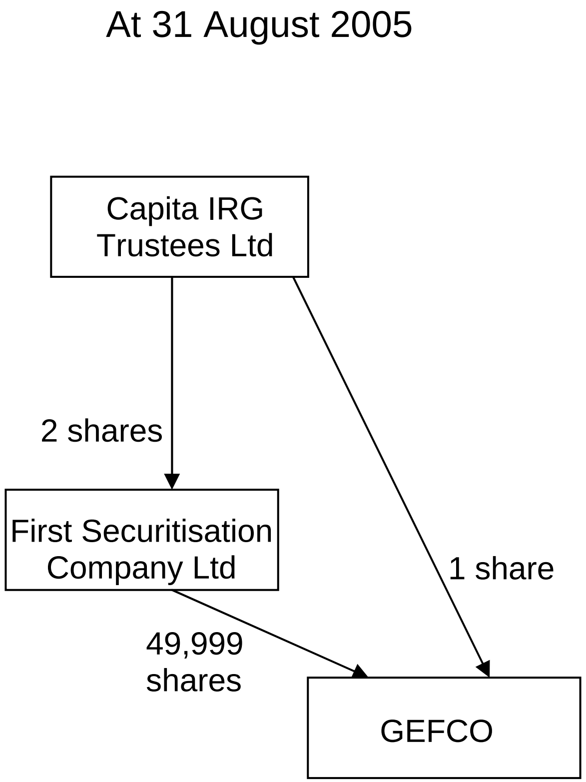
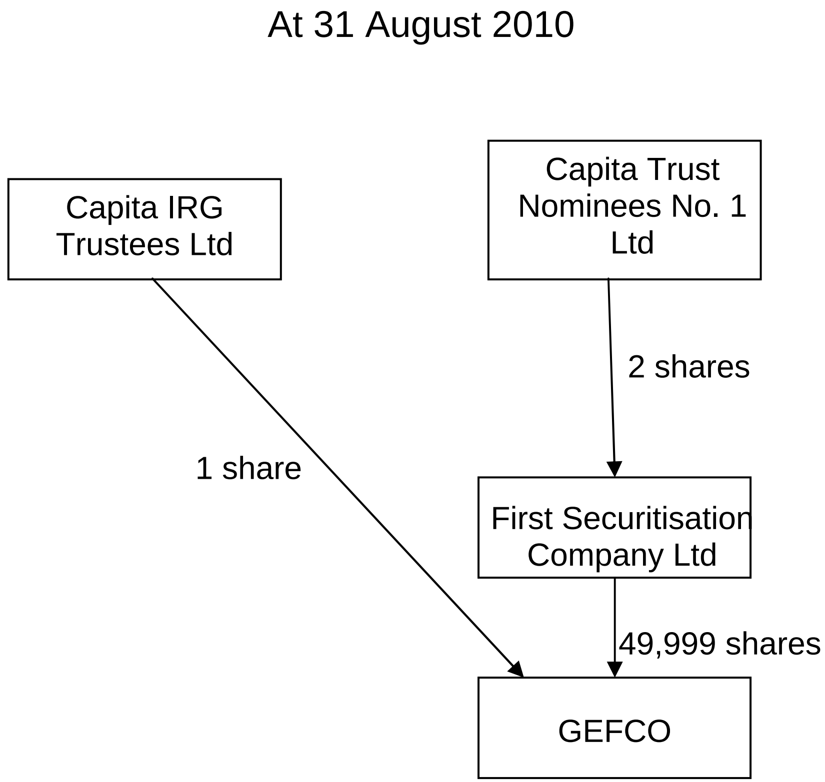
**Annex 1**
**Shareholdings in GEFCO and FSCL**



## Annex 2
## Background on GEFCO and ECGD

1 ECGD is a UK government department and the UK's export credit agency. Its activities include guaranteeing loans from banks to foreign buyers to enable them to purchase goods and services from UK suppliers.

2 As part of its activities, ECGD provides interest rate support to banks under the terms of ECGD's fixed rate export finance scheme (the "**FREF Scheme**"), which ECGD operates in accordance with the provisions of the OECD Arrangement on Officially Supported Export Credits (to which the Community is a party).

