West Bromwich Commercial Limited

Directors' Report and Financial Statements

For the year ended 31 March 2011

Registered number 05285783

West Bromwich Commercial Limited

Directors' Report and Financial Statements

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West Bromwich Commercial Limited

Directors and Advisors

Directors

P Southcott
J Westhoff
CJ Miller

Secretary

S Bartleet-Cross

Auditor

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

Registered Office

374 High Street
West Bromwich
B70 8LR

Registered Number

05285783

West Bromwich Commercial Limited

Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 March 2011

Business Review and Principal Activities

The Company is a wholly-owned subsidiary of West Bromwich Building Society and operates as part of the Commercial division

The Company's principal activity is the making of loans secured on land and commercial property The directors have reviewed the levels of new commercial advances to be made and have significantly reduced the level of advances expected For the foreseeable future, the Company will concentrate on managing its existing portfolio of accounts, including where appropriate re-financing of existing facilities

As shown in the Company's income statement on page 7, the Company's turnover has reduced this year, primarily as a result of falling average balances Net interest margins reduced slightly as a result increases in the intercompany funding rates charged (margin above Libor) exceeding increases in the charge rate to customers The overall result for the year shows a significant level of losses following £10 8m of impairment provisions charge

The Statement of Financial Position on page 8 of the financial statements shows the Company's financial position at the year-end

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

West Bromwich Building Society manages its operations on a Group basis The Company's directors believe that the current key performance indicators of the Company at this point in time principally centre around arrears management of the current portfolio Further details of the portfolio broken down by category are included in note 20 to these accounts

Dividend

The directors do not recommend the payment of a dividend (2010 £nil)

Directors and directors' interests

The Directors who held office during the period were as follows

P Southcott
J Westhoff
CJ Miller

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

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 noted in West Bromwich Building Society's Annual Report, which does not form part of this report

Financial risk management

The directors have considered the financial risks affecting the company and have disclosed the relevant policies in the notes to the financial statements

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 West Bromwich Building Society ("Society") Board The control systems consist of plans and budgets together with regular internal management information, established risk limits, clear responsibilities and delegated authorities together with other control procedures

A number of Society Board Committees, including the Society Assets and Liabilities Committee, Society Audit and Compliance Committee, and Society Credit 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 is the risk that a customer or counterparty is unable to honour its obligations to us as they fall 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 Accounts

Credit risk is managed within the group credit policies and limits set by the Society Board Credit Committee by thorough evaluation of the credit risk associated with the potential borrowers (with the credit decision being managed separately from the sales force), the taking of security against the loan and the close ongoing monitoring of account performance Loans which show signs of adverse performance are managed by specialist teams

The Company adopts a responsible approach to lending and ensures that the servicing of the loan meets the customers' ability to pay

The maximum credit risk exposure is the book value as shown in the book and fair value table on page 22 The Company's most significant exposures to credit risk are loans secured on UK commercial property

Market Risk

Market risk is the risk that the value of, or income from, the Company's assets and liabilities are impacted as a result of external changes, primarily in interest rates

The Society Treasury Department is responsible for managing our exposure to market risk, with oversight provided by the Society Assets and Liabilities Committee More details of the controls and processes in place to address this risk are set out in note 20 to the Accounts

Directors' Report (continued)

Liquidity Risk

Liquidity risk is the risk that the Company is unable to meet its current and future cash flow obligations as they fall due, or can only do so at excessive cost These obligations primarily include repayment of intercompany loans, fees and commissions received in advance and management expenses The Company's approach to management of this risk is described in note 20 to the Accounts

Operational Risk

Operational risk is the risk of financial loss or impairment to reputation arising from inadequate or failed processes, people or systems, 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 each of the Company's business units

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 Society Business Risk Department which enforces and ensures co-ordination of the Society's risk assessment and resulting control activities The Society Business Risk Department makes regular reports to the Society Audit and Compliance Committee and the Board

Disclosure of information to 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 he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of this information

West Bromwich Commercial Limited

Directors' Report (continued)

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 IFRSs as adopted by the EU and applicable law

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

- select suitable accounting policies and then apply them consistently,
- make 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

