# West Bromwich Commercial Limited

## Directors' report and financial statements

**for the year ended 31 March 2013**

**Registered number: 05285783**

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**West Bromwich Commercial Limited**

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## West Bromwich Commercial Limited

### Directors and advisors

**Directors**

| | |
|---|---|
| A P Conroy | (from 24 June 2013) |
| C J Miller | |
| P Southcott | (to 31 March 2013) |
| J Westhoff | |

**Secretary**

| | |
|---|---|
| S Bartleet-Cross | (to 28 November 2012) |
| A S Mann | (from 28 November 2012) |

**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

## Directors' report

The Directors present their report and the audited financial statements for the year ended 31 March 2013

**Business review and principal activities**

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 making of loans secured on land and commercial property For the foreseeable future the Company will concentrate on managing its existing portfolio of accounts including, where appropriate re-financing of existing facilities

The Company's loss for the year is £16,479 000 (2012 £13 115 000) The retained loss for the year has been transferred to reserves

The statement of financial position on page 7 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 6 interest receivable has reduced this year primarily as a result of falling average balances

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

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

**Dividend**

The Directors do not recommend the payment of a dividend (2012 £nil)

**Directors and Directors' interests**

The Directors who held office during the year and after the year end were as follows

| | |
|---|---|
| A P Conroy | (from 24 June 2013) |
| C J Miller | |
| P Southcott | (to 31 March 2013) |
| J Westhoff | |

Certain Directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report

## West Bromwich Commercial Limited

### Directors' report (continued)

#### 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

#### 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 Group 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

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

*Credit risk*

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

The Company faces this risk in respect of corporates (commercial lending) More details of the controls and processes in place to address this risk are set out in note 20 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 Group 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 book value as shown in the book and fair value table in note 20 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 20 to the financial statements

## Directors' report (continued)

*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 20 to the financial statements

*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 Audit Committee, the Group Risk Committee and the Group Board

**Disclosure of information to the auditor**

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

**Auditor**

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

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

The Directors are responsible for preparing 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

A P Conroy
Director

24 / 7 / 2013

## 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 2013 set out on pages 6 to 24 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 4 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

**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 2013 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 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

30 July 2013

**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

## West Bromwich Commercial Limited

### Income statement

*for the year ended 31 March 2013*

| | Notes | 2013 £'000 | 2012* £'000 |
|---|---|---|---|
| Interest receivable and similar income | 2 | 54,132 | 65 265 |
| Interest expense and similar charges | 3 | (59,345) | (71 539) |
| **Net interest expense** | | (5,213) | (6 274) |
| Fair value gains/(losses) on financial instruments | | 1,548 | (465) |
| Fees and commissions receivable | | 616 | 888 |
| Administrative expenses | | (2,547) | (2 690) |
| **Operating loss** | | (5,596) | (8 541) |
| Impairment (losses)/gains on loans and advances to customers | 8 | (15,274) | 8 591 |
| Impairment gains/(losses) on other financial assets | 10 | 4,632 | (11 133) |
| **Loss before tax** | 4 | (16,238) | (11 083) |
| Taxation | 6 | (241) | (2 032) |
| **Loss for the year** | | (16,479) | (13,115) |

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 (2012 £nil)

*Certain items have been reclassified for consistency of presentation with the current year See note 21 for further details

### Statement of changes in equity

*for the year ended 31 March 2013*

| | 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) |

| | Share capital £000 | Retained earnings £000 | Total £'000 |
|---|---|---|---|
| Balance at 1 April 2011 | - | (39,336) | (39 336) |
| Loss for the year | | (13,115) | (13 115) |
| Balance at 31 March 2012 | - | (52,451) | (52,451) |

