Annual Report

and

Accounts

for the year

ended

31 December 2008

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)*
	+ Robert T Fox	*(Resigned 16 April 2008)*
	David E Cowie	
	+ Douglas J Martin	*(Appointed 1 November 2008)*
	+ Joseph Smith	
	Bruce C Tyler	
	(+ Non-executive directors)	
Secretary	Ian M Richardson	
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 2008, the Bank's main activity continued to be the provision of banking services to personal and small business customers ("SME"s).

BUSINESS REVIEW

For the 12 month period to 31 December 2008 the Bank reported pre-tax profits of £209,000. This compares to pre-tax profits of £65,000 for the 11 month period to 31 December 2007. The Bank's Board consider this to be a satisfactory result given the turmoil seen in the global banking industry in 2008.

This improvement in profitability has been achieved by employing conservative business management over the preceding years, and by the continued application of a simple business model involving deposit taking and lending to UK based businesses and personal customers. The Bank accordingly has no exposure to those toxic assets and complex securities that have caused such problems for larger banks. This does not however mean that the Bank has escaped all the effects of the credit crunch. Our customers operate in the real economy, and it has been a challenging second half as small and medium sized businesses begin to feel the impact of the global economic slowdown. We have of course continued to work closely with the vast majority of our customers in this difficult economic environment, and our long standing customer base and conservative lending policy continue to serve us well.

Loans and advances to customers ended the year at £24.0 million (2007: £26.5 million). This reduction reflected management's approach to credit risk in a deteriorating economy and a determination to avoid excessive risk in such a challenging environment. Nevertheless, it has still been necessary to increase our provisions to a level of £0.76 million at the end of the year (2007: £0.40 million), the full year charge to profit amounting to £0.39 million (2007: £0.12 million).

Net interest income increased by 25% as a result of the loan book exceeding £30 million in the first half of the year, and net fees and commissions increased by 29% as a result of new arrangement fees in connection with new facilities and a generally more robust approach to taking fees in line with our tariff.

Savings balances have been maintained despite continued strong competition in the market as banks and building societies sought retail deposits to replace wholesale funding, the latter of which diminished as the year progressed. Current and deposit account balances at the year end were £29.8 million (2007: £29.0 million) giving the Bank a loan book fully funded by the deposit base.

As the Bank Base Rate fell swiftly in the latter months of 2008, we continued to keep savings interest rates as high as possible to retain savers funds whilst keeping a careful watch on the cost of these funds. As a result, many savers have remained with the Bank despite declining returns on their deposits. Towards the end of the year a new 35 Day Notice Business Savings Account was launched to attract more business savings alongside our personal savings customers.

Considerable improvements have been made in the Bank's website during the course of 2008, and this is now a source of substantial information about the Bank and its products. Also, a major milestone was achieved by migration of the Bank's operational systems onto the IT platform operated by the Bank's parent, Manchester Building Society.

Another significant milestone was the completion of an agreement with the Department for Business, Enterprise & Regulatory Reform in September 2008 to provide loans under the Small Firms Loan Guarantee Scheme. Whilst a small number of facilities have already been provided under this scheme, the Government's response to the economic downturn has resulted in the suspension of this scheme and the introduction of the Enterprise Finance Guarantee Scheme to which the Bank will subscribe.

As the new economic reality became clearer in the latter half of 2008, the Bank took steps to contain its cost base. Overall administrative expenses increased by only £50,000 in the year whilst we refocused new business emphasis on our North West heartland.

The outlook for 2009 is one of continued difficulty for both the UK and Global economies, and the banking industry in particular. The UK Government has called for the resurrection of the traditional savings and mortgage bank in Britain and making loans on prudent and careful terms. There are also strong hints that there will be a move toward smaller banks away from the large financial institutions that have developed over the last 25 years. Whiteaway Laidlaw's business model may become more widely adapted and is one we aim to build on within the constraints imposed by what will continue to be a tough economic environment in 2009 and beyond.

