

West Bromwich Commercial Limited

Directors' Report and Financial Statements

For the year ended 31 March 2009

Registered number 05285783

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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 Bartlett-Cross

Auditors

KPMG Audit Plc

Birmingham, UK.

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 2009.

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 interest rates. Net interest margins were down by 52% as a result of increases in intercompany funding rates charged (margin above Libor). The overall result for the year shows a significant level of losses following £48.7m of impairment provisions charge.

The balance sheet on page 8 of the financial statements shows the Company's financial position at the year-end.

On 18 April 2008, West Bromwich Commercial Limited sold £230 million of assets to Sandwell Commercial Finance No 3 Limited, a special purpose entity.

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 19 to these accounts.

Dividend

The directors do not recommend the payment of a dividend (2008: Nil)

Directors and directors' interests

The Directors who held office during the period were as follows:

RD Smith	(Resigned 16th April 2009)
GT Cowdrill	(Resigned 8th May 2009)
MJ Nixon	(Resigned 2nd December 2008)
AM Smith	(Resigned 2nd December 2008)
P Southcott	(Appointed 8th May 2009)
J Westhoff	(Appointed 8th May 2009)
CJ Miller	

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 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 Risk 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 19 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 20. The Company's most significant exposures to credit risk are loans secured on UK land.

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 19 to the Accounts.

West Bromwich Commercial Limited

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 commercial mortgages, fees and commissions received in advance and management expenses. The Company's approach to management of this risk is described in Note 19 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 Risk Committee and the Board.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all of the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are 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 IFRS's as adopted by the EU and applicable laws.

The financial statements are required by law to present fairly the financial position and the performance of the Company: the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing these financial statements the directors are required to:

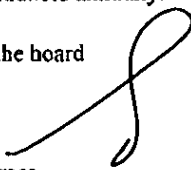
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS's as adopted by the EU; and
- prepare the financial statements on the going concern basis until it is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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure its financial statements comply with the Companies Act 1985. They have a 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 irregularity.

Auditors

In accordance with Section 386 of the Companies Act 1985, the company dispensed with the requirements to re-appoint the auditors annually.

By order of the board


S Bartleet-Cross
Secretary

27 October 2009

West Bromwich Commercial Limited

REPORT OF THE INDEPENDENT AUDITORS' 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 2009 which comprise the Income Statement, the Statement of Recognised Income and Expenditure, the Balance Sheet and the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' responsibilities on page 5.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the company's affairs as at 31 March 2009 and of its loss for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

2 Cornhill Street
Birmingham

28 October 2009

West Bromwich Commercial Limited

Income Statement

for the year ended 31 March 2009

	Notes	Year ended 31 March 2009	Year ended 31 March 2008 *
		£'000	£'000
Interest receivable and similar income	2	102,434	116,048
Interest payable and similar charges	3	(95,936)	(102,601)
Net interest income		6,498	13,447
Fee and commission income		1,243	788
Other operating expenses		(1,967)	(2,446)
Operating profit		5,774	11,789
Movement in impairment on loans and advances	8	(48,686)	(500)
(Loss)/profit before taxation	4	(42,912)	11,289
Taxation	6	12,329	(3,432)
(Loss)/profit for the year		(30,583)	7,857

All results relate to the Company's continuing operations.

* As restated - see note 2

Statement of recognised income and expenditure

for the year ended 31 March 2009

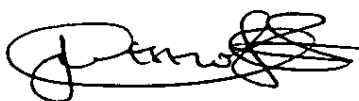
	Year ended 31 March 2009	Year ended 31 March 2008
	£'000	£'000
(Loss)/profit for the year	(30,583)	7,857
Total recognised income and expenditure for the year	(30,583)	7,857

