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**Nexgen Financial Holdings Limited**

**Financial Statements**

**For the year ended 31 December 2006**

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**NEXGEN GROUP PROFILE**

Nexgen Financial Holdings Limited ('the Company'), an Irish incorporated company, is the holding company of the Nexgen Group, which trades as Nexgen Financial Solutions Group ('Nexgen' or 'the Nexgen Group'). As of 1<sup>st</sup> January 2006, Nexgen Financial Holdings became a subsidiary of IXIS Corporate and Investment Bank, now a subsidiary of NATIXIS. Nexgen is part of the Corporate Solutions division of NATIXIS BFI (the Group).

NATIXIS CORPORATE SOLUTIONS and Nexgen offer 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 and executes transactions as principal counterparty, actively managing the risks assumed.

The principal subsidiaries of Nexgen Financial Holdings are Nexgen Re Limited ('NRL'), a reinsurance company authorised by the Financial Regulator<sup>1</sup>, Nexgen Capital Limited ('NCL') and Nexgen Financial Solutions Limited ('NFSL') which are both authorised by the Financial Regulator under the Investment Intermediaries Act, 1995 to conduct regulated businesses as investment firms.

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

NCL undertakes capital market transactions. NCL's role within the Group is to act as a principal for many of the 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, risk transfer, debt restructuring and private financing situations. Solutions may also include other derivative components. NCL is also the centre for active management of the risks assumed by the Group.

NFSL participates in the sourcing and structuring of transactions, products and services on behalf of the risk taking entities of the Group (NCL, NRL and NATIXIS CORPORATE SOLUTIONS). Nexgen Financial Solutions (Asia) Pte Ltd (NFSA), a subsidiary undertaking of NFSL, acts as the Singaporean marketing and structuring unit of the Nexgen 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 Nexgen Group.

As at the 31 December 2006 Nexgen had 90 employees (68 at the end of 2005) and has established offices in Dublin, Singapore (NFSA), Paris (a branch of NFSL) and Milan (a branch of NFSL).

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<sup>1</sup> "Financial Regulator" is the operating name of the Irish Financial Services Regulatory Authority

**DIRECTORS****Board of Directors as at 31 December 2006**

Mr Nicolas Fourt	Non-Executive	Chairman	French
Mr Michel Berthezene	Non-Executive	(1)	French
Mr André Rolland	Non-Executive		French
Mr Jean Paul Oudet	Non-Executive		French
Mr Geoffroy Sartorius	Non-Executive	(1)	French
Mr Peter Blessing	Non-Executive	(1)	Irish
Mr John Donnelly	Non-Executive	Chairman Audit Committee (1)	Irish
Mr Luc Giraud	Executive	Joint Chief Executive Officer	French
Mr Ravi Viswanathan	Executive	Joint Chief Executive Officer	French

(1) Member of the Audit Committee

The following persons resigned from the Board of Directors following the formal completion of the take-over of the Nexgen Financial Holdings Limited group ("Nexgen" or "the Nexgen Group") by IXIS Corporate & Investment Bank ("IXIS CIB") on 24 March 2006:

Mr Anthony Orsatelli  
Mr Tay Siew Choon  
Mr Etienne Bur  
Prof Annie Koh  
Mr Goh Yiew Lin  
Mr Victor Liew  
Mr Lee Ming San  
Prof Marti Subrahmanyam

The following persons were appointed to the Board of Directors following the take-over of Nexgen by IXIS CIB on 24 March 2006:

Mr Nicolas Fourt  
Mr Michel Berthezene  
Mr Jean Paul Oudet  
Mr Geoffroy Sartorius

**Other Information**

**Company Secretary and Registered Office**

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

**Office Address**

Ormonde House  
12 Lower Leeson Street  
Dublin 2

**Registered Number**

336054

**External Auditors**

PricewaterhouseCoopers  
Chartered Accountants and Registered Auditors  
Georges Quay  
Dublin 2  
Ireland

**Internal Auditors**

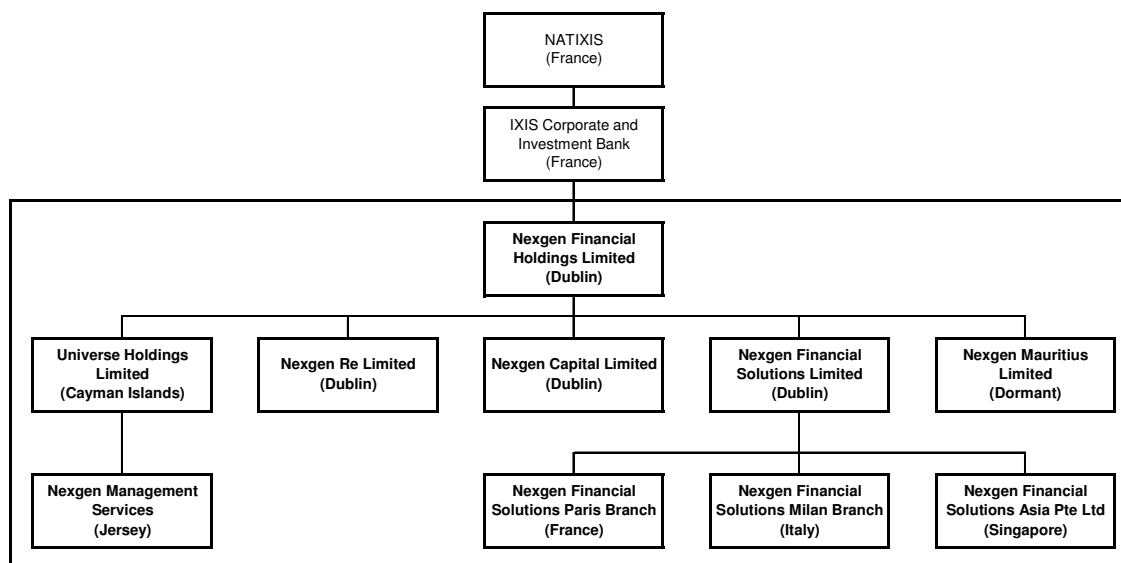
Deloitte  
Deloitte & Touche House  
Earlsfort Terrace  
Dublin 2  
Ireland

**Bankers**

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

BNP Paribas London  
10 Harewood Avenue  
London NW16AA  
UK

**GROUP CORPORATE STRUCTURE**



There was a restructuring of the Group during the second half of the year. This involved Nexgen Re Ltd selling its investment in Nexgen Capital Ltd and Nexgen Financial Solutions Ltd to Nexgen Financial Holdings Ltd.

As part of the integration within NATIXIS, the process of renaming Nexgen Financial Solutions Ltd and Nexgen Financial Solutions (Asia) Pty Ltd to NATIXIS Corporate Solutions Limited and NATIXIS Corporate Solutions (Asia) Pte Ltd respectively is in progress and should be completed by the end of the 1<sup>st</sup> quarter 2007.

**CORPORATE GOVERNANCE AND RISK MANAGEMENT**

Pursuant to its acquisition, in March 2006, by IXIS CIB, now a subsidiary of NATIXIS, the Nexgen Group has been integrated within NATIXIS organisation.

This integration has been realised in 2 ways:

► Nexgen management team has been entrusted by NATIXIS with the management of the NATIXIS CORPORATE SOLUTIONS division. The co Chief Executive Officers are in charge of developing the Corporate Solutions business for the Group. The other members of the Management Committee are in charge of the Operations and Finance – Administration of the division, within NATIXIS organisation.

This business is comprised of Nexgen Group activities and of similar activities which were previously exercised in another division of the Group (mainly ESOP related). It also includes teams dealing with Reinsurance (structuring products using insurance risk transfer techniques) and Global Risk Management business (Financial engineering regarding ways to optimize and manage balance sheets within regulatory or legal constraints, in the context mainly of restructuring/acquisition projects or co-investment).

The Chairman of the Board of the Company is the Head of the Capital Markets Department of NATIXIS BFI, of which NATIXIS CORPORATE SOLUTIONS (“NCS”) is part.

► The role of the risk taking entities of the Nexgen Group, NCL and NRL, in the management of the transactions has been reaffirmed. In this context a progressive harmonisation of Nexgen systems and procedures with NATIXIS’ ones has been undertaken. This process aims to achieve a convergence of Nexgen methods and control rules towards NATIXIS’ while maintaining the existing systems and procedures which are designed to handle the specificities of NCS’ activities

In this context the various pre acquisition bodies responsible for the Corporate Governance of the Nexgen Group, with the exception of the Executive Committee, have been maintained since the acquisition.

**Corporate governance**

The role of the main Board is to direct the business, strategy and policies of the Nexgen Group and to oversee the conduct of the Nexgen Group’s business and its control environment.

The Committees responsible for Corporate Governance and their respective roles are as follows:

**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 Officers 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 Nexgen 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 assist the Audit Committee in execution of the internal audit function. Members are directors as detailed on page 3.

Nexgen is also subject to periodic reviews by its shareholder’s General Inspection team.

A **Risk Controller**, who is also in charge of Risk control for the division and reports functionally to the Head of NATIXIS Risk Control, supervises the risk management process and monitors compliance with all risk limits. The Risk Controller reports directly to the board of directors.

**RISK MANAGEMENT PRINCIPLES**

NCS' business model is based on its ability to realise value efficiently and durably from the solutions implemented for its clients. NCS has the financial and organisational ability to act as principal, sharing risk with and/or acquiring risk from the client. The business model relies on the continuous operation of a rigorous risk management and valuation process.