Auditor

In accordance with the relevant Sections of the Companies Act 2006, the company dispensed with the requirements to re-appoint the auditor annually

By order of the board

S Bartleet-Cross
Secretary
19 December 2011

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 2011 set out on pages 7 to 26 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 Directors' Responsibilities Statement set out on page 5 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 (APB'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 APB's web-site at www frc org uk/apb/scope/private cfm

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 2011 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

Jonathan Holt (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants

One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

21 December 2011

West Bromwich Commercial Limited

Income Statement

for the year ended 31 March 2011

	Notes	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Interest receivable and similar income	2	74,199	82,134
Interest payable and similar charges	3	(79,907)	(88,215)
Net interest expense		**(5,708)**	(6,081)
Fee and commission income		1,697	1,135
Other operating expenses		(2,008)	(1,982)
Operating loss		**(6,019)**	(6,928)
Movement in impairment on loans and advances and on other financial assets	8/10	(10,755)	(15,658)
Loss before taxation	4	**(16,774)**	(22,586)
Taxation	6	507	6,320
Loss for the year		**(16,267)**	(16,266)

All results relate to the Company's continuing operations

Statement of Comprehensive Income

for the year ended 31 March 2011

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Expense for the year	(16,267)	(16,266)
Total comprehensive expense for the year	(16,267)	(16,266)

Statement of Changes in Equity

for the year ended 31 March 2011

	2011			2010		
	Share capital £'000	Retained earnings £'000	Total £'000	Share capital £'000	Retained earnings £'000	Total £'000
Balance at 1 April	-	(23,069)	(23,069)	-	(6,803)	(6,803)
Total Comprehensive expense for the year	-	(16,267)	(16,267)	-	(16,266)	(16,266)
Balance at 31 March	-	(39,336)	(39,336)	-	(23,069)	(23,069)

West Bromwich Commercial Limited

Statement of Financial Position
at 31 March 2011

	Notes	2011 £'000	2010 £'000
Assets			
Non Current Assets			
Loans and advances	*8*	890,087	1,222,323
Deferred tax assets	*9*	7,956	13,342
Other financial assets	*10*	27,445	31,178
Total non current assets		925,488	1,266,843
Current Assets			
Cash and cash equivalents	*7*	35	44
Loans and advances	*8*	352,054	194,155
Tax receivable		5,877	1,038
Trade and other receivables	*11*	1,058	536
Total current assets		359,024	195,773
Total Assets		1,284,512	1,462,616
Liabilities			
Current liabilities			
Derivative financial instruments	*12*	1,089	2,001
Trade and other payables	*15*	1,334	388
Total current liabilities		2,423	2,389
Non current liabilities			
Deemed loans	*13*	465,090	541,291
Other interest bearing loans and borrowings	*14*	856,335	942,005
Total non current liabilities		1,321,425	1,483,296
Total Liabilities		1,323,848	1,485,685
Net (Liabilities)		(39,336)	(23,069)
Equity			
Share capital	*16*	-	-
Retained earnings	*17*	(39,336)	(23,069)
Total Equity		(39,336)	(23,069)

These financial statements were approved by the Board of Directors on 19 December 2011 and were signed on its behalf by

Director

Registered number 05285783

West Bromwich Commercial Limited

Statement of Cash flows

for the year ended 31 March 2011

	Notes	2011 £'000	2010 £'000
Cash flow from operating activities			
Loss before tax		**(16,774)**	(22,586)
Amortisation of acquisition premiums		**364**	339
Impairment on loans and advances and on other financial assets		**10,755**	15,658
Movements in derivative financial instruments		**(912)**	(662)
Cashflows from operating activities before changes in operating assets and liabilities		**(6,567)**	(7,251)
Net movement in loans and advances		**163,218**	151,764
Net movement in other financial assets		**3,733**	3,410
Net movement on deemed loans		**(76,201)**	(56 616)
Net movement in other interest bearing loans and borrowings		**(84,616)**	(91,391)
Net movement in trade and other payables		**946**	388
Net movement in trade and other receivables		**(522)**	(387)
Net Cashflow from operating activities		**(9)**	(83)
Tax paid		**-**	-
Movement in cash and cash equivalents		**(9)**	(83)
Opening cash and cash equivalents		**44**	127
Closing cash and cash equivalents	7	**35**	44