West Bromwich Commercial Limited

Balance Sheet at 31 March 2009

	Notes	2009 £'000	2008 £'000
Assets			
Non Current Assets			
Loans and advances	8	1,544,981	1,576,953
Deferred tax assets	9	6,634	321
Other financial assets	10	34,588	15,643
Total non current assets		1,586,203	1,592,917
Current Assets			
Cash and cash equivalents	7	127	146
Loans and advances	8	39,258	73,538
Tax receivable		8,544	-
Trade and other receivables	11	149	7
Total current assets		48,078	73,691
Total Assets		1,634,281	1,666,608
Liabilities			
Current liabilities			
Derivative financial instruments		2,663	-
Tax payable		-	2,488
Trade and other payables	14	-	231
Total current liabilities		2,663	2,719
Non current liabilities			
Deemed loans	12	597,907	421,758
Other interest bearing loans and borrowings	13	1,040,514	1,218,351
Total non current liabilities		1,638,421	1,640,109
Total Liabilities		1,641,084	1,642,828
Net (Liabilities)/ Assets		(6,803)	23,780
Equity			
Share capital	15	-	-
Retained earnings	16	(6,803)	23,780
Total Equity		(6,803)	23,780

These financial statements were approved by the Board of Directors on 27 October 2009 and were signed on its behalf by:



Director

Company registered number: 05285783

West Bromwich Commercial Limited

Cash flow statement

for the year ended 31 March 2009

	Notes	2009 £'000	2008 £'000
Cash flow from operating activities			
(Loss)/profit before tax		(42,912)	11,289
Amortisation of acquisition premiums		385	400
Impairment on loans and advances		48,686	422
Movements in derivative financial instruments		2,663	-
Cashflows from operating activities before changes in operating assets and liabilities		8,822	12,111
Net movement in loans and advances		17,181	(214,850)
Net movement in other financial assets		(18,945)	2,096
Net movement on deemed loans		176,149	(33,976)
Net movement in other interest bearing loans and borrowings		(177,837)	237,647
Net movement in trade and other payables		(2,759)	173
Net movement in trade and other receivables		(142)	35
Net Cashflow from operating activities		2,469	3,236
Tax paid		(2,488)	(3,236)
Movement in cash and cash equivalents		(19)	-
Opening cash and cash equivalents		146	146
Closing cash and cash equivalents	7	127	146

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 and approved by the Directors in accordance with International Financial Reporting Standards ("Adopted IFRS") as adopted by the EU.

The following Accounting Standard amendments have been applied in 2008/09:

- Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures. The application of these amendments has not affected the Company;

The following Standard has been adopted by the EU but is not yet effective

- IFRS 8 Operating Segments is effective for periods commencing on or after 1st January 2009. This standard replaces IAS 14 Segmental Reporting and its application will not have any impact upon the financial results of the Company as it does not change the recognition or measurement of transactions in the financial statements. The standard aligns the disclosure of operating segments in the financial statements with the internal reporting of segments to senior management.

The following Standards and interpretations are neither adopted by the European Union nor effective for the 2008/09 year end:

- Amendments to IAS 1 Presentation of Financial Statements: A Revised Presentation which is effective for periods commencing on or after 1st January 2009. The revised standard will affect the presentation of owner changes in equity and of comprehensive income. Adoption will not change the recognition, measurement or disclosure of specific transactions or events as required by other standards;
- Amendment to IAS 23 Borrowing Costs which is applicable to borrowing costs related to qualifying assets for which the commencement date for capitalisation is on or after 1st January 2009. The application of this revised standard in 2008 would not have had a material impact on the financial statements;
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items which is effective for periods commencing on or after 1st July 2009. This amendment clarifies what can be designated as a hedged item in a hedge accounting relationship. It is not expected that this amendment will have any impact on the Company's ability to achieve hedge accounting; and
- Amendments to IAS 39 Reclassification of Financial Assets: Effective Date and Transition which is effective on or after 1st July 2008. This amendment clarifies the effective date and transition requirements for the change to the standard issued in October 2008, which permits entities to reclassify non-derivative financial assets out of the Fair value through profit and loss category in particular circumstances. The Company has not applied any of the reclassification options available in this amendment.

The financial statements have been prepared on an historical cost basis. 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.

West Bromwich Commercial Limited

Notes (continued)

(forming part of the financial statements)

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 s228 of the Companies Act 1985 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 payable

Interest income and expenses are recognised in the income statement using the effective interest rate method.

Effective Interest rate

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument. The calculation includes, where appropriate, all amounts payable or receivable by the company that are an integral part of the overall return.

Securitisation transactions

The company has entered into various 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.