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 mangement 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 profit for the year ended 31 December 2008 was £209,000 (11 months to 31 December 2007 - £65,000). No dividend was paid or proposed in the period (11 months to 31 December 2007 - nil). £155,000 has been transferred to reserves (11 months to 31 December 2007 - £46,000).

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 2008 were 25 days (31 December 2007 - 21 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 proper 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 1985. 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
3 April 2009

REPORT OF THE INDEPENDENT AUDITOR

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 2008 which comprise the principal accounting policies, the profit and loss account, the balance sheet and notes 1 to 23. 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 annual report and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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 are 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 other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 judgements 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:

- o the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its profit for the year then ended;
- o the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- o the information given in the Directors' Report is consistent with the financial statements.

Grant Thornton UK LLP

Grant Thornton UK LLP
Registered Auditors
Chartered Accountants
Manchester
3 April 2009

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2008

	Notes	2008 £ 000	Eleven months to 31 December 2007 £ 000
Interest receivable:			
Interest receivable and similar income from debt securities		579	382
Other interest receivable and similar income		2,725	1,881
Total interest receivable		3,304	2,263
Interest payable		(2,058)	(1,265)
Net interest income		1,246	998
Fees and commissions receivable	1	795	617
Fees and commissions payable		(102)	(82)
Dealing profits	2	40	25
Operating income		1,979	1,558
Administrative expenses	3	(1,321)	(1,271)
Depreciation and amortisation	12	(56)	(48)
Provision for bad and doubtful debts	6	(393)	(124)
Provision for contingent liabilities and commitments		-	(50)
Operating profit and profit on ordinary activities before tax		209	65
Tax on profit on ordinary activities	7	(54)	(19)
Profit on ordinary activities after tax for the financial year		155	46

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 2008

	Notes	31 December 2008 £ 000	31 December 2007 £ 000
Assets			
Cash and balances at central banks		-	88
Loans and advances to banks	9	2,304	8,222
Loans and advances to customers	10	24,016	26,528
Debt securities	11	14,000	10,000
Tangible fixed assets	12	67	123
Prepayments and accrued income		521	295
Deferred tax	7	47	34
Total assets		40,955	45,290
Liabilities			
Customer accounts	13	29,807	29,048
Amounts owed to group undertakings		564	10,896
Other liabilities	14	422	339
Subordinated debt	20	5,000	-
Called up equity share capital	15	2,000	2,000
Profit and loss account		3,162	3,007
Equity shareholders' funds	16	5,162	5,007
Total liabilities		40,955	45,290
Memorandum items			
Contingent liabilities:			
Guarantees issued	17	360	378
Commitments	17	3,473	3,294

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 3 April 2009 and are signed on its behalf by :

G P Alcock Chairman

B C Cyler Chief Executive

ACCOUNTING POLICIES

(a) Basis of accounting

The accounts have been prepared under the historical cost convention, in accordance with the special provisions of Part VII of the Companies Act 1985 relating to banking companies and banking groups, 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 0.30% of outstanding loan balances plus 0.30% of all individual loan balances in excess of £100,000, that have not been included within the specific provision. The rate used for the general provision is based on the preceding five years' 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

	Year to 31 December 2008 £ 000	11 months to 31 December 2007 £ 000
Staff costs:		
Wages and salaries	723	620
Social security costs	72	65
Other pension costs	49	37
Total staff costs	844	722
Other administrative costs	477	549
	1,321	1,271

The auditors' remuneration was £20,000 for audit services (11 months to 31 December 2007 - £20,000). £2,000 of fees were paid by the Bank to the auditors in relation to work on taxation (11 months to 31 December 2007 - £nil).

Operating lease rental costs of £50,300 for land and buildings were charged in the period (11 months to 31 December 2007 - £54,000).