All of the Company's taxation is paid by the ultimate parent company and recharged through the intercompany loan account

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West Bromwich Commercial Limited

Notes

(forming part of the financial statements)

1 Summary of significant accounting policies

Basis of preparation

West Bromwich Commercial Limited (the "Company") is a company incorporated in the UK

The principal accounting policies of these financial statements are set out below These policies have been consistently applied to all the years presented, unless otherwise stated These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') and its interpretations as adopted by the EU and effective at 31 March 2011

The financial statements have been prepared under the historical cost convention as modified by the revaluation of Derivatives The financial statements are presented in pounds Sterling and, except where otherwise indicated, have been rounded to the nearest one thousand

The following Accounting Standard amendments have been applied for the first time in 2010/11

Development	Effective	Impact
IFRS 3 (revised), 'Business combinations' and consequential amendments to IAS 27, Consolidated and separate financial statements',	Annual reporting period beginning on or after 1 July 2009	The revised standard continues to apply the acquisition method to business combinations, with some significant changes For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the Income Statement There is a choice, on an acquisition-by-acquisition basis, to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest s proportionate share of the acquiree's net assets All acquisition-related costs should be expensed This has not had any impact during the current year as the Company has not made any acquisitions IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses The standard also specifies the accounting treatment when control is lost Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss There has been no impact of IAS 27 (revised) on the current period as the Company has no non-controlling interests
Eligible Hedged Items (Amendment to IAS39, Financial Instruments Recognition and Measurement)	Annual periods beginning on or after 1 July 2009	The amendment provides guidance for two situations Firstly, on the designation of a one-sided risk in a hedged item, IAS 39 concludes that a purchased option designated in its entirety as the hedging instrument of a one-sided risk will not be perfectly effective Secondly the designation of inflation as a hedged risk or portion is not permitted unless in particular situations Neither gave rise to any changes to the Company's financial statements
IAS 36 (amendment), 'Impairment of assets'	Annual periods beginning on or after 1 January 2010	The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics) As the Company has no goodwill, this has had no impact

The following standards and interpretations have been issued and are mandatory for the Company's accounting periods beginning on or after 1 April 2011 or later periods and would be relevant to the Company

Development	Impact
IFRS 9, 'Financial instruments part 1 Classification and measurement' (not yet endorsed by the EU)	The amendment 'Eligible hedged items' was issued in July 2008 It provides guidance for two situations Firstly, on the designation of a one-sided risk in a hedged item IAS 39 concludes that a purchased option designated in its entirety as the hedging instrument of a one-sided risk will not be perfectly effective Secondly, the designation of inflation as a hedged risk or portion is not permitted unless in particular situations This will not give rise to any changes to the Company's financial statements
Revised IAS 24 (revised), Related party disclosures'	Issued in November 2009 It supersedes IAS 24, Related party disclosures', issued in 2003 IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011 Earlier application, in whole or in part, is permitted However, the standard has not yet been endorsed by the EU The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities The Company will apply the revised standard from 1 April 2011 When the revised standard is applied, the Company will need to disclose any transactions between it and it's parent and other associates The Company is currently putting systems in place to capture the necessary information
IFRIC 19, 'Extinguishing financial liabilities with equity instruments	Effective 1 July 2010 The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap) It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued If the fair value of the equity instruments issued cannot be reliably measured the equity instruments should be measured to reflect the fair value of the financial liability extinguished The Company will apply the interpretation from 1 April 2011, subject to endorsement by the EU It is not expected to have any impact on the Company's financial statements
IFRS7 Transfers of Financial Assets (Amendments to IFRS 7)	The Amendments require additional disclosures about transfers of financial assets, e,g, securitisations and should enable users to understand the possible effects of any risks that may remain with the transferor The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period As the Company currently has a number of securitisations this could have an impact on the accounting treatment of these asset transfers

The Company did not early-adopt any of the above in the 2011 financial year

Notes (continued)
(forming part of the financial statements)

The preparation of financial statements under IFRS requires the use of certain critical accounting estimates and judgement The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, include Effective Interest Rate calculations, impairment of financial assets and recognition and derecognition of financial assets and liabilities Further details are set out at the end of this note

