



**Nexgen Financial Holdings Limited**  
Annual Report 2004

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## NEXGEN GROUP PROFILE

Nexgen Financial Holdings Limited ('the Company'), an Irish incorporated company, is the holding company of the Group, which trades as Nexgen Financial Solutions Group ('Nexgen' or 'the Group').

Nexgen 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 Group.

The principal subsidiaries of the Company are Nexgen Re Limited ('NRL'), a company approved to operate as a reinsurance company by the Irish Financial Services Regulatory Authority ('IFSRA'), and its subsidiaries Nexgen Capital Limited ('NCL') and Nexgen Financial Solutions Limited ('NFSL') which are both authorised by IFSRA under the Investment Intermediaries Act, 1995 to conduct regulated businesses as investment firms.

NRL underwrites Nexgen's reinsurance business, which comprises structured transactions for insurance or reinsurance companies or captives, helping these organisations to meet efficient risk transfer or capital allocation objectives. NRL also provides finance and corporate services for the Group.

NCL undertakes capital market transactions. NCL's 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. NCL also provides risk management services to the other Group companies.

NFSL carries out the sourcing and structuring of transactions, products and services on behalf of the risk taking entities of the Group (NCL and NRL). Nexgen Financial Solutions (Asia) Pte Ltd (NFSA), a subsidiary undertaking of NFSL, acts as the Singaporean marketing and structuring unit of the Group. It also provides trading support, in the Singaporean time zone, to the Group. NFSA holds a Capital Markets Services Licence granted by the Monetary Authority of Singapore. NFSL also carries out research and development of IT systems for the Group.

Another subsidiary, Universe Holdings Limited ("UHL") was acquired by the Group in October 2001. It held a portfolio of derivative transactions similar in nature to the ones undertaken by NCL. These transactions have either matured or been transferred to NCL. The entity no longer holds positions in financial instruments.

At the end of 2004 Nexgen had 62 employees (61 at the end of 2003) in Dublin, Singapore (NFSA), Paris (a branch of NFSL) and Milan (a branch of NFSL).

## DIRECTORS

### Board of Directors as at 31 December 2004

Mr Anthony Orsatelli	Non-Executive	Chairman
Mr Tay Siew Choon	Non-Executive	Co-chairman <sup>(1)</sup>
Mr Peter Blessing	Non-Executive	<sup>(2)</sup>
Mr Etienne Bur	Non-Executive	Chairman Executive Committee <sup>(1)</sup>
Mr John Donnelly	Non-Executive	Chairman Audit Committee <sup>(2)</sup>
Mr Luc Giraud	Executive	Joint Chief Executive Officer <sup>(1)</sup>
Prof Annie Koh	Non-Executive	<sup>(2)</sup>
Mr Goh Yew Lin	Non-Executive	
Mr Victor Liew	Non-Executive	
Mr André Rolland	Non-Executive	
Mr Lee Ming San	Non-Executive	<sup>(1) (2)</sup>
Prof Marti Subrahmanyam	Non-Executive	<sup>(2)</sup>
Mr Ravi Viswanathan	Executive	Joint Chief Executive Officer <sup>(1)</sup>

*(1) Member of the Executive Committee of the board*

*(2) Member of the Audit Committee of the board*

## OTHER INFORMATION

### 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

336054

### 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

## SHAREHOLDING STRUCTURE

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

	% Voting rights	No. Shares
<b>Ordinary Shares</b>		
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
<b>Founders Shares</b>		
Founders	20.00%	118,008
<b>TOTAL</b>	<b>100%</b>	<b>186,141,818</b>

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,

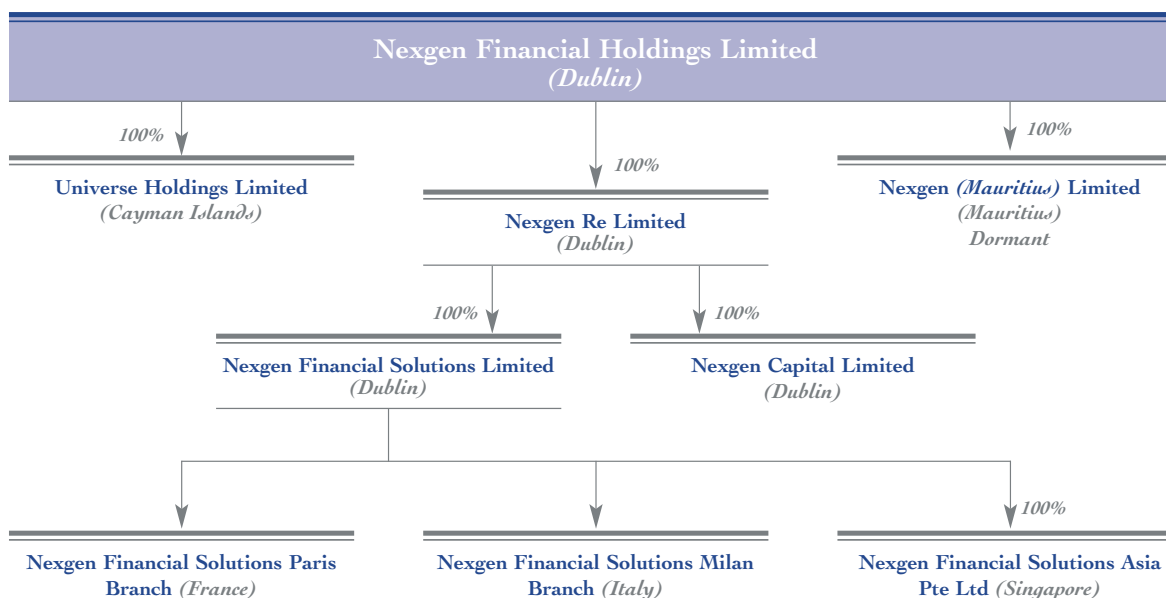
Asset Management, Banking and Securities Services. CDC Finance - CDC IXIS transferred its shares in Nexgen to IXIS Corporate & Investment Bank on 1st November 2004 as part of the restructuring of the IXIS group.