The notes on pages 9 to 24 form part of these financial statements

## West Bromwich Commercial Limited

### Statement of financial position
*at 31 March 2013*

| | Notes | 2013 £'000 | 2012* £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Loans and advances to customers | *8* | **483,546** | 662 187 |
| Deferred tax assets | *9* | **6,368** | 6 078 |
| Other financial assets | *10* | **2,819** | 16 181 |
| Derivative financial instruments | *12* | **-** | 15,649 |
| **Total non-current assets** | | **492,733** | 700 095 |
| **Current assets** | | | |
| Cash and cash equivalents | *7* | **20** | 18 |
| Loans and advances to customers | *8* | **433,505** | 376 659 |
| Current tax assets | | **-** | 562 |
| Trade and other receivables | *11* | **845** | 387 |
| **Total current assets** | | **434,370** | 377,626 |
| **Total assets** | | **927,103** | 1,077,721 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Derivative financial instruments | *12* | **-** | 1 |
| Deemed loans | *13* | **41,337** | 86 701 |
| Current tax liabilities | | **531** | - |
| Trade and other payables | *15* | **234** | 14 498 |
| **Total current liabilities** | | **42,102** | 101,200 |
| **Non-current liabilities** | | | |
| Derivative financial instruments | *12* | **-** | 17 196 |
| Deemed loans | *13* | **147,874** | 268 209 |
| Other interest bearing loans and borrowings | *14* | **806,057** | 743 567 |
| **Total non-current liabilities** | | **953,931** | 1,028 972 |
| **Total liabilities** | | **996,033** | 1,130 172 |
| **Net liabilities** | | **(68,930)** | (52 451) |
| **Equity** | | | |
| Share capital | *16* | **-** | - |
| Retained earnings | *17* | **(68,930)** | (52 451) |
| **Total equity** | | **(68,930)** | (52 451) |

The notes on pages 9 to 24 form part of these financial statements

* Loans and advances to customers and deemed loans have been restated to exclude fair value adjustments recognised in the individual accounts of securitisation entities on application of hedge accounting The restatement has £nil impact on net liabilities

Certain items have been reclassified for consistency of presentation with the current year See note 21 for further details

These financial statements were approved by the Board of Directors on 24 / 7 / 2013 and were signed on its behalf by

**A P Conroy**
Director
Company number 05285783

## West Bromwich Commercial Limited

### Statement of cash flows

*for the year ended 31 March 2013*

| | *Notes* | 2013 £'000 | 2012* £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss before tax | | **(16,238)** | (11 083) |
| Amortisation of acquisition premiums | | **340** | 250 |
| Impairment losses/(gains) on loans and advances to customers | | **15,274** | (8 591) |
| Impairment (gains)/losses on other financial assets | | **(4,632)** | 11 133 |
| Movement in derivative financial instruments | | **(1,548)** | 459 |
| Change in carrying value of deemed loans | | **12,774** | (28 336) |
| Net cash inflow/(outflow) from operating activities before changes in operating assets and liabilities | | **5 970** | (36 168) |
| Movement in loans and advances to customers | | **106,181** | 203 336 |
| Movement in trade and other payables | | **(14,264)** | 13 165 |
| Movement in trade and other receivables | | **(458)** | 49 |
| **Net cash inflow from operating activities** | | **97,429** | 180 382 |
| **Cash flows from investing activities** | | | |
| Decrease in other financial assets | | **17,994** | 300 |
| **Net cash flows from investing activities** | | **17 994** | 300 |
| **Cash flows from financing activities** | | | |
| Reduction in deemed loans | | **(178,473)** | (73,545) |
| Increase/(decrease) in other interest bearing loans and borrowings | | **63,052** | (107 154) |
| **Net cash flows from financing activities** | | **(115 421)** | (180 699) |
| Net decrease in cash and cash equivalents | | **2** | (17) |
| Cash and cash equivalents at beginning of year | | **18** | 35 |
| **Cash and cash equivalents at end of year** | 7 | **20** | 18 |

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

* Loans and advances to customers and deemed loans and the related cash flows, have been restated to exclude fair value adjustments recognised in the individual accounts of securitisation entities on application of hedge accounting

Certain items have been reclassified for consistency of presentation with the current year See note 21 for further details