3 Under ECGD's FREF Scheme:

3.1 A bank makes an export credit loan to a borrower outside the UK to enable it to purchase goods and services supplied by a British company.

3.2 That loan is made at a fixed rate of interest which is determined according to the applicable commercial interest reference rate published by the OECD (the "**CIRR**");

3.3 In order to enable the relevant bank to make a loan at that fixed rate of interest (a "**FREF Loan**"), ECGD agrees with the bank that:

3.3.1 the bank will fund the loan on a short term basis between one interest payment date and the next (typically, a period of six months) by borrowing the required amount every six months from the inter-bank market at the then current London Inter-bank Offered Rate ("**LIBOR**");

3.3.2 if, at the end of any funding period, the cost to the bank of funding the loan at LIBOR over that period (plus the bank's margin) is more than the CIRR interest payable in respect of that period by the borrower under the relevant export credit loan, ECGD will pay the shortfall to the bank; and

3.3.3 conversely, if, at the end of any funding period, the cost to the bank of funding the loan at LIBOR over that period (plus the bank's margin) is less than the CIRR interest payable by the borrower under the export credit loan, the bank will pay the surplus to ECGD.

4 By entering into arrangements with GEFCO as described below, ECGD has been able to provide the same degree of support to exports at a reduced cost to ECGD (and thus the UK taxpayer). With ECGD's support, a FREF Loan can, after it has been advanced to the borrower, be refinanced at a rate less than LIBOR plus the bank's margin, with the result that the amounts which ECGD would have to pay in the situation set out in paragraph 3.3.2 would be reduced, and the amount it would receive in the amount set out in paragraph 3.3.3 would be increased.

5 ECGD entered into arrangements with GEFCO under which GEFCO would, at ECGD's request, refinance a FREF Loan by entering into a silent sub-participation with the lending bank under which GEFCO paid to the bank the

amount of principal outstanding under the relevant loan and, in return, the bank agreed to pay to GEFCO all payments of principal and interest received from the borrower under the relevant FREF Loan and, if the borrower defaulted, the corresponding payment from ECGD under the guarantee which ECGD had given to the bank in respect of that loan.

6 The funding for those refinancings was obtained from two sources, namely:

6.1 as explained in paragraphs 7 to 9 below, until 1993, GEFCO obtained funding from the bond market by issuing bonds guaranteed by ECGD; then

6.2 as explained in paragraphs 10 to 12 below, from 1999 to 2003 new refinancings were funded by means of loans from ECGD to GEFCO.

7 Initially, these refinancings were funded by GEFCO issuing bonds guaranteed by ECGD. This enabled GEFCO to borrow at a rate of interest which was less than LIBOR and to use the borrowed funds to refinance FREF Loans. Under the refinancing arrangements between ECGD and GEFCO, any surplus arising as a result of the interest received by GEFCO under the refinanced FREF Loans exceeding the interest payable by GEFCO under the bonds was, after deduction of the costs incurred by GEFCO in managing the refinanced loans, paid to ECGD.

8 After the early 1990s, bond-funded refinancings were discontinued, with the final bond being issued in 1993 and repaid by GEFCO in January 2010. It is not intended that GEFCO should issue any further bonds and, consequently, no further GEFCO bonds will be guaranteed by ECGD.

9 ECGD made a £263million loan to GEFCO to enable GEFCO to finance the repayment of a bond which matured in 1998. The rate of interest on that loan was based on National Loan Fund rates, which are linked to UK government sterling borrowing rates. GEFCO used the payments of principal and interest under the FREF Loans which had been refinanced by the matured bonds to repay this loan. The arrangements between ECGD and GEFCO mentioned in paragraph 7 above continued to apply with the result that any surplus resulting from the interest received by GEFCO under the refinanced FREF Loans exceeding the interest payable by GEFCO under the loan from ECGD was, after deduction of the costs incurred by GEFCO in managing the refinanced loans, paid to ECGD. In 2009 the balance outstanding under this loan was pre-paid by means of a further loan in the form of an advance under the Direct Funding Loan Agreement referred to below. The payments of principal and interest due under the relevant FREF Loans continue to be applied to discharge that further loan.