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



# CORPORATE GOVERNANCE AND RISK MANAGEMENT

## Corporate Governance

The main institutional shareholders and the founders of the Group have entered into a Shareholders Agreement, which regulates the business to be undertaken by the Group and stipulates a number of governance rules to be applied in the conduct of its business. These provisions mainly relate to the level of board and/or shareholder consent required for certain decisions, the composition and powers of a number of committees, the allotment and transfer of shares, the dividend distribution policy and the employees' compensation plan.

The role of the main Board is to direct the business, strategy and policies of the Group and to perform an oversight function of the conduct of the Group's business and its control environment.

The Committees responsible for corporate governance and their respective roles are as follows:

**The Executive Committee** of the board of directors meets to consult on business issues and to maximise the Group's synergies with its shareholders. It also has a role in determining the remuneration of members of the Transaction Committee and certain other key executives. Members are directors as detailed on page 2.

**The Management Committee** is responsible for running the day-to-day operation of the Group and is comprised of the Group Chief Executive Officers, the Group Chief Operating Officer and the Group Chief Finance Officer.

**The Transaction Committee** reviews all proposed client structured transactions at Group level.

**The Screening Committee** 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** of the board of directors reviews the financial information and risk management policies of the Group, 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. Members are directors as detailed on page 2.

**The Research Committee** 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. The role reports directly to the board of directors and is based in Nexgen's offices.

The Shareholders' Agreement also provides that:

- ▶ The first distribution of profits shall occur after 1st December 2005.
- ▶ A bonus pool shall be available for distribution to employees.
- ▶ The members of the Management Committee will not be entitled to participate in the bonus pool.

## 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 measures the risks of any type of structure, whatever the underlying instrument, allowing them to be effectively hedged.

Proposed 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.

Other factors taken into account during this proposal process include the size of individual risks within Nexgen's diversification objectives, the availability of adequate sources of funding and 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 (VaR) measurements against which global limits have been allocated. The Group currently tracks a Market VaR, a Reinsurance VaR and two credit VaR measures (for CDO/CDS activities).

Definition	Confidence interval	Time Horizon	Limit (USD m)
Market VaR	99%	10 days	10
Reinsurance VaR	99%	maturity	30
Credit VaR - spread movement	99%	90 days	10
Credit VaR - jump to default	99%	90 days	35

Within this global framework identifiable risks (Equity, Interest Rate, FX, Volatility, Correlation, Credit, etc) are placed under a sub-limit. Sensitivities for 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 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.

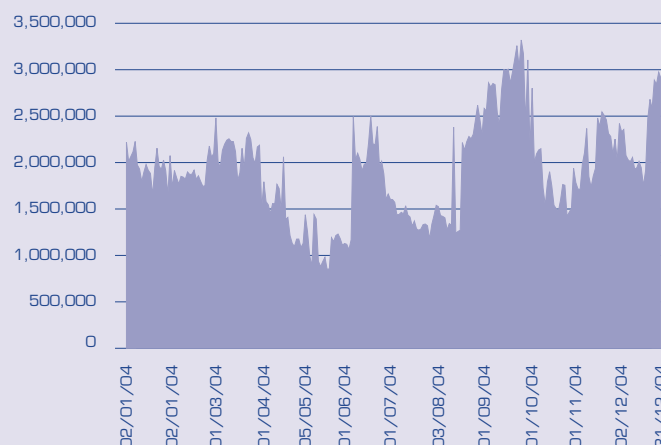
## FINANCIAL RISKS

### 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 VaR 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 \$10m. The maximum VaR figure over the period was \$3.3m. Capital Market VaR is computed at NCL level only, as NRL's market exposures are not material.

This VaR measure does not include counterparty risk.

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



## Reinsurance Risks

The Group did not have gross reinsurance exposure at any point during the year.

The reinsurance VaR (at a 99% confidence level over the period to maturity) was \$0m at 31 December 2004 (31 December 2003: \$0m) compared to an internal limit of \$30m.

## Credit Risk – Structured Credit Portfolio

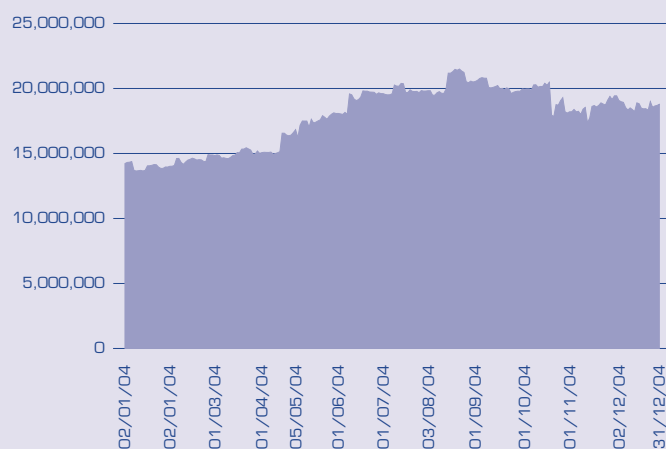
The Structured Credit / CDO portfolio is mainly built around mezzanine pieces. There are no remote exposures through super-senior tranches. In aggregate, the positions arising from equity pieces and mezzanine pieces are hedged with credit default swaps. All exposures are monitored daily and hedges are adjusted based on movements in spreads and correlations within the CDO reference obligation pool. Hedge quantity is calculated using internal models based on market accepted modelling techniques. 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 Group 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 Credit Spreads VaR captures the impact of adverse credit market spreads behaviour on the Group 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 subject to independent limits. At 31 December 2004, the corresponding figures were:

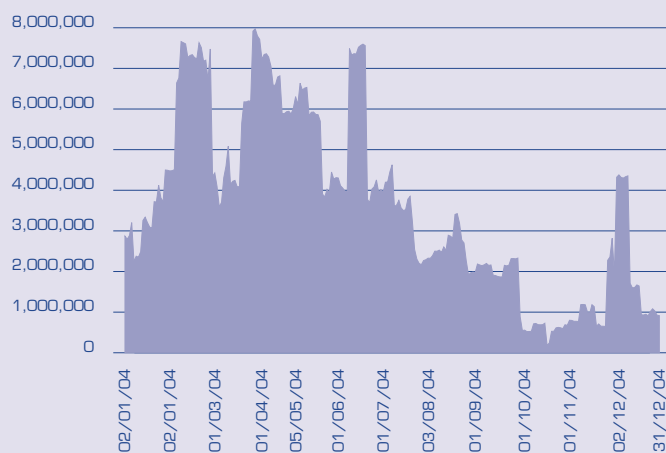
VaR Default 2004: \$18.8m limit: \$35m (2003: \$14.3m limit: \$30m)  
 VaR Spreads 2004: \$0.9m limit: \$10m (2003: \$2.9m limit \$10m)

The following graphs show Credit VaR and Market VaR for the structured credit / CDO portfolio as follows:

**CDO Credit VaR (90 days, 99%) in USD**



**CDO Market VaR (90 days, 99%) in USD**



*Hedge Ratio Analysis*

	31 December 2004	31 December 2003
Sum of Long delta (\$'000)	753,500	623,000
Sum of Short delta (\$'000)	(694,300)	(495,000)
Net delta (\$'000)	59,200	128,000
Sensitivity to +1bp CDS Spreads (\$'000)	(49)	(60)

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	-0.250%	-0.100%	-0.050%	0.050%	0.100%	0.250%
Present Value change	\$3.65m	\$0.89m	\$0.05m	\$0.02m	\$0.30m	\$2.69m

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%	-\$10.5m	-\$5.9m	\$0.8m
-20%	-\$9.4m	-\$4.8m	\$2.3m
-10%	-\$6.8m	-\$2.2m	\$4.6m
0%	-\$4.6m	\$0.0m	\$6.6m
10%	-\$2.9m	\$1.5m	\$8.1m
20%	-\$1.2m	\$3.2m	\$9.4m
25%	-\$0.2m	\$4.2m	\$10.5m

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

*Other information*

CDO features	31 December 2004	31 December 2003
Number of names	498	313
Number of non investment grade names (long positions)	23	4

## OPERATIONAL RISK

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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 mitigate operational risk, including:

- ▮ Involvement of 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-unit 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.

Each Group location uses the same technology and infrastructure and the data is mirrored to provide quick recovery solutions to any site hit by a disaster.

## LEGAL AND REPUTATIONAL RISK

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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 Financial Holdings Limited and subsidiaries (the Group) for the year ended 31 December 2004. The comparative figures are for the year to 31 December 2003.

### 2004 ACTIVITY

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#### Income Generation

The Group's operating income in 2004 was \$43m, which represents a 51% increase on the \$28.4m earned in 2003.

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. Nexgen also structured some transactions mixing credit and equity derivatives. Some monetisation transactions have also been structured for high net worth individuals. Most of the transactions Nexgen 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 became possible due 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

2003 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. Structuring activity has been reoriented to larger size corporate clients. Efforts made so far are expected to be fruitful in 2005. The Group also structured two credit related transactions with Asian corporate clients. According to the expected pattern, a number of Asian transactions entered into in the early days of Nexgen are now being unwound.

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.

On the **Reinsurance** side, activity was oriented toward balance sheet protection structures for Life and non Life insurance and reinsurance clients. No transactions were executed in 2004 despite a number of advanced contacts with many potential clients.

Nexgen Capital Limited (NCL) continued to develop its expertise in the management of synthetic **Collateralised Debt Obligations** (CDOs) and structured several tranching CDO transactions for various clients,

covering the resulting risks to the extent possible. Nexgen Re Limited (NRL) continued the management of its portfolio of structured investments and took at the end of the year an opportunity to dispose of the remaining part of the portfolio acquired in 2002.

In summary, the Group entered into about 40 transactions during the year, including restructurings and the early unwind of a number of existing transactions.

### **General and resources**

Following the strong increase in staff in 2003, staff numbers remained stable in 2004 increasing by one to 62. There were a few departures and arrivals but no significant movement as the level of staffing was felt to be adequate to the level of activity.

There was no significant change to the Group's organisation (refer to Organisation chart on page 3).

A marketing agreement was signed with IXIS Corporate & Investment Bank Tokyo branch to develop business in Japan. Another cooperation agreement was signed in February with IXIS Corporate & Investment Bank (under its then name CDC IXIS Capital Markets), with the objective of providing corporate clients with structured finance products. No transactions had materialised under these agreements by year end.

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 the Group in a position to be financially responsive to its clients' requirements.

### **Corporate governance and risk management**

There was no major change to the corporate governance and risk management framework. The Screening Committee (pre-approval of prospective 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 control 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 allows a wide range of risks analyses.

### **Positions and risks (see also pages 5-8)**

The level of VaR for capital markets fluctuated during the year from a minimum of \$849k to a maximum of \$3.32m. The end of year level was \$2.9m (2003: \$2.0m, limit of \$10m). Average VaR for the year is \$1.9m.