NCS' risk management policy is designed to eliminate as much risk as possible from 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 each type of structure, whatever the underlying instrument, allowing them to be effectively hedged.

Proposed financial solutions are individually approved. Present and anticipated risks are vigorously analysed and deliberated prior to the decision to enter into any transaction.

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

Counterparty credit risk and concentration risks are mitigated through the use of credit cushions, margin calls and/or periodic or market price triggered resets in contracts. In addition, manufactured protection, credit default swaps, guarantees and special purpose entity (SPE) structures may be used.

Other factors taken into account during this proposal process include the size of individual risks within NCS diversification objectives, the availability of adequate sources of funding and the identification, minimisation and acceptability of non-financial risks.

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

**THE SYSTEM OF LIMITS**

Following the acquisition, Nexgen's system of limits has been integrated within the structure of limits of NATIXIS. Initially limits assigned to Nexgen were the ones existing before the acquisition. These limits have since evolved according to business needs.

A NATIXIS / NEXGEN Risk Committee has been set-up to consider transactions which exceed the limits assigned to Nexgen. This Committee is chaired by the Chairman of the Board, in his capacity as a member of the Executive Board of NATIXIS BFI, and the secretariat is held by NATIXIS Risk Control Department.

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 Risk Controller continuously monitors compliance with the limits and adherence to the risk management process.

A progressive convergence of measurement and valuation methodologies used by Nexgen towards NATIXIS ones is part of this process.

Regarding **market risks** the foundation of the system is Value at Risk (VaR) measurements against which global limits have been allocated. The Group currently tracks a Market VaR and two credit VaR measures (for CDO / CDS activities).

**Market Risk VaR**

Risks	Limit	Maximum Exposure 2006
Market VaR (99%, 10 days)	€15.5M	€14.6M

The Market VaR (99%, 10 days) is defined as the sum of the Equity/Volatility VaR and the Foreign Exchange / Interest Rate VaR.

**CDOs:**

Risks	Limit	Maximum Exposure 2006
Default VaR	€29.5M	€26.8M
Spread VaR	€8.5M	€1.4M

Default VaR (99%, 90 days): captures the impact of unexpected defaults on the CDO portfolio and the hedges over a 90 day horizon at the 99th percentile.

Spread VaR (99%, 90 days): captures the impact of credit spread variations on the CDO portfolio and its hedges over a 90 day horizon at the 99th percentile.

Within the global VaR framework identifiable risks (Equity, Interest Rate, FX, Volatility, Correlation, Credit, etc.) are placed under a set of sub-limits. Sensitivities for hedgeable risks and stress tests for diversifiable risks are closely monitored.

Persistent sub-limit breaches must be validated and authorised by the Board of directors.

**New gap risk limit:**

During the year, the Group market risk framework was extended to cover the risk of a gap in stock prices related to certain types of limited recourse equity based transactions. This is defined as the risk that a sudden drop in the underlying stock price exceeds the value of the collateral in place.

The exposure is measured with a pre defined drop (in line with historical observations) applied to the current market price. The limit has been set at €25m. This limit is consistent with the Group's gamma sub-limit i.e. the impact of a drop is the same for a given transaction being measured with a maximum gamma exposure or a maximum gap risk exposure.

An aggregated gap risk scenario corresponding to a drop of 15% of all equity and equity indexes has been set and is monitored.

Regarding **credit risk**, an internal credit rating system is used to calculate objective default probabilities, recoveries and credit spreads for each counterparty (i.e. client and market counterparties). Individual and global limits, based on rating classes and transaction maturities, are assigned to counterparties.

**COMPLIANCE AND PERMANENT CONTROLS**

Similarly to the process engaged for Risk Control, Nexgen's Compliance system is becoming more integrated within NATIXIS Compliance and Permanent Control systems.

This will involve harmonisation of Code of Conduct and Compliance rules with NATIXIS' ones, a functional reporting of Nexgen's Compliance department to the NATIXIS Compliance department and an increasing coordination of the counterparty screening processes.

Nexgen has also been integrated within the Permanent Control systems being implemented by NATIXIS.

**FINANCIAL RISKS**

**Market Risks**

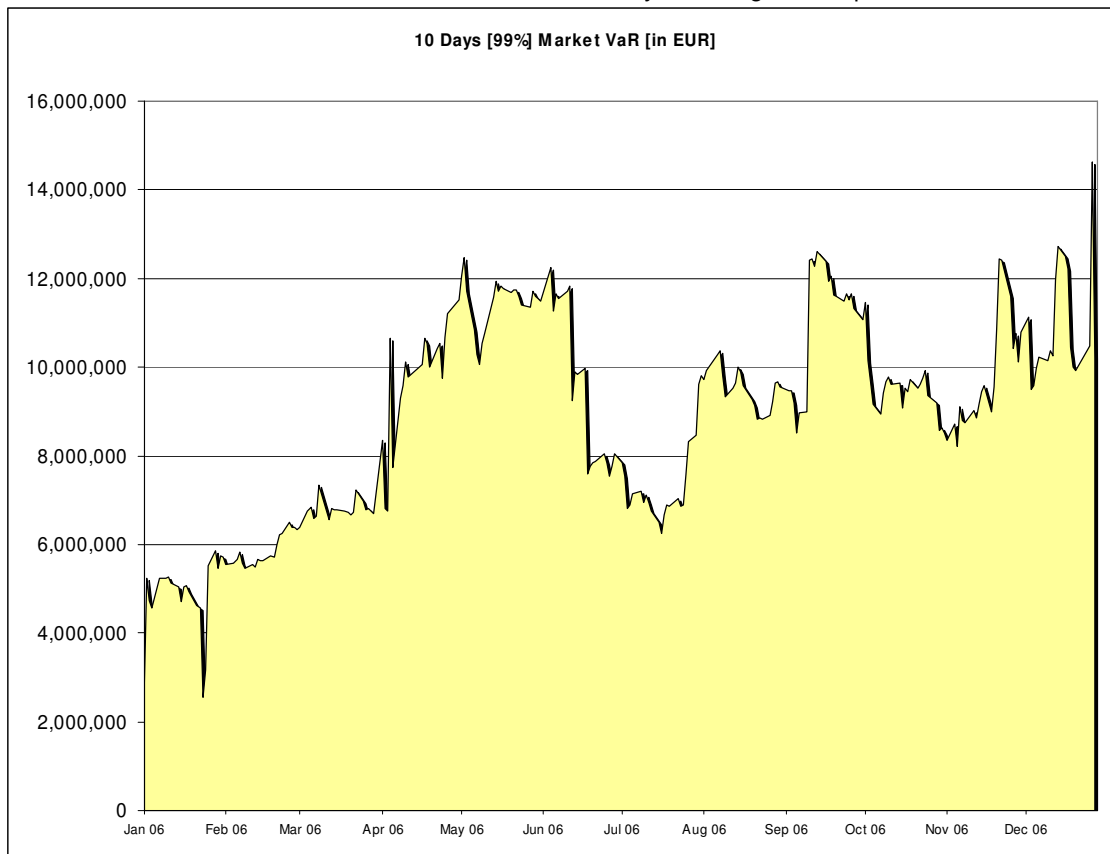
Value-at-Risk (VaR) estimates the potential decline in the value of a position or a portfolio over a ten-day holding period, at a 99% confidence level. The VaR indicator incorporates the sensitivities of the trading portfolio with the volatilities and correlations of those factors. As a result of Nexgen's participation in large European transactions, the maximum Capital Market VaR figure was increased from €8.5m to €15.5m during the year. As at 31 December 2006, the market VaR amounted to €10.2m (31 December 2005: €3.1m) compared to an internal limit of €15.5m. The maximum VaR indicator over the period was €14.6m.

Capital Market VaR is computed at the Nexgen Capital Limited level only, as Nexgen Re Limited's market exposures are not material.

The market VaR indicator does not include counterparty risk.

Various sub limits are monitored daily by the Risk Controller. The various sub limits are applied to measuring the delta, gamma, vega and FX delta of single stocks. These sub limits can be exceeded but the excess must be limited in magnitude.

As can be seen from the graph below the VAR utilisations have been on the increase during the year. This is due to the increased number of transactions undertaken by the Nexgen Group.



**Credit Risk (General)**

The Nexgen Group 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 Financial Holdings Limited

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.

30/12/05 = EUR -2,401m  
29/12/06 = EUR 744.6m

A negative number implies net short protection in the CDO and CDS portfolios, a positive number implies net long protection. The change over the year is as a result of reducing exposure in the CDO portfolio and buying protection against counterparty exposures in the equity portfolio.