As part of the securitisation transactions, the Company receives deferred consideration from the SPEs, Sandwell Commercial Finance No 1 plc, Sandwell Commercial Finance No 2 plc and Sandwell Commercial Finance No 3 Limited dependent upon the performance of the underlying mortgages. Such deferred consideration is included within interest income.

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.

Impairment of financial assets

The company assesses at each balance sheet 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.

West Bromwich Commercial Limited

Notes (continued)

(forming part of the financial statements)

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 Income Statement.

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 cash flow statement, 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)/profits 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 payable/receivable on the taxable income/losses for the year, using tax rates enacted or substantially enacted on the Balance Sheet date, and any adjustment to tax payable in respect of previous years.

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 balance sheet 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 balance sheet 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.

West Bromwich Commercial Limited

Notes (continued)

(forming part of the financial statements)

Financial Instruments

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 group profit by £280k for a decrease and £280k for an increase.

Impairment losses on loans and advances

In accordance with the accounting policy on page 11 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 within both the Company and group. Tax losses were incurred in the Company and other group companies during the year. Group management have evaluated the factors contributing to the losses to determine whether the factors leading to the losses are temporary or indicative of a permanent decline in earnings. Based on its analysis, Group management has determined that the losses were caused by increases in credit losses and contracting margin due to the current property and credit markets, as well as continued weakening in the general economy. Management's projections of future taxable profits for the Group are based on business plans, future capital requirements and ongoing tax planning strategies. Management's forecasts support the assumption that it is probable that the future results of the Company and Group will generate sufficient taxable income in the future to utilise deferred tax assets.

West Bromwich Commercial Limited

Notes (continued)

(forming part of the financial statements)

	2009	2008
	£'000	Restated*
2 Interest Receivable and similar income		
On loans and advances	102,814	115,369
Amortisation of acquisition premiums	(385)	(400)
Other interest	5	1,079
	<u>102,434</u>	<u>116,048</u>

Interest receivable on impaired assets was £4,610k (2008: £241k)

* In previous years, interest receivable on securitised mortgages has been presented netted off interest payable arising on the deemed loan. As the interest receivable and payable do not arise on the same transaction there is no right to set off. Therefore, the interest receivable on the securitised mortgages and the interest payable on the deemed loan are required to be presented in the income statement on a gross basis. The effect of this adjustment on the comparative period is to increase interest receivable from £89.2m by £26.8m to £116.0m and increase interest payable from £75.7m by £26.9m to £102.6m. This adjustment has had no effect on profit for the year, opening or closing net assets.

	2009	Restated*
	£'000	£'000
3 Interest Payable and similar charges		
Intercompany loan interest	57,878	75,728
Interest payable on deemed loan	38,058	26,873
	<u>95,936</u>	<u>102,601</u>

* see note 2 for explanation

	2009	2008
	£'000	£'000
4 (Loss)/Profit before tax		
(Loss)/Profit before tax is stated after charging :		
Auditors remuneration: audit services	<u>12</u>	<u>12</u>

5 Information regarding Directors and employees

The Company has no employees (2008: nil). The directors received no remuneration from the Company in respect of qualifying services during the year (2008: nil).

West Bromwich Commercial Limited

Notes (continued)

(forming part of the financial statements)

6	Taxation	2009 £'000	2008 £'000
	Current year		
	UK corporation tax	(6,016)	3,358
	Total current tax	(6,016)	3,358
	Deferred tax (note 9)	(6,313)	74
	Tax (credit)/charge for the year	(12,329)	3,432

The tax (credit)/charge for the year is in accordance with the UK standard rate of corporation tax of 28% (2008:30%).

