Annual Report

and

Accounts

for the year

ended

31 December 2009

WHITEAWAY LAIDLAW BANK LIMITED

Company Number 388466 (England and Wales)

WHITEAWAY LAIDLAW BANK LIMITED
DIRECTORS, OFFICERS AND ADVISERS

Company Number	388466 (England and Wales)	
Board of Directors	+ Graham P Alcock	(Chairman)
	David E Cowie	
	+ Douglas J Martin	
	+ Joseph Smith	*(Resigned 19 May 2009)*
	+ Robert W Dyson	*(Appointed 19 May 2009)*
	Bruce C Tyler	
	(+ Non-executive directors)	
Secretary	Nancy Artell	
Registered Office	125 Portland Street Manchester M1 4QD	
Registered Auditors	Grant Thornton UK LLP 4 Hardman Square Spinningfields Manchester M3 3EB	

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REPORT OF THE DIRECTORS

The directors have pleasure in submitting the annual report and accounts for the year ended 31 December 2008

REVIEW OF ACTIVITIES

Whiteaway Laidlaw Bank Limited (the Bank) is an authorised institution under the Financial Services and Markets Act 2000 and is subject to regulation by the Financial Services Authority ("the FSA")

During the year ended 31 December 2009, the Bank s main activity continued to be the provision of banking services to personal and small business customers ("SME"s)

BUSINESS REVIEW

As anticipated, 2009 turned out to be an extremely difficult year for both the UK economy and the banking system

The UK economy continued to nose dive during the first half of 2009 and bottomed in the second half of the year The banking system both in the UK and globally, also struggled although performance was mixed with state support assisting weaker major banks whilst strong institutions generally performed better than might have been expected

The Bank's core market of SME lending remained depressed by the local economy, however, and the wider recession resulted in the charge for bad debts in the year being in excess of £850k, the largest annual charge in the Bank's history A detailed review has been undertaken of the Bank's loan book with suitable provisions being made for all accounts based on a critical assessment of the risk of loss arising The Bank continues to pay close attention to the management of its customer relationships, with the aim of reducing the risk of loss arising

A further impact of the UK's economic position was that in March 2009, the MPC reduced the Bank of England Base Rate to an historic low of 0 5% The reduction in BBR has not been mirrored by a reduction in the rates of interest demanded by and paid to retail savings customers One of the Bank's historic strengths was that it was not dependent upon the wholesale funds market and as a result has been majority funded by retail depositors The Bank ended 2009 with strong and stable retail deposits of £30 9m equivalent to 115% of all balances due from borrowers However as a result of this funding structure the disconnect between Bank of England Base Rate and the rate paid to savers has been that the Bank s interest margin reduced notably during 2009 equivalent to a reduction of 36% of net interest income

Non-interest income saw a 12% decline as a result of applying a lower level of customer fees The Bank has also adopted a highly cautious attitude towards new business in the SME market resulting in fewer new loans being written and as a consequence there was a reduction in arrangement fee income In order to offset declining income streams the Bank continued to reduce its cost base, with personnel costs shrinking by 9%

Loans and advances to customers ended the year at £27 0m (2008 £24 0m) The increase resulted primarily from the launch of a range of conservatively designed and underwritten fixed rate mortgage products The Board believes that these products add favourably to the Bank s balance sheet, increasing the overall quality of the loan book

Disappointingly, as a result of prevailing factors of reduced margin and increased bad debt costs the Bank reported a pre-tax loss of £685k This compares with a pre-tax profit of £209k for the 12 month period to 31st December 2008 Despite the loss, the Bank's capital position remains strong The Bank is fully funded by retail deposits and its cost base remains firmly under control

The Regulatory landscape on which the Bank operate continues to undergo significant change and the Bank is working to meet the challenges presented by the FSA's new Liquidity Regime and the implementation of the Consumer Credit Directive The Board foresees slow UK economic growth for 2010 and in this context it expects that business for the Bank will remain difficult, although the Bank is well placed to benefit from major improvement and increased activity as both the UK economy and interest rates recover

