losses and contracting margins. Management has made detailed forecasts of future taxable income in order to determine that profits will be available to offset the deferred tax assets. These projections are based on business plans and the current economic situation.

The assumptions surrounding future expected credit losses and changes in interest rates represent the most subjective areas of judgment in management's projections of future taxable profits. Management's forecasts support the assumption that it is probable that the results of future operations will generate sufficient taxable income to utilise the deferred tax assets and it is on this basis that the deferred tax assets have been recognised. Deferred tax has been recognised at 20%, being the rate substantively enacted at the date of the statement of financial position.

<b>2 Interest receivable and similar income</b>	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
On loans and advances	42,075	54,472
Amortisation of acquisition premiums	(250)	(340)
	<u>41,825</u>	<u>54,132</u>

Interest receivable on impaired assets was £7,756,000 (2013: £20,351,000).

<b>3 Interest expense and similar charges</b>	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
On loan from parent undertaking	31,529	43,954
On deemed loans	7,939	15,391
	<u>39,468</u>	<u>59,345</u>

<b>4 Loss before tax</b>	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Loss before tax is stated after charging:		
Auditor's remuneration: audit services	<u>29</u>	<u>28</u>

## West Bromwich Commercial Limited

### Notes to the financial statements (continued)

#### 5 Information regarding Directors and employees

##### *Directors*

None of the Directors received any emoluments for their qualifying services to West Bromwich Commercial Limited during the year ended 31 March 2014 or the preceding year.

##### *Employees*

The average number of persons (excluding Directors) employed directly by the Company during the year was nil (2013: nil). The aggregate direct payroll costs during the year ended 31 March 2014 were £nil (2013: £nil).

6 Taxation	2014 £'000	2013 £'000
UK corporation tax at 23% (2013: 24%)	(1,424)	(2,201)
Corporation tax - adjustment in respect of prior years	871	2,732
Total current tax	(553)	531
Deferred tax (note 9)		
Current year	(269)	(1,418)
Adjustment in respect of prior periods	1,654	1,128
Total tax charge	832	241

The tax charge is reconciled to the loss before tax in the income statement as follows:

	2014 £'000	2013 £'000
Loss before tax	(9,533)	(16,238)
Loss before tax multiplied by the UK standard rate of tax of 23% (2013: 24%)	(2,193)	(3,897)
Effects of:		
Income not taxable and expenses not deductible for tax purposes	(248)	1
Adjustment in respect of prior years	2,525	3,860
Changes to tax rate	748	277
Tax charge	832	241

7 Cash and cash equivalents	2014 £'000	2013 £'000
Bank deposits	25	20

## West Bromwich Commercial Limited

### Notes to the financial statements (continued)

<b>8 Loans and advances to customers</b>	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Repayable in:		
Less than 1 year	315,060	433,505
1 to 5 years	339,231	304,302
Over 5 years	192,685	239,621
	<u>846,976</u>	<u>977,428</u>
Effective interest rate adjustment	2,203	2,453
Impairment provisions	(58,326)	(62,830)
	<u>790,853</u>	<u>917,051</u>

#### Allowance for losses on loans and advances

	<b>Individual provision £'000</b>	<b>Collective provision £'000</b>	<b>Total £'000</b>
At 1 April 2013	55,923	6,907	62,830
Amounts written off	(18,381)	-	(18,381)
Charge for the year comprising:			
Provision for loan impairment	14,470	1,648	16,118
Change in carrying value of deemed loans	(3,358)	(141)	(3,499)
Adjustment to provisions resulting from recoveries	(2,241)	-	(2,241)
	<u>8,871</u>	<u>1,507</u>	<u>10,378</u>
Deemed loans	3,358	141	3,499
<b>At 31 March 2014</b>	<u>49,771</u>	<u>8,555</u>	<u>58,326</u>

The allowance for losses on loans and advances includes £11,788,000 against loans in securitisation entities (Sandwell Commercial Finance No. 1 Plc: £2,523,000 and Sandwell Commercial Finance No. 2 Plc: £9,265,000). The carrying value of the deemed loans has been reduced by an equivalent amount.

