

Registered Number 06786452

CRAIG FINANCE LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

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**CRAIG FINANCE LIMITED
DIRECTORS AND COMPANY INFORMATION**

DIRECTORS

SFM Directors Limited
SFM Directors (No 2) Limited
Zoltan Galyo

COMPANY SECRETARY

SFM Corporate Services Limited

REGISTERED OFFICE

35 Great St Helen's
London
EC3A 6AP

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Benson House
33 Wellington Street
Leeds
LS1 4JP

CRAIG FINANCE LIMITED DIRECTORS' REPORT

The directors present their report together with the audited financial statements for the Year ending 31 December 2010

Craig Finance Limited (the "Company") is registered in England and Wales as a private limited company with an authorised share capital of £100 comprising 100 ordinary shares of £1 each

The Directors Report has been prepared in accordance with the special provisions relating to small companies in accordance with Section 382 of the Companies Act 2006

BUSINESS REVIEW

Principal activity

The Company and Bank of Scotland plc ("BOS") are Designated Members of IF Covered Bonds LLP (the "LLP"), the Company being the liquidation member of the LLP

The Company assumed the role of Liquidation Member on 30 January 2009

Business Structure

Craig Finance Holdings Limited holds 80 ordinary shares of £1 each while BOS holds 20 ordinary shares of £1 each in the issued capital of the Company. These shares comprise the entire issued share capital of the Company.

RESULTS

The Company has not traded during the year or the previous period. The only activity being the receipt of £1 per month from the LLP as profit allocation, into its bank account, under the terms of the LLP Deed dated 30 January 2009, as amended, together with any interest thereon. All expenses incurred are paid directly by the LLP and are not recharged.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2010 (period ended 31 December 2009: £nil).

DIRECTORS

The directors who served during the year and upto the date of signing the financial statements were as follows:

SFM Directors Limited
SFM Directors (No 2) Limited
Zoltan Galyo

**CRAIG FINANCE LIMITED
DIRECTORS' REPORT (CONT'D)**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. In preparing these financial statements, the directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

**CRAIG FINANCE LIMITED
DIRECTORS' REPORT (CONT'D)**

AUDITORS AND AUDIT INFORMATION

The Companies Act ("the Act") removed the requirement for a private company to hold an Annual General Meeting and repealed the obligation to lay annual accounts before a general meeting. The Act provides for a duly appointed Auditor to remain in office without the need for annual reappointment. PricewaterhouseCoopers LLP had expressed their willingness to continue in office as auditors and in accordance with Section 487 of the Act and are deemed reappointed as auditors of the Company.

So far as the members are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given, and should be interpreted, in accordance with the provisions of section 418 of the Companies Act 2006.

GOING CONCERN

The directors are satisfied that the Company has adequate resources to continue in business for the foreseeable future and consequently the going concern basis continues to be appropriate in preparing the accounts.

By Order of the Board,



Vinoy Nursiah
Per pro SFM Directors Limited
Director

35 Great St Helen's
London
EC3A 6AP

Date

28/3/11

CRAIG FINANCE LIMITED
INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF CRAIG FINANCE LIMITED

We have audited the financial statements of Craig Finance Limited for the year ended 31 December 2010 which comprise the Statement of comprehensive income, the Balance sheet, the Statement of changes in equity, Cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**CRAIG FINANCE LIMITED
INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF CRAIG FINANCE LIMITED
(CONT'D)**

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

Mark Hannam

Mark Hannam (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

Leeds

DATE *28th March* 2011

**CRAIG FINANCE LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010**

	Note	2010 £	Period ended 31 December 2009 £
Interest receivable and similar Income	2	12	11
		<hr/>	<hr/>
Profit before tax for the year		12	11
Income tax expense	3	(3)	(3)
		<hr/>	<hr/>
Profit after tax for the year		9	8
		<hr/>	<hr/>
Profit attributable to equity holders		9	8
		<hr/>	<hr/>

The Company had no recognised gains or losses in the year other than the result for the financial year shown above. The result shown above is from continuing operations.

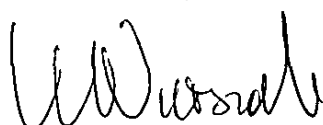
The notes on pages 12 - 16 form an integral part of these financial statements.