As the last transactions in the Industry Loss Warranty portfolio reached maturity at the end of December 2003 and no new Reinsurance transaction was entered into, Reinsurance VaR remained at nil during the year (31 December 2003: nil).

The CDO Credit VaR (jump to default) increased regularly during the year from below \$15m to \$19m 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 limits are \$35m and \$10m respectively.

## 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. 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 \$43m (2003: \$28.4m).

Most of the income (\$35.4m) derived from capital market client transactions (2003: \$11.7m). Credit charge on client transactions, being the cost of the Asian client default on an exchangeable bond as mentioned above, amount to \$8m (2003: \$8.9m).

The contribution of CDO activity is \$11.1m (2003: \$10.9m). Most of this profit arose from structuring tranching CDOs for financial clients.

The contribution of arbitrage transactions was minimal \$0.26m (2003: \$4.5m) and "residual positions' management" was \$0.49m (2003: \$6.8m).

The reinsurance technical income was \$0m (2003: \$0.6m).

Remuneration of Own Funds (computed at a rate based on 3 month LIBOR) was \$4.9m (2003: \$3.7m). The increase is due to higher interest rates in 2004.

Operating expenses rose to \$22.3m (2003: \$18.6m). This has primarily been due to the strength of Euro compared to USD (average 1.24 against an average of approximately 1.13 in 2003). Approximately 60% of costs are denominated in Euro.

Staff costs were \$14.3m (2003: \$12.7m) and other administrative expenses were \$7m (2003: \$5m).

Taxation was \$3.5m (2003: \$1.4m). The average rate of tax was 16.8% (2003:14.6%).

The net profit after tax for the year was \$17.2m compared to \$8.4m for the year 2003.

## Balance sheet

The total assets increased by 59% over the year to \$991m (31 December 2003: \$622m).

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 \$219.5m compared to \$202.2m at the end of 2003. This is due to the profit for the year.

## OUTLOOK FOR 2005

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During 2004 a modification of the Nexgen ownership structure was discussed by the shareholders. These discussions could lead to Nexgen becoming a subsidiary undertaking of IXIS Corporate & Investment Bank in 2005. The management has been involved in

discussions with IXIS Corporate & Investment Bank on the conduct of Nexgen business in the event of IXIS Corporate & Investment Bank becoming a majority shareholder. The outcome of these discussions should not modify Nexgen's current business strategy.

## DIRECTORS

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

Mr Anthony Orsatelli	French	
Mr Tay Siew Choon	Singaporean	
Mr Peter Blessing	Irish	
Mr Etienne Bur	French	
Mr John Donnelly	Irish	
Mr Luc Giraud	French	
Prof Annie Koh	Singaporean	
Mr Linus Koh	Singaporean	Resigned 20th April 2004
Mr Victor Liew	Singaporean	
Mr Goh Yew Lin	Singaporean	Appointed 13th May 2004
Mr Andre Rolland	French	
Mr Lee Ming San	Malaysian	
Prof Marti Subrahmanyam	US/Indian	
Mr Ravi Viswanathan	French	

**Directors' and secretary's interests**

The beneficial interests of the directors, in office at 31 December 2004, in the ordinary share capital of the Company, at 31 December 2004 and 31 December 2003 were as follows:

	Number of shares	
	31 December 2004	31 December 2003
Luc Giraud	15,240 Founders Shares 764,750 Ordinary shares	15,240 Founders Shares 764,750 Ordinary shares
Ravi Viswanathan	15,240 Founders Shares 764,750 Ordinary shares	15,240 Founders Shares 764,750 Ordinary shares
Nicola O'Connell (Company Secretary)	nil	nil

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

	Number of Warrants		
	Number	Maturity date	Subscription price
Luc Giraud	254,918 771,731 1,441,778	1st December 2005 11th December 2009 11th December 2009	USD 1.00 USD 1.50 USD 2.50
Ravi Viswanathan	254,918 771,731 1,441,778	1st December 2005 11th December 2009 11th December 2009	USD 1.00 USD 1.50 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 Group since the end of the financial year.

**Employee Health and Safety**

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

**Books of Account**

The directors comply with the Group'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

**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 the Group and of the profit or loss of the Group 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 Group 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 and the European Communities (Companies: Group Accounts) Regulations, 1992. They are also responsible for safeguarding the assets of the Group 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 SHAREHOLDERS OF NEXGEN FINANCIAL HOLDINGS LIMITED

We have audited the financial statements on pages 18 to 37 which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies on pages 23 to 26.

## 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 and the European Communities (Companies: Group Accounts) Regulations, 1992. 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 and the European Communities (Companies: Group Accounts) Regulations, 1992.

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

## CONSOLIDATED PROFIT & LOSS ACCOUNT

	Notes	Year ended 31 December 2004 USD'000	Year ended 31 December 2003 USD'000
Operating income	3	43,043	28,449
Operating expenses	4	(22,349)	(18,593)
Profit on ordinary activities before taxation		20,694	9,856
Taxation	5	(3,471)	(1,440)
<b>Profit retained for the financial year</b>		<b>17,223</b>	<b>8,416</b>
Profit and loss account at the beginning of year		12,664	4,248
<b>Profit and loss account at the end of year</b>		<b>29,887</b>	<b>12,664</b>

The above results relate exclusively to continuing operations.

Of the balance on the Group profit and loss account, a loss of USD 326,000 (2003: loss of USD 299,000) has been dealt with in the accounts of the Company.