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

The Company is exempt by virtue 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

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 Method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts

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

Loans and advances to customers

The Company's loans and advances to customers are classified as "loans and receivables" Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market The company measures its loans and receivables at amortised cost, whereby the principal balance is the amount at initial recognition, less any principal repayments and impairment and adjusted for the cumulative amortisation using the effective interest rate method

In accordance with the effective interest method, up-front costs and fees such as mortgage premia paid on acquisition of mortgage books and completion fees are capitalised and amortised over the expected life of mortgage assets Historical and forecast mortgage redemption data and management judgement are used to estimate the expected lives of mortgage assets

West Bromwich Commercial Limited

Notes (continued)
(forming part of the financial statements)

Deemed Loan

The loans and advances to customers legally sold by the Company to securitisation companies 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 that a "deemed loan" liability is held on the Company's statement of financial position

The carrying value of the deemed loan is assessed at the end of each accounting period in line with the expected future cashflows of the underlying assets

Impairment of financial assets

The Company assesses at the end of each reporting period 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

The Company first assesses whether objective evidence of impairment exists for financial assets 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 carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Comprehensive Income

Fee and commission income

Fee and commission income other than directly related to loans is recognised over the period for which service has been provided or on completion of an act to which the fee relates

Segmental reporting

The business operates in one business segment and all business is conducted in the UK, therefore the directors have decided not to present segmental information

Cash and cash equivalents

For the purposes of the statement of cash flows, cash comprises cash in hand and loans and advances to credit institutions repayable on demand Cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value, with original maturities of three months or less

Taxation

Income tax on the losses for the year comprises current tax and deferred tax Income tax is recognised in the Statement of Comprehensive Income 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 on the taxable losses for the year, using tax rates enacted or substantially enacted on the year end date, and any adjustment to tax receivable in respect of previous years

Notes (continued)
(forming part of the financial statements)

Taxation (continued)
Deferred income tax is provided in full, using the balance sheet 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 income tax is determined using tax rates (and laws) that have been enacted by the statement of financial position 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 where it is probable that future taxable profit will be available against which the temporary differences can be utilised

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

Financial Assets

All financial assets held by the Company are measured at amortised cost using the effective interest method

Financial Liabilities

All financial liabilities held by the Company are measured at amortised cost using the effective interest method

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

Critical accounting estimates and judgements 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 judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances

Effective interest rate

The calculation of an effective interest rate requires the Company to make assumptions around the expected lives of mortgages and the likely levels of early repayment fees (ERFs) to be received Management regularly reviews these assumptions and compares with actual results If the assumed average life of the loans were to be decreased or increased by 6 months then this would have increased profit by £nil for a decrease and reduced profits by £40k for an increase

Notes (continued)

(forming part of the financial statements)

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

The recognition of the deferred tax asset is mainly 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 losses were caused by 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's projections of future taxable profits for the Company are based on business plans and ongoing tax planning strategies Management's forecasts support the assumption that it is probable that the future results of the Company will generate sufficient taxable income in the future to utilise deferred tax assets

		2011	2010
2	**Interest Receivable and similar income**	**£'000**	£'000
	On loans and advances	**74,563**	82,473
	Amortisation of acquisition premiums	**(364)**	(339)
		74,199	82,134

Interest receivable on impaired assets was £15,009k (2010 £14,514k)

		2011	2010
3	**Interest Payable and similar charges**	**£'000**	£'000
	Intercompany loan interest	**55,572**	58,823
	Interest payable on deemed loan	**24,335**	29,392
		79,907	88,215

		2011	2010
4	**(Loss) before tax**	**£'000**	£'000
	(Loss) before tax is stated after charging		
	Auditor's remuneration audit of these financial statements	**12**	12

5 Information regarding Directors and employees

The Company has no employees (2010 nil) The directors received no remuneration from the Company in respect of qualifying services during the year (2010 nil)

West Bromwich Commercial Limited

Notes (continued)
(forming part of the financial statements)

