



Nexgen Capital Limited
Annual Report 2004

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COMPANY PROFILE

Nexgen Capital Limited (NCL or the Company), an Irish incorporated company, is a subsidiary of Nexgen Re Limited and part of the Nexgen Financial Solutions Group (Nexgen or the Group).

The Group offers risk based tailor-made financial solutions to corporations, insurance companies, banks and other financial services organisations, and high net worth individuals, principally resident in Europe and Asia. The Group provides its clients with creative and robust solutions. It executes transactions as principal counterparty. The risks assumed by Nexgen are actively managed, hedged in the market place and supported by the capital base of the Company.

Nexgen Capital Limited undertakes capital market transactions. Its role within the

Group is to act as a principal for client solutions involving financial instruments and to hedge or manage the resulting risks. The solutions offered include equity or credit derivative linked instruments designed to support mergers and acquisitions, treasury management, corporate finance, risk transfer, debt restructuring and private financing situations. Solutions may also include other derivative components. Nexgen Capital Limited also provides risk management services to the other Group companies.

NCL is authorised by the Irish Financial Services Regulatory Authority under the Investment Intermediaries Act, 1995. It is regulated in accordance with the EU Investment Services and Capital Adequacy directives and qualifies for the same risk weighting as a regulated bank.

SHAREHOLDING STRUCTURE

The shareholding structure of the Group as at 31 December 2004 is as follows:

	% Voting rights	No. Shares
Ordinary Shares		
IXIS Corporate & Investment Bank	38.70%	90,000,000
Temasek Holdings (Pte) Ltd	20.64%	48,000,000
G.K. Goh	15.05%	35,000,000
Athena	4.10%	9,523,810
Nexgen Employees	1.51%	3,500,000
Founders Shares		
Founders	20.00%	118,008
TOTAL	100%	186,141,818

IXIS Corporate & Investment Bank specialises in serving institutional investors, major issuers and corporations. It offers a range of high value-added financial services in each of its three main business lines, Capital Markets and Financing,

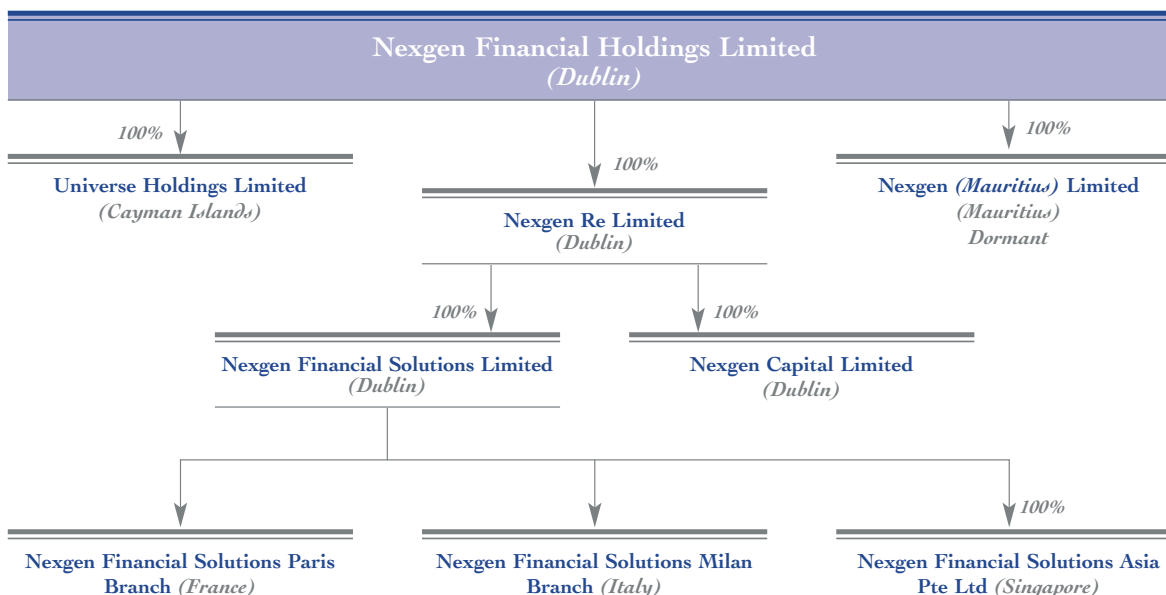
Asset Management, Banking and Securities Services. CDC Finance - CDC IXIS transferred its shares in Nexgen to IXIS Corporate & Investment Bank on 1st November 2004 as part of the restructuring of the IXIS group.

Temasek Holdings (Pte) Ltd ("Temasek") is an Asian investment company headquartered in Singapore. It holds its investment in Nexgen through one of its wholly owned subsidiaries Fullerton (Private) Ltd. The holding was formerly held through another of its subsidiaries, Singapore Technologies (Pte) Ltd and was transferred on 31st December 2004 as part of a restructuring of the Temasek group. Temasek is ultimately owned by the government of Singapore.

G.K. Goh is a leading Asian investment services group founded in 1979 and headquartered in Singapore.

Athena is a private equity fund controlled by a conglomerate of Italian financial institutions.

GROUP ORGANISATION CHART



DIRECTORS AND OTHER INFORMATION

Board of Directors as at 31 December 2004

Mr Peter Blessing	Non-Executive	Chairman
Mr Luc Giraud	Executive	
Mr Frank Monks	Executive	Managing Director
Mr Francois Robey	Executive	
Mr Ravi Viswanathan	Executive	

Company Secretary and Registered Office

Ms Nicola O'Connell
Ormonde House
12 Lower Leeson Street
Dublin 2
Ireland

Office Address

Ormonde House
12 Lower Leeson Street
Dublin 2
Ireland

Registered Number

336438

External Auditors

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Wilton Place
Dublin 2
Ireland

Internal Auditors

Deloitte & Touche
Deloitte & Touche House
Earlsfort Terrace
Dublin 2
Ireland

Bankers

IXIS Investor Services
16-18, rue Berthollet
94113 ARCUEIL Cedex
France

BNP Paribas London
10 Harewood Avenue
London NW1 6AA
UK

Solicitors

A&L Goodbody
International Financial Services Centre
North Wall Quay
Dublin 1
Ireland

CORPORATE GOVERNANCE AND RISK MANAGEMENT

Corporate governance

The Company is managed by the Board of Directors, the role of which is to ensure the effectiveness of the internal controls of the Company, to approve the entering into of transactions on behalf of NCL and to oversee NCL's compliance with the rules and regulations applicable to its business.