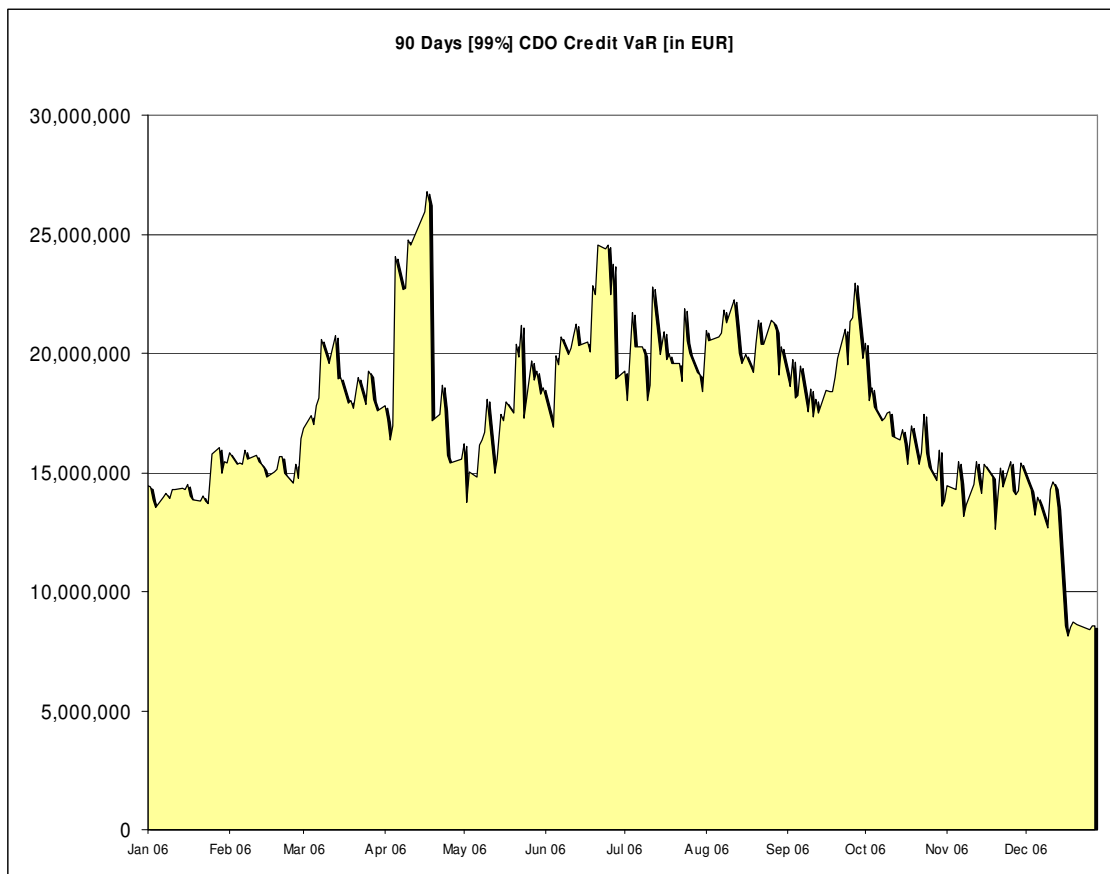
### **Credit Risk – Structured Credit Portfolio**

The Structured Credit / CDO portfolio is mainly built around mezzanine pieces. In aggregate, the positions arising from equity and mezzanine pieces are hedged using credit default swaps.

Two VaR indicators are used to monitor this activity. The Default VaR captures the impact of unexpected immediate defaults on the Nexgen 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 Spread VaR captures the impact of adverse credit market spread behaviour on the Nexgen Group P&L. Spread variations are simulated using both historical volatilities and correlations. The limits applied are as set out in the Risk Management Principles set out above. At 31 December 2006, the figures were:

VaR Default 2006: €8.6m, limit: €29.5m (2005: €14.4m, limit: €29.5m)  
VaR Spreads 2006: €0.1m, limit: €8.5m (2005: €0.6m, limit €8.5m)

The following graphs show Default VaR for the structured credit / CDO portfolio as follows:



The risks relating to this activity have been reduced during the year. The exposure measured as the delta of the CDO tranches (excluding the CDS hedges) existing as at 31 December 2006 was less than 2% of the exposure at the beginning of the year.

### **Reinsurance Risks**

The Nexgen Group has entered into a limited number of reinsurance transactions during the year. Those reinsurance transactions that involve an element of capital market risk are split into their constituent risk components. The capital market risk is transferred into the capital market portfolio for VaR purposes.

The Nexgen Group is also subject to reinsurance risk for those reinsurance transactions. As at 31<sup>st</sup> December 2006, the Group had open mortality risk on a Guaranteed Mortality Death Benefit contract A reserve of €1.8m was held in respect of this as at 31<sup>st</sup> December 2006. Reinsurance contracts and the associated risk management limits are currently approved on a transaction by transaction basis and monitored in the same way.

### **Liquidity Risk**

Liquidity risk is the risk that a financial institution will experience difficulty in financing its assets and meeting its contractual payment obligations, or will only be able to do so at substantially above the prevailing market cost of funds. Liquidity distress is almost invariably associated with a severe deterioration in financial performance, but it can also result from unexpected adverse events or systemic difficulties.

The Nexgen Group is funded by its immediate parent. Liquidity and cashflow are monitored within limits set on a transaction by transaction basis, with allowance made for the impact of possible future underlying instrument price deviations.

### **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 separate 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
- Strictly controlled coordination and cross checking when finalising documentation and executing transactions.

An important element of this control is having one common information system, from inception 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 Nexgen Group location uses the same technology and infrastructure and the data is mirrored to provide rapid recovery solutions to any site knocked out by a disaster. Harmonisation with THE NATIXIS GROUP is in progress.

### **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:

- § the Screening Committee reviews each prospective counterparty and connected intermediaries from a reputational and “Know Your Customer” perspective, at the pre-transaction stage,
- § 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,
- § special attention is also given to compliance with local rules and regulations, and prominent local law firms are systematically used to verify such compliance when structuring transactions.

**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 2006. The comparative figures are for the year to 31 December 2005 (restated in euro).

Nexgen Financial Holdings Limited ("the Company") became a wholly-owned subsidiary of IXIS CIB, now a subsidiary of NATIXIS, on 1<sup>st</sup> January 2006 at which date effective control passed. The take over of the Group by IXIS CIB was formally completed on 24 March, 2006 through the purchase of the residual equity of the entity based on the value of the business at 31<sup>st</sup> December 2005.

The Group has adopted International Financial Reporting Standards (IFRS) in presenting the financial statements. As part of this adoption, the Group has determined its functional currency to be the Euro. All comparatives from the previous year have been restated in Euro. In accordance with the transitional provisions under IFRS, the comparative information for 2005 has been reclassified where necessary.

**2006 ACTIVITY**Income Generation

The Nexgen Group's operating income in 2006 was €126m, which represents a significant increase compared to the previous year's figure of €23m.

The acquisition of the Nexgen Group by IXIS CIB has had a positive impact on the business. For example, the access to increased financial resources allowed the teams to structure a number of large transactions during the year.

Activity in the period was very good with around 54 new transactions executed (including transaction restructurings) compared to 34 transactions in the previous year.

Client transactions involving **capital market** activities account for the majority of trading income during the year (2006: €100m, 2005: €29m). These deals originated principally in Europe (2/3: mainly France) and South East Asia (1/3). In a favourable economic environment the Group was able to benefit from the high level of activity in the M&A markets. As in previous years, the transactions were mostly entered into with large corporate clients and some high net worth individuals. Techniques used in the structuring of such transactions continued to involve derivatives (swaps and options) on single stocks and various credit risk mitigating techniques where necessary. Most of the transactions Nexgen structured for clients were of a private nature protected by established confidentiality rules.

The relationship with the Lazard Group to provide corporate clients in major European markets with structured capital market, derivative and reinsurance financing and risk management solutions worked well. This relationship has seen a number of new clients being introduced to the Nexgen Group during 2006, particularly in Southern Europe.

The number, diversity and size of transactions realised in Asia was also increasing. Nexgen staff also contributed to the development of transactions with new types of underlying instruments (e.g. Carbon Emission Rights).

On the **Reinsurance** side, activity was still limited during the year, but increased compared to 2005. Some new transactions were executed towards the end of the year with Life and non Life reinsurance clients. A first transaction based on Guaranteed Minimum Death Benefits (GMDB), involving both financial and actuarial risks is to be noted in that respect. The total reinsurance income for the year was €4.9m (2005: €0.5m).

The **CDO's / Credit Derivatives** business was focused towards matching existing exposures and decreasing the risk on the portfolio. Very little risk was left at the end of the year. There was a reversal most of the €12.7m valuation reserve created in 2005 to reflect the structure of implied correlations. This contributed to a profit of €17.1m for the period (31 December 2005; loss of €11.8m).

### General and resources

Following the take over it was decided to keep separate organisations in the countries where both NATIXIS and Nexgen were present (France and Italy), consequently Paris and Milan staff remained employed by Nexgen. Milan staff moved to IXIS premises, but Nexgen kept its premises in Paris.

Staff numbers increased by 22 during 2006 with the main increases being within the departments in charge of structuring and marketing in the Paris and Milan offices (90 employed by the Nexgen Group as at end December 2006 compared to 68 as at end December 2005). This includes some IXIS staff being seconded to work within Nexgen's teams.

#### *Staff numbers by location:*

Dublin	31
Milan	3
Paris	40
Singapore	16
<b>Total</b>	<b>90</b>

### Corporate Structure

There was a change to the Nexgen Group's Corporate Structure (refer to Chart on page 4). In the second half of the year, Nexgen Re Ltd sold its investments in Nexgen Capital Ltd and Nexgen Financial Solutions Ltd to Nexgen Financial Holdings Ltd.

### Marketing Agreements

A marketing agreement was signed in August with IXIS Securities, North America (New York) and IXIS Asia (Hong Kong) to develop business in these locations (a similar agreement had been signed in 2005 for Germany and 2004 for Japan). In each case one Nexgen employee joined the local IXIS entity.