## 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 18

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 2013

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

**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

**Accounting developments**

The following Accounting Standard amendments have been applied for the first time in 2013
• Amendment to IFRS 7 Financial Instruments Disclosures (October 2010) which extends the scope of IFRS 7 disclosures but does not change the recognition or measurement of transactions in the financial statements
• IAS 12 (revised) Income Taxes The application of this revised standard does not have a material impact on the financial statements

The following Accounting Standard amendments were issued but not effective for 2013
• 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
• 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 Other than the additional disclosure requirements, the application of this new standard is not expected to have a significant impact on the financial statements
IFRS 13 Fair Value Measurement The new standard is effective for annual periods beginning on or after 1 January 2013 and replaces the existing IFRS guidance on fair value measurement with a single standard Other than the additional disclosure requirements the application of this new standard is not expected to have a significant impact on the financial statements
• IAS 1 (revised) Presentation of Financial Statements The amendment is effective for annual periods beginning on or after 1 July 2012 and revises the presentation of items of other comprehensive income The application of this revised standard is not expected to have a material impact on the financial statements
• Amendment to IFRS 7 Financial Instruments Disclosures (December 2011) The amendment is effective for annual periods beginning on or after 1 January 2013 and requires disclosures about financial instruments which are offset in the statement of financial position The application of this revised standard is not expected to have a material 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

The following Accounting Standard was neither adopted by the European Union nor effective for 2013

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 2015 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 2013

1 Accounting policies (continued)

**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

**1 Accounting policies (continued)**

**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 financial assets are accounted for at settlement date

*Financial assets at fair value through profit or loss*

The Company uses derivative financial instruments to hedge its exposure to interest rate risk arising from operational financing and investment activities

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

The Company undertakes hedges of the fair value of recognised assets or liabilities or unrecognised firm commitments (fair value hedges)

Hedge accounting is used for derivatives designated in this way provided that certain criteria are met

i) Fair value hedges – Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the remaining expected life of the previously hedged item

ii) Derivatives that do not qualify for hedge accounting – Certain derivative instruments do not qualify for hedge accounting Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately 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

1 **Accounting policies (continued)**

***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

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 12 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 23% being the rate substantively enacted at the date of the statement of financial position

**2 Interest receivable and similar income**

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| On loans and advances | 54,472 | 65 515 |
| Amortisation of acquisition premiums | (340) | (250) |
| | 54,132 | 65,265 |

Interest receivable on impaired assets was £20 351 000 (2012 £19,654 000)

**3 Interest expense and similar charges**

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| On loan from parent undertaking | 43,954 | 50 135 |
| On deemed loans | 15,391 | 21 404 |
| | 59,345 | 71 539 |

**4 Loss before tax**

Loss before tax is stated after charging

| | 2013 £'000 | 2012 £000 |
|---|---|---|
| Auditor's remuneration audit services | 28 | 19 |

**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 2013 or the preceding year

*Employees*

The average number of persons (excluding Directors) employed directly by the Company during the year was nil (2012 nil) The aggregate payroll costs during the year ended 31 March 2013 were £nil (2012 £nil)

**6 Taxation**

| | 2013 £'000 | 2012 £000 |
|---|---|---|
| UK corporation tax at 24% (2012 26%) | (2,201) | (2 732) |
| Corporation tax - adjustment in respect of prior years | 2,732 | 2,886 |
| Total current tax | 531 | 154 |
| Deferred tax (note 9) | | |
| Current year | (1,418) | 358 |
| Adjustment in respect of prior periods | 1 128 | 1 520 |
| Total tax charge | 241 | 2,032 |

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

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Loss before tax | (16,238) | (11,083) |
| Loss before tax multiplied by the UK standard rate of tax of 24% (2012 26%) | (3,897) | (2 882) |
| Effects of | | |
| Expenses not deductible for tax purposes | 1 | 1 |
| Adjustment in respect of prior years | 3,860 | 4 406 |
| Changes to tax rate | 277 | 507 |
| Tax charge | 241 | 2 032 |