MANAGEMENT OF RISK

The management of risk is a fundamental aspect of the Bank's policies To achieve this the Board of Directors is committed to maintaining a strict and practical control culture whereby proper controls exist to protect the Bank from financial and reputational risk, ensuring that at all times the Bank complies with all relevant legislation In its management of operational risk, it is the Bank's policy to protect its staff, customers and its own reputation and assets from physical risk and financial loss through fraud or avoidable error The Bank's policies and procedures are designed to prevent irregularities arising from human error or misconduct, systems failure or inadequate procedures and controls In addition the Bank has in place a business disaster recovery plan

Details of the Bank's financial risk objectives, policies and management are given in note 18 of the accounts

DIRECTORS

The names of the directors who held office throughout the year are shown on the contents page

RELATED PARTY TRANSACTIONS

Banks are obliged by law to observe a strict duty of confidentiality in respect of their customers' affairs and this is recognised in Financial Reporting Standard No 8 ("Related Party Disclosures") The Bank does not have any transactions with its directors and other related parties which are outside the terms of normal banking business and therefore no disclosure of these transactions is made

RESULT AND DIVIDEND

The operating loss for the year ended 31 December 2009 was £685,000 (year ended 31 December 2008 - £209,000 profit) No dividend was paid or proposed in the period (year ended 31 December 2008 - nil)

EMPLOYEE INVOLVEMENT

Employees are consulted by the Bank with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests Information on matters of concern to employees is also disseminated through meetings, publications and electronic media

EMPLOYMENT OF DISABLED PERSONS

The Bank supports the employment of disabled people wherever possible through recruitment, by retention of those who become disabled during their employment and generally through training, career development and promotion

CREDITOR PAYMENT

For all trade creditors, it is the Bank's policy to

- o agree and confirm the terms of payment at the commencement of business with that supplier
- o pay in accordance with contractual and other legal obligations

Trade creditor days at 31 December 2009 were 17 days (31 December 2008 - 25 days)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) The financial statements are required by law to give a true and fair view of the state of affairs of the Bank and of the profit or loss of the Bank for that period In preparing these financial statements, the directors are required to

- o select suitable accounting policies and then apply them consistently,
- o make judgements and estimates that are reasonable and prudent,
- o state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- o prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Bank will continue in business

The directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

In so far as each of the directors is aware

- o there is no relevant audit information of which the Bank's auditors are unaware, and
- o the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Bank's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

AUDITORS

An elective resolution was passed on 28 April 1997 which dispenses with the obligation to appoint auditors annually Consequently ratification of Grant Thornton UK LLP's appointment will not be required at an Annual General Meeting

By order of the Board

G P Alcock
Chairman
27 April 2010

INDEPENDENT AUDITOR'S REPORT

To the members of Whiteaway Laidlaw Bank Limited

We have audited the financial statements of Whiteaway Laidlaw Bank Limited for the year ended 31 December 2009 which comprise the profit and loss account and balance sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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 auditors

As explained more fully in the Directors' Responsibilities Statement as set out on page 3, 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 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 website at www frc org uk/ apb/ scope/ UKNP

Opinion on financial statements

In our opinion the financial statements

- o give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its loss for the year then ended,
- o have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- o 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

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

Marcus Swales.

Marcus Swales
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Manchester
27 April 2010

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2009

	Notes	2009 £ 000	2008 £ 000
Interest receivable			
Interest receivable and similar income from debt securities		182	579
Other interest receivable and similar income		1,338	2,725
Total interest receivable		1,520	3,304
Interest payable		(716)	(2,058)
Net interest income		804	1,246
Fees and commissions receivable	1	700	795
Fees and commissions payable		(92)	(102)
Dealing profits	2	21	40
Operating income		1,433	1,979
Administrative expenses	3	(1,242)	(1,321)
Depreciation	12	(49)	(56)
Provision for bad and doubtful debts	6	(877)	(393)
Release of provision for contingent liabilities and commitments		50	-
Operating (loss) profit and (loss) profit on ordinary activities before tax		(685)	209
Tax on loss (profit) on ordinary activities	7	193	(54)
(Loss) profit on ordinary activities after tax for the financial year		(492)	155