	2009 £'000	2008 £'000
Reconciliation of effective tax rate:		
(Loss)/profit before tax	(42,912)	11,289
Tax using UK corporation tax rate of 28% (2008: 30%)	(12,015)	3,387
Non allowable revenue items	1	9
Effect of change in deferred tax rate	(315)	23
IFRS Transitional adjustments unwind	-	13
Total tax (credit)/expense	(12,329)	3,432

7	Cash and cash equivalents	2009 £'000	2008 £'000
	Bank Accounts	127	146
		<u>127</u>	<u>146</u>

8	Loans and advances	2009 £'000	2008 £'000
	Repayable:		
	in not more than 3 months	11,961	4,071
	in more than 3 months but not more than one year	71,090	69,467
	in more than one year but not more than 5 years	657,245	944,599
	in more than 5 years	819,284	630,595
		<u>1,559,580</u>	<u>1,648,732</u>
	Effective Interest Rate adjustment	16,889	4,131
	Fair value adjustments	58,362	
	Less impairment losses on loans and advances	(50,592)	(2,372)
	At 31 March	<u>1,584,239</u>	<u>1,650,491</u>

Impairment for losses on loans and advances

At 1 April	(2,372)	(1,950)
Provision for impairment	(48,686)	(500)
Utilisation during period	466	78
At 31 March	<u>(50,592)</u>	<u>(2,372)</u>

West Bromwich Commercial Limited

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 28% (2008: 28%)

	2009 £'000	2008 £'000
The movement in the deferred tax asset is as follows:		
At start of year	321	395
(Charge)/credit to income statement	6,313	(74)
At 31 March 2009	<u>6,634</u>	<u>321</u>

	2009 £'000	2008 £'000
Deferred tax assets are attributable as follows:		
Timing difference in respect of recognition of arrangement fee income	285	321
Trading losses	5,604	-
Timing difference in respect of recognition of derivative fair values	745	-
	<u>6,634</u>	<u>321</u>

Deferred tax assets are recognised only to the extent that the realisation of the related tax benefit is probable.

The deferred tax assets have been calculated at 28%, the Company's applicable corporation tax rate in accordance with IAS 12.

10 Other financial assets	2009 £'000	2008 £'000
Balances owed by related parties	<u>34,588</u>	<u>15,643</u>
	<u>34,588</u>	<u>15,643</u>

Balances owed by related parties include a £2,750,000 (2008: £2,750,000) subordinated loan and a £357,244 (2008: £337,874) start up loan to Sandwell Commercial Finance No 1 plc. These attract interest at 3 month Libor plus 5% and 2.5% respectively. They also include a £5,250,000 (2008: £5,250,000) subordinated loan and a £600,000 (2008: £1,000,000) start up loan to Sandwell Commercial Finance No 2 plc. These attract interest at 3 month Libor plus 5% and 2.5% respectively. They also include a £5,283,152 subordinated loan and a £1,586,951 start up loan to Sandwell Commercial Finance No 3 Limited. These also 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 SPV's 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 loans are repayable in installments until September 2010 and March 2013 respectively.

11 Trade and other receivables	2009 £'000	2008 £'000
Other trade receivables	<u>149</u>	<u>7</u>
	<u>149</u>	<u>7</u>

West Bromwich Commercial Limited

Notes (continued)

(forming part of the financial statements)

12	Deemed loans	2009 £'000	2008 £'000
	Repayable:		
	Within 1 year	43,794	16,775
	1 to 2 years	80,580	18,782
	2 to 5 years	74,821	92,418
	Over 5 years	398,712	293,783
		<u>597,907</u>	<u>421,758</u>

13	Other interest bearing loans and borrowings	2009 £'000	2008 £'000
	Owed to Parent Company	<u>1,040,514</u>	<u>1,218,351</u>
		<u>1,040,514</u>	<u>1,218,351</u>

The amounts owed to parent Company attracts interest at a rate of 3 month Libor plus 0.25%. 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.

14	Trade and other payables	2009 £'000	2008 £'000
	Other trade payables	<u>-</u>	<u>231</u>
		<u>-</u>	<u>231</u>

15	Share capital	2009 £	2008 £
	<i>Authorised</i>		
	1,000 Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
	<i>Allotted, called up and fully paid</i>		
	2 Ordinary shares of £1 each, fully paid	<u>2</u>	<u>2</u>

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

16	Retained earnings	2009 £'000	2008 £'000
	At start of year	23,780	15,923
	(Loss)/profit for the year	<u>(30,583)</u>	<u>7,857</u>
	At end of year	<u>(6,803)</u>	<u>23,780</u>

17 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.