### Dividends

Nexgen Financial Holdings Ltd paid a dividend of €67m to the Nexgen Group's parent company, IXIS Corporate and Investment Bank, during the year (2005: nil).

### **Results for the year and state of affairs at 31 December 2006**

Nexgen's positions are valued daily on a fair value basis whenever appropriate in accordance with IFRS. The valuation is measured against each risk incurred and variations are explained through an income attribution analysis, by reference to the actual risks being managed. The risk management systems and procedures have performed satisfactorily during the year.

The net operating income for 2006 was €126m (2005: €23m).

Most of the income was derived from capital market client transactions (2006: €101m; 2005: €30m).

There were no charges to the accounts during the year due to client defaults (2005: €2.3m). The Nexgen Group continues to pursue through the courts the recovery of an Exchangeable Bond acquired in 2002, the value of which was written to zero in 2005 following a default in 2004. No significant recoveries were made during the year.

The contribution from CDO was €17.1m (2005: loss of €11.8m).

The contribution from the management of residual positions was €(2.2)m (2005: €(1.9)m).

Reinsurance income was €4.9m (2005: €0.5m).

Remuneration of Own Funds (computed at a rate based on 3 month LIBOR) was €6.2m (2005: €7.0m). The decrease is due to adoption of the euro as the functional currency of the company in 2006 and the differential in US interest rates against Eurozone interest rates.

Operating expenses were significantly higher in 2006 at €47m (2005: €19m) mainly as a result of an increase in staff variable remuneration, due to the increased profit, a revision of the profit sharing arrangement agreed as part of the takeover by IXIS CIB plus an increase in staff numbers. Staff costs, therefore, rose sharply to €37.5m (2005: €11.5m). Other administrative expenses were €9.1m (2005: €7.1m), due mainly to an increase in office rental costs and an increase in professional fees.

Taxation was €12.7m (2005: €0.8m). The average rate of tax was 16% (2005:24%).

The net profit after tax but before dividends for the year was €66.4m compared to €2.8m for the year 2005.

The Directors proposed a dividend of €67m to be paid to IXIS CIB in 2006. This was paid prior to the end of the year.

### **Balance sheet**

The total assets nearly trebled over the year to €3,184m (31 December 2005: €1,192m).

This growth reflects the impact of the IXIS CIB takeover and the Nexgen Groups ability to finance larger deals through this relationship. The increase in business was spread over the various lines of the balance sheet with the main increases being in the trading securities, long and short positions, and the associated repo/reverse repo funding.

Shareholders funds at 31 December 2006 were €188.3m compared to €188.2m at the end of 2005. This is due to the net profit after tax and dividend for the year.

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

As a result of the takeover by IXIS CIB changes were made to the organisation of the Nexgen Group. In particular the Shareholder's Agreement entered into by former shareholders was terminated, the Articles of Association of the Company were simplified and the Executive Committee of the Board was dissolved. There have also been significant changes to the members of the Board of Directors of the Company (see page 3).

However the Management Committee, the Transaction Committee and the Screening Committee continued to operate on the same basis as 2005, in the framework of delegations received from relevant NATIXIS Departments. The Audit Committee met regularly during the year and has reviewed the financial statements and other financial information provided by the Nexgen Group. Deloitte still assist the Audit Committee in the execution of Nexgen's internal audit function.

In the context of comments made above in the Corporate Governance and Risk Management section, there has been 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 critical control issues.

More detailed risk measures are listed on pages 5-10 of this report.

The Nexgen Group established procedures to ensure compliance with EU Directives applicable to its business and which were implemented during the year. These included the Market Abuse Directive.

Nexgen has adopted the provisions of the Reinsurance Directive into its procedures and will work to be in full compliance at the statutory implementation date in Ireland of 10<sup>th</sup> December 2007.

**Outlook for 2007**

The business challenge for 2007 will be to continue to expand the activities both geographically and in terms of size and diversity of transactions and associated underlying instruments and structuring techniques used.

The range of products offered will primarily focus on the existing equity and credit linked structures. Also expected is the further development of the reinsurance business (death / life related structure) and commodity based activities.

The harmonisation of Nexgen's systems and procedures with NATIXIS will continue. On the Regulatory side efforts will be required to meet numerous additional regulatory obligations within the respective timeframes set by the new rules.

The Nexgen Group, in liaison with its parent, is keeping the likely effects of the Markets in Financial Instruments Directive (MiFID) under close review, in view of the procedure changes it will likely imply. MiFID will be implemented into Irish law in November, 2007.

Nexgen has continued preparations for the implementation of the Capital Requirements Directive (Basel II) for its regulated entities. Although the Capital Requirements Directive applies from 1<sup>st</sup> January 2007, firms adopting the IRB Approach to counterparty credit risk under Pillar I have the option of deferring the main provisions of the CRD. The Board has agreed that Nexgen should defer until 30<sup>th</sup> September 2007 at the earliest. The latest possible date of implementation is 1<sup>st</sup> January 2008. An Internal Capital Adequacy Assessment Process is also required to be implemented.

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## **Nexgen Financial Holdings Limited**

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### **Directors**

The names of the persons who were directors at any time during the year ended 31 December 2006 are set out on page 3.

### **Directors' and Secretary's interests**

The beneficial interests of the directors, in office at 31 December 2006, in the ordinary share capital of the Company, at 31 December 2006 and 31 December 2005 were as follows:

	Number of shares			
	31 December 2006		31 December 2005	
Luc Giraud	-		15,240	Founders Shares
	-		764,750	Ordinary shares
Ravi Viswanathan	-		15,240	Founders Shares
	-		764,750	Ordinary shares
Nicola O'Connell (Company Secretary)	-		400	Founders Shares

In addition, as at 31 December 2006, the directors listed below held the following warrants to subscribe for ordinary shares in the Company.

	Number of Warrants		
	Number	Maturity date	Subscription Price
31 December 2006: Luc Giraud	1,911,750	31st December 2008	EUR 1.00
Ravi Viswanathan	1,911,750	31st December 2008	EUR 1.00
31 December 2005: Luc Giraud	771,731	11 <sup>th</sup> December 2009	USD 1.50
	1,441,778	11 <sup>th</sup> December 2009	USD 2.50
Ravi Viswanathan	771,731	11 <sup>th</sup> December 2009	USD 1.50
	1,441,778	11 <sup>th</sup> December 2009	USD 2.50

None of the other directors held other interests in any Group undertaking at 31 December 2006.

### **Branches Outside the State**

The Group has branches, within the meaning of Regulation 25 of the European Communities (Accounts) Regulations, 1993 (which gave effect to EU Council Directive 89/666/EEC), in France and Italy.

### **Political Donations**

There were no political contributions which require disclosure under the Electoral Act 1997.

### **Subsequent Events**

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

### **Books of Account**

The directors comply with the Nexgen 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:

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**Nexgen Financial Holdings Limited**

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**

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with International Financial Reporting Standards ("IFRS") and IFRIC interpretations endorsed by the European Union and with those parts of the Companies Act, 1963 to 2006 applicable to companies reporting under IFRS and Article 4 of the IAS Regulation.

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 period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRS.
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper books of account that 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 IFRS and IFRIC interpretations endorsed by the European Union and with those parts of the Companies Act, 1963 to 2006 applicable to companies reporting under IFRS and Article 4 of the IAS Regulation.

They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

**Luc Giraud**

**Ravi Viswanathan**

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NEXGEN FINANCIAL HOLDINGS LIMITED**

We have audited the group and parent company financial statements (the "financial statements") of Nexgen Financial Holdings Limited for the year ended 31 December 2006 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statement of Change in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

**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 International Financial Reporting Standards (IFRSs) as adopted by the European Union, are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and 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 group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union. We report to you our opinion as to whether the parent financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Acts 1963 to 2006. We also report to you whether the financial statements have been properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2006 and Article 4 of the IAS Regulation. 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 of the company; such a financial situation may exist if the net assets of the company, as stated in the company balance sheet, are not more than half of its called-up share capital.

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

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Nexgen Group Profile, Corporate Governance and Risk Management, Directors' Report and Directors Responsibility Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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 group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2006 and of its profit and cash flows for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Acts 1963 to 2006, of the state of the parent company's affairs as at 31 December 2006 and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Acts, 1963 to 2006 and Article 4 of the IAS Regulation.

We have obtained all the information and explanations which we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the company. The company balance sheet is in agreement with the books of account.

In our opinion the information given in the directors' report is consistent with the financial statements.

The net assets of the company, as stated in the company balance sheet 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 2006 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, Ireland

**21 February 2007**

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**Nexgen Financial Holdings Limited**

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**CONSOLIDATED INCOME STATEMENT****Year ended 31 December 2006**

		Year ended 31 December 2006 EUR'000	Year ended 31 December 2005 EUR'000
	Notes		
Interest income		4,851	1,045
Interest expense		<u>(4,925)</u>	<u>(1,490)</u>
Net interest income / (expense)		(74)	(445)
Net trading income	10 (i)	120,425	22,541
Net reinsurance income	10 (ii)	4,866	497
Net income from financial instruments held AFVTPL*	10 (iii)	<u>911</u>	<u>218</u>
Operating income		126,202	23,256
Operating expenses	11	(46,949)	(19,121)
Profit on ordinary activities before taxation		<u>79,179</u>	<u>3,690</u>
Taxation	12	(12,737)	(842)
Profit realised for the financial year		<u>66,442</u>	<u>2,848</u>
Attributable to:			
Equity holders of the parent		66,442	-

There was no overall controlling interest in the Group as at 31 December 2005.