All of the above amounts are in respect of continuing operations

The Bank has no recognised gains and losses other than those included in the profit and loss account

There is no difference between the profit on ordinary activities before tax and the retained profit for the year stated above, and their historical cost equivalents

The accounting policies and notes, on pages 7 to 18, form an integral part of these financial statements

BALANCE SHEET

as at 31 December 2009

	Notes	2009 £ 000	2008 £ 000
Assets			
Loans and advances to banks	9	**13,512**	2,304
Loans and advances to customers	10	**26,967**	24,016
Debt securities	11	**-**	14,000
Tangible fixed assets	12	**18**	67
Prepayments and accrued income		**368**	521
Corporation tax and deferred tax	7	**239**	47
Total assets		**41,104**	40,955
Liabilities			
Customer accounts	13	**30,944**	29,807
Amounts owed to group undertakings		**327**	564
Other liabilities	14	**163**	422
Subordinated debt	20	**5,000**	5,000
Called up equity share capital	15	**2,000**	2,000
Profit and loss account	16	**2,670**	3,162
Equity shareholders' funds	16	**4,670**	5,162
Total liabilities		**41,104**	40,955
Memorandum items			
Contingent liabilities			
Guarantees issued	17	**292**	360
Commitments	17	**3,557**	3,473

The accounting policies and notes, on pages 7 to 18, form an integral part of these financial statements

The financial statements on pages 5 to 18 were approved by the Board of Directors on 27 April 2010 and are signed on its behalf by

G P Alcock Chairman

B C Tyler Chief Executive

ACCOUNTING POLICIES

(a) Basis of accounting
The accounts have been prepared under the historical cost convention, in accordance with the provisions relating to banking companies in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, applicable Accounting Standards and Statement of Recommended Accounting Practice issued by the British Bankers' Association, which have been consistently applied

(b) Cash flow statement
The Bank is a wholly owned subsidiary of Manchester Building Society and its cash flows are included in the consolidated cash flow statement of Manchester Building Society Consequently, the Bank is exempt from the requirement to publish a cash flow statement

(c) Bad and doubtful debts
Provisions are made to reduce the values of loans and advances to the amount which management considers is likely to be recoverable Throughout the period and at the period end, assessments are made of all loans and advances which are in arrears Specific provisions are made against those loans and advances when it is considered that their circumstances make full recovery doubtful A general provision is made against loans and advances to cover bad and doubtful debts which have not been separately identified but which are known from experience to be present in any portfolio of loans and advances The general provision is determined using management judgement, lending quality and economic prospects and is currently calculated at 3 56% of outstanding loan balances which are each individually less than £25,000 The rate used for the general provision is based on the preceding year's bad debt experience The charge to the profit and loss account represents new or additional provisions made, less any reduction in provisions or recoveries of amounts previously provided Interest which is considered irrecoverable, where the normal lending relationship has ceased, is suspended Interest up to that time is credited to income and provision made as appropriate Advances are shown on the balance sheet after deducting these provisions

(d) Income
Interest and charges receivable on lending and finance are credited to profit on an accruals basis Commitment and other banking fees are credited to profit when due and payable

(e) Interest payable
Interest payable on lending and finance is debited against profit on an accruals basis

(f) Related party transactions
The Bank has taken advantage of the exemption available under Financial Reporting Standard No 8 ("Related Party Disclosures") not to disclose any transactions with the ultimate parent company and fellow subsidiary undertakings, or any banking transactions that would breach client confidentiality

(g) Foreign currencies
Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling on the balance sheet date Income and expenses, which arose originally in foreign currencies, are translated daily into sterling at the prevailing rate