6 Taxation

	2011 £'000	2010 £'000
Current tax		
Corporation tax on (losses) for the period	(3,095)	(1,038)
Adjustment in respect of prior periods	(2,798)	1,426
Total current tax	(5,893)	388
Deferred tax (note 9)	5,386	(6,708)
Tax credit for the year	(507)	(6,320)

The tax credit for the year is in accordance with the UK standard rate of corporation tax of 28% (2010 28%)

Reconciliation of effective tax rate	2011 £'000	2010 £'000
(Loss) before tax	(16,774)	(22,586)
Tax using UK corporation tax rate of 28% (2010 28%)	(4,697)	(6,324)
Expenses not deductible for tax purposes	1	4
Adjustments to tax charge in respect of prior periods	3,577	-
Effects of other tax rate changes/credits	612	-
Total tax credit	(507)	(6,320)

7 Cash and cash equivalents

	2011 £'000	2010 £'000
Bank Accounts	35	44
	35	44

8 Loans and advances

	2011 £'000	2010 £'000
Repayable		
in not more than 3 months	13,763	38,791
in more than 3 months but not more than one year	338,291	155,364
in more than one year but not more than 5 years	582,919	591,850
in more than 5 years	356,713	674,632
	1,291,686	1,460,637
Effective Interest Rate adjustment	3,043	3,258
Fair value adjustments	8,300	10,925
Less impairment losses on loans and advances	(60,888)	(58,342)
At 31 March	1,242,141	1,416,478

Impairment for losses on loans and advances

	2011	2010
At 1 April	(58,342)	(50,592)
Provision for impairment	(8,700)	(15,658)
Utilisation during period	6,154	7,908
At 31 March	(60,888)	(58,342)

Notes (continued)
(forming part of the financial statements)

9 Deferred tax assets

Deferred tax is calculated on all temporary timing differences under the liability method using an effective tax rate of 26% (2010 28%)

The movement in the deferred tax asset is as follows	2011 £'000	2010 £'000
At start of year	13,342	6,634
Credit to income statement - current year (note 6)	990	5,282
Adjustments in respect of prior years (note 6)	(6,376)	1,426
At 31 March	7,956	13,342

Deferred tax assets are attributable as follows	2011 £'000	2010 £'000
Timing difference in respect of recognition of arrangement fee income	166	249
Trading losses	7,790	13,093
	7,956	13,342

Deferred tax assets are recognised only to the extent that the realisation of the related tax benefit against future taxable profits is probable over the foreseeable future

The deferred tax assets have been calculated at 26%, in accordance with IAS 12, being the rate substantively enacted at the date of the Statement of Financial Position The rate of corporation tax will be further reduced by 1% per annum to 23% by 1 April 2014 As the further reductions were not substantively enacted by 31 March 2011, the impact of the anticipated rate changes is not reflected in the tax provisions reported in these financial statements

10 Other financial assets

	2011 £'000	2010 £'000
Balances owed by related parties	32,653	32,633
Less provisions for impairment	(5,208)	(1,455)
	27,445	31,178

Balances owed by related parties include a £2,750,000 (2010 £2,750,000) subordinated loan and a £357,244 (2010 £357,244) 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 also include a £5,250,000 (2010 £5,250,000) subordinated loan and a £nil (2010 £200,000) 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 They also include a £5,283,152 (2010 £5,283,152) subordinated loan and a £1,572,548 (2010 £1,572,248) start up loan to Sandwell Commercial Finance No 3 Limited ("Sandwell 3") These attract interest at 3 month Libor plus 2% The subordinated loans have contractual maturities in 2039 and 2040, but would be repayable should the SPVs be wound up before that time The start up loan to Sandwell Commercial Finance No 1 plc is now fully repayable once cashflows allow whilst the remaining start up loan in Sandwell 3 is repayable in installments until March 2013, Sandwell 2 has been fully repaid

The recoverability of balances owed by related parties is reviewed regularly and where appropriate provision is made to reflect where management believe that the full amount may not be recoverable The provision for impairment includes asset write-offs incurred in the period in Sandwell 1 of £767,000 (2010 £1,438,000), Sandwell 2 of £931,000 (2010 £nil) and Sandwell 3 of £19,000 (2010 £nil) The deemed loan has been revalued by equal amounts