West Bromwich Commercial Limited

Notes (continued)

(forming part of the financial statements)

18 Related Party transactions

i) Subsidiary, Parent and Ultimate Controlling party

The parent and ultimate controlling party is detailed in note 17 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.

The company undertook the following transactions with other companies in the group during the year:

	Interest paid £'000	Staff and other recharges £'000	Balance Due £'000
2009			
West Bromwich Building Society	57,878	1,967	1,040,514
2008			
West Bromwich Building Society	75,728	2,295	1,218,351

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 £'000	Fees received £'000	Balance Due £'000
2009			
Sandwell Commercial Finance No 1 plc	219	261	4,177
Sandwell Commercial Finance No 2 plc	1,761	407	5,851
Sandwell Commercial Finance No 3 Limited	1,238	394	6,880
Sandwell Finance Holdings Limited	-	-	25
2008			
Sandwell Commercial Finance No 1 plc	364	252	4,767
Sandwell Commercial Finance No 2 plc	1,983	387	10,851
Sandwell Finance Holdings Limited	-	-	25

West Bromwich Commercial Limited

Notes (continued)

(forming part of the financial statements)

19 Financial Instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity of another entity. The Company is a retailer of financial instruments, mainly in the form of commercial mortgages. The financial risks of the Company are managed as part of a group arrangement with its parent, West Bromwich Building Society (the "Society") which uses wholesale financial instruments to invest liquid asset balances and raise wholesale funding, and to manage the risks arising from its and its subsidiary operations. 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.

The Group's exposure to market risk is managed by the Society Treasury department by using appropriate hedging instruments or by taking advantage of natural hedges arising or existing within the group's business (although there are no hedging instruments existing within the Company). Market risk is managed within a clearly defined framework of policy limits and is measured and reported using a variety of techniques, according to the appropriateness of the technique to the exposure concerned. The techniques used include interest rate gap analysis, basis risk analysis, scenario analysis, net interest income and market value sensitivity analysis.

West Bromwich Commercial Limited

Notes (continued)

(forming part of the financial statements)

19 Financial Instruments (continued)

Interest rate risk

The company has no derivative financial instruments, but due to the nature of its funding arrangements with its parent (loans effectively re-price at each quarterly interest payment date) 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
	2009		
Assets			
Cash and cash equivalents	127	-	127
Loans and advances	1,584,239	-	1,584,239
Other financial assets	34,588	-	34,588
Deferred tax assets	-	6,634	6,634
Tax receivable	-	8,544	8,544
Trade and other receivables	-	149	149
Total Assets	1,618,954	15,327	1,634,281
Liabilities			
Deemed loans	597,907	-	597,907
Derivative financial instruments	-	2,663	2,663
Other interest bearing loans and borrowings	1,040,514	-	1,040,514
Total Liabilities	1,638,421	2,663	1,641,084
	2008		
Assets			
Cash and cash equivalents	146	-	146
Loans and advances	1,650,491	-	1,650,491
Other financial assets	15,643	-	15,643
Deferred tax assets	-	321	321
Trade and other receivables	-	7	7
Total Assets	1,666,280	328	1,666,608
Liabilities			
Deemed loans	421,758	-	421,758
Other interest bearing loans and borrowings	1,218,351	-	1,218,351
Tax payable	-	2,488	2,488
Trade and other payables	-	231	231
Total Liabilities	1,640,109	2,719	1,642,828

West Bromwich Commercial Limited

Notes (continued)

(forming part of the financial statements)

19 Financial Instruments (continued)

Fair values of financial instruments

Set out below is a comparison of book and fair values of some of the Company's financial instruments at 31 March 2009. 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.

	2009		2008	
	Book Value £'000	Fair Value £'000	Book Value £'000	Fair Value £'000
Loans and receivables				
Loans and advances	1,584,239	1,595,487	1,650,491	1,659,404
Cash and cash equivalents	127	127	146	146
Other financial assets	34,588	34,588	15,643	15,643
Financial Liabilities held at amortised cost				
Other interest bearing loans and borrowings	1,040,514	1,040,514	1,218,351	1,218,351
Deemed loan	597,907	597,907	421,758	421,758

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 table above.