(h) Tangible fixed assets and depreciation
Depreciation on assets is calculated on the straight-line basis to write off the cost of assets at the following annual rates

Office equipment	20% - 33%
Fixtures and fittings	10%

(i) Pensions - defined contribution scheme
The costs of the Bank's defined contribution pension arrangements are charged to the profit and loss account on the basis of contributions payable in respect of the accounting period

(j) Deferred taxation
In accordance with Financial Reporting Standard No 19 ("Deferred tax") deferred taxation is fully provided in respect of timing differences to the extent that it is probable that a liability will arise or that an asset will be recoverable in the foreseeable future Deferred tax balances are not subject to discounting

(k) Operating lease agreements
Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease

NOTES TO THE ACCOUNTS

1 INCOME AND TURNOVER

Fees and commissions receivable comprises income for the banking services provided to personal and SME customers

2 DEALING PROFITS

Dealing profits comprise profits on the purchase and sale of foreign currencies to customers and on the revaluation of the Bank's foreign currency assets and liabilities

3 ADMINISTRATIVE EXPENSES

	2009	2008
	£ 000	£ 000
Staff costs		
Wages and salaries	657	723
Social security costs	64	72
Other pension costs	49	49
Total staff costs	770	844
Other administrative costs	472	477
	1,242	1,321

The auditors' remuneration was £26,000 for audit services (2008 - £20,000) £3,000 of fees were paid by the Bank to the auditors in relation to work on taxation (2008 - £2,000)

Operating lease rental costs of £50,300 for land and buildings were charged in the year (2008 - £50,300)

4 NUMBER OF EMPLOYEES

	31 December 2009		31 December 2008	
	Full time	Part time	Full time	Part time
The average number of persons employed by the Bank during the year was				
Sales staff	2	-	4	-
Administrative staff	17	-	16	-
	19	-	20	-

5 EMOLUMENTS OF DIRECTORS

	2009	2008
	£000	£000
Emoluments	159	114
Pension contributions to money purchase schemes	15	11
Aggregate emoluments	174	125

Messrs Cowie, Smith and Dyson are directors of Manchester Building Society, they are paid by Manchester Building Society and no direct recharge is made to the Bank for their services The above details include no emoluments in respect of Messrs Cowie, Smith and Dyson, whose total emoluments are included in the directors' emoluments disclosed in the financial statements of Manchester Building Society

During the year 1 (2008 1) director participated in a money purchase pension scheme

6 PROVISIONS FOR BAD AND DOUBTFUL DEBTS

	Specific £ 000	General £ 000	Total £ 000
At 1 January 2009	607	98	705
Charge to (release from) the profit and loss account	926	(49)	877
Amounts applied in writing off advances	(213)	-	(213)
At 31 December 2009	1,320	49	1,369

In addition to the above is a provision of £87,000 (2008 £54,000) in relation to interest which is considered irrecoverable and has been suspended from the appropriate assets in the balance sheet

7 TAXATION ON THE (LOSS) PROFIT FOR THE YEAR

	2009 £ 000	2008 £ 000
Current tax :		
UK corporation on (losses) profits of the period	(201)	74
Adjustment in respect of previous periods	-	(7)
Total current tax charge	(201)	67
Deferred Tax :		
Origination and reversal of timing differences	(6)	(6)
Decrease (Increase) of general bad debt provisioning	14	(7)
Change in future tax rate	-	0
Total deferred tax	8	(13)
Tax on (loss) profit on ordinary activities	(193)	54

The tax assessed for the period is lower (year to 31 December 2008 - lower) than the standard rate of corporation tax in the UK (28%) The differences are explained below

	2009 £ 000	2008 £ 000
(Loss) profit on ordinary activities before tax	(685)	209
(Loss) profit on ordinary activities multiplied by standard rate in the UK 28% (year to 31 December 2008 - 28%)	(192)	59
Effects of		
Expenses not deductible for tax purposes	-	2
Accelerated capital allowances and other timing differences	(9)	13
Adjustment in respect of prior periods	-	(7)
Current tax for the period	(201)	67