# West Bromwich Commercial Limited

## Notes to the financial statements (continued)

| 7 | Cash and cash equivalents | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| | Bank deposits | 20 | 18 |

| 8 | Loans and advances to customers | 2013 £'000 | 2012* £'000 |
|---|---|---|---|
| | Repayable in | | |
| | Less than 1 year | 433,505 | 376 659 |
| | 1 to 5 years | 304,302 | 366 574 |
| | Over 5 years | 239,621 | 360 255 |
| | | 977,428 | 1 103 488 |
| | Effective interest rate adjustment | 2,453 | 2 793 |
| | Impairment provisions | (62,830) | (67 435) |
| | | 917,051 | 1,038 846 |

* Loans and advances to customers and deemed loans have been restated to exclude fair value adjustments recognised in the individual accounts of securitisation entities on application of hedge accounting

**Allowance for losses on loans and advances**

| | Individual provision £'000 | Collective provision £'000 | Total £'000 |
|---|---|---|---|
| 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 | 12 641 | (5 685) | 6,956 |
| Provision/(Release) in excess of the securitisation first loss | 4 087 | (2 286) | 1,801 |
| 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 | 32,644 | (17,370) | 15 274 |
| Deemed loans | (16 155) | 9 399 | (6,756) |
| **At 31 March 2013** | 55,923 | 6,907 | 62,830 |

The allowance for losses on loans and advances includes £15,562 000 against loans in securitisation entities (Sandwell Commercial Finance No 1 Plc £2 891 000 and Sandwell Commercial Finance No 2 Plc £12 671 000) The carrying value of the deemed loans has been reduced by an equivalent amount

| | Individual provision £'000 | Collective provision £'000 | Total £'000 |
|---|---|---|---|
| At 1 April 2011 | 51 523 | 9 365 | 60 888 |
| Amounts written off | (13 198) | - | (13 198) |
| Credit for the year comprising | | | |
| Provision for loan impairment | 3 108 | 3,123 | 6 231 |
| Provision in excess of the securitisation first loss | 11 124 | 2 390 | 13 514 |
| Change in carrying value of deemed loans | (18 518) | (9 818) | (28 336) |
| Credit for the year | (4 286) | (4,305) | (8 591) |
| Deemed loans | 18 518 | 9 818 | 28 336 |
| At 31 March 2012 | 52 557 | 14,878 | 67 435 |

## 9 Deferred tax

Deferred tax is calculated on all temporary differences under the liability method using an effective tax rate of 23% (2012 24%)

The movement on the deferred tax account is as follows

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| At beginning of year | 6,078 | 7 956 |
| Current year income statement credit/(charge) | 1,418 | (358) |
| Adjustments in respect of prior years | (1,128) | (1,520) |
| At end of year | 6,368 | 6,078 |

Deferred tax assets are attributable to the following items

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Timing difference in respect of recognition of arrangement fee income | 88 | 122 |
| Carried forward tax losses | 6,280 | 5,956 |
| | 6,368 | 6 078 |

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

Deferred tax assets have been calculated at 23% (2012 24%) being the rate substantively enacted at the statement of financial position date The rate of corporation tax will be further reduced by 2% to 21% by 1 April 2014 and a further 1% to 20% by 1 April 2015 As the further reductions were not substantively enacted by 31 March 2013 the impact of the anticipated rate changes is not reflected in the tax provisions reported in these accounts If the deferred tax assets of the Company were to reverse after 1 April 2015 the effect of the changes from 23% to 20% would be to reduce the deferred tax asset by £831 000 To the extent that the deferred tax reverses more quickly than this the impact of the further rate changes on the deferred tax asset will be reduced

## 10 Other financial assets

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Balances owed by related parties | 12,548 | 33 553 |
| Impairment provisions | (9,729) | (17,372) |
| | 2,819 | 16,181 |

| | Provision £'000 |
|---|---|
| At 1 April 2012 | 17,372 |
| Utilisation | (3,011) |
| Credit for the year | (4 632) |
| **At 31 March 2013** | 9,729 |