The above results relate exclusively to continuing operations.

Of the balance on the Group profit and loss account, a profit of EUR 69,020,000 has been dealt with in the accounts of the Company (2005: loss of EUR 285,000).

\* At fair value through Profit and Loss

**On behalf of the Board****Luc Giraud****Ravi Viswanathan**

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**Nexgen Financial Holdings Limited**

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**STATEMENT OF CHANGES IN EQUITY****Group****Year ended 31 December 2006**

	Year ended 31 December 2006 EUR'000	Year ended 31 December 2005 EUR'000
Profit attributable to equity shareholders	66,442	2,848
Dividend paid to parent company during the year	31 (67,000)	-
Currency translation difference on foreign currency net investments	(23)	(19)
Redemption of USD denominated shares during the year	26 (1,571)	-
Share premium relating to USD shares redeemed	28 (158,479)	-
Issuance of EUR denominated share during the year	26 100,000	-
Share premium relating to EUR shares issued	28 60,051	-
Warrant premium paid in during the year	683	-
	<hr/>	<hr/>
Movement in shareholder's funds	102	2,829
Balance at the beginning of the year	188,218	185,389
	<hr/>	<hr/>
Balance at the end of the year	<u>188,320</u>	<u>188,218</u>

**STATEMENT OF CHANGES IN EQUITY****Company****Year ended 31 December 2006**

	Year ended 31 December 2006 EUR'000	Year ended 31 December 2005 EUR'000
Profit attributable to equity shareholders	69,020	(285)
Dividend paid to parent company during the year	31 (67,000)	-
Currency translation difference on foreign currency net investments	-	-
Redemption of USD denominated shares during the year	26 (1,572)	-
Share premium relating to USD shares redeemed	28 (158,479)	-
Issuance of EUR denominated share during the year	26 100,000	-
Share premium relating to EUR shares issued	28 60,051	-
Warrant premium paid in during the year	683	-
	<hr/>	<hr/>
Movement in shareholder's funds	2,703	(285)
Balance at the beginning of the year	159,165	159,450
	<hr/>	<hr/>
Balance at the end of the year	<u>161,868</u>	<u>159,165</u>

## **Nexgen Financial Holdings Limited**

### **CONSOLIDATED BALANCE SHEET**

<b>31 December 2006</b>		31 December 2006	31 December 2005
	Notes	EUR'000	EUR'000
<b>Assets</b>			
Cash at Bank and in hand		52,291	6,298
Loans to and receivables from financial institutions	14	860,925	161,390
Loans to and receivables from customers	15	34,157	32,970
Trading securities – long positions	16	1,374,802	545,661
Derivative financial instruments – long positions	17	798,594	417,839
Financial assets designated AFVTPL*	18	47,399	21,686
Reinsurance assets	32	10,069	-
Other debtors	19	5,032	3,324
Deferred Corporation Tax asset	19	-	71
Current Corporation Tax asset	19	-	2,440
Tangible fixed assets	13	849	788
<b>Total Assets</b>		<b>3,184,118</b>	<b>1,192,467</b>
<b>Liabilities</b>			
Trading securities - short positions	20	1,023,176	217,852
Derivative financial instruments – short positions	21	626,876	216,648
Loans from financial institutions	22	1,171,915	427,741
Reinsurance liabilities	32	5,692	-
Accruals and other creditors	23	31,634	4,500
Deferred Corporation Tax liability	23	136	-
Current Corporation Tax liability	23	2,240	-
Debt securities in issue	24	134,129	137,508
<b>Total Liabilities</b>		<b>2,995,798</b>	<b>1,004,249</b>
<b>Net Assets</b>		<b>188,320</b>	<b>188,218</b>
<b>Capital and reserves</b>			
Ordinary share capital	26	100,000	1,572
Warrant premium	27	683	-
Share premium	28	60,051	158,479
Profit and loss account	28	27,534	28,092
FX translation reserve	29	52	75
<b>Equity shareholders' funds</b>		<b>188,320</b>	<b>188,218</b>
<b>Total shareholders' funds</b>		<b>188,320</b>	<b>188,218</b>

\* at fair value through Profit or Loss

**On behalf of the Board**

**Luc Giraud**

**Ravi Viswanathan**

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**Nexgen Financial Holdings Limited**

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**COMPANY BALANCE SHEET****31 December 2006**

		31 December 2006 EUR'000	31 December 2005 EUR'000
	Notes		
<b>Assets</b>			
Investment in subsidiaries	9	157,073	158,372
Cash at Bank and in hand		71	50
Loans to and receivables from financial institutions	14	4,909	1,075
<b>Total Assets</b>		<b>162,053</b>	<b>159,497</b>
<b>Liabilities</b>			
Current Corporation Tax liability	23	8	7
Accruals and other creditors	23	177	325
<b>Total Liabilities</b>		<b>185</b>	<b>332</b>
<b>Net Assets</b>		<b>161,868</b>	<b>159,165</b>
<b>Capital and reserves</b>			
Called up share capital	26	100,000	1,572
Warrant Premium	27	683	-
Share premium	28	60,051	158,479
Profit and loss account		1,134	(886)
<b>Equity shareholder's funds</b>		<b>161,868</b>	<b>159,165</b>
<b>Total shareholders' funds</b>		<b>161,868</b>	<b>159,165</b>

On behalf of the Board

Luc Giraud

Ravi Viswanathan

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**Nexgen Financial Holdings Limited**

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**CASH FLOW STATEMENT - Group**

Year ended 31 December 2006

		Year ended 31 December 2006	Year ended 31 December 2005
	Notes	EUR'000	EUR'000
Cash flows from operating activities			
Operating Profit		79,179	4,532
Depreciation and amortisation	13	325	311
Changes in operating assets and liabilities			
-net (increase)/decrease in loans to and receivables from financial institutions		(1,357)	-
-net (increase) in loans to and receivables from customers		(1,187)	(32,970)
-net (increase) in financial assets designated AFVTPL		(25,713)	(21,686)
-net (increase)/decrease in long derivative structures at valuation		(380,755)	(192,999)
-net increase/(decrease) in short derivative structures at valuation		410,229	114,776
-net (increase)/decrease in equity shares at valuation		(829,140)	(164,790)
-net increase/(decrease) in short equity shares at valuation		805,324	508
-net increase/(decrease) in financial liabilities		740,795	246,671
-net (increase)/decrease in reinsurance		(4,377)	-
-net (increase)/decrease in other assets		731	(2,306)
-net increase/(decrease) in other liabilities		24,488	(5,898)
Currency translation difference		(24)	(18)
		<u>818,518</u>	<u>(53,869)</u>
Taxation paid		(7,644)	(4,756)
Net cash inflow from operating activities		<u>810,874</u>	<u>(58,625)</u>
Investing activities			
Additions to tangible fixed assets	13	(389)	(623)
Exchange adjustment on fixed assets	13	(10)	2
Proceeds from disposal of fixed assets	13	13	-
Financing activities			
Dividends Paid	31	(67,000)	-
Issue of warrants	27	683	-
Increase/(decrease) in cash and cash equivalents		<u>744,171</u>	<u>(59,246)</u>
Opening cash and cash equivalents		167,688	226,934
Closing cash and cash equivalents	36	<u>911,859</u>	<u>167,688</u>

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**Nexgen Financial Holdings Limited**

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**CASH FLOW STATEMENT - Company**

Year ended 31 December 2006

		Year ended 31 December 2006	Year ended 31 December 2005
	Notes	EUR'000	EUR'000
Cash flows from operating activities			-
Operating Profit		69,050	(273)
Changes in operating assets and liabilities -net increase/(decrease) in other liabilities		<u>(165)</u>	<u>(540)</u>
		<u>68,885</u>	<u>(813)</u>
Taxation paid		(12)	(11)
Net cash inflow from operating activities		<u>68,873</u>	<u>(824)</u>
Investing activities			
Net (increase)/decrease in investment in subsidiaries		1,299	-
Financing activities			
Dividends Paid	31	(67,000)	-
Issue of warrants	27	683	-
Increase/(decrease) in cash and cash equivalents		<u>3,855</u>	<u>(824)</u>
Opening cash and cash equivalents		1,125	1,949
Closing cash and cash equivalents	36	<u>4,980</u>	<u>1,125</u>

### **1 General Information**

Nexgen Financial Holdings and its subsidiaries, as part of NATIXIS Corporate Solutions, offer 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 Nexgen Group has operations in 4 countries and employs 90 people including those seconded from related NATIXIS Group companies.

Nexgen Financial Holdings Ltd acts as a holding company the Nexgen Group of companies. Nexgen Financial Holdings Ltd is domiciled in Ireland. The address of the registered office is: Ormonde House, 12 Lower Leeson Street, Dublin 2, Ireland.

The firm is an unlisted, wholly owned subsidiary of IXIS Corporate and Investment Bank, which in turn is a 100% subsidiary of NATIXIS. Both are banking groups registered in France. NATIXIS is listed on the Bourse de Paris (France).

The consolidated financial statements have been approved by the Board of Directors on 21<sup>st</sup> February 2007.

The Nexgen Group's owners have the power, but not the intention to amend the financial statements after their date of issue.

### **2 Significant Accounting Policies**

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

#### **2.1 Basis of Preparation**

The Financial Statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31<sup>st</sup> December 2006. Up to 31 December 2005 the Nexgen Group prepared its Financial Statements in accordance with Irish Generally Accepted Accounting Principles (IR GAAP).