	<b>Individual provision £'000</b>	<b>Collective provision £'000</b>	<b>Total £'000</b>
At 1 April 2012	52,557	14,878	67,435
Amounts written off	(13,123)	-	(13,123)
Charge/(Credit) for the year comprising:			
Provision/(Release) for loan impairment	16,728	(7,971)	8,757
Change in carrying value of deemed loans	16,155	(9,399)	6,756
Adjustment to provisions resulting from recoveries	(239)	-	(239)
Charge/(Credit) for the year	<u>32,644</u>	<u>(17,370)</u>	<u>15,274</u>
Deemed loans	(16,155)	9,399	(6,756)
<b>At 31 March 2013</b>	<u>55,923</u>	<u>6,907</u>	<u>62,830</u>

# West Bromwich Commercial Limited

## Notes to the financial statements (continued)

### 9 Deferred tax

Deferred tax is calculated on all temporary differences under the liability method using an effective tax rate of 20% (2013: 23%).

The movement on the deferred tax account is as follows:

	2014 £'000	2013 £'000
At beginning of year	6,368	6,078
Current year income statement credit	269	1,418
Adjustments in respect of prior years	(1,654)	(1,128)
At end of year	<u>4,983</u>	<u>6,368</u>

Deferred tax assets are attributable to the following items:

	2014 £'000	2013 £'000
Timing difference in respect of recognition of arrangement fee income	51	88
Carried forward tax losses	<u>4,932</u>	<u>6,280</u>
	<u>4,983</u>	<u>6,368</u>

Deferred tax assets are recognised only to the extent that realisation of the related tax benefit against future taxable profits is probable over the foreseeable future. The deferred tax assets have not been discounted.

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the Company's future current tax charge accordingly.

Deferred tax assets have been calculated at 20% (2013: 23%), being the rate substantively enacted at the statement of financial position date.

### 10 Other financial assets

	2014 £'000	2013 £'000
Balances owed by related parties	13,118	12,548
Impairment provisions	<u>(10,378)</u>	<u>(9,729)</u>
	<u>2,740</u>	<u>2,819</u>

	2014 £'000	2013 £'000
<b>Provision</b>		
At beginning of year	9,729	17,372
Utilisation	-	(3,011)
Charge/(Credit) for the year	<u>649</u>	<u>(4,632)</u>
At end of year	<u>10,378</u>	<u>9,729</u>

Balances owed by related parties include a £2,750,000 (2013: £2,750,000) subordinated loan and a £357,000 (2013: £357,000) start up loan to Sandwell Commercial Finance No. 1 Plc (Sandwell 1). These attract interest at 3 month LIBOR plus 5% and 2.5% respectively. They include a £5,250,000 (2013: £5,250,000) subordinated loan and a £nil (2013: £nil) start up loan to Sandwell Commercial Finance No. 2 Plc (Sandwell 2). These attract interest at 3 month LIBOR plus 5% and 2.5% respectively. The subordinated loans have contractual maturities in 2039 and 2040, but would be repayable should the SPEs be wound up before that time. The start up loan to Sandwell 1 is now fully repayable, once cash flows allow, and the start up loan to Sandwell 2 has been fully repaid.

The recoverability of balances owed by related parties is reviewed regularly and, where management believes the full amount may not be recoverable, appropriate provisions are made.