CRAIG FINANCE LIMITED
BALANCE SHEET AS AT 31 DECEMBER 2010

	Note	2010 £	2009 £
Current Assets			
Cash and cash equivalents	4	19	10
Other Receivables	5	1	1
Non-Current Assets			
Other Receivables	5	100	100
Total Assets		<u>120</u>	<u>111</u>
Current Liabilities			
Trade and other payables	6	3	3
Total liabilities		<u>3</u>	<u>3</u>
Equity			
Issued capital	7	100	100
Retained earnings		17	8
Total equity		<u>117</u>	<u>108</u>
Total equity and liabilities		<u>120</u>	<u>111</u>

The notes on pages 12 – 16 form an integral part of these financial statements

The financial statements were approved by the Board of Directors
on 28/3/11 and were signed on its behalf by



Vinoy Nursiah
Per pro SFM Directors Limited
Director

**CRAIG FINANCE LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010**

2010

	Share capital	Retained Earnings	Total
	£	£	£
At 1 January 2010	100	8	100
Total recognised income and expense	-	9	9
	<hr/>	<hr/>	<hr/>
At 31 December 2010	100	17	117
	<hr/>	<hr/>	<hr/>

2009

	Share capital	Retained Earnings	Total
	£	£	£
At incorporation	-	-	-
Share Capital issued	100	-	100
Total recognised income and expense	-	8	8
	<hr/>	<hr/>	<hr/>
At 31 December 2009	100	8	108
	<hr/>	<hr/>	<hr/>

The notes on pages 12 - 16 form an integral part of these financial statements

**CRAIG FINANCE LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010**

Direct method	2010	Period ended 31 December 2009
	£	£
Cash flows from operating activities		
Other operating income received	12	10
Tax Paid	(3)	-
	<hr/>	<hr/>
Net cash from operating activities	9	10
	<hr/>	<hr/>
Net increase in cash and cash equivalents	9	10
Cash and cash equivalents at 1 January	10	-
	<hr/>	<hr/>
Cash and cash equivalents at 31 December	19	10
	<hr/>	<hr/>

The notes on pages 12 - 16 form an integral part of these financial statements

**CRAIG FINANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

1. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements in respect of the financial year ended 31 December 2010

(a) Statement of compliance

The financial statements for the year ended 31 December 2010 have been prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union. The standards applied by the Company are those endorsed by the European Union and effective at the date the financial statements are approved by the Board. However the Company has not utilised the "carve-out" provisions in respect of full fair value and portfolio hedging of core deposits in IAS39 'Financial Instruments Recognition and Measurement' as adopted by the European Union. Consequently, the financial statements comply with International Financial Reporting Standards.

The following new IFRS pronouncements, relevant to the Company, became effective in 2010 and have been adopted in these financial statements although they have no material impact on any part of the statements:

- Amendment to IAS 39 financial instruments Recognition and Measurement – Eligible Hedged items. Clarifies how the principles underlying the hedge accounting should be applied in particular situations,
- Improvements to IFRSs (issued in April 2009). Sets out minor amendments to IFRS standards as part of the annual improvements process,

(b) Basis of preparation

The financial statements are presented in Sterling which is the Company's functional and presentation currency.

The financial statements have been prepared on the historical cost basis and on a going concern basis.

2 INTEREST RECEIVABLE AND SIMILAR INCOME

Interest receivable of £12 (period ended 31 December 2009: £11) comprises the profit allocation of £1 per month received from the LLP.

**CRAIG FINANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010 (CONT'D)**

3 INCOME TAX EXPENSE

Analysis of charge in year

	2010 £	Period ended 31 December 2009 £
Current Tax		
Corporation tax charge for the year at a rate of 28%	3	3
	<hr/>	<hr/>
Reconciliation of effective tax rate		
	2010 £	Period ended 31 December 2009 £
The tax assessed for the year is at the standard rate of corporation tax in the UK of 28%		
Profit before tax	12	11
	<hr/>	<hr/>
Profit before tax multiplied by the standard rate of corporation tax in the UK of 28%	3	3
	<hr/>	<hr/>
Total tax charge	3	3
	<hr/>	<hr/>