The Nexgen Group complies with the EU endorsed version of IAS 39.

The rules for first time adoption of IFRS are set out in IFRS 1 "First-time Adoption of International Financial Reporting Standards". IFRS 1 requires the Nexgen Group to determine its IFRS accounting policies and apply these retrospectively to determine the opening balance sheet position under IFRS at the date of transition (See "**Reconciliation of Opening Balance Sheet from Irish GAAP to IFRS**" in note 8).

No material changes to the various financial aggregates arise as a result. As part of the process the Nexgen Group has determined its functional currency to be Euro. From 1st January 2006 its financial risks have been managed on this basis and its Financial Statements are now presented in Euro. Comparatives have been restated in Euro using the EUR/USD closing rate as at 31<sup>st</sup> December 2005 (1.18395).

Assets and liabilities are recorded at settlement date. For those items recorded at fair value, income is recognized on a trade date basis.

On First Time Adoption of IFRS, the Group has adopted those provisions of *IAS 30: Disclosures in the Financial Statements of Banks and Similar Financial Institutions* that are relevant to the business of the Nexgen Group and *IAS 32: Financial Instruments: Disclosure and Presentation*.

The following prospective accounting policy changes have not been applied, but will be applied for the financial year ended 31<sup>st</sup> December 2007:

#### New and amended standards

##### **IFRS 7 - Financial instruments: Disclosures, Amendment to IAS 1 - Capital disclosures**

The Group has chosen not to early adopt the following standard and interpretations that were issued but not yet effective for accounting periods beginning on 1 January 2006:

#### Interpretations issued but not yet effective

- IFRS 8, Operating Segments (effective 1 January 2008);
- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective 1 March 2006);
- IFRIC 8, Scope of IFRS 2 (effective 1 May 2006);
- IFRIC 9, Reassessment of embedded derivative (effective 1 June 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective 1 November 2006);
- IFRIC 11, IFRS 2 – Group Treasury Share Transactions (effective 1 March 2007); and
- IFRIC 12, Service Concession Arrangements (effective 1 January 2009).

The application of the above is not expected to have a material impact on the entity's financial statements in the period of initial application.

## **2.2 Consolidation**

### **(i) Subsidiaries**

Subsidiaries are all entities (including special purpose entities) over which the Nexgen Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired would be recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference would be recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The accounting policies of subsidiaries are consistent with the policies of the Nexgen Group.

A list of subsidiaries is presented in note 9.

### **(ii) Associates**

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and would initially be recognised at cost. The Group's investment in associates would include goodwill (net of any accumulated impairment loss) identified on acquisition.

There were no associates at the balance sheet date.

## **2.3 Derivative financial instruments**

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and using valuation techniques, including discounted cash flow models and options pricing models, as discussed below. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement unless the Group chooses to designate the hybrid contracts at fair value through profit and loss.

### **2.3.1 Hedge Accounting**

Nexgen does not avail of any form of hedge accounting as permitted under IAS 39.

### **2.4 Fair value of financial assets and liabilities including derivatives**

Trading securities positions, liabilities and derivative instruments arising from structured finance and investment transactions are valued at fair value, using industry standard valuation principles as set out below. Movements in fair value are recognised in the Income Statement 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.

The Nexgen Group derives fair value from 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 adjustments are made for bid-offer spreads 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. These 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 economic indicators (e.g. dividends, volatilities). Where parameters are deemed unobservable, profits relating to that parameter are deferred and allocated over the life of the exposure to that parameter or until the date at which the parameter is observable.

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 customer transactions. To value these positions a discount curve is extracted. This curve is applied to piecewise constant instantaneous forward rates. These rates are interbank and swap rates.
- § *Equity Derivatives Pricing Model:* Nexgen uses a generalised version of the Black-Scholes model. This model is generally accepted within the industry. The volatility input parameter is that implied by market data available.
- § *Credit/CDO Pricing:*
  - (a) *Models:* The following bases are used for instruments, the value of which is dependent upon credit exposure: 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 spread.

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. The recovery rate for the instrument on which the credit margin is calculated is derived from the priority of the exposure and the economic sector of the name. In the case of unavailability of appropriate market data these parameters may be adjusted using models and published default statistics from reputable rating agencies.

*(b) Recovery and probability of default*

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 all valuations, adjustments are made, where applicable, as follows:

- *Bid-Ask* – Bid Ask adjustments are made on a portfolio basis to cover both the implied bid ask spread within underlying exposures and their components and the bid ask spread of the cost of hedging / rebalancing the portfolio.
- *Credit Risk adjustments* are defined as the costs for protecting an exposure or a stream of exposures against default.

Price adjustments specific to CDOs:

- *Bid-Ask Spread*, adjustments cover the cost of transacting with a market-maker at its bid-ask quotation. This transfers to him the whole portfolio and its delta hedge. The uncertainty on the assumed level of correlations and the uncertainty on the assessment of recovery rates is covered by the correlation and recovery rate adjustment.

## **2.5 The Fair Value Option**

In accordance with the amendments to IAS 39 made in June 2005 as approved by the EU, Nexgen commonly applies the fair value option to non derivative financial instrument transactions that are not held for trading purposes.

A transaction is designated by Nexgen at fair value through profit or loss when doing so results in more relevant information, or when the contract contains embedded derivatives that meet set criteria.

Each transaction to which this is potentially applicable is judged on the following criteria:

Carrying at fair value eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or

It is within a group of financial assets, financial liabilities or both that can be managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel or

If a contract contains one or more embedded derivatives, Nexgen may designate the entire hybrid (combined) contract as a financial asset or financial liability at fair value through profit or loss unless: the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or

- it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited under IAS 39 as amended.

## **2.6 Recognition of deferred day one profit and loss**

The best evidence of fair value at initial recognition is the transaction price (ie, the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (ie, without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

The Nexgen Group has entered into transactions where fair value is determined using valuation models for which not all inputs are market observable prices or rates. Such a financial instrument is initially recognised at the value related only to observable inputs. This may be transaction price or a model value in which only observable inputs are used. The difference between this value and the model value fully inclusive of unobservable inputs, commonly referred to as 'day one profit and loss', is not recognised immediately in profit and loss.

The timing of recognition of deferred day one profit and loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement. The financial instrument is subsequently measured at fair value, adjusted for the deferred day one profit and loss. Subsequent changes in fair value are recognised immediately in the income statement without reversal of deferred day one profits and losses.

## **2.7 Offsetting Financial instruments**

Financial assets and liabilities are offset and the net amount reported in the balance sheet if two conditions are fulfilled:

- there is a legally enforceable right to set off the recognised amounts, and
- there is an intention to settle on a net basis, or to realise an asset and settle the liability simultaneously.

## **2.8 Sale and repurchase agreements**

Securities lent to counterparties are retained in the financial statements.

Securities sold or lent through repurchase or securities lending agreements are disclosed in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the liability to the counterparty is included in amounts loans from financial institutions.

The cash collateral given in respect of securities purchased / borrowed under agreements to resell / or re-lend are recorded as loans to and receivables from financial institutions and customers as appropriate.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income.

## **2.9 Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than or equal to three months' maturity from the date of acquisition, including cash and non-restricted balances with central banks, treasury bills and other eligible bills, loans and advances to financial institutions, amounts due from financial institutions and short-term government securities.

## **2.10 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 prevailing at the dates of the respective transactions.

### **2.11 Accounting policies specific to reinsurance business**

The technical result is determined annually using earned premium and incurred claims costs. Commissions and related expenses are charged against the earned proportion of the premium net of retrocessions.

#### **(i) Classification as Reinsurance**

In accordance with IFRS 4 only contracts with a significant insurance risk are classified as (re)insurance. Insurance contracts with a financial derivative component are split into their component parts. The insurance component is valued on an accruals basis with technical reserves estimated in respect of losses from the insurance risk in the contract. The financial derivative component is separated and measured at fair value in accordance with the principles of IAS 39.

#### **(ii) 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.

#### **(iii) 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.

#### **(iv) 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.

#### **(v) 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.

#### **(vi) Unexpired and Actuarial Risks**

A provision for unexpired risks and actuarial 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.

#### **(viii) Derivatives embedded in reinsurance contracts**

To the extent that separable financial derivatives are embedded within reinsurance contracts, the Group separates the embedded derivative and values it in accordance with IAS 39 as a market risk reserve.

### **2.12 Taxation**

Corporation tax is provided on taxable profits based on the year to date profit in EUR.

Deferred income tax is provided in full, using the liability method, on all material temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is not discounted.

### **2.13 Pension costs**

Employees may be members either of the Nexgen Group pension plan or of a personal pension plan. The Nexgen Group pension plan is a defined contribution scheme. The Nexgen 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.

### **2.14 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

### **2.15 Functional Currency**

The functional currency of the Group was reviewed with reference to the requirements of IAS 21. The functional currency was determined as EUR. In prior years the functional currency was USD.

### **2.16 Comparatives**

Comparative figures have been reclassified in order to be consistent with the presentation of the current year. As the functional currency was changed at 1<sup>st</sup> January 2006, comparatives have been restated using the closing EUR/USD rate as at 31<sup>st</sup> December 2005. The rate used was 1.18395.

## **3 Financial risk management**

### **3.1 Principles, policies and procedures**

Please refer to pages 7-12.