The Committees established at Group level supervise the business of the Company as necessary. These are:

The Executive Committee which meets to consult on business issues and to maximise the Group's synergies with its shareholders.

The Management Committee, which is responsible for running the day-to-day operations of the Group.

The Transaction Committee, which reviews all proposed client structured transactions at Group level and meets when necessary.

The Screening Committee, which approves proposed counterparties (including clients,

market counterparties and intermediaries) to ensure, as far as possible, that Nexgen is not exposed to regulatory or reputational risk in its dealings with such counterparties.

The Audit Committee, which reviews the financial information and risk management policies of the Group and assesses the adequacy of the Group's operating and internal accounting controls and the quality of its internal and external auditors. It monitors the Group's corporate governance and compliance procedures. Deloitte & Touche assist the Audit Committee in execution of the internal audit function.

The Research Committee, which reviews the models used by the Group for risk management and valuation. It is composed of an independent director, high level academics and Nexgen research staff.

A Risk Controller, nominated by certain of the largest institutional investors, supervises the risk management process and monitors compliance with all risk limits.

Risk Management principles

Nexgen's business model is based on its ability to realise value efficiently and durably from the solutions implemented for its clients. This ability derives from the financial and organisational capacity of Nexgen to act as a principal, accept risks on clients and/or acquire risks from them. The business model relies on the continuous implementation of a rigorous risk management and valuation process.

Nexgen's risk management policy is designed to eliminate as much risk as possible from the principal transactions it has entered into. Broadly this is done either through dynamic delta hedging where possible, or through statistical diversification. A proprietary valuation and reporting system, complemented by the use of external risk management software tools, measures the risks of any type of structure, whatever the underlying instrument, allowing them to be effectively hedged.

Financial solutions are individually approved. Prior to the decision to enter into any transaction, present and anticipated risks are vigorously analysed and deliberated.

For hedgeable risks (i.e. those that can be traded on a market) consideration is given to how such risks can effectively be hedged, given the forecast required hedging activity, and liquidity of the underlying market.

In the context of client transactions, counterparty credit risk and concentration risks are mitigated through the use of credit cushions, margin calls, periodic or market

price triggered resets in contracts, and/or the taking of collateral. In addition, manufactured protection, credit default swaps, guarantees and special purpose entity (SPE) structures may be used.

As many of Nexgen's clients are not rated, an internal credit rating system has been set up to calculate objective default probabilities and credit spreads for each counterparty (i.e. clients and market counterparties). Individual and global limits, based on rating classes and transaction maturities, are assigned to the counterparties.

Consideration is given to the size of individual risks within Nexgen's diversification objectives. Due consideration is also given to the availability of adequate sources of funding and to the identification, minimisation and acceptability of non-financial risks.

In order to employ its capital more efficiently, Nexgen uses its expertise in identifying and managing risks to enter into proprietary transactions, where the risk/return parameters are comparable to those obtained in structures it would have entered into with clients.

After the execution and initial hedging of the principal transactions, resulting risks are managed and controlled within a system of limits.

The fundamental core of this system is Value at Risk measurements against which global limits have been allocated. The company currently tracks a Market VaR, and two credit VaR measures (for CDO / CDS activities).

Definition	Confidence interval	Time Horizon	Limit (USD m)
Market VaR	99%	10 days	10
Credit VaR - spread movement	99%	90 days	10
Credit VaR - jump to default	99%	90 days	35

Within this global framework sensitivities for individual hedgeable risks and stress tests for diversifiable risks are closely monitored.

The Risk Management unit monitors the risks and executes the market transactions required to keep them within the limits. The Risk and Result Reporting unit is responsible for

monitoring the limits and producing the P&L analyses.

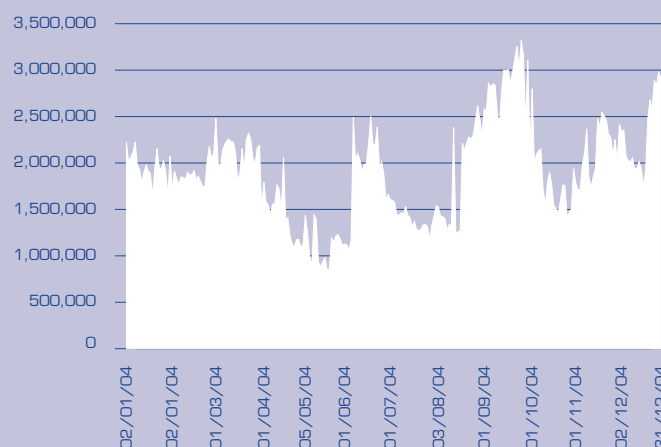
The Board of Directors approves the various limits mentioned above. The Risk Controller continuously monitors compliance with the limits and adherence to the risk management process.

FINANCIAL RISKS

Capital Markets Risks

Value-at-Risk (VaR) estimates the potential decline in the value of a position or a portfolio 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 31 December 2004, the capital market VaR amounted to \$2.9m (31 December 2003: \$2m) compared to an internal limit of \$10.0m. The maximum VaR figure over the period was \$3.3m.

10 days (99%) **Market VaR** (in USD)



Credit Risk (excluding Credit Derivatives)

The Company measures its credit risk exposures using a Loss Given Default methodology.