The Deferred tax asset of **£39,000** (31 December 2008 - £47,000) represents the effect of timing differences The movement in the period represents the charge (year to 31 December 2008 - credit) to the profit and loss account as shown above

NOTES TO THE ACCOUNTS *(continued)*

8 DIVIDENDS

	Year to 31 December 2009 £ 000	Year to 31 December 2008 £ 000
On equity shares		
No dividend has been paid or proposed in the period (year to 31 December 2008 - £nil)	-	-

9 LOANS AND ADVANCES TO BANKS

	At 31 December 2009 £ 000	At 31 December 2008 £ 000
Repayable on demand	13,512	2,304
Other loans and advances repayable in not more than three months	-	-
	13,512	2,304

10 LOANS AND ADVANCES TO CUSTOMERS

	At 31 December 2009 £ 000	At 31 December 2008 £ 000
Repayable on demand	9,275	11,044
Other loans and advances repayable in		
Not more than three months	1,744	1,971
Three months to six months	673	1,218
Six months to one year	923	1,280
One year to five years	6,906	5,940
More than five years	7,446	2,563
	26,967	24,016

11 DEBT SECURITIES

	At 31 December 2009 £ 000	At 31 December 2008 £ 000
Issued by other Issuers	-	14,000

These debt securities consist of unlisted certificates of deposit, issued by institutions authorised in the UK under the Financial Services and Markets Act 2000 They are recorded at cost and are all due to mature within three months

12 TANGIBLE FIXED ASSETS

	Fixtures, fittings & equipment £ 000
Cost	
At 1 January 2009	279
Additions	0
Disposals	(117)
At 31 December 2009	162
Depreciation	
At 1 January 2009	212
Charge for year	49
Disposals	(117)
At 31 December 2009	144
Net book value	
At 31 December 2009	18
At 31 December 2008	67

13 CUSTOMER ACCOUNTS

	At 31 December 2009 £ 000	At 31 December 2008 £ 000
Repayable on demand	**10,340**	11,764
With agreed maturity dates or periods of notice and repayable in		
Not more than three months	**20,517**	17,885
Three months to one year	**87**	158
	30,944	29,807

14 OTHER LIABILITIES

	At 31 December 2009 £ 000	At 31 December 2008 £ 000
Corporation tax	-	20
Other creditors	**163**	352
Other provisions	-	50
	163	422

15 CALLED UP SHARE CAPITAL

	At 31 December 2009	At 31 December 2008
	£ 000	£ 000
Authorised		
30,000,000 ordinary shares of £1 each	30,000	30,000
Allotted and fully paid		
2,000,000 ordinary shares of £1 each	2,000	2 000

16 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Share capital	Profit and loss account	Total shareholders' funds
	£ 000	£ 000	£ 000
At 31 December 2008	2,000	3,162	5,162
(Loss) for the period	-	(492)	(492)
Dividends paid	-	-	-
At 31 December 2009	2,000	2,670	4,670

17 CONTINGENT LIABILITIES AND COMMITMENTS

The nominal value and risk weighted amounts of contingent liabilities and commitments are shown below The nominal contract amounts indicate the volume of business at the balance sheet date, but not the amounts at risk The risk weighted amounts have been calculated in accordance with the FSA's guidelines implementing the Capital Requirements Directive The prior year risk weighted amounts were calculated in accordance with previous FSA guidelines which implemented the Banking Consolidation Directive

The Bank has a contingent liability which cannot be quantified in respect of contributions to the Financial Services Compensation Scheme ("FSCS") required by the Financial Services and Markets Act A further assessment of this liability is considered below

During 2008, claims were made on the FSCS following the failure of Bradford & Bingley plc in September, Heritable Bank plc and Kaupthing Singer and Friedlander Limited in October and London Scottish Bank plc in November In the event that other UK deposit taking institutions fail, there may be further claims made on the FSCS