10 From 1999 onwards, refinancings of FREF Loans were funded by loans made by ECGD to GEFCO under the terms of a Direct Funding Loan Agreement (the "**DFLA**"). As those loans were made from government funds, the cost to ECGD of funding those refinancings was effectively equal to the cost of UK government borrowing (in other words, below LIBOR, the rate at which the lending banks would fund the relevant FREF Loans).

11 Under a loan-funded refinancing:

11.1 as with a bond-funded refinancing, GEFCO enters into a silent sub-participation of the FREF Loan which is being refinanced under which GEFCO pays to the lender the amount of principal outstanding under that loan and, in return, the lender agrees to pay to GEFCO all payments of principal and interest received from the borrower (and, if the borrower defaults, the corresponding payment from ECGD under its guarantee of that FREF Loan);

11.2 GEFCO borrows (in sterling) from ECGD under the DFLA in order to finance its entry into the sub-participation;

11.3 GEFCO uses the payments which it receives under the sub-participation arrangements to make payments to ECGD under the DFLA as follows:

11.3.1 if the sub-participated loan is denominated in sterling, ECGD charges GEFCO interest at the same rates as interest due from the borrower under that sub-participated loan, so that repayments of principal and interest under the loan from ECGD to GEFCO are equal to those receivable by GEFCO under the sub-participated loan;

11.3.2 if the sub-participated loan is denominated in another currency, GEFCO enters into a cross-currency swap under which GEFCO (1) pays to the swap counterparty the amounts of principal and interest which it receives from the sub-participated loan and (2) receives from the swap counterparty corresponding payments of principal and interest in sterling. The instalments of interest and principal payable under ECGD's loan to GEFCO are equal to those under the currency swap.

12 As can be seen from the above, under refinancings funded by loans from ECGD under the DFLA, the principal and interest paid by the borrowers under the refinanced FREF Loans passes to GEFCO and then (in the case of FREF Loans in foreign currency, after conversion into sterling), to ECGD.

13 The last refinancing of a previously unrefinanced FREF Loan took place in 2003. The last refinancing of additional drawings using government funds under an existing refinanced FREF Loan took place in January 2010. There are no plans for ECGD to lend any further amounts to GEFCO to refinance FREF Loans. All existing refinanced FREF Loans (and the corresponding loans from ECGD to GEFCO) should be repaid by 2022 with 50% of the principal outstanding under those FREF Loans being repaid by 2013.

14 In addition to the above-mentioned loans under the DFLA, ECGD also provides the following support to GEFCO:

14.1 In order to enable GEFCO to enter into the cross-currency swaps mentioned in paragraph 11.3.2 above, ECGD provides to the counter-parties to those swaps a guarantee of GEFCO's obligations under them.

14.2 In order to enable GEFCO to pay the costs and expenses of its refinancing operations before receiving reimbursement from ECGD, and to make cross-currency swap payments (if, due to a borrower default, it does not have the funds to do so), GEFCO obtained bank overdraft facilities, of which only one remains in existence. This facility is guaranteed by ECGD.

14.3 Under the refinancing arrangements between ECGD and GEFCO, ECGD has agreed that, in consideration of GEFCO refinancing a FREF Loan at ECGD's request, ECGD will reimburse GEFCO for the expenses which it incurs in connection with that refinancing or with managing the refinanced loan, such as management, legal and audit fees and transaction costs.

15 As can be seen from the above, ECGD's sole purpose in refinancing FREF Loans through GEFCO was to minimise the cost to UK taxpayers of operating the FREF Scheme by reducing the effective cost to ECGD of funding FREF Loans from LIBOR (the funding cost of banks) to a cost closer to that of the UK government itself. This was achieved by:

15.1 providing ECGD guarantees in respect of the bonds issued by GEFCO to refinance FREF Loans; and

15.2 providing government funds directly to GEFCO to refinance FREF Loans.

As stated above, all of the surplus produced by this reduction in GEFCO's funding costs flowed back from GEFCO to ECGD and the UK government.