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.

Credit Risk - Credit Derivatives

Building on the expertise acquired by the Group in the management of its portfolio of structured investments in Collateralised Debt Obligations (CDO's), NCL executed several tailor made CDO tranches during 2004. All exposures are monitored daily and hedged where necessary with credit default swaps. As detailed in the spread sensitivity tables below, the global position is protected against extreme scenarios where spreads either tighten or widen abruptly.

Two VaR indicators are used to monitor this activity. The Jump to Default VaR captures the impact of unexpected immediate defaults on the Company P&L. Defaults are simulated using probabilities of default implied from credit default swap spreads and correlations between underlying names implied from equity markets. The Spreads VaR captures the impact of adverse credit market spreads

behaviour on the Company P&L. Spread variations are simulated using both historical volatilities and correlations. Both indicators are measured over a 90 day holding period, at a 99% confidence level, and, are, conservatively, subject to independent limits. At 31 December 2004, the corresponding figures for NCL were:

VaR Default \$17m (Group limit: \$35m) (2003 \$4.6m (Group limit \$30m))

VaR Spreads \$0.25m (Group limit: \$10m) (2003: \$0.9m (Group limit \$10m))

Further detailed quantitative indicators of this portfolio are shown in the tables below. The positions are measured by a pricing model the main components of which are detailed in Accounting policies, Note 1 to the Financial Statements.

Hedge Ratio Analysis

	31 December 2004	31 December 2003
Sum of Long delta (\$'000)	39,900	47,000
Sum of Short delta (\$'000)	(118,600)	(8,000)
Net delta (\$'000)	(78,700)	39,000
Sensitivity to +1bp CDS Spreads (\$'000)	(39.35)	(17.6)

Delta is the equivalent nominal of a CDS 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. The figures above are expressed in 5 year CDS equivalents. In practice, the Group manages its credit positions using a term structure (1,3,5,7 years).

Scenario Analysis

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

Absolute Shift	-0.25%	-0.10%	-0.05%	0.05%	0.10%	0.25%
Present Value change	\$0.99m	-\$0.37m	-\$0.45m	-\$0.22m	\$0.43m	\$1.4m

Scenarios based on shift applied to all **correlations** between counterparties and to the **recovery rates** (\$m) are noted below:

Correlation as absolute % shift	Recovery as relative % shift		
	-10%	0%	10%
-25%	-\$7.7m	-\$2.8m	\$4.3m
-20%	-\$7.2m	-\$2.2m	\$5.2m
-10%	-\$5.9m	-\$0.9m	\$6.4m
0	-\$5.1m	\$0.0m	\$7.1m
10%	-\$4.4m	\$0.4m	\$7.4m
20%	-\$3.9m	\$0.9m	\$7.6m
25%	-\$3.5m	\$1.3m	\$8.2m

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

OPERATIONAL RISK

Due to the nature of Nexgen's business, control of operational risk is a fundamental issue. The basic principle implemented to achieve this control is to unbundle the various embedded risks and components of a principal transaction in such a way that specialised operational units, which are independent of the structuring and trading teams, can manage them.

A number of procedures have been implemented to ensure coordination between the various teams, including:

- ▮ Involvement of the operational specialists in the structuring and approval phase, to verify Nexgen's capacity to manage the approved transactions,
- ▮ Recourse to specialist external advice, and
- ▮ Tight coordination and cross checking when finalising documentation and executing transactions.

An important element of this control is having one common information system, from conception to reporting, with no dual input, combined with the capacity to access multi-dimensional views of the same transaction without sacrificing the integrity of the information. This system reinforces the efficiency of the segregation of duties and cross control procedures.

A constant effort is made to use standard, proven and reliable concepts and tools in the execution of transactions and management of the business risks. Standard market documentation, models relying on widely accepted financial theories and external software tools are used as appropriate.

LEGAL AND REPUTATIONAL RISK

Nexgen is involved in complex and innovative transactions. As such the Group minimises the potential legal and reputational risks by taking various steps, including the following:

- ▮ at the pre-transaction stage, the Screening Committee reviews each prospective counterparty from a reputational and "Know Your Customer" perspective,
- ▮ Management seek to satisfy themselves that transactions are structured to serve legitimate

purposes of clients and that those clients are acting in accordance with local regulations and standard practices,

- ▮ when structuring transactions, special attention is given also to their conformity to local rules and regulations, and prominent local law firms are systematically used to verify such compliance.

DIRECTORS' REPORT

The directors submit herewith their annual report together with the audited financial statements of Nexgen Capital Limited for the year ended 31 December 2004. The comparative figures are for the year to 31 December 2003.

2004 ACTIVITY

Income Generation

The Company's trading income in 2004 was \$44.7m (2003: \$9.0m).

2004 was Nexgen's second full year of activity, which saw a strong development in its European **Capital Markets** activities. Transactions were entered into mainly with large corporate clients. Techniques used in the structuring involved mainly derivatives (swaps and options) on single stocks and various credit risk mitigating techniques where necessary. NCL also structured some transactions mixing credit and equity derivatives. Some monetisation transactions were also structured for high net worth individuals. Most of the transactions NCL structured for clients were of a private nature and their details cannot be disclosed. However in a number of instances our clients have chosen to make public statements regarding their transactions with NCL, such as an indexed bond transaction structured for Casino, a large French retail group, and an equity swap transaction for the holding company of the Franco-American games producer, Atari, and these demonstrate the nature of transactions structured by Nexgen.

This increased activity was made possible thanks to the excellent support received from our main shareholder, IXIS Corporate & Investment Bank. The relationship with Lazard continued to develop in the framework of the cooperation arrangement signed at the end of last year to jointly provide corporate

clients in major European markets with structured capital market, derivative and reinsurance financing and risk management solutions.