Balances owed by related parties include a £2 750 000 (2012 £2 750 000) subordinated loan and a £357 000 (2012 £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 (2012 £5 250 000) subordinated loan and a £nil (2012 £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)

**11 Trade and other receivables**

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Other receivables | 845 | 387 |

**12 Derivative financial instruments**

| | Notional principal 2013 £'000 | Fair values Assets 2013 £'000 | Liabilities 2013 £'000 |
|---|---|---|---|
| **Derivatives held for hedging** | | | |
| Derivatives designated as fair value hedges | - | - | - |

| | Notional principal amount 2012 £'000 | Fair values Assets 2012 £'000 | Liabilities 2012 £'000 |
|---|---|---|---|
| Derivatives held for hedging | | | |
| Derivatives designated as fair value hedges | 175 249 | 15,649 | (17,197) |

**13 Deemed loans**

| | 2013 £'000 | 2012* £'000 |
|---|---|---|
| Repayable in | | |
| Less than 12 months | 41,337 | 86 701 |
| 1 to 2 years | 28,653 | 14 835 |
| 2 to 5 years | 62,520 | 136 327 |
| Over 5 years | 72,263 | 145 383 |
| Carrying value adjustment (note 8) | (15,562) | (28 336) |
| | 189,211 | 354 910 |

* Loans and advances to customers and deemed loans have been restated to exclude fair value adjustments recognised in the individual accounts of securitisation entities on application of hedge accounting

**14 Other interest bearing loans and borrowings**

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Amounts owed to parent undertaking | 806,057 | 743 567 |

The amount due to the parent undertaking attracts interest at a rate of 3 month LIBOR plus 1 5% (2012 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

**15 Trade and other payables**

| | 2013 £'000 | 2012 £ 000 |
|---|---|---|
| Other payables | 234 | 14 498 |

**16 Share capital**

| | 2013 £ | 2012 £ |
|---|---|---|
| ***Authorised*** | | |
| 1 000 ordinary shares of £1 each | 1,000 | 1 000 |
| ***Allotted, called up and fully paid*** | | |
| 2 ordinary shares of £1 each | 2 | 2 |

**Capital disclosures**

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

**17 Retained earnings**

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| At beginning of year | (52,451) | (39 336) |
| Loss for the year | (16,479) | (13,115) |
| **At end of year** | (68,930) | (52,451) |

**18 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

**19 Related party transactions**

i) **Parent and ultimate controlling party**

The parent and ultimate controlling undertaking is detailed in note 18 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**

| | Interest paid 2013 £'000 | Interest paid 2012 £'000 | Staff and other recharges 2013 £'000 | Staff and other recharges 2012 £'000 |
|---|---|---|---|---|
| West Bromwich Building Society | 43,954 | 50 135 | 2,547 | 2 690 |

| | Loans owed to Group undertakings 2013 £'000 | Loans owed to Group undertakings 2012 £'000 |
|---|---|---|
| West Bromwich Building Society | 806 057 | 743 567 |

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

| | Interest received 2013 £'000 | Interest received 2012 £'000 | Fees received 2013 £'000 | Fees received 2012 £'000 |
|---|---|---|---|---|
| Sandwell Commercial Finance No 1 Plc | 170 | 175 | 115 | 138 |
| Sandwell Commercial Finance No 2 Plc | 302 | 797 | 227 | 267 |
| Sandwell Commercial Finance No 3 Limited | 398 | 557 | 150 | 306 |

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

| | Deemed loan liability 2013 £'000 | Deemed loan liability 2012 £000 | Loans owed by Group undertakings 2013 £'000 | Loans owed by Group undertakings 2012 £'000 |
|---|---|---|---|---|
| Sandwell Commercial Finance No 1 Plc | 66,370 | 79 300 | 3,851 | 3 680 |
| Sandwell Commercial Finance No 2 Plc | 122,841 | 146 984 | 8 673 | 8 918 |
| Sandwell Commercial Finance No 3 Limited | - | 128 626 | - | 20 930 |
| Sandwell Finance Holdings Limited | - | - | 25 | 25 |