**On behalf of the board**

## OTHER PRIMARY STATEMENTS

### STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Year ended 31 December 2004 USD'000	Year ended 31 December 2003 USD'000
Profit attributable to equity shareholders	17,223	8,416
Currency translation difference on foreign currency net investments	47	24
<b>Total recognised gains relating to the year</b>	<b>17,270</b>	<b>8,440</b>

### RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Year ended 31 December 2004 USD'000	Year ended 31 December 2003 USD'000
Profit attributable to equity shareholders	17,223	8,416
Currency translation difference on foreign currency net investments	47	24
Movement in shareholder's funds	17,270	8,440
Balance at the beginning of the year	202,221	193,781
<b>Balance at the end of the year</b>	<b>219,491</b>	<b>202,221</b>

On behalf of the board

## CONSOLIDATED BALANCE SHEET

	Notes	31 December 2004 USD'000	31 December 2003 USD'000
<b>Assets</b>			
Cash at Bank and in hand		71,513	5,209
Deposits with financial institutions	7	197,166	117,048
Trading securities – long positions	8	450,933	394,672
Derivative financial instruments – long positions	9	265,930	102,436
Reinsurer's share of technical provision	10	–	–
Debtors	11	4,457	2,179
Tangible fixed assets	6	564	913
<b>Total Assets</b>		<b>990,563</b>	<b>622,457</b>
<b>Liabilities</b>			
Trading securities - short positions	12	257,324	112,555
Derivative financial instruments – short positions	13	120,611	90,301
Loans from financial institutions	14	237,722	211,384
Reinsurance liabilities	15	–	–
Creditors	16	15,956	5,996
Debt securities in issue	17	139,459	–
<b>Total Liabilities</b>		<b>771,072</b>	<b>420,236</b>
<b>Net Assets</b>		<b>219,491</b>	<b>202,221</b>
<b>Capital and reserves</b>			
Called up share capital	18	1,861	1,861
Share premium	19	187,632	187,632
Profit and loss account		29,887	12,664
Other reserves	20	111	64
<b>Equity shareholders' funds</b>	21	<b>219,491</b>	<b>202,221</b>
<b>Total shareholders' funds</b>		<b>219,491</b>	<b>202,221</b>

On behalf of the board

## COMPANY BALANCE SHEET

	Notes	31 December 2004 USD'000	31 December 2003 USD'000
<b>Assets</b>			
Investment in subsidiaries		187,504	187,504
Cash at Bank and in hand		93	43
Deposits made	7	2,215	2,219
Other debtors	11	–	–
<b>Total Assets</b>		<b>189,912</b>	<b>189,766</b>
<b>Liabilities</b>			
Creditors	16	1,031	659
<b>Total Liabilities</b>		<b>1,031</b>	<b>659</b>
<b>Net Assets</b>		<b>188,781</b>	<b>189,107</b>
<b>Capital and reserves</b>			
Called up share capital	18	1,861	1,861
Share premium	19	187,632	187,632
Profit and (loss) account		(712)	(386)
<b>Equity shareholders' funds</b>	<b>21</b>	<b>188,781</b>	<b>189,107</b>
<b>Total shareholders' funds</b>		<b>188,781</b>	<b>189,107</b>

On behalf of the board

## CASH FLOW STATEMENT

	Notes	Year ended 31 December 2004 USD'000	Year ended 31 December 2003 USD'000
<b>Net cash (outflow) from operating activities</b>	25	149,985	(3,368)
<b>Returns on investment and servicing of finance</b>			
Interest income		–	–
<b>Taxation</b>			
Taxation paid		(3,331)	(748)
<b>Capital expenditure</b>			
Additions to tangible fixed assets	6	(225)	(315)
Exchange adjustment on fixed assets	6	(7)	
<b>Acquisitions and disposals</b>			
Net cash outflow		–	–
Cash acquired with subsidiary undertaking		–	–
<b>Cash outflow before management of liquid resources and financing</b>		146,422	(4,431)
<b>Management of liquid resources</b>			
(Increase)/decrease in short term bank deposits		(80,118)	6,468
<b>Financing</b>			
Issue of preference shares		–	–
Issue of equity shares		–	–
<b>Increase in cash</b>			
<b>Cash at bank</b>	26	<b>66,304</b>	<b>2,037</b>

On behalf of the board

# NOTES TO THE FINANCIAL STATEMENTS

## 1 | Accounting Policies

A summary of the principal accounting policies is set out below.

### 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 historical 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

### Basis of consolidation

The financial statements are presented in the form of Group accounts and, as permitted by Section 3(2) of the Companies (Amendment) Act, 1986, no Profit and Loss Account is presented for the Company, Nexgen Financial Holdings Limited. The Group accounts include the accounts of the Company and its subsidiaries and all intercompany transactions have been eliminated in their preparation.

### 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 the 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 Group'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 structured finance and investment transactions, on a fair value basis, making due allowance for the costs associated with the transaction.

### Structured finance and investment transactions

Trading securities positions, liabilities and derivative instruments arising from structured finance and investment 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.

### Implementation of 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 piecewise 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 forecast underlying volatility is generally estimated using historic 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 according to each name's industrial sector using historical time series of share prices.

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, Correlation and Recovery Rate* adjustments cover the cost of transacting with a market-maker on its bid-ask quotes in order to transfer the whole portfolio and its delta hedge, the uncertainty on the assumed level of correlations and the uncertainty on the assessment of recovery rates.

#### Accounting policies specific to reinsurance business

The technical result is determined annually using the incurred cost of claims. Commissions and related expenses are charged against the earned proportion of the premium net of retrocessions. Earning rates follows the seasonality of the underlying expenses.

##### (a) Premiums written

Premiums written relate to business incepted during the year, together with any difference between booked premiums for prior years and those previously accrued and include estimates of premiums due but not yet receivable or notified to the Group. All bookings are made based on the Group's available information and estimates and are revised when final statements are received from the cedant.