There were only two new equity linked transactions in Asia during the year; this was due to a more selective attitude towards the quality of counterparties and underlying securities. The structuring activity has been reoriented to larger size corporate clients. Efforts made so far are expected to be fruitful in 2005. According to the expected pattern in the life of transactions, a number of Asian structures entered into in the early days of Nexgen are now being unwound. The Company also structured two credit related transactions with Asian corporate clients.

In April 2004, a default was experienced on an exchangeable bond acquired in December 2002. The directors have provided for the loss on the bond less the realisable value of securities held.

Regarding synthetic Collateralised Debt Obligations (CDOs), NCL continued to develop its expertise in the management of this type of instrument and structured several tranching CDO transactions for various clients and covered the resulting risks to the extent possible.

In total, NCL entered into about 40 transactions during the year (including restructurings and the early unwind of a number of existing transactions).

General and resources

Staff numbers remained stable in 2004, at 8.

There was no significant change to the Group's organisation (refer to Organisation chart on page 2)

The network of derivative and financing lines with various international financial institutions put in place in 2003 was expanded and consolidated. This and the strength of the Group's relationship with its main shareholder put NCL in a position to be financially responsive to its clients' requirements.

Corporate governance and risk management

There was no major change to the Corporate and Risk management framework. The Screening Committee (pre-approval of possible clients and counterparties) and the Transaction Committee (individual approval of transactions) met regularly. The regular review of systems and procedures conducted under the supervision of the Audit Committee did not raise any significant issues.

A new version of the Risk Management system was installed in 2004. It brought significant improvements on the real time access of both risk indicators and market parameters and provides flexible drill down tools that allow a wide range of risk analyses.

Positions and risks

The level of VaR for capital markets fluctuated during the year from a minimum of \$800,000 to a maximum of \$3.3m. The end of year level was \$2.9m (compared to \$2.0m at end 2003 and within the limit of \$10m). Average VaR for the year is \$1.9m.

The CDO credit VaR (jump to default) increased regularly during the year from below \$4.4m to \$17.2m as a result of the structuring activity taking place. The CDO market VaR (spread movements) decreased strongly as a result of progressively hedging the new transactions. The Group level limits are \$35m and \$10m respectively.

More detailed risk measures are listed on pages 5-8 of this report.

Results for the year and state of affairs at 31 December 2004

Nexgen's positions are valued on a fair value basis whenever possible. Positions are valued daily, or weekly for certain types of underlying instruments. In all cases the valuation is measured against each risk incurred and an income attribution analysis is prepared by reference to the actual risks being managed. The risk management systems and procedures have developed and performed satisfactorily.

The net trading income for 2004 was \$44.7m (2003: \$9m).

Most of the income of \$36.6m derived from capital market client transactions

(2003: \$11.7m). Credit charges on client transactions, being the cost of the Asian client default mentioned above, amount to \$8m (2003: \$8.9m).

The contribution of CDO activity is \$11.7m (2003: \$nil). Most of this profit arises from structuring tranching CDO for financial clients.

The contribution of arbitrage transactions was minimal, \$0.26m (2003: \$4.5m) and "residual positions' management" was a loss of \$0.68m (2003: profit of \$0.41m).

Remuneration of Own Funds (computed at a rate based on 3 month Libor was \$2.9m (2003: \$1.9m). This increase is due to higher interest rates in 2004.

Operating expenses rose to \$17.4m (2003: \$6.5m). This increase primarily results from the increase in NCL's marketing fee charges from group companies. There was also an

increase in NCL's own staff costs (2004: \$0.95m; 2003: \$0.59m).

Taxation was \$3.7m (2003: \$0.35m). The average rate of tax was 13.5% (2003:12.6%).

The net profit after tax for the year was \$23.7m compared to \$2.4m for the year 2003.

Balance sheet

The total assets increased by two thirds over the year to \$956m (31 December 2003: \$563m).

This growth reflects the development of the business and was spread over the various lines of the balance sheet. This was financed on the liability side by an increase in loans received from financial institutions and the issuance at the end of the year of a medium- term equity

linked note. The increase in deposits with financial institutions is linked to an increase in the size of short positions in trading securities.

Shareholders funds at 31 December 2004 were \$140.9m compared to \$103.1m at the end of 2003. This is due to the profit for the year and a capital contribution of \$20m from Nexgen Re Ltd on 25th March 2004, reduced by the dividend paid.

OUTLOOK FOR 2005

During 2004 a modification of Nexgen's shareholding was discussed between the shareholders. The management has been involved in discussions with IXIS Corporate & Investment Bank on the conduct of Nexgen business if IXIS Corporate & Investment Bank was to become a majority shareholder. These discussions could lead to Nexgen

becoming a subsidiary undertaking of IXIS Corporate & Investment Bank in 2005. The outcome of these discussions should not modify NCL's focus which will remain centred on structuring innovative and robust solutions for corporate and financial clients and acting as principal in the execution of these transactions.

DIRECTORS

The names of the persons who were directors at any time during the year ended 31 December 2004 are set out below. The directors served for the entire year.

Board of Directors as at 31 December 2004

Mr Peter Blessing	Non-Executive	Chairman
Mr Luc Giraud	Executive	
Mr Frank Monks	Executive	Managing Director
Mr Francois Robey	Executive	
Mr Ravi Viswanathan	Executive	

Directors' and secretary's interests

The directors had no direct interest in Nexgen Capital Limited. The beneficial interests of the directors and the company secretary, in office at 31 December 2004, in the ordinary share capital of Nexgen Financial Holdings Limited, the Company's ultimate parent, at 31 December 2004 and 31 December 2003 were as follows:

	Number of shares			
	31 December 2004		31 December 2003	
Luc Giraud	764,750	Ordinary shares	764,750	Ordinary shares
	15,240	Founders shares	15,240	Founders shares
Ravi Viswanathan	764,750	Ordinary shares	764,750	Ordinary shares
	15,240	Founders shares	15,240	Founders shares
Francois Robey	420,000	Ordinary shares	420,000	Ordinary shares
	9,496	Founders shares	9,496	Founders shares
Frank Monks	–	Ordinary shares	–	Ordinary shares
	1,500	Founders shares	1,500	Founders shares
Nicola O'Connell (Company Secretary)	–		–	

In addition, as at 31 December 2004, the directors listed below held the following warrants to subscribe for ordinary shares in Nexgen Financial Holdings Limited (no change from 31 December 2003).

