Nexgen Financial Holdings Limited

Interim Report

For the half year ended 30 June 2003

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DIRECTORS AND OTHER INFORMATION

Board of Directors as at 30 June 2003

Mr Anthony Orsatelli	Non-Executive	Chairman
Mr Tay Siew Choon	Non-Executive	Co-chairman (1)
Mr Peter Blessing	Non-Executive	(2)
Mr Etienne Bur	Non-Executive	Chairman Executive Committee (1)
Mr John Donnelly	Non-Executive	Chairman Audit Committee (2)
Mr Luc Giraud	Executive	Joint Chief Executive Officer (1)
Prof Annie Koh	Non-Executive	(2)
Mr Linus Koh	Non-Executive	(2)
Mr André Rolland	Non-Executive	
Mr Lee Ming San	Non-Executive	(1)
Prof Marti Subrahmanyam	Non-Executive	(2)
Mr Premod Thomas	Non-Executive	Resigned 17 March 2003
Mr Victor Liew	Non-Executive	Appointed 30 May 2003
Mr Ravi Viswanathan	Executive	Joint Chief Executive Officer (1)

(1) Member of the Executive Committee of the board
(2) Member of the Audit Committee of the board

Company Secretary and Registered Office
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Registered Number
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Chartered Accountants and Registered Auditors
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OPERATING REVIEW

The Interim Report presents a summary of the results for the principal business activity during the six month period ended 30 June 2003 and details the risks and positions at 30 June 2003. A summary of the main Profit and Loss and Balance Sheet movements is provided below.

ACTIVITY

The half year has seen contrasting fortunes in the Group's **Capital Markets** activity particularly in Asia.

There was a good start to the year, marked in particular by a transaction involving Korea Electric Power Corporation (KEPCO) shares with the Korea Investment Trust Management & Securities Co. Ltd (KITC) and by several other private transactions in various Asian countries. However, marketing and deal activity was subsequently subdued by the Iraq conflict, by the SARS outbreak and by the fallout from a specific fraud, which led to the default of an Asian client. This default has been fully provided for in the six month results. Nexgen has initiated several legal actions in order to recover the Group's losses.

In Europe, during the six month period, Nexgen concluded several transactions with large corporate clients. In particular, it contributed to the restructuring of the Telecom Italia Group, through a transaction on behalf of one of its shareholders, Holinvest, and arranged with CDC-IXIS CM.

On the **Reinsurance** side, the Industry Loss Warranty (ILW) programme, which started in 2002, continued but no other projects materialised. In addition, Nexgen Re (NRL) continued the development of its portfolio of structured investments in Collateralised Debt Obligations (CDO's) . These investments are actively managed to limit risks and leverage Nexgen's structuring skills. Credit spreads narrowed during the period to levels last seen two years ago. NRL took advantage of this and hedged a sizeable portion of its credit risk.

In the latter part of the six month period, Nexgen Financial Solutions Ltd (NFSL), the structuring arm of the Group, commenced the establishment of a branch in Milan.

Staff numbers increased from 46 to 53 during the half year. The increase was attributable to additions of 2 in the Asian structuring team, 2 in the European structuring team and 3 in the operations team.

PROFIT AND LOSS

The net profit after tax for the half year to June 2003 was $3.9m compared to $4.1m for the full year, 2002. (A comparison of the 2003 half year results with the first half results for 2002 is not meaningful as Nexgen commenced trading late in the first quarter of 2002.)

Before allowing for the cost of the client default mentioned above, the trading income for the 2003 half year was $21.9m compared to $18.7m for the year 2002, derived mainly from capital markets client transactions (2003: $7.7m compared to 2002: $5.3m), arbitrage (2003: $4.1m compared to 2002: $1.7m) and the CDO activity (2003: $9.2m compared to 2002: $6.5m). The reinsurance technical income was marginally negative ($-0.1m compared to $4.7m). Remuneration of own funds reached the same level as the 2002 full year, $1.9m, mainly due to the timing of the capital increase that took place in December 2002.

A provision of $8.8m has been made to fully provide for the Asian client default (2002: NIL).

In summary, the net trading income for the 2003 half year is $13.0m (2002 full year: $18.7m).

With regard to below the line costs, operating expenses rose to $8.5m (2002: $13.9m), mainly as a result of increases in staff numbers. Staff costs were $5.4m (2002: $7.9m) and other administrative expenses were $2.9m (2002: $5.5m).