## 20 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

### 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 Group 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 book value as shown in the book and fair value table on page 23

## 20 Financial instruments (continued)

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

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| **Concentration by loan type** | | |
| Loans secured on commercial property | 948,258 | 1 035 236 |
| Loans to housing associations | 57 | 65 |
| Loans secured on residential property | 29,113 | 68,187 |
| **Gross balances** | 977,428 | 1 103 488 |
| Impairment provisions | (62,830) | (67 435) |
| Effective interest rate adjustment | 2,453 | 2 793 |
| | 917,051 | 1 038,846 |

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

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Healthcare and leisure | 219,973 | 228 713 |
| Industrial and warehouse | 59,683 | 58 741 |
| Office | 167,953 | 193 520 |
| Retail | 474,298 | 547,994 |
| Other | 26,351 | 6,268 |
| | 948,258 | 1,035,236 |

The average indexed loan to value is 121 1% (2012 112 0%)

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

| | 2013 £'000 | 2012 £000 |
|---|---|---|
| East Anglia | 23,735 | 24,144 |
| East Midlands | 61,282 | 65,263 |
| Greater London | 178,746 | 227,774 |
| Northern Ireland | 31 | 31 |
| North | 56,061 | 58 123 |
| North West | 240,890 | 245 548 |
| Scotland | 20,834 | 19 553 |
| South East | 163,077 | 194 256 |
| South West | 61,263 | 67 224 |
| Wales | 28,112 | 37 493 |
| West Midlands | 83,993 | 95 233 |
| Yorkshire | 59,404 | 68 846 |
| | 977,428 | 1,103 488 |

### 20 Financial instruments (continued)

The table below provides further information on the Company's loans and advances to customers by payment due status at 31 March 2013

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| **Loans neither past due or impaired** | 589,848 | 748,198 |
| **Not past due but impaired** | 176,558 | 161 009 |
| **Past due but not impaired** | | |
| Past due up to 3 months | 52,397 | 10 462 |
| Past due 3 to 6 months | 901 | 2 024 |
| Past due 6 to 12 months | 1,540 | 918 |
| Past due over 12 months | 24,580 | 18 321 |
| **Impaired** | | |
| Past due up to 3 months | 6,440 | 20 919 |
| Past due 3 to 6 months | 9,757 | 16 184 |
| Past due 6 to 12 months | 17,242 | 9 479 |
| Past due over 12 months | 98,165 | 115 974 |
| | 977 428 | 1 103 488 |

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

| Value of collateral held (unindexed) | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Not impaired | 833,567 | 999,895 |
| Impaired | 218,738 | 267,460 |
| | 1,052,305 | 1 267 355 |

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

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

| | Arrangements £'000 | Capitalisation £'000 | Term extensions £'000 | Total £'000 |
|---|---|---|---|---|
| **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 |