	Number of Warrants		
	Number	Maturity date	Subscription price
Luc Giraud	254,918	1 st December 2005	USD 1.00
	771,731	11 th December 2009	USD 1.50
	1,441,778	11 th December 2009	USD 2.50
Ravi Viswanathan	254,918	1 st December 2005	USD 1.00
	771,731	11 th December 2009	USD 1.50
	1,441,778	11 th December 2009	USD 2.50
Francois Robey	140,000	1 st December 2005	USD 1.00
	480,864	11 th December 2009	USD 1.50
	898,367	11 th December 2009	USD 2.50
Frank Monks	–	1 st December 2005	USD 1.00
	75,958	11 th December 2009	USD 1.50
	141,907	11 th December 2009	USD 2.50

None of the other directors held other interests in any Group undertaking at 31 December 2004.

Subsequent Events

There were no significant events affecting the Company since the end of the financial year.

Employee Health and Safety

The welfare of the Company's employees is safeguarded through adherence to the Safety, Health and Welfare at Work Act, 1989.

Books of Account

The directors comply with the Company's obligation to keep proper books of account by using appropriate systems and procedures and employment of competent persons. The books of account are kept at the following address:

Ormonde House
12 Lower Leeson Street
Dublin 2
Ireland

Auditors

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office under Section 160 of the Companies Act, 1963.

On behalf of the board



Luc Giraud



Ravi Viswanathan

DIRECTORS' RESPONSIBILITY STATEMENT

Irish company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss for that year. In preparing those financial statements, the directors are required to:

- ▶ Select suitable accounting policies and then apply them consistently
- ▶ Make judgements and estimates that are reasonable and prudent
- ▶ Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements are prepared in accordance with accounting standards generally accepted in Ireland and comply with the Companies Acts, 1963 to 2003. 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.

On behalf of the board

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NEXGEN CAPITAL LIMITED

We have audited the financial statements on pages 18 to 29 which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies on pages 20 to 22.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable Irish law and accounting standards generally accepted in Ireland are set out on page 15 in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and auditing standards issued by the Auditing Practices Board applicable in Ireland. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 193 of the Companies Act 1990 and for no other purpose. We do not, in giving this opinion, 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.

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 Irish statute comprising the Companies Acts, 1963 to 2003. We state whether we have

obtained all the information and explanations we consider necessary for the purposes of our audit and whether the financial statements are in agreement with the books of account.

We also report to you our opinion as to:

- whether the Company has kept proper books of account;
- whether the directors' report is consistent with the financial statements; and
- whether at the balance sheet date there existed a financial situation which may require the Company to convene an extraordinary general meeting; such a financial situation may exist if the net assets of the Company, as stated in the balance sheet, are not more than half of its called-up share capital.

We also report to you if, in our opinion, information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit opinion

We conducted our audit in accordance with auditing standards 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.

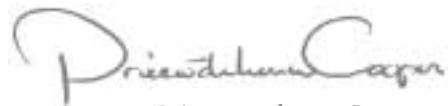
Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 2003.

We have obtained all the information and explanations we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the Company. The financial statements are in agreement with the books of account.

In our opinion the information given in the directors' report on pages 10 to 14 is consistent with the financial statements.

The net assets of the Company as stated in the balance sheet on page 21 are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2004 a financial situation which under Section 40(1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the Company.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Dublin

24 February 2005

PROFIT AND LOSS ACCOUNT

	Notes	Year ended 31 December 2004 USD'000	Year ended 31 December 2003 USD'000
Trading income	2	44,717	8,995
Intercompany service income	4	118	302
		44,835	9,297
Operating expenses	3	(17,390)	(6,517)
Profit on ordinary activities before taxation		27,445	2,780
Taxation	5	(3,700)	(349)
Profit for the financial year after taxation		23,745	2,431
Dividend paid to parent company	19	(6,000)	–
Retained profit for the financial year		17,745	2,431
Balance at beginning of year		3,130	699
Balance at end of year		20,875	3,130

The above results relate exclusively to continuing operations. There are no recognised gains or losses other than those dealt with in the profit and loss account.

On behalf of the board

BALANCE SHEET

	Notes	31 December 2004 USD'000	31 December 2003 USD'000
Assets			
Cash at bank and in hand		67,298	2,114
Deposits with financial institutions	7	192,195	88,693
Trading securities - long positions	8	484,882	387,596
Derivative financial instruments - long positions	9	211,627	84,606
Debtors	10	179	104
Tangible fixed assets	6	-	2
Total Assets		956,181	563,115
Liabilities			
Trading securities - short positions	11	257,324	112,352
Derivative financial instruments - short positions	12	126,218	91,900
Loans from financial institutions	13	276,315	254,037
Creditors	14	15,990	1,696
Debt Securities in issue	15	139,459	-
Total Liabilities		815,306	459,985
Net Assets		140,875	103,130
Capital and reserves			
Called up share capital	16	-	-
Capital contribution	17	120,000	100,000
Profit and loss account		20,875	3,130
Equity shareholders' funds	18	140,875	103,130

On behalf of the board

NOTES TO THE FINANCIAL STATEMENTS

1 | Accounting Policies

The significant accounting policies adopted by the Company are as follows:

Basis of accounting

The financial statements have been prepared in accordance with accounting standards generally accepted in Ireland and Irish statute comprising the Companies Acts, 1963 to 2003 and the European Communities (Companies: Group Accounts) Regulations, 1992. Accounting standards generally accepted in Ireland in preparing financial statements giving a true and fair view are those published by the Institute of Chartered Accountants in Ireland and issued by the Accounting Standards Board.