## West Bromwich Commercial Limited

### Notes to the financial statements (continued)

<b>11</b>	<b>Trade and other receivables</b>	<b>2014</b> <b>£'000</b>	<b>2013</b> <b>£'000</b>
	Other receivables	<u>609</u>	<u>845</u>
<b>12</b>	<b>Deemed loans</b>	<b>2014</b> <b>£'000</b>	<b>2013</b> <b>£'000</b>
	Repayable in:		
	Less than 12 months	48,765	41,337
	1 to 2 years	35,897	28,653
	2 to 5 years	41,373	62,520
	Over 5 years	43,931	72,263
	Carrying value adjustment	(11,788)	(15,562)
		<u>158,178</u>	<u>189,211</u>
<b>13</b>	<b>Other interest bearing loans and borrowings</b>	<b>2014</b> <b>£'000</b>	<b>2013</b> <b>£'000</b>
	Amounts owed to parent undertaking	<u>720,634</u>	<u>806,057</u>
<p>The amount due to the parent undertaking attracts interest at a rate of 3 month LIBOR plus 1.5% (2013: 3 month LIBOR plus 1.5%). It has no fixed repayment date. However, this forms part of the long term financing of the Company and is considered to be due after more than one year.</p>			
<b>14</b>	<b>Trade and other payables</b>	<b>2014</b> <b>£'000</b>	<b>2013</b> <b>£'000</b>
	Other payables	<u>246</u>	<u>234</u>
<b>15</b>	<b>Share capital</b>	<b>2014</b> <b>£</b>	<b>2013</b> <b>£</b>
	<i>Authorised</i>		
	1,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
	<i>Allotted, called up and fully paid</i>		
	2 ordinary shares of £1 each	<u>2</u>	<u>2</u>
<p><b>Capital disclosures</b></p> <p>The Company is not subject to externally imposed capital requirements in either the current or prior year. The Company manages its ordinary share capital in order that there is sufficient capital, in the opinion of the Directors, to support the transactions and level of business undertaken by the Company.</p>			
<b>16</b>	<b>Retained earnings</b>	<b>2014</b> <b>£'000</b>	<b>2013</b> <b>£'000</b>
	At beginning of year	(68,930)	(52,451)
	Loss for the year	(10,365)	(16,479)
	At end of year	<u>(79,295)</u>	<u>(68,930)</u>

## West Bromwich Commercial Limited

### Notes to the financial statements (continued)

#### 17 Ultimate parent undertaking

The entire share capital of the Company is owned by West Bromwich Building Society (the Society), the ultimate parent undertaking and controlling party, a building society registered under the Building Societies Act 1986. A copy of the Group financial statements may be obtained from the registered office, 374 High Street, West Bromwich, B70 8LR, the Group and the Company's principal place of business.

#### 18 Related party transactions

##### i) Parent and ultimate controlling party

The parent and ultimate controlling undertaking is detailed in note 17 to the financial statements.

##### ii) Transactions with key management personnel

The Board considers key management personnel to comprise Directors. Details of Directors' emoluments are disclosed in note 5. There have been no transactions with key management personnel and their close family members during the current or prior year.

##### iii) Transactions with Group undertakings

###### Transactions with Millinet Limited

	2014 £'000	2013 £'000
Dividends receivable	<u>1,076</u>	<u>-</u>

###### Transactions with West Bromwich Building Society

	2014 £'000	2013 £'000
Interest paid	31,529	43,954
Staff and other recharges	<u>2,518</u>	<u>2,547</u>

###### Outstanding balances with West Bromwich Building Society

	2014 £'000	2013 £'000
Other interest bearing loans and borrowings	<u>720,634</u>	<u>806,057</u>

Interest accrues on outstanding balances at a transfer price agreed between West Bromwich Building Society and its subsidiaries.

The Company undertook the following transactions with special purpose entities during the year:

###### Transactions with Sandwell Commercial Finance No. 1 Plc

	2014 £'000	2013 £'000
Interest receivable on subordinated and start up loans	163	170
Administration and cash management fees	98	115
Interest payable on deemed loans	<u>(2,403)</u>	<u>(3,031)</u>

## West Bromwich Commercial Limited

### Notes to the financial statements (continued)

#### 18 Related party transactions (continued)

##### Transactions with Sandwell Commercial Finance No. 2 Plc

	2014 £'000	2013 £'000
Interest receivable on subordinated and start up loans	290	302
Deferred consideration receivable	198	-
Administration and cash management fees	198	227
Interest payable on deemed loans	<u>(5,537)</u>	<u>(6,884)</u>

##### Transactions with Sandwell Commercial Finance No. 3 Limited

	2014 £'000	2013 £'000
Interest receivable on subordinated and start up loans	<u>-</u>	<u>548</u>

At the year end the following balances were outstanding with special purpose entities:

	Deemed loan liability 2014 £'000	Deemed loan liability 2013 £'000	Loans owed by Group undertakings 2014 £'000	Loans owed by Group undertakings 2013 £'000
Sandwell Commercial Finance No. 1 Plc	55,288	66,370	4,071	3,851
Sandwell Commercial Finance No. 2 Plc	102,890	122,841	9,049	8,673
Sandwell Finance Holdings Limited	-	-	25	25

#### 19 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 is a retailer of financial instruments, mainly in the form of commercial mortgages. The financial risks of the Company are managed as part of a group arrangement with its parent, West Bromwich Building Society (the Society) which uses wholesale financial instruments to invest liquid asset balances and raise wholesale funding, and to manage the risks arising from its and its subsidiary operations.

As a result of these activities, the Company is exposed to a variety of risks, the most significant of which are market risk (principally interest rate risk), credit risk and liquidity risk.

The Company's financial instruments comprise principally of loans and advances to customers, amounts owed to Group undertakings and cash and cash equivalents.

##### Market risk

Market risk is the potential adverse change in Company income or the value of Company net worth arising from movements in interest rates or other market prices. The Company recognises that the effective management of market risk is essential to the maintenance of stable earnings and the preservation of shareholder value.

The Company's exposure to market risk is governed by a policy approved by the Group Board. This policy sets out the nature of risk which may be taken and aggregate risk limits. At each meeting the Assets & Liabilities Committee (ALCo) reviews reports showing the Group's exposure to market and liquidity risks.

The Group's exposure to market risk is managed by the Group's Treasury department by using appropriate hedging instruments or by taking advantage of natural hedges arising or existing within the Group's businesses. Market risk is managed within a clearly defined framework of policy limits and it is measured and reported using a variety of techniques, according to the appropriateness of the technique to the exposure concerned. The techniques used include interest rate gap analysis, basis risk analysis, scenario analysis, net interest income and market value sensitivity analysis.

## West Bromwich Commercial Limited

### Notes to the financial statements (continued)

#### 19 Financial instruments (continued)

##### Interest rate risk

Due to the nature of its funding arrangements with its parent (loans effectively re-price at each quarterly interest payment date), the Company has no significant interest rate re-pricing exposure.

##### Credit risk

Credit risk is the risk that a customer or counterparty will not be able to meet its obligations to the Company as they become due. Credit risk arises primarily from loans to commercial customers.

The Risk Committee is responsible for the management of the credit risk appetite that has been established by the Group Board and for approving lending policy and setting limits on credit exposures, which are monitored and reviewed on a monthly basis. The minutes of this committee are presented to the Group Board. This committee is supported by an Executive sub-committee; the Commercial Loans Risk Committee.

The Commercial Loans Risk Committee reviews individual commercial loans at levels mandated by the Board. This may involve reviewing each case on a quarterly, half yearly or annual basis.

The Company adopts a responsible approach to lending and ensures that the servicing of the loan meets the customer's ability to repay.

The maximum credit risk exposure is the carrying value as shown in the carrying and fair value table on page 26.

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

	2014 £'000	2013 £'000
<b>Concentration by loan type</b>		
Loans secured on commercial property	833,409	948,258
Loans to housing associations	49	57
Loans secured on residential property	13,518	29,113
<b>Gross balances</b>	<b>846,976</b>	<b>977,428</b>
Impairment provisions	(58,326)	(62,830)
Effective interest rate adjustment	2,203	2,453
	<b>790,853</b>	<b>917,051</b>

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

	2014 £'000	2013 £'000
Healthcare and leisure	198,509	219,973
Industrial and warehouse	34,836	59,683
Office	146,726	167,953
Retail	429,260	474,298
Other	24,078	26,351
	<b>833,409</b>	<b>948,258</b>

The average indexed loan to value is 123.2% (2013: 121.1%).