**(b) Unearned premiums**

Unearned premiums are those proportions of the premiums written that relate to periods of risk subsequent to the balance sheet date. Unearned premiums are computed using earning rates following the seasonality of the underlying exposure, or on a pro rata basis over the duration of the underlying reinsurance contract.

**(c) Deferred acquisition costs**

Commissions which vary with, and are primarily related to, the acquisition and renewal of reinsurance contracts are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

**(d) Claims incurred**

Claims incurred include full provision for all claims notified but not settled at the balance sheet date. Provision is also made for the estimated cost of claims incurred but not notified at that date.

**(e) Unexpired Risks**

A provision for unexpired risks is made where the expected claims, related expenses and deferred acquisition costs are expected to exceed unearned premiums, taking into account future investment income.

**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 based on the year to date profit in USD, converted at the average rate of USD/EUR for the year.

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 plans.

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:

Computer Software	3 years
Computer Equipment	3 years
Office Equipment	3 years

## 2 | Companies consolidated in the Group Financial Statements

<b>Nexgen Financial Holdings Limited</b>	% Interest 31 December 2004	% Interest 31 December 2003	Amount of Investment	Country of incorporation and principal area of operation	Nature of Business
Nexgen Re Limited	100%	100%	USD185,942,275	Ireland	Reinsurance
Universe Holdings Limited	100%	100%	USD1	Cayman Islands	Financial Structures
Nexgen Mauritius Limited	100%	100%	USD2	Mauritius	Dormant
Nexgen Capital Limited*	100%	100%	NIL	Ireland	Financial Structures
Nexgen Financial Solutions Limited*	100%	100%	NIL	Ireland	Financial Structuring
Nexgen Financial Solutions (Asia) Pte Limited*	100%	100%	NIL	Singapore	Financial Structuring
Biltmore 2002-1 Limited **	100%	–	NIL	Cayman Islands	SPV
Mango CDO Limited **	100%	–	NIL	Jersey	SPV
Lime**	100%		NIL	Jersey	SPV
Lime 2**	100%		NIL	Jersey	SPV
Papaya**	100%		NIL	Jersey	SPV

\*indirect holding \*\*collateralized debt obligations

Note: Biltmore 2002-1 Ltd was sold in December 2004.

## 3 | Operating income

<b>Group :</b>	Year ended 31 December 2004 USD'000	Year ended 31 December 2003 USD'000
Operating income comprises:		
Trading income analysed by origin:		
- client transactions	35,406	11,678
- credit charge on client transaction	(8,000)	(8,884)
- arbitrage positions	264	4,451
- residual positions management	489	6,765
- remuneration own funds	4,929	3,677
Collateralised debt obligations	11,106	10,919
Reinsurance technical income	–	551
Other income	285	186
Transaction related professional fees	(1,436)	(894)
	43,043	28,449

## NOTES TO THE FINANCIAL STATEMENTS

### 4 | Operating expenses

<b>Group :</b>	Year ended 31 December 2004 USD'000	Year ended 31 December 2003 USD'000
Operating expenses comprises:		
Staff Costs	14,333	12,710
Auditors' remuneration	471	276
Depreciation	581	570
Other administrative expenses		
- Professional fees	1,957	978
- Non Executive directors fees	427	453
- Travel and subsistence	1,159	1,019
- Rent and Office expenses	1,497	1,369
- Data Information and Research	461	344
- Other administrative expenses	1,463	874
	22,349	18,593
Staff costs comprise:		
Wages and salaries	10,578	9,644
Social welfare costs	1,471	1,216
Pension Costs	1,047	1,100
Other staff costs	1,237	750
	14,333	12,710
Directors' emoluments	1,507	1,085

The number of persons employed by the Group at 31 December 2004 was 62. The average number of persons employed by the Group in 2004 was 62 (2003: 53).

Fees for directors' services and auditors' remuneration are paid by Nexgen Re Limited on behalf of the Group and recharged to the relevant companies.

### 5 | Taxation

<b>Group :</b>	Year ended 31 December 2004 USD'000	Year ended 31 December 2003 USD'000
Corporation tax charge for the year	6,607	1,446
Movement in deferred tax asset	(2,717)	(22)
Movement in deferred tax liability	(419)	16
	3,471	1,440

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

**NOTES TO THE FINANCIAL STATEMENTS**

	31 December 2004 USD'000	31 December 2003 USD'000
Profit on ordinary activities before taxation	20,694	9,856
Profit on ordinary activities multiplied by the standard rate of corporation tax in Ireland of 12.5% (2003: 12.5%)	2,587	1,232
Passive income at 25%	4	5
Disallowed expenses	56	7
Effect of average EUR/USD fx rate used in Irish tax computation	534	–
Adjustment in respect of previous years	75	12
Differences due to foreign tax	250	67
Movement in deferred tax liability	–	139
Movement in deferred tax asset	(35)	(22)
	<b>3,471</b>	<b>1,440</b>

The deferred tax liability, in relation to investment income which is taxed on a realisations basis, results in the collateralised debt obligations held by Nexgen Re Ltd being subject to tax when the transactions are unwound.