The basis for accounting is the historic cost convention as modified by the inclusion of trading assets, liabilities and derivative instruments arising under structured finance and investment transactions, at valuation (i.e. the amount at which an asset (liability) can be bought or sold in a current transaction between willing parties motivated by normal business considerations). Most of the assets and liabilities of the Group consist of trading securities and derivative instruments related to structured finance and investment transactions

Financial statements

In order to present a true and fair view of the state of affairs of the Company, the directors believe that the following departures from the format and historic cost rules set out in the Schedule to Companies (Amendment) Act 1986 are appropriate because of the special nature of the Company's business.

- (i) Turnover, cost of sales and gross profit have no meaningful equivalents in the Company's business and are therefore not shown in the Profit and Loss Account.

- (ii) All trading assets, liabilities and derivative instruments are valued by reference to market prices prevailing at the balance sheet date (see below).
- (iii) Dividends and interest receivable arising on trading assets, together with interest payable on trading liabilities are reflected in the market values of these assets and liabilities and are, therefore included in operating income and are not identified separately.

The directors believe that the accounting treatment described above provides a fair reflection of the substance of these transactions. It is not practicable to quantify the effect on the accounts of the above departure, as information on the difference between original cost and market value, being of no continuing relevance to the business, is not maintained.

Income recognition

Income is recognised on a fair value basis, making due allowance for the costs associated with the transaction.

Structured transactions

Trading securities positions, liabilities and derivative instruments arising from structured transactions are valued at market prices or at fair value, using industry standard valuation principles as set out below. Movements in fair value are recognised in the Profit and Loss Account as operating profits and losses as they arise.

Fair values of trading securities are based on quoted market prices assuming current market conditions and an orderly disposition over a reasonable period of time.

Fair values of over-the-counter (OTC) derivative financial instruments represent the net present value of amounts expected to be received from or paid to a third party in settlement of these instruments.

Fair value

To obtain a fair value the valuation process involves the initial and continuing marking-to-market (or model) of positions using either observable market prices or, where not directly available, models based on widely-accepted financial theories and market practices applied to observable inputs.

Trading assets are valued at the mid-market price and provisions for bid-offer spreads are made on the aggregate position including offsetting positions. All actively traded instruments or all elements of customer transactions that can be readily decomposed into traded instruments are valued using quoted valuation parameters. Quoted valuation parameters are directly observed on the market as the market prices of reference traded assets or instruments. Where market prices are not available for some elements, those elements are marked-to-model using derived valuation parameters estimated from quoted valuation parameters or calculated from historical economic indicators (e.g. dividends, volatilities).

The models used to perform the above valuations (and compute sensitivities to various risk factors) are summarised below:

- ▶ *Interest Rate Model:* Exposure to general interest rate risk arises mainly from customers transactions. To value these positions a discount curve is extracted and applied with individual constant instantaneous forward rates derived from quoted interbank and swap rates.
- ▶ *Equity derivatives pricing Model:* Nexgen uses a generalised version of the Black-Scholes model. The forecasted underlying volatility is generally estimated by the historical volatility.
- ▶ *Credit Pricing:*

(a) *Models:* For instruments, the value of which is dependent upon credit exposure, the following bases are used: For single name exposures Nexgen uses reduced form models with probability of default and recovery rates

being determined as explained below. For multi-name environments, the modelling approach is to correlate the distribution of defaults using statistical distribution methods and the probability of default is assessed based on a name's credit margin. The credit margin is based on credit-default swap spreads or option-adjusted asset-swap spreads for that same name or, if not available, a similar one and the assumption of a recovery rate for the instrument on which the credit margin is calculated. In case of unavailability of appropriate market data these parameters may be adjusted using models and published default statistics from reputable rating agencies.

(b) *Recovery, probability of default and correlation.* The calculation of an expected recovery rate is based on the assessment of historical data provided by reputable rating agencies. Nexgen's assessment incorporates two major elements: 1) the assumption of the average recovery rate for senior unsecured debt instruments in the respective country of domicile of the name, 2) the assumption of the average recovery rate for the respective industry in which the name operates. An additional recovery rate adjustment is made where deemed necessary

The probability of default is assessed based on a name's credit margin and the assumption of a recovery rate for the instrument on which the credit margin is calculated. The credit margin is based on Credit-Default Swap spreads or option-adjusted Asset-Swap spreads (bond spreads) for that same name (or comparable names, if not available), for the same or similar maturities, comparable asset classes and same underlying credit events.

In cases where a portfolio of exposures is not a simple aggregation of the credit exposure to each underlying name, correlation hypotheses are made. Correlations between the names are assessed using historical time series of the share prices for each name (or a comparable company where the specific name is not listed).

In all valuations, adjustments are made in respect of expected costs as follows:

- ▶ *Funding adjustments* are defined as the costs to the Company due to an expected funding spread over LIBOR.
- ▶ *Hedging adjustments* are defined as the transaction costs required either to rebalance the hedging portfolio or to hold the portfolio. They are modelled by associating a forecasted cost to each elementary hedging transaction, given a defined hedging strategy.
- ▶ *Credit Risk adjustments* are defined as the costs for protecting an exposure or a stream of exposures against default.

In addition, a specific price adjustment is made for the cost of managing each client transaction until maturity and a closeout adjustment is calculated as the estimated cost for liquidating or novating transactions, when such a liquidation or novation is not anticipated to occur under normal circumstances (going concern). Computations depend on the nature of transactions.

Price adjustments specific to CDOs:

- ▶ *Bid-Ask Spread* adjustments estimate the cost of transfer of the whole portfolio and its delta hedge to a market maker at bid/ask prices.
- ▶ *Correlation and Recovery Rate* adjustments cover the uncertainty over assumed levels of correlation and the assessment of recovery rates.