4 NUMBER OF EMPLOYEES

	Year to 31 December 2008		11 months to 31 December 2007	
	Full time	Part time	Full time	Part time
The average number of persons employed by the Bank during the period was:				
Sales staff	4	-	2	-
Administrative staff	16	-	17	-
	20	-	19	-

5 EMOLUMENTS OF DIRECTORS

	Year to 31 December 2008 £000	11 months to 31 December 2007 £000
Emoluments	114	188
Pension contributions to money purchase schemes	11	-
Aggregate emoluments	125	188

Messrs Cowie and Smith 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 and Smith, whose total emoluments are included in the directors' emoluments disclosed in the financial statements of Manchester Building Society.

During the year 1 (2007: 0) director participated in a money purchase pension scheme.

6 PROVISIONS FOR BAD AND DOUBTFUL DEBTS

	Specific £ 000	General £ 000	Total £ 000
At 1 January 2008	311	74	385
Charge to the profit and loss account	369	24	393
Amounts applied in writing off advances	(73)	-	(73)
At 31 December 2008	607	98	705

In addition to the above is a provision of £54,000 (2007: £19,000) in relation to interest which is considered irrecoverable and has been suspended from the appropriate assets in the balance sheet.

7 TAXATION ON THE PROFIT FOR THE PERIOD

	Year to 31 December 2008 £ 000	11 months to 31 December 2007 £ 000
Current tax :		
UK corporation on profits of the period	74	18
Adjustment in respect of previous periods	(7)	-
Total current tax (credit) / charge	67	18
Deferred Tax :		
Origination and reversal of timing differences	(6)	2
(Increase) / release of general bad debt provisioning	(7)	(3)
Change in future tax rate	-	2
Total deferred tax	(13)	1
Tax on profit on ordinary activities	54	19

The tax assessed for the period is lower (11 months to 31 December 2007 - higher) than the standard rate of corporation tax in the UK (28%). The differences are explained below :

	Year to 31 December 2008 £ 000	11 months to 31 December 2007 £ 000
Profit on ordinary activities before tax	209	65
Profit on ordinary activities multiplied by standard rate in the UK 28% (11 months to 31 December 2007 - 30%)	59	20
Effects of :		
Expenses not deductible for tax purposes	2	1
Marginal small companies' relief	-	(3)
Accelerated capital allowances and other timing differences	13	-
Adjustment in respect of prior periods	(7)	-
Current tax for the period	67	18

The Deferred tax asset of £47,000 (31 December 2007 - £34,000) represents the effect of timing differences. The movement in the period represents the credit (11 months to 31 December 2007 - charge) to the profit and loss account as shown above.

8 DIVIDENDS

	Year to 31 December 2008 £ 000	11 months to 31 December 2007 £ 000
On equity shares:		
No dividend has been paid or proposed in the period (11 months to 31 December 2007 - £nil)	-	-

9 LOANS AND ADVANCES TO BANKS

	At 31 December 2008 £ 000	At 31 December 2007 £ 000
Repayable on demand	2,304	422
Other loans and advances repayable in not more than three months	-	7,800
	2,304	8,222

10 LOANS AND ADVANCES TO CUSTOMERS

	At 31 December 2008 £ 000	At 31 December 2007 £ 000
Repayable on demand	11,044	8,705
Other loans and advances repayable in:		
Not more than three months	1,971	5,802
Three months to six months	1,218	3,264
Six months to one year	1,280	954
One year to five years	5,940	3,874
More than five years	2,563	3,929
	24,016	26,528

11 DEBT SECURITIES

	At 31 December 2008 £ 000	At 31 December 2007 £ 000
Issued by other Issuers	14,000	10,000

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 and 31 December 2008	279
Depreciation	
At 1 January 2008	156
Charge for year	56
At 31 December 2008	212
Net book value	
At 31 December 2008	67
At 31 December 2007	123

13 CUSTOMER ACCOUNTS

	At 31 December 2008 £ 000	At 31 December 2007 £ 000
Repayable on demand	11,764	21,331
With agreed maturity dates or periods of notice and repayable in:		
Not more than three months	17,885	7,524
Three months to one year	158	193
	29,807	29,048