## West Bromwich Commercial Limited

### Notes to the financial statements (continued)

#### 19 Financial instruments (continued)

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

	2014 £'000	2013 £'000
East Anglia	21,185	23,735
East Midlands	48,602	61,282
Greater London	146,175	178,746
Northern Ireland	-	31
North	47,449	56,061
North West	228,817	240,890
Scotland	17,376	20,834
South East	134,633	163,077
South West	47,346	61,263
Wales	26,205	28,112
West Midlands	75,004	83,993
Yorkshire	54,184	59,404
	<u>846,976</u>	<u>977,428</u>

The table below provides further information on the Company's loans and advances to customers by payment due status at 31 March 2014:

	2014 £'000	2013 £'000
<b>Loans neither past due or impaired</b>	501,249	589,848
<b>Not past due but impaired</b>	198,463	176,558
<b>Past due but not impaired</b>		
Past due up to 3 months	-	52,397
Past due 3 to 6 months	-	901
Past due 6 to 12 months	9,150	1,540
Past due over 12 months	68,319	24,580
<b>Impaired</b>		
Past due up to 3 months	18,171	6,440
Past due 3 to 6 months	-	9,757
Past due 6 to 12 months	9,796	17,242
Past due over 12 months	41,828	98,165
	<u>846,976</u>	<u>977,428</u>

The following table indicates collateral held against commercial loans and advances to customers:

<b>Value of collateral held (unindexed)</b>	2014 £'000	2013 £'000
Not impaired	644,251	833,567
Impaired	200,162	218,738
	<u>844,413</u>	<u>1,052,305</u>

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

## West Bromwich Commercial Limited

### Notes to the financial statements (continued)

#### 19 Financial instruments (continued)

The table below analyses commercial mortgage balances with renegotiated terms at the year end date:

	Arrangements £'000	Capitalisation £'000	Term extensions £'000	Total £'000
<b>At 31 March 2014</b>				
Loans neither past due or impaired	-	-	55,194	55,194
Not past due but impaired	-	-	29,123	29,123
	-	-	84,317	84,317
	Arrangements £'000	Capitalisation £'000	Term extensions £'000	Total £'000
<b>At 31 March 2013</b>				
Loans neither past due or impaired	-	-	16,984	16,984
Not past due but impaired	-	10,314	377	10,691
Past due but not impaired				
Past due up to 3 months	3,736	-	-	3,736
Past due 3 to 6 months	-	-	901	901
Past due over 12 months	3,235	-	-	3,235
Impaired				
Past due over 12 months	11,322	-	-	11,322
	18,293	10,314	18,262	46,869

#### Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due, or can only do so at excessive cost. The Company's liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding and to enable the Company to meet its financial obligations. This is achieved as part of the Group liquidity management process, through maintaining a prudent level of liquid assets, wholesale funding facilities, inter-group loans and through management control of the growth of the business. Further information on the Group's risk management process is provided in the West Bromwich Building Society Annual Report and Accounts.

The table below analyses the Company's assets and liabilities across maturity periods that reflect the residual duration from the year end date to the contractual maturity date. The actual repayment profile of loans and advances is likely to 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
<b>At 31 March 2014</b>					
<b>Assets</b>					
Cash and cash equivalents	25	-	-	-	25
Loans and advances to customers	315,060	339,231	192,685	(56,123)	790,853
Other financial assets	-	-	13,118	(10,378)	2,740
Deferred tax assets	-	-	-	4,983	4,983
Current tax - Group relief debtor	-	-	-	553	553
Trade and other receivables	-	-	-	609	609
	315,085	339,231	205,803	(60,356)	799,763
<b>Liabilities and equity</b>					
Deemed loans	48,765	77,270	43,931	(11,788)	158,178
Other interest bearing loans and borrowings	-	-	-	720,634	720,634
Trade and other payables	-	-	-	246	246
Equity	-	-	-	(79,295)	(79,295)
	48,765	77,270	43,931	629,797	799,763