Foreign currencies

Monetary assets, liabilities and commitments denominated in other currencies are reported at the rates of exchange or forward rates prevailing at the reporting date. Gains or losses arising from changes in exchange rates are included in the profit and loss account. Revenue, costs and non-monetary assets are translated at the exchange rates ruling at the dates of the transaction.

Taxation

Corporation tax is provided on taxable profits using rates existing at the balance sheet date.

Deferred tax is provided on all material timing differences that have originated but have not been reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

Deferred tax is measured at the tax rates that are expected to apply in the years in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is not discounted.

Pension costs

Employees may be members either of the Group pension plan or of a personal pension plan. The Group pension plan is a defined contribution scheme. The Group contributes directly to the appropriate pension plan.

The amount charged to the profit and loss account in respect of pension costs is the sum of contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown either as accruals or prepayments in the balance sheet.

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation net of depreciation and any provisions for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write-off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Office Equipment	3 years
------------------	---------

2 | Trading income

	Year ended 31 December 2004 USD'000	Year ended 31 December 2003 USD'000
Analysed by origin:		
- client transactions	36,579	11,504
- credit charge on client transaction	(8,000)	(8,884)
- CDO transactions	11,694	
- arbitrage positions	264	4,451
- residual positions management	2,062	411
- remuneration of Own Funds	2,919	1,908
Professional fees, relating to deals	(801)	(395)
	44,717	8,995

3 | Operating expenses

	Year ended 31 December 2004 USD'000	Year ended 31 December 2003 USD'000
Operating expenses comprise:		
Staff costs	947	594
Auditor's remuneration	53	53
Depreciation	2	2
Intercompany service expenses (see note 4)	16,117	5,584
Other administrative expenses		
- Professional fees	39	11
- Non Executive directors fees	22	109
- Other administrative fees	210	164
	17,390	6,517
Staff costs comprise:		
Wages and salaries	639	399
Social welfare costs	167	89
Pension costs	55	46
Other staff costs	86	60
	947	594

Fees for directors' services and auditors' remuneration are paid by Nexgen Re Limited and recharged to the Company.

The average number of persons employed by the Company during the year 2004 was 8 (2003:8), of which 3 are seconded.

NOTES TO THE FINANCIAL STATEMENTS

	Year ended 31 December 2004 USD'000	Year ended 31 December 2003 USD'000
Directors' emoluments	408	310

Director's emoluments are paid by Nexgen Re Limited on behalf of NCL and are recharged back to the Company.

4 | Intercompany Service Income/Expenses

Intercompany service income represents billing to other group companies for risk management and marketing services.

Intercompany service expenses represent billing by other group companies for services rendered or staff seconded to the Company. Intercompany services are billed at cost plus a margin, and allocated based on income generated on new transactions, management of existing transactions and a percentage representing the additional administration costs. Seconded personnel costs are based on remuneration plus a percentage representing the cost of various benefits.

5 | Taxation

	Year ended 31 December 2004 USD'000	Year ended 31 December 2003 USD'000
Corporation tax for the year	3,700	349
Deferred tax asset	–	–
	3,700	349
Effective tax rate	13.5%	12.6%

The reconciliation of current tax on profit on ordinary activities at the standard Irish corporation tax rate to the Company's actual current tax charge for the year ended 31 December 2004 is shown as follows:

	2004 USD'000	2003 USD'000
Profit on ordinary activities before taxation	27,445	2,780
Profit on ordinary activities multiplied by the standard rate of corporation tax in Ireland of 12.5% (2003: 12.5%)	3,431	348
Effects of:		
Disallowed expenses	1	2
Dividend withholding tax deduction	(12)	–
Average EUR/USD fx rate used in Irish tax computation	322	–
Adjustment relating to previous years	(42)	(1)
Current tax charge for the year	3,700	349

NOTES TO THE FINANCIAL STATEMENTS

6 Tangible fixed assets	Office Equipment USD '000	Total USD '000
Cost		
At 31 December 2003	5	5
Additions	–	–
At 31 December 2004	5	5
Accumulated Depreciation		
At 31 December 2003	3	3
Charge for the year	2	2
At 31 December 2004	5	5
Net Book Value		
At 31 December 2003	2	2
At 31 December 2004	–	–

7 Deposits	31 December 2004 USD'000	31 December 2003 USD'000
Amounts falling due within one year		
- deposits with group undertakings	–	17,205
- collateralised deposits with financial institutions	192,195	71,488
	192,195	88,693

8 Trading securities – long positions	31 December 2004 USD'000	31 December 2003 USD'000
Shares		
- listed	175,528	144,116
Bonds and convertibles		
- listed and/or indexed to listed shares	253,988	199,652
- collateralised debt obligations	34,302	–
- unlisted corporate bonds	19,622	–
- government bonds	1,442	43,828
	484,882	387,596

NOTES TO THE FINANCIAL STATEMENTS

9 Derivative financial instruments – long positions	31 December 2004 USD'000	31 December 2003 USD'000
Analysed by category of counterparty:		
- financial institutions	42,625	43,754
- other institutions	169,002	40,852
	<hr/>	<hr/>
	211,627	84,606
<hr/>		
Analysed by maturity:		
Less than 1 year	36,314	1,289
Between 1 and 5 years	158,604	78,401
Greater than 5 years	16,709	4,916
	<hr/>	<hr/>
	211,627	84,606
<hr/>		

Note 24 to the Financial Statements provides further analysis of the derivative financial instruments by instrument type.

The maturity analysis relates to the final agreement date and not to reset dates.