Movement in deferred tax on the Balance Sheet	Deferred Tax 2004 USD'000	Deferred Tax 2003 USD'000
At 1 January (asset)/liability	600	436
(Credited) / Charged to the profit and loss account	(3,136)	600
Utilised during the year	(17)	(436)
At 31 December (asset)/liability	<b>(2,553)</b>	<b>600</b>

**6 | Tangible fixed assets**

	Computer Equipment USD '000	Office Equipment USD '000	Computer Software USD '000	Total USD '000
<b>Cost</b>				
At 31 December 2003	867	753	509	2,129
Additions	120	47	58	225
Foreign exchange gains	11	10	–	21
At 31 December 2004	<b>998</b>	<b>810</b>	<b>567</b>	<b>2,375</b>
<b>Accumulated Depreciation</b>				
At 31 December 2003	473	358	385	1,216
Charge for the year	268	177	136	581
Foreign exchange gains	7	7	–	14
At 31 December 2004	<b>748</b>	<b>542</b>	<b>521</b>	<b>1,811</b>
<b>Net Book Value</b>				
At 31 December 2003	<b>394</b>	<b>395</b>	<b>124</b>	<b>913</b>
At 31 December 2004	<b>250</b>	<b>268</b>	<b>46</b>	<b>564</b>

**NOTES TO THE FINANCIAL STATEMENTS**

<b>7   Deposits with financial institutions</b>	31 December 2004 USD'000	31 December 2003 USD'000
<b>Amounts falling due within one year</b>		
<b>Group:</b>		
- unsecured	61	59
- Guaranteed Investment Contracts	–	45,500
- collateralised deposits	197,105	71,489
	197,166	117,048
<b>Company:</b>		
- unsecured	2,215	2,219
	2,215	2,219
<b>8   Trading securities - long positions</b>	31 December 2004 USD'000	31 December 2003 USD'000
<b>Shares:</b>		
- listed	175,529	151,192
<b>Bonds and convertibles</b>		
- listed and/or indexed to listed shares	253,987	199,652
- collateralised debt obligations	353	–
- government bonds	1,442	43,828
- corporate bonds – non listed	19,622	–
	450,933	394,672
<b>9   Derivative financial instruments - long positions</b>	31 December 2004 USD'000	31 December 2003 USD'000
<b>Analysed by category of counterparty:</b>		
- financial institutions	56,233	45,567
- other institutions	209,697	56,869
	265,930	102,436
<b>Analysed by maturity:</b>		
Less than 1 year	35,146	1,481
Between 1 and 5 years	214,075	96,039
Greater than 5 years	16,709	4,916
	265,930	102,436

The maturity analysis relates to the final agreement date and not to reset dates.  
Note 24 to the Financial Statements provides further analysis of the derivative financial instruments by instrument type.

**NOTES TO THE FINANCIAL STATEMENTS**

<b>10   Reinsurer's share of technical provision</b>	31 December 2004 USD'000	31 December 2003 USD'000
Provision for unearned premiums:		
- reinsurers' share	-	-
	-	-

<b>11   Debtors - amounts falling due within one year</b>	31 December 2004 USD'000	31 December 2003 USD'000
<b>Group :</b>		
<b>Amounts falling due within one year</b>		
Other debtors	4,235	1,869
	4,235	1,869
<b>Amounts falling due after one year</b>		
Other debtors and advances	222	310
	4,457	2,179

Other debtors include deferred tax – see Note 5 for more details.

**Company:**

<b>Amounts falling due within one year</b>		
Other debtors	-	-
	-	-

<b>12   Trading securities - short positions</b>	31 December 2004 USD'000	31 December 2003 USD'000
<b>Shares:</b>		
- listed	253,918	68,273
<b>Bonds and convertibles:</b>		
- government bonds	1,442	43,828
<b>Sold listed options</b>	1,964	454
	257,324	112,555

**NOTES TO THE FINANCIAL STATEMENTS**

<b>13   Derivative financial instruments - short positions</b>	31 December 2004 USD'000	31 December 2003 USD'000
<b>Analysed by category of counterparty:</b>		
- Financial institutions	27,556	6,010
- Other institutions	93,055	84,291
	<b>120,611</b>	<b>90,301</b>
<b>Analysed by maturity:</b>		
Less than 1 year	63,922	7,293
Between 1 and 5 years	55,346	83,008
Greater than 5 years	1,343	-
	<b>120,611</b>	<b>90,301</b>

The maturity analysis relates to the final agreement date and not to reset dates. Note 24 to the Financial Statements provides further analysis of the derivative financial instruments by instrument type.

<b>14   Loans from financial institutions</b>	31 December 2004 USD'000	31 December 2003 USD'000
<b>Amounts falling due within one year:</b>		
- loans	40,701	10,013
- collateralised loans	197,021	186,371
- loan note	-	15,000
	<b>237,722</b>	<b>211,384</b>

<b>15   Reinsurance Liabilities</b>	31 December 2004 USD'000	31 December 2003 USD'000
<b>Provision for unearned premiums:</b>		
- gross amount	-	-
	-	-

**NOTES TO THE FINANCIAL STATEMENTS**

<b>16   Creditors - amounts falling due within one year</b>	31 December 2004 USD'000	31 December 2003 USD'000
<b>Group:</b>		
Accruals and deferred income	5,188	3,800
Other creditors	6,126	247
Provision for deferred tax	–	600
Corporation tax due	4,642	1,349
	15,956	5,996
<b>Company:</b>		
Corporation tax due	8	11
Accruals and deferred income	8	285
Amounts due to Group undertakings	1,015	363
	1,031	659

<b>17   Debt securities in issue</b>	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 equity linked notes issued.

<b>18   Share capital</b>	Year ended 31 December 2004 USD'000	Year ended 31 December 2003 USD'000
<b>Authorised:</b>		
Ordinary shares of USD0.01 each	6,000	6,000
Founders shares of USD0.01 each	3	3
	6,003	6,003
<b>Issued:</b>		
Ordinary shares of USD0.01 each	1,860	1,860
Founders shares of USD0.01 each	1	1
	1,861	1,861

## NOTES TO THE FINANCIAL STATEMENTS

The Ordinary shares carry the right to 80% of the votes of the shareholders at a general meeting of the Company and to 80% of any dividend declared. The Founders shares carry the right to 20% of the votes of the shareholders at a general meeting of the Company and to 20% of any dividend declared.