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 Large Loans Approvals 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 Large Loans Approval 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:

	2009 £'000	2008 £'000
Concentration by loan type		
Loans secured on commercial property	1,407,293	1,451,507
Loans to housing associations	5,087	27,441
Loans secured on residential property	147,200	169,784
Gross balances	1,559,580	1,648,732
Impairment provisions	(50,592)	(2,372)
Fair value adjustments	75,251	4,131
	1,584,239	1,650,491

West Bromwich Commercial Limited

Notes (continued)

(forming part of the financial statements)

19 Financial Instruments (continued)

	2009 £'000	2008 £'000
Loans secured on commercial property are further split down into the following:		
Healthcare & Leisure	250,493	245,262
Industrial & Warehouse	102,371	114,611
Office	242,191	262,948
Retail	793,529	783,809
Other	18,709	44,877
	<u>1,407,293</u>	<u>1,451,507</u>

The average indexed loan to value is 75.8% (2008: 75.7%). \$4.9m (2008:nil) 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 2009.

	2009 £'000	2008 £'000
Loans neither past due or impaired	1,304,621	1,643,563
Loans not past due but impaired	89,424	-
Past due but not impaired		
- Past due up to 3 months	51,789	1,012
- Past due 3 to 6 months	4,660	602
- Past due 6 to 12 months	36,142	-
- Past due over 12 months	-	-
Impaired		
- Past due up to 3 months	58,593	1,549
- Past due 3 to 6 months	7,962	1,051
- Past due 6 to 12 months	4,538	-
- Past due over 12 months	751	-
- Possessions	1,100	955
	<u>1,559,580</u>	<u>1,648,732</u>

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)	2009 £'000	2008 £'000
Not impaired	2,053,199	2,582,056
Impaired	192,843	7,917
Possessions	-	600
	<u>2,246,042</u>	<u>2,590,573</u>

West Bromwich Commercial Limited

Notes (continued)

(forming part of the financial statements)

19 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 balance sheet date to the contractual maturity date.

	2009					Total £'000
	Within 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000	No specific maturity £'000	
Assets						
Cash and cash equivalents	127	-	-	-	-	127
Loans and advances	83,051	53,087	604,158	819,284	24,659	1,584,239
Other financial assets	-	-	-	-	34,588	34,588
Tax receivable	-	-	-	-	8,544	8,544
Deferred tax assets	-	-	-	-	6,634	6,634
Trade and other receivables	-	-	-	-	149	149
	<u>83,178</u>	<u>53,087</u>	<u>604,158</u>	<u>819,284</u>	<u>74,574</u>	<u>1,634,281</u>
Liabilities and reserves						
Deemed loans	43,794	80,580	74,821	-	-	199,195
Derivative financial instrument	-	-	-	-	2,663	2,663
Other interest bearing loans and borrowings	-	-	-	-	1,040,514	1,040,514
Reserves	-	-	-	-	(6,803)	(6,803)
	<u>43,794</u>	<u>80,580</u>	<u>74,821</u>	<u>-</u>	<u>1,036,374</u>	<u>1,235,569</u>
	2008					Total £'000
	Within 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000	No specific maturity £'000	
Assets						
Cash and cash equivalents	146	-	-	-	-	146
Loans and advances	73,538	132,758	811,841	630,595	1,759	1,650,491
Other financial assets	-	-	-	-	15,643	15,643
Deferred tax assets	-	-	-	-	321	321
Trade and other receivables	-	-	-	-	7	7
	<u>73,684</u>	<u>132,758</u>	<u>811,841</u>	<u>630,595</u>	<u>17,730</u>	<u>1,666,608</u>
Liabilities and reserves						
Deemed loans	16,775	18,782	386,201	-	-	421,758
Other interest bearing loans and borrowings	-	-	-	-	1,218,351	1,218,351
Tax payable	-	-	-	-	2,488	2,488
Trade and other payables	-	-	-	-	231	231
Reserves	-	-	-	-	23,780	23,780
	<u>16,775</u>	<u>18,782</u>	<u>386,201</u>	<u>-</u>	<u>1,244,850</u>	<u>1,666,608</u>

West Bromwich Commercial Limited

Notes (continued)

(forming part of the financial statements)

19 Financial Instruments (continued)

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.