## Nexgen Financial Holdings Limited

### 3.2 Interest Rate Risk

#### Interest rate sensitivity

The table below indicates the repricing mismatch in the non Trading assets and liabilities at 31 December 2006 and 31 December 2005.

<b>As at December 31 2006 (EUR '000)</b>	<b>&lt; 1 month</b>	<b>3 - 12 months</b>	<b>Non Interest Bearing</b>	<b>Trading Book</b>	<b>Total</b>
<b>Assets</b>					
Cash at Bank	-	-	-	52,291	52,291
Loans to and Receivables from financial institutions	-	-	-	860,925	860,925
Loans to and Receivables from customers	-	34,157	-	-	34,157
Trading Securities	-	-	-	1,374,802	1,374,802
Derivative (Long)	-	-	-	798,594	798,594
Financial assets at FVTPL	21,814	-	25,585	-	47,399
Reinsurance	-	-	-	10,069	10,069
Other Assets	-	-	5,881	-	5,881
<b>Total Assets</b>	<b>21,814</b>	<b>34,157</b>	<b>31,466</b>	<b>3,096,681</b>	<b>3,184,118</b>
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>34,009</b>	<b>2,961,789</b>	<b>2,995,798</b>
<b>Total interest sensitivity gap</b>	<b>21,814</b>	<b>34,157</b>			

<b>As at December 31 2005 (EUR '000)</b>	<b>&lt; 1 month</b>	<b>3 - 12 months</b>	<b>Non Interest Bearing</b>	<b>Trading Book</b>	<b>Total</b>
<b>Assets</b>					
Cash at Bank	-	-	-	6,298	6,298
Loans to and Receivables from financial institutions	-	-	-	161,390	161,390
Loans to and Receivables from customers	-	32,970	-	-	32,970
Trading Securities	-	-	-	545,661	545,661
Derivative (Long)	-	-	-	417,839	417,839
Financial assets at FVTPL	-	-	21,686	-	21,686
Reinsurance	-	-	-	-	-
Other Assets	-	-	6,623	-	6,623
<b>Total Assets</b>	<b>-</b>	<b>32,970</b>	<b>28,309</b>	<b>1,131,189</b>	<b>1,192,467</b>
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>4,500</b>	<b>999,749</b>	<b>1,004,249</b>
<b>Total interest sensitivity gap</b>	<b>-</b>	<b>32,970</b>			

## Nexgen Financial Holdings Limited

### 3.3 Liquidity Risk

The table below analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

#### (i) Maturities of assets and liabilities

As at December 31 2006 (EUR '000s)	< 1 month	1 - 3 months	3 - 12 months	1 - 5 years	> 5 years	Total
<b>Assets</b>						
Cash at Bank	52,291	-	-	-	-	52,291
Loans to and Receivables from financial institutions	859,568	-	1,357	-	-	860,925
Loans to and Receivables from customers	-	-	34,157	-	-	34,157
Trading Securities	890,598	-	45,663	352,250	86,291	1,374,802
Derivative (Long)	8,361	63,540	251,211	468,335	7,147	798,594
Financial assets at FVTPL	21,814	-	-	25,585	-	47,399
Reinsurance	-	-	-	737	9,332	10,069
Other Assets	5,559	309	3	10	-	5,881
<b>Total Assets</b>	<b>1,838,191</b>	<b>63,849</b>	<b>332,391</b>	<b>846,917</b>	<b>102,770</b>	<b>3,184,118</b>
<b>Liabilities</b>						
Trading Securities (Short)	812,138	8,085	7,657	195,296	-	1,023,176
Derivative (Short)	62,008	16,826	202,490	330,036	15,516	626,876
Loans from financial Institutions	1,096,212	-	35,384	8,566	31,753	1,171,915
Reinsurance	-	-	-	-	5,692	5,692
Other Liabilities	33,991	11	1	7	-	34,010
Debt Securities in issue	-	-	134,129	-	-	134,129
<b>Total Liabilities</b>	<b>2,004,349</b>	<b>24,922</b>	<b>379,661</b>	<b>533,905</b>	<b>52,961</b>	<b>2,995,798</b>
<b>Net liquidity gap</b>	<b>(166,158)</b>	<b>38,927</b>	<b>(47,270)</b>	<b>313,012</b>	<b>49,809</b>	<b>188,320</b>
<b>As at December 31 2005 (EUR '000s)</b>						
	< 1 month	1 - 3 months	3 - 12 months	1 - 5 years	> 5 years	Total
<b>Assets</b>						
Cash at Bank	6,298	-	-	-	-	6,298
Loans to and Receivables from financial institutions	161,390	-	-	-	-	161,390
Loans to and Receivables from customers	-	-	32,970	-	-	32,970
Trading Securities	384,580	-	14,996	146,085	-	545,661
Derivative (Long)	47,599	2,914	24,637	315,705	26,984	417,839
Financial assets at FVTPL	-	21,686	-	-	-	21,686
Reinsurance	-	-	-	-	-	0
Other Assets	6,614	4	1	4	-	6,623
<b>Total Assets</b>	<b>606,481</b>	<b>24,604</b>	<b>72,604</b>	<b>461,794</b>	<b>26,984</b>	<b>1,192,467</b>
<b>Liabilities</b>						
Trading Securities (Short)	190,863	5,078	14,995	6,916	-	217,852
Derivative (Short)	55,851	2,948	31,620	118,484	7,745	216,648
Loans from financial Institutions	368,490	23,706	34,979	566	-	427,741
Reinsurance	-	-	-	-	-	0
Other Liabilities	4,492	1	5	2	-	4,500
Debt Securities in issue	-	-	-	137,508	-	137,508
<b>Total Liabilities</b>	<b>619,696</b>	<b>31,733</b>	<b>81,599</b>	<b>263,476</b>	<b>7,745</b>	<b>1,004,249</b>
<b>Net liquidity gap</b>	<b>(13,215)</b>	<b>(7,129)</b>	<b>(8,995)</b>	<b>198,318</b>	<b>19,239</b>	<b>188,218</b>

**3.4 Currency Risk**

The table below shows the breakdown of the assets and liabilities by significant currency zone. Credit commitments include guarantees and other obligations given (see note 35) which represent irrevocable assurances that the Group will make payments to third parties in the event of a failure by the client or entity to meet its obligations.

**Currency Balance Sheet**

<b>As at December 31 2006 (EUR '000s)</b>	<b>EUR</b>	<b>USD</b>	<b>ASIA</b>	<b>OTHER</b>	<b>Total</b>
<b>Assets</b>					
Cash at Bank	(15,689)	69,495	3,494	(5,009)	52,291
Loans to and Receivables from financial institutions	825,302	35,623	0	0	860,925
Loans to and Receivables from customers	34,157	0	0	0	34,157
Trading Securities	1,063,748	13,801	175,853	121,400	1,374,802
Derivative (Long)	726,117	62,542	8,125	1,810	798,594
Financial assets at FVTPL	25,585	21,814	0	0	47,399
Reinsurance	10,069	0	0	0	10,069
Other Assets	5,478	57	102	244	5,881
<b>Total Assets</b>	<b>2,674,767</b>	<b>203,332</b>	<b>187,574</b>	<b>118,445</b>	<b>3,184,118</b>
<b>Liabilities</b>					
Trading Securities (Short)	1,016,289	6,887	0	0	1,023,176
Derivative (Short)	573,721	34,504	15,768	2,883	626,876
Loans from financial Institutions	745,793	345,047	19,189	61,886	1,171,915
Reinsurance	5,692	0	0	0	5,692
Other Liabilities	32,974	288	703	45	34,010
Debt Securities in issue	134,129	0	0	0	134,129
<b>Total Liabilities</b>	<b>2,508,598</b>	<b>386,726</b>	<b>35,660</b>	<b>64,814</b>	<b>2,995,798</b>
<b>Net on balance sheet position</b>	<b>166,169</b>	<b>(183,394)</b>	<b>151,914</b>	<b>53,631</b>	<b>188,320</b>
<b>Credit Commitments</b>	<b>-</b>	<b>45,650</b>	<b>10,088</b>	<b>-</b>	<b>55,738</b>

## **Nexgen Financial Holdings Limited**

### **Currency Balance Sheet**

**As at December 31 2005 (EUR '000s)**

	<b>EUR</b>	<b>USD</b>	<b>ASIA</b>	<b>OTHER</b>	<b>Total</b>
<b>Assets</b>					
Cash at Bank	18,903	(12,168)	7,178	(7,615)	6,298
Loans to and Receivables from Financial institutions	99,435	61,768	0	187	161,390
Loans to and Receivables from Customers	32,970	0	0	0	32,970
Trading Securities	357,036	13,596	104,626	70,403	545,661
Derivative (Long)	321,778	95,618	204	239	417,839
Financial assets at FVTPL	21,686	0	0	0	21,686
Reinsurance	0	0	0	0	0
Other Assets	5,255	1,150	189	29	6,623
<b>Total Assets</b>	<b>857,063</b>	<b>159,964</b>	<b>112,197</b>	<b>63,243</b>	<b>1,192,467</b>
<b>Liabilities</b>					
Trading Securities (Short)	208,728	9,124	0	0	217,852
Derivative (Short)	115,543	87,585	12,253	1,267	216,648
Loans from financial Institutions	355,654	71,616	0	471	427,741
Reinsurance	0	0	0	0	0
Other Liabilities	2,364	2,008	127	1	4,500
Debt Securities in issue	137,508	0	0	0	137,508
<b>Total Liabilities</b>	<b>819,797</b>	<b>170,333</b>	<b>12,380</b>	<b>1,739</b>	<b>1,004,249</b>
<b>Net on balance sheet position</b>	<b>37,266</b>	<b>(10,369)</b>	<b>99,817</b>	<b>61,504</b>	<b>188,218</b>
<b>Credit Commitments</b>	<b>-</b>	<b>50,678</b>	<b>19,474</b>	<b>-</b>	<b>70,152</b>

#### **4 Critical accounting estimates and judgments**

The Nexgen Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

##### **4.1 Fair value**

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are approved before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk, volatilities and correlations may require management to make estimates based on assumptions. Changes in assumptions about these factors could affect reported fair value of financial instruments.