## West Bromwich Commercial Limited

### Notes to the financial statements (continued)

#### 19 Financial instruments (continued)

	Less than 12 months £'000	1 to 5 years £'000	Over 5 years £'000	No specific maturity £'000	Total £'000
<b>At 31 March 2013</b>					
<b>Assets</b>					
Cash and cash equivalents	20	-	-	-	20
Loans and advances to customers	433,505	304,302	239,621	(60,377)	917,051
Other financial assets	-	-	12,548	(9,729)	2,819
Deferred tax assets	-	-	-	6,368	6,368
Trade and other receivables	-	-	-	845	845
	<u>433,525</u>	<u>304,302</u>	<u>252,169</u>	<u>(62,893)</u>	<u>927,103</u>
<b>Liabilities and equity</b>					
Deemed loans	41,337	91,173	72,263	(15,562)	189,211
Other interest bearing loans and borrowings	-	-	-	806,057	806,057
Current tax - Group relief creditor	-	-	-	531	531
Trade and other payables	-	-	-	234	234
Equity	-	-	-	(68,930)	(68,930)
	<u>41,337</u>	<u>91,173</u>	<u>72,263</u>	<u>722,330</u>	<u>927,103</u>

#### Gross contractual cash flows

The Company's only significant financial liabilities are amounts owed to Group undertakings. These liabilities are subject to formal loan arrangements, which have no scheduled repayment terms. These loans are repayable upon West Bromwich Building Society giving the Company three calendar months' written notice. However, no such notice will be given whilst the Company remains a wholly owned subsidiary of West Bromwich Building Society.

Cash and cash equivalents are held with an AA- rated bank.

#### Classification of financial assets and financial liabilities

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

	Loans and receivables £'000	Total £'000
<b>At 31 March 2014</b>		
<b>Assets</b>		
Cash and cash equivalents	25	25
Loans and advances to customers	790,853	790,853
Other financial assets	2,740	2,740
<b>Total financial assets</b>	<u>793,618</u>	<u>793,618</u>
Non-financial assets		6,145
<b>Total assets</b>		<u>799,763</u>
	<b>Other financial liabilities £'000</b>	<b>Total £'000</b>
<b>Liabilities</b>		
Deemed loans	158,178	158,178
Other interest bearing loans and borrowings	720,634	720,634
<b>Total financial liabilities</b>	<u>878,812</u>	<u>878,812</u>
Non-financial liabilities		246
<b>Total liabilities</b>		<u>879,058</u>

## West Bromwich Commercial Limited

### Notes to the financial statements (continued)

#### 19 Financial instruments (continued)

	Loans and receivables £'000	Total £'000
At 31 March 2013		
Assets		
Cash and cash equivalents	20	20
Loans and advances to customers	917,051	917,051
Other financial assets	2,819	2,819
Total financial assets	919,890	919,890
Non-financial assets		7,213
Total assets		927,103
	Other financial liabilities £'000	Total £'000
Liabilities		
Deemed loans	189,211	189,211
Other interest bearing loans and borrowings	806,057	806,057
Total financial liabilities	995,268	995,268
Non-financial liabilities		765
Total liabilities		996,033

#### Fair values of financial assets and financial 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 value 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.

	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 2014					
Financial assets					
Cash and cash equivalents	25	25	-	-	25
Loan and advances to customers	790,853	-	-	780,512	780,512
Other financial assets	2,740	-	2,740	-	2,740
Financial liabilities					
Other interest bearing loans and borrowings	720,634	-	720,634	-	720,634
Deemed loans	158,178	-	-	157,798	157,798

## West Bromwich Commercial Limited

### Notes to the financial statements (continued)

#### 19 Financial instruments (continued)

	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 2013					
Financial assets					
Cash and cash equivalents	20	20	-	-	20
Loan and advances to customers	917,051	-	-	899,618	899,618
Other financial assets	2,819	-	2,819	-	2,819
Financial liabilities					
Other interest bearing loans and borrowings	806,057	-	806,057	-	806,057
Deemed loans	189,211	-	-	189,211	189,211

##### a) Loans and advances to customers

The fair value of loans and advances to customers has been calculated on an individual loan basis taking into account factors such as impairment and interest rates. It is not considered appropriate to value them collectively as a portfolio sale.

Impairment is calculated on an incurred loss basis except to the extent that acquired mortgage books have been fair valued on a basis which makes allowances for anticipated losses over the remaining life of the loans.

##### b) Other interest bearing loans and borrowings

The fair value of other interest bearing loans and borrowings is assumed to equal book value, as there is no fixed repayment profile.

##### c) Deemed loans

The deemed loans are 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.