### Warrants

The Company has granted to each Ordinary shareholder one warrant for every three Ordinary shares held, giving the right, expiring in December 2005, to subscribe for one Ordinary Share at a subscription price of USD 1.

The Company issued warrants expiring in December 2009 to the holders of Founders shares, giving the right to subscribe for ordinary shares at a subscription price of USD 1.50 and USD 2.50.

There were USD 62,007,970 warrants issued which mature in 2005 and USD 15,194,200 warrants issued maturing in 2009.

All of the warrants currently issued by the Company are physically-settled only, and their terms are adjustable only to take account of dividends, distributions and extraordinary events.

### 19 | Reserves

	Share Premium Account USD '000	Other Reserves USD '000	Profit and Loss Account USD '000	Total USD '000
<b>Group:</b>				
At 31 December 2003	187,632	64	12,664	200,360
Issue of new shares	–	–	–	–
Profit retained for the year	–	–	17,223	17,223
Currency translation difference on foreign currency net investments	–	47	–	47
At 31 December 2004	187,632	111	29,887	217,630
<b>Company:</b>				
At 31 December 2003	187,632	–	(386)	187,246
Issue of new shares	–	–	–	–
Profit retained for the year	–	–	(326)	(326)
At 31 December 2004	187,632	–	(712)	186,920

<b>20   Exchange translation reserve</b>	Year ended 31 December 2004 USD'000	Year ended 31 December 2003 USD'000
<b>Group:</b>		
At beginning of year	64	40
Exchange translation adjustment during the year	47	24
At end of year	111	64

<b>21   Reconciliation of movement in equity shareholders' funds</b>	Year ended 31 December 2004 USD'000	Year ended 31 December 2003 USD'000
<b>Group :</b>		
Opening shareholders' funds	202,221	193,781
Share capital issued	–	–
Profit for the financial year	17,223	8,416
Exchange translation adjustment	47	24
Closing shareholders' funds	219,491	202,221
<b>Company:</b>		
Opening shareholders' funds	189,107	189,406
Share capital issued	–	–
(Loss)/profit for the financial year	(326)	(299)
Closing shareholders' funds	188,781	189,107

## 22 | Commitments and Guarantees

The Company issued a guarantee on 30 September 2002 in favour of a client, agreeing to guarantee the obligations of Nexgen Capital Limited under equity swap transactions between Nexgen Capital Limited and this client.

The Company issued a guarantee on 15 April 2003 in favour of United Overseas Bank Limited (“UOB”), agreeing to guarantee the obligations of Nexgen Capital Limited to UOB in connection with a revolving facility granted by UOB to Nexgen Capital Limited.

There were no other commitments or guarantees at 31 December 2004.

## 23 | Related Party Transactions

The Group has carried out a number of transactions with IXIS Corporate & Investment Bank during the year.

All of the transactions with the shareholders of the Group are carried out in the normal course of business and encompass loans, deposits, repurchase and reverse repurchase agreements, purchase and sale of securities, fees (paid and received), derivative transactions and guarantees.

All transactions were conducted on an arms length basis.

The following were the amounts due to and from related parties by Group companies at 31 December 2004:

	Year ended 31 December 2004 <b>IXIS CIB</b> USD'000	Year ended 31 December 2003 <b>IXIS CIB</b> USD'000
<b>Assets</b>		
Deposits and Cash	156,601	64,930
Derivative financial instruments	17,016	33,747
	<b>173,617</b>	<b>98,677</b>
<b>Liabilities</b>		
Deposits	205,371	177,173
Derivative financial instruments	4,069	449
Other liabilities	–	–
	<b>209,440</b>	<b>177,622</b>

## 24 | 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	527,253	1,245	4,236	185,807	266	625
Foreign Exchange contracts	131,599	187	989	71,013	23	1,499
Equity contracts	859,191	170,451	92,608	500,045	59,917	82,258
Credit Derivative contracts	3,943,700	94,047	22,778	415,268	42,230	5,919
<b>Total contracts</b>	<b>5,461,743</b>	<b>265,930</b>	<b>120,611</b>	<b>1,172,133</b>	<b>102,436</b>	<b>90,301</b>

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

**25 | Net cash outflow from operating activities**

	31 December 2004	31 December 2003
	USD'000	USD'000
<i>Reconciliation of operating profit to net operating cash flow</i>		
Profit on ordinary activities before taxation	20,694	9,856
Depreciation and amortisation	581	564
Net cash flow from trading activities	21,275	10,420
Net (increase)/decrease in long derivative structures at valuation	(163,494)	(58,829)
Net increase/(decrease) in short derivative structures at valuation	30,310	44,631
Net (increase)/decrease in equity shares at valuation	(56,261)	(271,043)
Net increase/(decrease) in short equity shares at valuation	144,769	81,809
Net decrease/(increase) in reinsurance assets	–	745
Net (decrease)/increase in reinsurance liabilities	–	(1,208)
Net increase/(decrease) in financial liabilities	165,797	188,809
Net decrease/(increase) in other assets	275	955
Net increase/(decrease) in other liabilities	7,267	318
Net decrease/(increase) in prepayments and accrued income	–	1
Net increase/(decrease) in accruals and deferred income	–	–
Currency translation difference on foreign currency net investments	47	24
Net cash flow from other operating activities	128,710	(13,788)
Net cash inflow/(outflow) from operating activities	149,985	(3,368)

**26 | Changes in cash balances**

	31 December 2004	31 December 2003
	USD'000	USD'000
Cash and balances at banks		
Opening Balance	5,209	3,172
Closing Balance	71,513	5,209
Change for the year	66,304	2,037

**27 | Approval of Financial Statements**

The directors approved the financial statements on 18th February 2005.

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