In order to fund the claims made under its terms of operation, the FSCS has borrowed from the Bank of England and HM Treasury The FSCS pays interest on these loans The FSCS is due to benefit from any realisations that arise in the failed banks detailed above If there is insufficient value arising on realisation in order to repay its loans, then the FSCS may incur further costs

The cost of borrowing these funds is passed on to all UK banks and building societies

The FSCS has provided deposit takers with details of the calculations that it undertakes to determine the levy However, this calculation is subject to future changes in interest rates and levels of deposits held by each UK deposit taker Therefore, there is inherent uncertainty regarding the totality of the levy that the Bank will have to pay Based on current interest rates, the levy for the Bank for the three year period is approximately £46,000 Full provision has been made for this sum

NOTES TO THE ACCOUNTS *(continued)*

17 CONTINGENT LIABILITIES AND COMMITMENTS *(continued)*

	At 31 December 2009 Contract amount £ 000	At 31 December 2009 Risk weighted amount £ 000	At 31 December 2008 Contract amount £ 000	At 31 December 2008 Risk weighted amount £ 000
Contingent liabilities				
Guarantees issued	292	292	360	360
Commitments				
Undrawn lending facilities	3,557	-	3,473	-

The Bank has the following commitments under uncancellable operating leases

	At 31 December 2009 £ 000	At 31 December 2008 £ 000
Obligations under operating leases for land and buildings comprise		
Expiring after 5 years	92	92
	92	92

NOTES TO THE ACCOUNTS *(continued)*

18 FINANCIAL INSTRUMENTS

The Bank's policies for the holding and issuing of financial instruments are set out below Financial Reporting Standard No 25 ("Financial instruments Disclosure and presentation") requires disclosure of the significance of financial instruments to an entity's financial performance and cash flows It further requires a description of the financial risk management objectives and policies of an entity, a discussion of the extent of the use of financial instruments, the risks involved in their use and the business purposes served These matters and management policies for controlling the risks associated with financial instruments are dealt with below Financial Reporting Standard No 13 ("Derivatives and Financial instruments") also requires numerical disclosures in respect of financial assets and liabilities and again these are included below Short-term debtors and creditors are excluded from these disclosures in accordance with the exemption available under the Standard

Financial instruments are fundamental to the business of the Bank and are used to enable the Bank to achieve its objectives in the management of

a) surplus funds by placement in the money markets in accordance with the formal large exposure policy and liquidity policy documents approved by the Board, and
b) buying and selling of foreign currencies to and from customers and in identifying and covering any resultant foreign currency exposures

Within its operations the Bank holds financial instruments in the following main categories

Loans and deposits are undertaken with other institutions and retail customers They are held on a continuing basis to earn cash flows from the net interest margin and fee income over the life of the instruments or customer relationships

Investments in debt securities are held as necessary to accord with liquidity policy requirements and to generate sustainable income streams on a continuing basis

Funding of the Bank's business is entirely from capital and reserves and customer deposits with no call on the wholesale money markets

The Bank's dealings in these financial instruments expose it to the following principal risks interest rate risk, liquidity risk, credit risk and exchange rate risk The Board annually reviews and agrees policies for managing each of these risks

Interest rate risk

The Bank is exposed to movements in interest rates This exposure is managed by continuous monitoring of the interest rate profile of its assets and liabilities to allow appropriate action to be taken

Interest rate risk profile

The interest rate risk profile of the Bank's loans and advances is as follows

	Floating rate loans and advances	Fixed rate loans and advances	Fixed rate Debt Securities	Loans and advances on which no interest is earned	Total	Fixed rate loans and advances: Weighted average interest rate	Fixed rate loans and advances: Weighted average period for which rate is fixed
	£ 000	£ 000	£ 000	£ 000	£ 000		Years
At 31 December 2009	33,860	5,334	-	1,285	40,479	6 4%	3 15
At 31 December 2008	26,044	251	14,000	25	40,320	12 1%	1 10