## 20 Financial instruments (continued)

### 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 | 1 to 2 years | 2 to 5 years | Over 5 years | No specific maturity | Total |
|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **At 31 March 2013** | | | | | | |
| **Assets** | | | | | | |
| Cash and cash equivalents | 20 | - | - | - | | 20 |
| Loans and advances to customers | 433,505 | 46,992 | 257,310 | 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 |
| | 433,525 | 46,992 | 257,310 | 252 169 | (62,893) | 927 103 |
| **Liabilities and equity** | | | | | | |
| Deemed loans | 41,337 | 28,653 | 62,520 | 72,263 | (15,562) | 189,211 |
| Other interest bearing loans and borrowings | | - | | | 806 057 | 806,057 |
| Current tax liabilities | | | - | | 531 | 531 |
| Trade and other payables | | - | | | 234 | 234 |
| Equity | | | - | | (68 930) | (68,930) |
| | 41,337 | 28,653 | 62,520 | 72,263 | 722,330 | 927 103 |
| At 31 March 2012 | | | | | | |
| **Assets** | | | | | | |
| Cash and cash equivalents | 18 | - | | | | 18 |
| Loans and advances to customers | 376 659 | 123,392 | 243 182 | 360,255 | (64 642) | 1 038 846 |
| Other financial assets | - | | | 33,553 | (17,372) | 16 181 |
| Derivative financial instruments | - | | | 15 649 | | 15 649 |
| Current tax assets | | | | | 562 | 562 |
| Deferred tax assets | | | | | 6 078 | 6 078 |
| Trade and other receivables | | | - | - | 387 | 387 |
| | 376 677 | 123,392 | 243 182 | 409 457 | (74 987) | 1 077 721 |
| Liabilities and equity | | | | | | |
| Deemed loans | 86 701 | 14 835 | 136,327 | 145,383 | (28 336) | 354 910 |
| Derivative financial instruments | 1 | 1 286 | 4 727 | 11 183 | | 17 197 |
| Other interest bearing loans and borrowings | | - | | | 743 567 | 743 567 |
| Trade and other payables | | | | | 14 498 | 14 498 |
| Equity | | | | - | (52 451) | (52 451) |
| | 86 702 | 16 121 | 141 054 | 156 566 | 677,278 | 1 077,721 |

### 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

**20 Financial instruments (continued)**

**Fair values of financial assets and financial liabilities**

The tables below are a comparison of the book and fair values of the Company s financial instruments by category at the reporting date Where available market values have been used to determine fair values Where market values are not available, fair values have been calculated by discounting cash flows at prevailing interest rates

| | Book value 2013 £'000 | Fair value 2013 £'000 | Book value 2012 £ 000 | Fair value 2012 £ 000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Loans and advances to customers | 917,051 | 899,618 | 1,038 846 | 1 032 776 |
| Cash and cash equivalents | 20 | 20 | 18 | 18 |
| Other financial assets | 2,819 | 2,819 | 16 181 | 16 181 |
| **Financial liabilities held at amortised cost** | | | | |
| Other interest bearing loans and borrowings | 806,057 | 806,057 | 743 567 | 743 567 |
| Deemed loans | 189,211 | 189,211 | 354 910 | 354 910 |

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

The following table summarises the fair value measurement basis used for assets and liabilities held on the statement of financial position at fair value

| | Level 1 2013 £'000 | Level 2 2013 £'000 | Level 3 2013 £'000 | Total 2013 £'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Derivative financial instruments | - | - | - | - |
| **Financial liabilities** | | | | |
| Derivative financial instruments | - | - | - | - |

| | Level 1 2012 £'000 | Level 2 2012 £'000 | Level 3 2012 £'000 | Total 2012 £'000 |
|---|---|---|---|---|
| Financial assets | | | | |
| Derivative financial instruments | - | 15 649 | - | 15,649 |
| Financial liabilities | | | | |
| Derivative financial instruments | - | 17,197 | | 17,197 |

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 None of the Company s financial assets or liabilities are valued using this technique

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

## West Bromwich Commercial Limited

### Notes to the financial statements (continued)

**21 Reclassification of 2012 balances**

During the year the Directors have reviewed the appropriate presentation of balances within the income statement and the statement of financial position As a result of the review changes have been made to the presentation of certain items The comparative figures for the year ended 31 March 2012 have been reclassified to provide comparable numbers on which to assess the financial performance and position of the Company for the year ended 31 March 2013 The reclassifications are detailed below

| **Impact of reclassifiaction** | 2012 £'000 |
|---|---|
| Income statement for the year ended 31 March 2012 | |
| Increase in interest receivable and similar income | 1 662 |
| Increase in interest expense and similar charges | (725) |
| Fair value losses on financial instruments | (465) |
| Decrease in fees and commissions receivable | (472) |
| Impact on operating loss and loss for the year | - |
| Statement of financial position at 31 March 2012 | |
| Decrease in trade and other receivables | (2 301) |
| Increase in trade and other payables | (1 384) |
| Decrease in other interest bearing loans and borrowings | 3,685 |
| Impact on net liabilities and equity | - |