11 Trade and other receivables

	2011 £'000	2010 £'000
Other trade receivables	1,058	536
	1,058	536

West Bromwich Commercial Limited

Notes (continued)
(forming part of the financial statements)

12 Derivative financial instruments

	Notional Principal	Fair Value £'000 Assets	Liabilities
		2011	
Derivatives held for hedging			
- Derivatives designated as fair value hedges	240,699	12,262	(13,351)
Total assets/(liabilities) held for hedging	**240,699**	**12,262**	**(13,351)**
		2010	
Derivatives held for hedging			
- Derivatives designated as fair value hedges	316,157	15,552	(17,553)
Total assets/(liabilities) held for hedging	**316,157**	**15,552**	**(17,553)**

13 Deemed loans

	2011 £'000	2010 £'000
Repayable:		
Within 1 year	149,346	86,855
1 to 2 years	16,798	50,949
2 to 5 years	242,768	99,769
Over 5 years	47,878	292,793
Fair value adjustments	8,300	10,925
	465,090	541,291

14 Other interest bearing loans and borrowings

	2011 £'000	2010 £'000
Owed to Parent Company	856,335	942,005
	856,335	942,005

The amounts owed to parent Company attracts interest at a rate of 3 month Libor plus 1 5% (2010 Libor plus 1 5%) It has no fixed repayment date However, this forms part of the long term funding of the Company and is considered to be due after more than one year

15 Trade and other payables

	2011 £'000	2010 £'000
Other payables	1,334	388
	1,334	388

16 Share capital

	2011 £	2010 £
Authorised		
1,000 Ordinary shares of £1 each	1,000	1,000
Allotted, called up and fully paid		
2 Ordinary shares of £1 each, fully paid	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

	2011 £'000	2010 £'000
At start of year	(23,069)	(6,803)
(Loss)for the year	(16,267)	(16,266)
At end of year	(39,336)	(23,069)

West Bromwich Commercial Limited

Notes (continued)
(forming part of the financial statements)

18 Parent undertaking and ultimate controlling party

The entire ordinary share capital of the company is owned by West Bromwich Building Society, the ultimate parent undertaking and controlling party Copies of the parent company's consolidated financial statements can be obtained from 374 High Street, West Bromwich, B70 8LR

19 Related Party transactions

i) Subsidiary, Parent and Ultimate Controlling party
The parent and ultimate controlling party is detailed in note 18 to these accounts

ii) Key Management Personnel
The Board considers key management to comprise the directors (as disclosed in the Directors' report) Details of directors remuneration are set out in note 5 to the financial statements

iii) Transactions with key management personnel and their close family members
There are no transactions to note

iv) Other Companies within the Group
The company undertook the following transactions with other companies in the group during the year

	Interest paid	Staff and other recharges	Balance Due
2011	**£'000**	**£'000**	**£'000**
West Bromwich Building Society	55,572	2,008	856,335
2010			
West Bromwich Building Society	58,823	1,982	942,005

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	Fees received	Balance Due
2011	**£'000**	**£'000**	**£'000**
Sandwell Commercial Finance No 1 plc	169	211	3,132
Sandwell Commercial Finance No 2 plc	972	338	5,243
Sandwell Commercial Finance No 3 Limited	525	302	6,855
Sandwell Finance Holdings Limited	-	-	25
2010			
Sandwell Commercial Finance No 1 plc	(858)	222	3,136
Sandwell Commercial Finance No 2 plc	1,812	377	5,455
Sandwell Commercial Finance No 3 Limited	544	305	6,865
Sandwell Finance Holdings Limited	-	-	25

West Bromwich Commercial Limited

Notes (continued)
(forming part of the financial statements)

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 The Company's financial instruments comprise principally of Loans and Advances to customers, amounts owed to group undertakings and cash and cash equivalents
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

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 Society's Assets and Liabilities Committee ("ALCO") This policy sets out the nature of risk which may be taken and aggregate risk limits At each meeting the ALCO reviews reports showing the Society's exposure, of which the Company is a member, to market and liquidity risks

West Bromwich Commercial Limited

Notes (continued)

(forming part of the financial statements)