The maturity profile of the Bank's loans and advances is given in notes 9,10 and 11 and there is no difference between the carrying amount and their fair value Loans and advances on which no interest is earned are treated as repayable on demand, this being consistent with the prior year

18 FINANCIAL INSTRUMENTS *(continued)*

Interest rate risk profile (continued)

The fixed rate loans and advances and debt securities were subject to the following repricing periods

	At 31 December 2009 £ 000	At 31 December 2008 £ 000
No repricing period	-	-
Not more than three months	289	14,202
In more than three months but not more than six months	197	-
In more than six months but not more than one year	-	-
In more than one year but not more than five years	4,848	45
In more than five years	-	4
	5,334	14,251

The interest rate risk profile of the Bank's financial liabilities is as follows

	Floating rate financial liabilities £ 000	Fixed rate financial liabilities £ 000	Financial liabilities on which no interest is paid £ 000	Total £ 000	Fixed rate liabilities: Weighted average interest rate	Fixed rate liabilities: Weighted average period for which rate is fixed Years
At 31 December 2009	27,075	468	3,728	31,271	0 4%	-
At 31 December 2008	25,219	739	4,413	30,371	3 2%	-

The maturity profile of the Bank's financial liabilities is given in note 13 Financial liabilities on which no interest is paid are treated as repayable on demand, this being consistent with the prior year

The fixed rate financial liabilities were subject to the following repricing periods

	At 31 December 2009 £ 000	At 31 December 2008 £ 000
Not more than three months	381	581
In more than three months but not more than six months	87	158
	468	739

18 FINANCIAL INSTRUMENTS *(continued)*

Interest rate risk profile (continued)

The interest rate sensitivity exposure at 31 December 2009 and 31 December 2008 was

	Not more than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than a year	More than 1 year but not more than 5 years	More than 5 years	Non-interest bearing	Total
31 December 2009	**£ 000**	**£ 000**	**£ 000**	**£ 000**	**£ 000**	**£ 000**	**£ 000**
Assets							
Loans and advances to banks	13,489	-	-	-	-	23	13,512
Loans and advances to customers	21,849	198	-	4,920	-	-	26,967
Debt securities	-	-	-	-	-	-	-
Tangible fixed assets	-	-	-	-	-	18	18
Other assets	-	-	-	-	-	607	607
Total assets	35,338	198	-	4,920	-	648	41,104
Liabilities							
Customer accounts	27,128	87	-	3,500	-	229	30,944
Amounts owed to group undertakings	327	-	-	-	-	-	327
Other liabilities	-	-	-	-	-	163	163
Subordinated debt	5,000	-	-	-	-	-	5,000
Called up equity share capital	-	-	-	-	-	2,000	2,000
Profit and loss account	-	-	-	1,420	-	1,250	2,670
Total liabilities	32,455	87	-	4,920	-	3,642	41,104
Interest rate sensitivity gap	2,883	111	-	-	-	(2,994)	-
31 December 2008	**£ 000**	**£ 000**	**£ 000**	**£ 000**	**£ 000**	**£ 000**	**£ 000**
Assets							
Loans and advances to banks	2,279	-	-	-	-	25	2,304
Loans and advances to customers	23,967	-	-	49	-	-	24 016
Debt securities	14,000	-	-	-	-	-	14,000
Tangible fixed assets	-	-	-	-	-	67	67
Other assets	-	-	-	-	-	568	568
Total assets	40,246	-	-	49	-	660	40,955
Liabilities							
Customer accounts	25,234	160	-	-	-	4,413	29,807
Amounts owed to group undertakings	564	-	-	-	-	-	564
Other liabilities	-	-	-	-	-	422	422
Subordinated debt	5,000	-	-	-	-	-	5,000
Called up equity share capital	-	-	-	-	-	2,000	2,000
Profit and loss account	-	-	-	-	-	3,162	3,162
Total liabilities	30,798	160	-	-	-	9,997	40,955
Interest rate sensitivity gap	9,448	(160)	-	49	-	(9,337)	-