BALANCE SHEET

The totals assets rose by 52% during the half year ended 30 June 2003, to $460m (31 December 2002: $299m). This was mainly attributable to the increase of $211m in trading securities, which totalled $335m at 30 June 2003. This growth was financed by $155m from the proceeds of sale & repurchase (repo) facilities, and a decrease in cash deposits.

Shareholders funds at 30 June 2003 have risen to $197.7m compared to $193.8m at the end of 2002.

IMPROVEMENTS MADE TO THE RISK MANAGEMENT TOOLS

A **Value at Risk** (VaR) measurement system became operational during the period. This system covers capital market activities (VaR at a 99% confidence level for a 10-day holding period) and Reinsurance activities (VaR at a 99% confidence level for holding transactions to maturity).

A Credit VaR measurement system is under consideration. In preparation for its introduction the Group implemented an *Internal Credit Rating System* and a corresponding limits system based on a "*Loss Given Default*" methodology.

The **internal credit rating system** calculates default probabilities and credit spreads for every counterparty, based on rating classes and transaction maturities. As most of Nexgen's clients are not rated, this system maps the counterparty financial data to the rating agencies rating classes.

Loss Given Default is computed, assuming an immediate default of the counterparty, as the difference between the cash left after the default occurrence and the value of the transaction and its hedge as shown in Nexgen records before the default. The loss is conservatively estimated as market conditions are stressed depending on the relationship between the counterparty and the underlying. The loss calculation captures material effects arising along the default process.

Screening Committee
The Group's deal approval process has been expanded with the creation of a new committee, the Screening Committee. The terms of reference for the committee specify its pre transaction screening responsibilities of proposed counterparties (which includes clients, market counterparties and intermediaries) in order to ensure, as far as possible, that Nexgen is not exposed to regulatory or reputational risk from deals with proposed counterparties.
The screening process is designed to be independent of any evaluation of the credit quality of the counterparty or of the decision process on proposed transactions.

Positions and risks

The level of VaR for capital markets and reinsurance has not changed significantly from the level at the end of 2002: Capital Markets VaR: $1.5m (compared to $1.6m at end 2002 and within the limit of $10m), Reinsurance VaR: $7.6m (compared to $8.7m at end 2002 and within the limit of $30m).

The **CDO**'s net delta position amounted to a $90m long position (equivalent to a long underlying "bond" position of $189m and a short underlying "bond" position of $(99)m), compared to the net delta position of $362m long at the end of 2002.

More detailed risk measures are listed on page 8 of this report.

Independent Review Report to the members of Nexgen Financial Holdings Limited

Introduction

We have been instructed by the Group to review the financial information set out on pages 6 to 7. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the board of directors. The directors are responsible for preparing the interim report in accordance with the accounting policies and the presentation applied to the interim figures which should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board applicable in Ireland. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with Auditing Standards applicable in Ireland and, therefore, provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information. This report has been prepared for and only for the company and for no other purpose. We do not, in producing this report, 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.

Review conclusion

On the basis of our review, we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2003.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Dublin
19th September 2003

CONSOLIDATED PROFIT & LOSS ACCOUNT

	Half year ended 30 June 2003 $'000	Year ended 31 December 2002 $'000
Operating Income	**12,975**	**18,745**
Trading income	4,348	8,061
client transactions	7,736	5,264
credit provision on client transaction	(8,884)	-
arbitrage positions	4,118	1,709
residual positions management	(532)	(770)
remuneration own funds	1,910	1,858
Collateralised debt obligations	9,230	6,490
Reinsurance technical income	(144)	4,708
Other income	-	20
Transaction Related professional fees	(459)	(534)
Operating Expenses	**(8,522)**	**(13,903)**
Staff Costs	5,357	7,907
wages and salaries	4,202	6,321
social welfare costs	530	478
pension costs	431	750
other staff costs	194	358
Auditors' remuneration	165	116
Depreciation	269	482
Other administrative expenses	2,731	5,398
professional fees	373	1,181
directors emoluments	210	619
travel and subsistence	796	1,281
rent and office expenses	572	912
other administration expenses	780	1,405
Profit beforeTaxation	**4,453**	**4,842**
Taxation	(562)	(748)
Net profit	**3,891**	**4,094**