10 Debtors – amounts falling due within one year	31 December 2004 USD'000	31 December 2003 USD'000
Amounts due from Group undertakings	–	–
Other debtors	169	102
Prepayments	10	2
	<hr/>	<hr/>
	179	104
<hr/>		

11 Trading securities – short positions	31 December 2004 USD'000	31 December 2003 USD'000
Shares		
- listed	253,918	68,070
Bonds and convertibles		
- government bonds	1,442	43,828
Sold listed options		
	1,964	454
	<hr/>	<hr/>
	257,324	112,352
<hr/>		

NOTES TO THE FINANCIAL STATEMENTS

12 Derivative financial instruments – short positions	31 December 2004 USD'000	31 December 2003 USD'000
Analysed by category of counterparty:		
- financial institutions	27,716	3,196
- other institutions	98,502	88,704
	126,218	91,900
Analysed by maturity:		
Less than 1 year	63,931	7,430
Between 1 and 5 years	60,560	84,470
Greater than 5 years	1,727	–
	126,218	91,900

Note 24 to the Financial Statements provides further analysis of the derivative financial instruments by instrument type.

The maturity analysis relates to the final agreement date and not to reset dates.

13 Loans	31 December 2004 USD'000	31 December 2003 USD'000
Amounts falling due within one year:		
- amounts due to group undertakings	44,048	57,656
- amounts due to financial institutions	40,696	10,010
- liabilities collateralised by securities	191,571	186,371
	276,315	254,037

14 Creditors - amounts falling due within one year	31 December 2004 USD'000	31 December 2003 USD'000
Amounts due to group undertakings	7,753	987
Accruals and deferred income	6,088	365
Corporation tax	2,149	344
	15,990	1,696

Amounts due to group undertakings includes a \$6m dividend to NRL.

15 Debt securities in issue	31 December 2004 USD'000	31 December 2003 USD'000
Debt securities in issue repayable:		
over two years but not more than five years	139,459	–

Debt securities in issue at 31st December 2004 are notes linked to listed equities.

NOTES TO THE FINANCIAL STATEMENTS

16 Share capital	31 December 2004 USD	31 December 2003 USD
Authorised:		
1,000 ordinary shares of USD 1 each	1,000	1,000
Allotted, called up and fully paid:		
One ordinary share of USD 1	1	1
	1	1

17 Capital contribution	31 December 2004 USD'000	31 December 2003 USD'000
Capital contribution	120,000	100,000
	120,000	100,000

A \$20m capital contribution was received from Nexgen Re Limited on 25th March 2004.

18 Reconciliation of movement in equity shareholders' funds	31 December 2004 USD'000	31 December 2003 USD'000
Opening shareholders' funds	103,130	100,699
Capital contributions received	20,000	-
Profit retained for year	23,745	2,431
Dividend to NRL	(6,000)	-
Closing shareholders' funds	140,875	103,130

19 Dividends	31 December 2004 USD'000	31 December 2003 USD'000
Declared, not yet paid		
Interim Dividend of \$6,000,000 per share (2003: nil)	6,000	-

20 | Cash Flow Statement

The ultimate parent company, Nexgen Financial Holdings Limited prepares consolidated financial statements, which are publicly available, that include a consolidated cash flow statement. Consequently the Company is exempt under the terms of the Financial Reporting Standard No. 1 (Revised) from publishing a cash flow statement.

21 | Transactions with Related Parties

Transactions with other entities within the group are not disclosed as the Company has taken advantage of the exemption available under FRS 8 (Related Party Transactions), on the basis that the consolidated financial statements of Nexgen Financial Holdings Limited are publicly available.

22 | Parent Undertaking

The Company's immediate parent undertaking is Nexgen Re Limited, a company incorporated in Ireland. The Company's ultimate parent undertaking is Nexgen Financial Holdings Limited, a company incorporated in Ireland. Nexgen Financial Holdings Limited is the only group company for which group financial statements are prepared. Copies of the financial statements of Nexgen Financial Holdings Limited are available from the company secretary at Ormonde House, 12 Lower Leeson Street, Dublin 2.

23 | Commitments and Guarantees

There were no commitments or guarantees of the Company at 31 December 2004.

24 | Financial Instruments and Financial Risks

Dealing in off balance sheet instruments forms a fundamental part of the Company's activities. Accordingly, the Company has a number of interest rate swaps, equity swaps, equity forwards, equity options, equity index futures and foreign exchange spot and forward contracts at 31 December 2004. Gains and losses arising on marking these financial instruments to market are included in trading profits in accordance with the Company's accounting policies.

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

Financial instruments	31 December 2004			31 December 2003		
	Notional Amount USD'000	Fair Value Asset USD'000	Fair Value Liability USD'000	Notional Amount USD'000	Fair Value Asset USD'000	Fair Value Liability USD'000
Interest rate contracts	537,253	1,352	4,236	196,895	266	762
Foreign Exchange contracts	157,366	471	998	65,330	33	1,499
Equity contracts	859,191	170,451	92,608	396,600	59,714	68,105
Credit Derivative contracts	3,628,100	39,353	28,376	697,268	24,593	21,534
Total contracts	5,181,910	211,627	126,218	1,356,093	84,606	91,900

Note: 2003 comparatives for the notional value of credit derivative contracts exclude the CDO tranches structured as derivatives.

25 | Approval of Financial Statements

The directors approved the financial statements on 18 February 2005.

NEXGEN GROUP OFFICES

DUBLIN

Ormonde House
12 Lower Leeson Street
Dublin 2, Ireland
Tel: +353 1 439 4900
Fax: +353 1 439 4926

MILAN

Via Landolfo, 1
20121 Milano
Italia
Tel: +39 02 7209 4957
Fax: +39 02 7200 2637

PARIS

30 Avenue George V
75008 Paris
France
Tel: +33 1 56 62 68 68
Fax: +33 1 56 62 69 00

SINGAPORE

9 Raffles Place
#604-01 Republic Plaza
Singapore 048619
Tel: +65 6823 1188
Fax: +65 6823 1199