NOTES TO THE ACCOUNTS *(continued)*

18 FINANCIAL INSTRUMENTS *(continued)*

Liquidity risk

The Bank's policy is to maintain sufficient liquid resources to cover cash flow imbalances, fluctuations in funding and to enable the Bank to meet its financial obligations when they fall due This policy is achieved by monitoring daily the maturity profile of the Bank's liquid assets against funding requirements, to allow appropriate action to be taken

Borrowing facilities

The Bank had an undrawn facility at 31 December 2009 of £0 5 million (31 December 2008 - £2 5 million)

Liquid assets

Liquid assets as included within the Bank's financial statements, where both book value and fair value are equal, are

	At 31 December 2009 £ 000	At 31 December 2008 £ 000
Bank balances and cash	13,512	2,304
Certificates of deposit	-	14,000

Credit risk

Credit risk is the risk that bank and customer counterparties will not meet their financial obligations, resulting in loss to the Bank This risk is managed by the application of the Bank's credit control policies including the large exposure policy which requires the setting of counterparty and country limits for treasury and foreign exchange exposure and the regular monitoring of their utilisation

Collateral and netting

The Bank enters into master agreements with counterparties whenever possible and, when appropriate, obtains collateral Master agreements provide that, if an event of default occurs, all outstanding transactions with the counterparty will be terminated and all outstanding amounts will be settled on a net basis

Transactions with positive fair values are netted against transactions with negative fair values where the Bank has the ability to insist on net settlement, based on a legal right that is designed to survive the insolvency of the counterparty

The Bank holds collateral in respect of credit related instruments in accordance with Bank policy, given the customer's financial position and the overall banking relationship

Credit related instruments

Credit related instruments are treated as contingent liabilities and these are not shown on the balance sheet unless and until the Bank is called upon to make a payment under the instrument Fees received for providing these instruments are taken to profit over the life of the instrument and reflected in fees and commissions receivable

Exchange rate risk

The Bank engages in both spot and forward foreign exchange transactions on behalf of its customers and covers these with the Royal Bank of Scotland plc Exchange rate risk is therefore limited to the foreign currency balances held in the Bank's nostro accounts, on which an internal limit of £350,000 in total is imposed

As at 31 December 2009 the Bank had a net foreign currency monetary asset of £14,000 (31 December 2008 - £23,000)

19 FOREIGN CURRENCY ASSETS AND LIABILITIES

The following amounts included in the Bank's balance sheet are denominated in foreign currencies

	At 31 December 2009 £ 000	At 31 December 2008 £ 000
Assets	**129**	274
Liabilities	**115**	251

20 SUBORDINATED DEBT

On 7 February 2008, the Bank issued £5m of subordinated loan notes which met all of the necessary conditions that allow them to be treated within the Bank's regulatory capital These notes were subscribed for by Manchester Building Society The loans attract a variable rate of interest and have no ultimate repayment date but can be repaid at the Bank's option

21 PENSION AND OTHER POST RETIREMENT BENEFITS

The Bank provides pension benefits to its employees through membership of a defined contribution scheme operated by its parent company, Manchester Building Society The assets of the defined contribution scheme are held in an independently administered fund The cost of providing these pension benefits, as recognised in the profit and loss account, comprises the amount of contributions payable by the Bank to the pension scheme in respect of the accounting period

22 RELATED PARTY TRANSACTIONS

Under the terms of Financial Reporting Standard No 8, the Bank has taken advantage of the exemption from disclosing transactions with companies which are subject to 90% or more control within the same group, as consolidated financial statements in which the Bank is included are publicly available (note 23)

23 ULTIMATE PARENT COMPANY

Whiteaway Laidlaw Bank Limited is a wholly owned subsidiary of Manchester Building Society Copies of Manchester Building Society's group accounts can be obtained from The Secretary, Manchester Building Society, 125 Portland Street, Manchester M1 4QD