20 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 Interest rate re-pricing gap information is shown in the table below at 31 March It provides an estimate of the re-pricing profile of the Company's assets and liabilities For the major categories of assets and liabilities, the table shows the carrying values of interest earning assets and liabilities, which re-price within selected timeframes

	Not more than 3 months £'000	Non- interest bearing £'000	Total £'000
		2011	
Assets			
Cash and cash equivalents	35	-	35
Loans and advances	1,242,141	-	1,242,141
Other financial assets	27,445	-	27,445
Deferred tax assets	-	7,956	7,956
Tax receivable	-	5,877	5,877
Trade and other receivables	-	1,058	1,058
Total Assets	1,269,621	14,891	1,284,512
Liabilities			
Deemed loans	465,090	-	465,090
Derivative financial instruments	-	1,089	1,089
Other interest bearing loans and borrowings	856,335	-	856,335
Trade and other payables	-	1,334	1,334
Total Liabilities	1,321,425	2,423	1,323,848
		2010	
Assets			
Cash and cash equivalents	44	-	44
Loans and advances	1,416,478	-	1,416,478
Other financial assets	31,178	-	31,178
Deferred tax assets	-	13,342	13,342
Tax receivable	-	1,038	1,038
Trade and other receivables	-	536	536
Total Assets	1,447 700	14,916	1,462,616
Liabilities			
Deemed loans	541,291	-	541,291
Derivative financial instruments	-	2,001	2,001
Other interest bearing loans and borrowings	942,005	-	942,005
Trade and other payables	-	388	388
Total Liabilities	1,483,296	2,389	1,485,685

West Bromwich Commercial Limited

Notes (continued)

(forming part of the financial statements)

20 Financial Instruments (continued)

Fair values of financial instruments

Set out below is a comparison of book and fair values of the Company's financial instruments at 31 March not held on the statement of financial position at fair value Where available, market values have been used to determine fair values, otherwise fair values of other instruments have been calculated by discounting the expected future cashflows at the prevailing interest rate

	2011		2010	
	Book Value	Fair Value	Book Value	Fair Value
	£'000	£'000	£'000	£'000
Loans and receivables				
Loans and advances	1,242,141	1,274 934	1,416,478	1,439,850
Cash and cash equivalents	35	35	44	44
Other financial assets	27,445	27,445	31,178	31,178
Financial Liabilities held at amortised cost				
Other interest bearing loans and borrowings	856 335	856,335	942,005	942 005
Deemed loan	465 090	465,090	541,291	541 291

a) Loans and advances

Loans and advances are net of provisions for impairment The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received Expected cash flows are discounted at current market rates to determine fair value

b) Deposits and borrowings

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand

c) Debt securities in issue

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

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	Level 2	Level 3	Total
2011	£'000	£'000	£'000	£'000
Financial Liabilities				
Derivative financial instruments		1,089		1,089
2010				
Financial Liabilities				
Derivative financial instruments		2,001		2,001

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i e as price) or indirectly (i e derived from prices)
Level 3 Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

These definitions have been taken from the March 2010 amendment to IFRS 7 'Improving Disclosures about Financial Instruments'

West Bromwich Commercial Limited

Notes (continued)
(forming part of the financial statements)

20 Financial Instruments (continued)

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 our commercial customers The maximum credit risk exposure is the book value as shown in the fair value on page 22

The Group Board Credit Committee is responsible for the management of the level of credit risk that has been established by the 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 Board This committee is supported by two Executive sub-committees, the Group Credit Policy Committee and the Commercial Loans Review Committee and their role in the credit risk framework is outlined below

The Group Credit Policy Committee is responsible for the monitoring of the Group's credit exposures and approving changes to the systems that are utilised In addition, the committee reviews the type and quality of approved commercial mortgage business and appraises actual arrears and repossession levels against trends and industry averages The minutes of this committee are presented to the Board Credit Committee

The Commercial Loans Review Committee approves large residential and commercial loans at levels mandated by the Board Details of all loans approved by the committee are provided to the Board