CONSOLIDATED BALANCE SHEET

	30 June 2003 $'000	31 December 2002 $'000
<u>**ASSETS**</u>		
Cash	**3,629**	**3,172**
Deposits with financial institutions	**46,642**	**123,516**
unsecured	23,958	89,956
collateralised deposits	22,684	33,560
Trading securities	**334,548**	**123,629**
listed shares	104,297	69,234
bonds and convertibles listed and/or indexed to listed shares	230,251	54,395
Derivative financial instruments	**71,260**	**43,607**
financial institutions	25,767	24,525
other	45,493	19,082
Reinsurer's share of technical provision	**838**	**745**
Debtors	**2,128**	**3,112**
falling due within one year	1,118	1,836
falling due in more than one year	1,010	1,276
Tangible fixed assets	**1,023**	**1,162**
Total Assets	**460,068**	**298,943**
<u>**LIABILITIES**</u>		
Trading securities	**21,613**	**30,746**
Shares	21,608	30,699
listed options	5	47
Derivative financial instruments	**57,177**	**45,670**
financial institutions	691	659
Other	56,486	45,011
Loans from financial institutions	**177,330**	**22,575**
Collateralised	177,330	22,575
Reinsurance liabilities (provision for unearned premiums)	**1,419**	**1,208**
Creditors	**4,874**	**4,963**
accruals and deferred income	3,019	3,667
other creditors	776	548
deferred tax liability	436	436
corporate tax due	643	312
Total Liabilities	**262,414**	**105,162**
Equity shareholders' funds	**197,655**	**193,781**
called up share capital	1,861	1,861
share premium	187,632	187,632
retained earnings	8,139	4,248
other reserves	23	40
Total Liabilities and Equity	**460,068**	**298,943**

FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

Dealing in off balance sheet instruments forms a fundamental part of the Group's activities. Accordingly, the Group has a number of interest rate swaps, equity swaps, equity forwards, equity options, equity index futures and foreign exchange spot and forward contracts and credit default swap contracts at 30 June 2003. Gains and losses arising on marking these financial instruments to market are included in dealing profits in accordance with the Group's accounting policies.

The notional amounts and fair value amounts of the contracts are shown below:

	30 June 2003			31 December 2002		
FINANCIAL INSTRUMENTS	Notional Amount $'000	Fair Value Asset $'000	Fair Value Liability $'000	Notional Amount $'000	Fair Value Asset $'000	Fair Value Liability $'000
Interest rate contracts	165,272	2,644	1,051	100,307	872	504
Foreign Exchange contracts	52,459	268	18	92,325	116	436
Equity contracts	192,619	68,156	54,725	138,486	42,619	44,730
Credit Default Swap contracts	37,542	192	1,383	-	-	-
Total contracts	447,892	71,260	57,177	331,118	43,607	45,670

The tables below summarise the risks to which the Group was exposed at 30 June 2003 and 31 December 2002:

FINANCIAL RISKS

Capital Markets Risks

Value-at-Risk (VaR) estimates the potential decline in the value of a position or a portfolio, under normal market conditions, over a ten-day holding period, at a 99% confidence level. The Value-at-Risk method incorporates the sensitivities of the trading portfolio with the volatilities and correlations of those factors. As at 30 June 2003, the capital market VaR amounted to $1.5m (31 December 2002: $1.6m) compared to an internal limit of $10.0m. The maximum VaR figure over the period was $2.1m.

In addition to the VaR methodology the Group also uses "greeks" measurement as a sub-limit system.

Delta and Gamma positions (Equities) 31 December 2002	Long Delta $'000	Short Delta $'000	Gamma $'000
Europe	15,269	(116)	(133)
Asia	3,129	(491)	726
USA	28	(71)	6
Total	18,426	(678)	599

Delta and Gamma positions (Equities) 30 June 2003	Long Delta $'000	Short Delta $'000	Gamma $'000
Europe	15,008	(181)	183
Asia	897	(930)	1,122
USA	48	(168)	16
Total	15,953	(1,279)	1,321

Delta is the equivalent nominal value of the net positions in individual equities to be sold (for long delta positions) or bought (for short delta positions) should Nexgen decide to hedge the open exposure. In calculating the net positions the delta of derivative instruments has been treated as a (long or short) position in the underlying security. The profit & loss effect for a 1% relative increase /decrease in equity price is $172,320 as at 30 June 2003 (31 December 2002: $191,040).

Gamma represents the change in delta for a 1% relative increase / decrease in equity price and arises from optional positions. A positive gamma implies that Nexgen's long/ (short) delta will increase if the price of the underlying security increases/ (decreases). All things being equal, this will generate a profit on the subsequent rebalancing hedge. Conversely, in the same circumstances, a negative gamma will generate a loss. For a small price variation (say 0.01%) the profit/ (loss) will be equal to ½ the square of the variation percentage applied to the gamma figure. However, this reasoning cannot be extended to greater variations as gamma changes are not linear.