4. CASH AND CASH EQUIVALENTS

	2010 £	2009 £
Cash and cash equivalents	19	10
	<hr/>	<hr/>

**CRAIG FINANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010 (CONT'D)**

5. OTHER RECEIVABLES

	2010 £	2009 £
Current Assets		
Fee Income receivable	1	1
	<u> </u>	<u> </u>
Non-Current Assets		
Amount due from Share Issue	100	100
	<u> </u>	<u> </u>

6. TRADE AND OTHER PAYABLES

	2010 £	2009 £
UK Corporation Tax	3	3
	<u> </u>	<u> </u>

7. SHARE CAPITAL

	2010 £	2009 £
AUTHORISED		
100 ordinary shares of £1 each	100	100
	<u> </u>	<u> </u>
ALLOTTED, CALLED UP AND FULLY PAID		
100 ordinary shares of £1	100	100
	<u> </u>	<u> </u>

One hundred ordinary shares of £1 have been issued and are fully paid. Eighty shares are held by Craig Finance Holdings Limited and twenty shares are held by BOS.

8. EMPLOYEE AND DIRECTORS EMOLUMENTS

The Company had no employees for the year or the previous period.

The Directors received no emoluments from the Company during the year or previous period.

**CRAIG FINANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010 (CONT'D)**

9. RELATED PARTY TRANSACTIONS

During the year fees of £11,843 (period ended 31 December 2009 £18,473), were paid by the LLP to Structured Finance Management Limited in respect of corporate services provided to the Company and related companies which included fees for providing directors to the Company

The Company received £1 per month from the LLP as profit allocation during the period

10. ACCOUNTING PRONOUNCEMENTS EFFECTIVE AFTER 2010

The following pronouncements will be relevant to the Company but were not effective at 31 December 2010 and have not been applied in preparing these financial statements. The full impact of these accounting changes is being assessed by the Company. The initial view is that none of these pronouncements are expected to cause any material adjustments to reported numbers in the financial statements

Pronouncement	Nature of change	IASB effective date
IAS 24 Related Party Disclosures	Simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government related entities	Annual periods beginning on or after 1 January 2011
Improvements to IFRSs (issued May 2010)	Sets out minor amendments to IFRS standards as part of the annual improvements process	Dealt with on a standard by standard basis but not earlier than annual periods beginning on or after 1 July 2010
IFRS 7 Financial Instruments Disclosures – Disclosures – Transfers of Financial Assets	Requires additional disclosures in respect of risk exposures arising from transferred financial assets	Annual periods beginning on or after 1 July 2011

CRAIG FINANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010 (CONT'D)

10. ACCOUNTING PRONOUNCEMENTS EFFECTIVE AFTER 2010 (CONT'D)

Pronouncement	Nature of change	IASB effective date
IFRS 9 Financial Instruments Classification and Measurement ¹	Replaces those parts of IAS 39 Financial Instruments Recognition and Measurement relating to the classification and measurement of financial assets and liabilities	Annual periods beginning on or after 1 January 2013
IFRS 9 Financial Instruments Classification and Measurement (Cont'd)	Requires financial assets to be classified into two measurement categories, fair value and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instrument The available-for-sale financial asset and held-to-maturity categories in existing IAS 39 will be eliminated. The requirements for financial liabilities and derecognition are broadly unchanged from IAS 39	Annual periods beginning on or after 1 January 2013

At the date of this report, IFRS 9, improvements to IFRSs (issued May 2010) and the amendments to IFRS7 are awaiting EU endorsement

11 ULTIMATE PARENT UNDERTAKING

The Company's immediate parent undertaking is Craig Finance Holdings Limited, a company registered in England and Wales. Craig Finance Holdings Limited is a wholly owned subsidiary of SFM Corporate Services Limited, a company registered in England and Wales, which holds a share as a trustee of the IF Covered Bond Charitable Trust.

SFM Corporate Services Limited is a wholly owned subsidiary of Structured Finance Limited

¹ IFRS 9 is the initial stage of the project to replace IAS 39. Future stages are expected to result in amendments to IFRS 9 to deal with changes to the impairment of financial assets measured at amortised cost and hedge accounting. Until all stages of the replacement project are complete, it is not possible to determine the overall impact on the financial statements of the replacement of IAS 39.