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

	2011 £'000	2010 £'000
Concentration by loan type		
Loans secured on commercial property	**1,189,511**	1,342,177
Loans to housing associations	**72**	79
Loans secured on residential property	**102,103**	118,381
Gross balances	**1,291,686**	1,460,637
Impairment provisions	**(60,888)**	(58,342)
Fair value adjustments	**11,343**	14,183
	1,242,141	1,416,478

Notes (continued)

(forming part of the financial statements)

20 Financial Instruments (continued)

	2011 £'000	2010 £'000
Loans secured on commercial property are further split down into the following		
Healthcare & Leisure	**249,209**	251,709
Industrial & Warehouse	**72,061**	93,957
Office	**210,655**	237,489
Retail	**648,026**	741,808
Other	**9,560**	17,214
	1,189,511	1,342,177

The average indexed loan to value is 107 4% (2010 107 3%) £24 0m (2010 £19 1m) of loans that would be past due or impaired have had their terms renegotiated

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

	2011 £'000	2010 £'000
Loans neither past due or impaired	**935,375**	1,143,076
Loans not past due but impaired	**89,437**	71,426
Past due but not impaired		
- Past due up to 3 months	**54,389**	64,605
- Past due 3 to 6 months	**-**	97
- Past due 6 to 12 months	**8,743**	2,910
- Past due over 12 months	**-**	3,283
Impaired		
- Past due up to 3 months	**71,896**	77,057
- Past due 3 to 6 months	**1,180**	43,704
- Past due 6 to 12 months	**37,979**	1,968
- Past due over 12 months	**92,538**	47,530
- Possessions	**149**	4,981
	1,291,686	1,460,637

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

Fair value of collateral held (unindexed)	2011 £'000	2010 £'000
Not impaired	**1,271,103**	1,564,980
Impaired	**218,141**	171,674
Possessions	**2,228**	4,350
	1,491,472	1,741,004

West Bromwich Commercial Limited

Notes (continued)
(forming part of the financial statements)

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 Society liquidity management process, through maintaining a prudent level of liquid assets, wholesale funding facilities, intergroup 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 Accounts

The following table analyses the maturity profile of the Company's financial assets and liabilities, reflecting the residual duration from the Statement of Financial Position date to the contractual maturity date

2011

Assets	Within 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000	No specific maturity £'000	Total £'000
Cash and cash equivalents	35	-	-	-	-	35
Loans and advances	352,054	176 169	406,750	356,713	(49,545)	1 242,141
Other financial assets	-	-	-	-	27,445	27 445
Tax receivable	-	-	-	-	5,877	5,877
Deferred tax assets	-	-	-	-	7 956	7 956
Trade and other receivables	-	-	-	-	1,058	1,058
	352,089	176 169	406,750	356 713	(7 209)	1 284 512
Liabilities and reserves						
Deemed loans	149 346	16 798	242,768	47,878	8,300	465 090
Derivative financial instrument		-	-	-	1,089	1 089
Other interest bearing loans and borrowings	-	-	-	-	856,335	856 335
Trade and other payables		-	-		1 334	1,334
Reserves	-	-	-	-	(39 336)	(39,336)
	149,346	16,798	242 768	47,878	827 722	1,284,512

West Bromwich Commercial Limited

Notes (continued)

(forming part of the financial statements)

20 Financial Instruments (continued)

2010

Assets	Within 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000	No specific maturity £'000	Total £'000
Cash and cash equivalents	44	-	-	-	-	44
Loans and advances	194 155	195 442	396,408	674,632	(44 159)	1,416,478
Other financial assets	-	-	-	-	31 178	31,178
Tax receivable	-	-	-	-	1 038	1,038
Deferred tax assets	-	-	-	-	13,342	13 342
Trade and other receivables	-	-	-	-	536	536
	194 199	195 442	396 408	674,632	1 935	1 462 616
Liabilities and reserves						
Deemed loans	86 855	50 949	99,769	292,793	10 925	541,291
Derivative financial instrument.	-	-	-	-	2,001	2,001
Other interest bearing loans and borrowings	-	-	-	-	942,005	942,005
	-	-	-	-	388	388
Reserves	-	-	-	-	(23,069)	(23,069)
	86 855	50,949	99 769	292 793	932,250	1 462,616

Gross contractual cash flows

The Company's only significant financial liabilities are amounts owed to Group companies 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