Vega position (Equities) 31 December 2002	less than 1 year $'000	1 - 5 years $'000	greater than 5 years $'000	Total $'000
Europe	35	45	-	80
Asia	141	49	1	191
USA	4	6	-	10
Total	180	100	1	281

Vega position (Equities) 30 June 2003	less than 1 year $'000	1 - 5 years $'000	greater than 5 years $'000	Total $'000
Europe	49	52	10	111
Asia	194	64	-	258
USA	8	9	-	17
Total	251	125	1 0	386

Vega for a given period is the profit & loss effect in US dollars ($) for an upward parallel shift of 100 basis points in the annual volatility curve over the period.

Forex position	European $'000	Australasian $'000	Total $'000
31 December 2002	(122)	196	74
30 June 2003	(389)	(2,677)	(3,066)

Forex Exposure is the equivalent nominal of US dollars to be (sold) or bought should the open exposure with an FX trade be hedged. The position as at 30 June 2003 was short both the European and Australasian currencies against US dollars.

Rho position	less than 1 year $'000	1 - 5 years $'000	greater than 5 years $'000	Total $'000
31 December 2002	2	(1)	-	1
30 June 2003	(1)	(1)	-	(2)

Rho is the profit & loss effect in US dollars for an upward parallel shift of 1 basis point in the interest rate for the various currencies.

Reinsurance Risks
The gross reinsurance exposure of the Group amounted to $28m at 30 June 2003 (31 December 2002: $23m). This non-proportional reinsurance protection has been sold on a portfolio of diversified natural catastrophic risks. The Company had bought in 2002 partial protection on the same range of risks. Nexgen exercised the option to cancel this contract at the end of March, effective 1 July 2003.

The reinsurance VaR (at a 99% confidence level for transactions held to maturity) was $7.6m at 30 June 2003 (31 December 2002: $8.7m) compared to an internal limit of $30m.

Credit Risk (excluding CDO) Risk
The Group measures its credit risk exposures using a loss given default methodology (refer to Improvements made to Risk Management Tools on page 4). As at 30 June 2003 the exposures by counterparty rating category were as follows:

Moody's Rating	$ m
AA	46.7
A	10.6
BBB	18.3
BB	20.8
B	6.7
CCC	0.1
Total	103.2

Collateralised Debt Obligations (CDO)

As at 31 December 2002, the Group had invested in a portfolio of credit derivatives by selling protection on $15.8m of CDO tranches. During the 6 months to 30 June 2003 the Group has been a net buyer of protection through CDOs, and Credit Default Swaps have been traded in both directions to fine tune the risk profile.

The tables below present some quantitative analyses of the risks held in this portfolio. The positions are measured by a pricing model, the main components of which are detailed in the Group's Consolidated 2002 Financial Statements (Note 1. Accounting policies).

"Greeks" Analysis

	30 June 2003	31 December 2002
Sum of Long delta ($m)	189	362
Sum of Short delta ($m)	(99)	-
Net delta ($m)	90	362
Sensitivity to + 1bp CDS Spreads ($)	(40,500)	(150,000)
Note: Delta is expressed as 5 year CDS equivalent. Positive figures indicate a position long in credit risk (i.e generating a profit if the CDS spreads tighten).		

Delta is the equivalent nominal of 5 year CDS (or 5 years credit protection) in individual names to be bought (for long delta positions) or sold (for short delta positions) should Nexgen decide to hedge the net underlying open exposure. A long delta position is the equivalent of a long position in the underlying bond i.e. a protection / CDS sold.

Scenario Analysis

Scenarios based on an absolute parallel shift applied to all CDS **spreads** ($m) are noted below.

- 250 bp	-100 bp	+ 100 bp	+ 250 bp
+$24.2m	+$13.4m	+$4.9m	+$21.7m
Note: a shift of +100 bp changes a spread from 50 bp to 150 bp. (Should a shift decrease the value of a spread below 0, the spread is kept equal to 0).			

Scenarios based on an absolute shift applied to all **correlations** between counterparties ($m) are noted below.

-0.10	-0.05	+ 0.05	+ 0.10
-$5.8m	-$2.8m	+$2.4m	+$4.6m
Note: a shift of +0.05 changes a correlation from 20% to 25%			

The above figures depend on market conditions (especially CDS spreads) and may vary over time.

Other information

CDO features	30 June 2003	31 December 2002
Number of names	224	159
Number of non investment grade names (long positions)	5	3