14 OTHER LIABILITIES

	At 31 December 2008 £ 000	At 31 December 2007 £ 000
Corporation tax	20	25
Other creditors	352	264
Other provisions	50	50
	422	339

15 CALLED UP SHARE CAPITAL

	At 31 December 2008 £ 000	At 31 December 2007 £ 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

	£ 000
At 31 December 2007	5,007
Profit for the period	155
Dividends paid	-
At 31 December 2008	5,162

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 triggered in relation to 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 announced that it anticipates levying charges on all UK deposit taking institutions for the next three years to cover the interest that it is being charged on its loans; in its first year, the total amount levied for all UK deposit takers is capped at £1 billion. 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. Provision has been made for half of this sum and accordingly, included within the Bank's 2008 results is a charge for £23,000 in relation to the FSCS levy (2007: nil).

17 CONTINGENT LIABILITIES AND COMMITMENTS *(continued)*

	At 31 December 2008 Contract amount £ 000	At 31 December 2008 Risk weighted amount £ 000	At 31 December 2007 Contract amount £ 000	At 31 December 2007 Risk weighted amount £ 000
Contingent liabilities:				
Guarantees issued	360	360	378	378
Commitments:				
Undrawn lending facilities	3,473	-	3,294	-

The Bank has the following commitments under uncancellable operating leases.

	At 31 December 2008 £ 000	At 31 December 2007 £ 000
Obligations under operating leases for land and buildings comprise:		
Expiring after 5 years	92	92
	92	92

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 2008	26,044	251	14,000	25	40,320	12.1%	1.10
At 31 December 2007	18,859	15,866	10,000	25	44,750	7.1%	0.10

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 2008 £ 000	At 31 December 2007 £ 000
No repricing period	-	-
Not more than three months	14,202	22,977
In more than three months but not more than six months	-	2,691
In more than six months but not more than one year	-	89
In more than one year but not more than five years	45	18
In more than five years	4	91
	14,251	25,866

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 2008	25,219	739	4,413	30,371	3.2%	-
At 31 December 2007	36,572	2,965	407	39,944	5.8%	0.1

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 2008 £ 000	At 31 December 2007 £ 000
Not more than three months	581	2,772
In more than three months but not more than six months	158	193
	739	2,965

18 FINANCIAL INSTRUMENTS *(continued)*

Interest rate risk profile (continued)

The interest rate sensitivity exposure at 31 December 2008 and 31 December 2007 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 2008	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Assets							
Cash and balances at central banks	-	-	-	-	-	-	-
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)	-
31 December 2007							
Assets							
Cash and balances at central banks	88	-	-	-	-	-	88
Loans and advances to banks	8,197	-	-	-	-	25	8,222
Loans and advances to customers	26,473	-	-	55	-	-	26,528
Debt securities	10,000	-	-	-	-	-	10,000
Tangible fixed assets	-	-	-	-	-	123	123
Other assets	-	-	-	-	-	329	329
Total assets	44,758	-	-	55	-	477	45,290
Liabilities							
Customer accounts	28,442	199	-	-	-	407	29,048
Amounts owed to group undertakings	10,896	-	-	-	-	-	10,896
Other liabilities	-	-	-	-	-	339	339
Subordinated debt	-	-	-	-	-	-	-
Called up equity share capital	-	-	-	-	-	2,000	2,000
Profit and loss account	-	-	-	-	-	3,007	3,007
Total liabilities	39,338	199	-	-	-	5,753	45,290
Interest rate sensitivity gap	5,420	(199)	-	55	-	(5,276)	-

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 2008 of £2.5 million (31 December 2007 - £10.0 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 2008 £ 000	At 31 December 2007 £ 000
Bank balances and cash	2,304	8,310
Certificates of deposit	14,000	10,000

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 2008 the Bank had a net foreign currency monetary asset of £23,000 (31 December 2007 - £31,000).

19 FOREIGN CURRENCY ASSETS AND LIABILITIES

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

	At 31 December 2008 £ 000	At 31 December 2007 £ 000
Assets	274	407
Liabilities	251	376

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.