##### **4.2 Income taxes**

The Nexgen Group is subject to income taxes in numerous jurisdictions. Estimates are required in determining the provision for income taxes in each jurisdiction of operation. The Nexgen Group recognises liabilities for anticipated tax issues based on estimates of taxes due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

#### **5 Transition to IFRS**

As set out in the basis of preparation, the financial information has been prepared in accordance with IFRS as endorsed by the E.U. Nexgen Group has availed of the transitional provisions for IAS 32 “Financial Instruments: Disclosure and Presentation”, IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 4 “Insurance Contracts” and has not presented comparative information in accordance with these standards.

A description of the main differences between Irish GAAP and IFRS policies as they have impacted the financial statements is explained below.

Reconciliations of the closing balance sheet under Irish GAAP and opening balance sheet under IFRS are set out below. A reconciliation of equity/reserves is included in note 28. The transition has not had a significant impact on the Nexgen Group.

#### **6 Significant Accounting Policy Differences between Irish GAAP and IFRS**

<b>Irish GAAP</b>	<b>IFRS</b>
<b><u>Presentation of the Profit and Loss Account</u></b>  In order to give a true and fair view of the activities of the entity, the directors applied a “true and fair override” and did not disclose turnover, cost of sales and gross profit separately due to the classifications having no meaningful equivalent in the context of the Nexgen Group’s business.	The Companies Act has been amended and classifications used in prior years are now consistent with the requirements of IAS 1. No changes have been made in the format of the primary statements. Additional notes have been included where applicable.

**Nexgen Financial Holdings Limited**

<p><b><u>Fair Value</u></b></p> <p>A “true and fair” override of the historic cost convention was applied in order to reflect the valuation of trading assets and liabilities at fair value.</p>	<p>IAS 39 is applicable to the trading assets and liabilities and other financial instruments transacted by the Nexgen Group. This requires that assets and liabilities held for trading, including derivatives be carried at fair value. Nexgen also makes use of the option within IAS 39 to carry assets and liabilities at fair value managed within a portfolio and reported on a fair value basis. Movements in fair value of such assets and liabilities are included in the profit and loss account. Those assets carried at fair value through profit and loss are disclosed separately on the face of the balance sheet.</p>
<p><b><u>Presentation of dividends and interest</u></b></p> <p>Dividends and interest received or receivable were not disclosed separately in the financial statements as the directors felt that they were components of operating income and to disclose separately would not be a fair reflection of the components of operating income.</p>	<p>Dividends and interest received / receivable are disclosed as part of note 10 (i).</p>
<p><b><u>Offsetting Financial instruments</u></b></p> <p>Financial assets and liabilities were not offset in the financial statements.</p>	<p>Financial assets and liabilities are offset and the net amount reported in the balance sheet if two conditions are fulfilled:</p> <ul style="list-style-type: none"> <li>- there is a legally enforceable right to set off the recognised amounts, and</li> <li>- there is an intention to settle on a net basis, or to realise an asset and settle the liability simultaneously.</li> </ul> <p>This has not impacted the financial statements.</p>
<p><b><u>Reinsurance</u></b></p> <p>There were no significant reinsurance transactions open as at the end of the prior year.</p>	<p>The Nexgen Group has applied IFRS 4 to all new reinsurance business. As part of this adoption Nexgen has chosen to avail of the option to separate embedded financial derivatives from the underlying insurance contract for valuation purposes.</p>

The policy changes did not impact opening equity in 2005 or 2006.

**7 Reconciliation of 2005 Profit & Loss Account from Irish GAAP to IFRS:**

	31 December 05 IRISH GAAP EUR'000	Reclassifications EUR'000	To Equity EUR'000	31 December 05 IFRS EUR'000
Operating Income (previous)	22,811	(22,811)	-	-
Interest income	-	1,045	-	1,045
Interest expense	-	(1,490)	-	(1,490)
Net interest income / (expense)	-	(445)	-	(445)
Net trading income	-	22,541	-	22,541
Net reinsurance income	-	497	-	497
Net income from financial instruments held AFVTPL*	-	218	-	218
Operating income (new)	-	23,256	-	23,256
Operating expenses	(19,121)	-	-	(19,121)
Profit on ordinary activities before taxation	3,690	-	-	3,690
Taxation	(842)	-	-	(842)
Profit realised for the financial year	<u>2,848</u>	<u>-</u>	<u>-</u>	<u>2,848</u>

**8 Reconciliation of Opening 2006 Balance Sheet from Irish GAAP to IFRS:**

	31 December 05 IRISH GAAP EUR'000	Reclassifications EUR'000	To Equity EUR'000	31 December 05 IFRS EUR'000
<b>Assets</b>				
Cash at Bank and in hand	6,298	-	-	6,298
Loans to and receivables from financial institutions	161,390	-	-	161,390
Loans to and receivables from customers	-	32,970	-	32,970
Trading securities – long positions	578,631	(32,970)	-	545,661
Derivative financial instruments – long positions	439,525	(21,686)	-	417,839
Financial assets designated AFVTPL*	-	21,686	-	21,686
Other debtors	3,324	-	-	3,324
Deferred Corporation Tax asset	71	-	-	71
Current Corporation Tax asset	2,440	-	-	2,440
Tangible fixed assets	788	-	-	788
<b>Total Assets</b>	<b>1,192,467</b>	<b>-</b>	<b>-</b>	<b>1,192,467</b>
<b>Liabilities</b>				
Trading securities – short positions	217,852	-	-	217,852
Derivative financial instruments – short positions	216,648	-	-	216,648
Loans from financial institutions	427,741	-	-	427,741
Creditors	4,500	-	-	4,500
Debt securities in issue	137,508	-	-	137,508
<b>Total Liabilities</b>	<b>1,004,249</b>	<b>-</b>	<b>-</b>	<b>1,004,249</b>
<b>Net Assets</b>	<b>188,218</b>	<b>-</b>	<b>-</b>	<b>188,218</b>
<b>Capital and reserves</b>				
Called up share capital	1,572	-	-	1,572
Share premium	158,479	-	-	158,479
Profit and loss account	28,092	-	-	28,092
Other reserves	75	-	-	75
<b>Equity shareholders' funds</b>	<b>188,218</b>	<b>-</b>	<b>-</b>	<b>188,218</b>
<b>Total shareholders' funds</b>	<b>188,218</b>	<b>-</b>	<b>-</b>	<b>188,218</b>

\*at fair value through profit or loss

**9 Companies consolidated in the Nexgen Group Financial Statements**

Nexgen Financial Holdings Limited	% Interest	% Interest	Amount of Investment	Country of incorporation and principal area of operation	Nature of Business
	31 December 2006	31 December 2005			
Nexgen Re Limited	100%	100%	EUR5,001,000	Ireland	Reinsurance
Universe Holdings Limited	100%	100%	EUR1,319,224	Cayman Islands	Financial Structures
Nexgen Mauritius Limited	100%	100%	USD2	Mauritius	Dormant
Nexgen Capital Limited	100%	100%	EUR145,618,402	Ireland	Financial Structures
Nexgen Financial Solutions Limited	100%	100%	EUR5,135,000	Ireland	Financial Structuring
Nexgen Financial Solutions (Asia) Pte Limited*	100%	100%	NIL	Singapore	Financial Structuring
Mango CDO Limited **	100%	100%	NIL	Jersey	SPV
Lime CDO Limited **	100%	100%	NIL	Jersey	SPV
Guava CDO Limited**	100%	100%	NIL	Jersey	SPV
Lime 2 CDO Limited**	-	100%	NIL***	Jersey	SPV
Papaya CDO Limited**	-	100%	NIL***	Jersey	SPV
Papaya 2 CDO Limited**	-	100%	NIL***	Jersey	SPV

\* Indirect holdings

\*\* Collateralized debt obligations

\*\*\* Lime 2 CDO Limited, Papaya and Papaya 2 CDO Limited were unwound during the period.

<b>10 (i) Net trading income</b>	Year ended 31 December	Year ended 31 December
<b>Group:</b>	2006	2005
	EUR'000	EUR'000
Net trading income comprises:		
- European Union client transactions	76,451	22,961
- Non European Union client transactions	24,115	6,630
- Residual positions management	(2,204)	(1,933)
- Remuneration own funds	6,170	6,991
- Collateralised debt obligations	17,051	(11,758)
- Other income	274	550
- Transaction related professional fees	(1,432)	(900)
	120,425	22,541

The net trading income includes net dividend income of €3,481k (2005: €3,412k)

**10 (ii) Net reinsurance income**

- Premium income	10,558	497
- Movement in technical reserves	(5,692)	-
- Fee related to reinsurance business	-	-
	4,866	497

**10 (iii) At Fair value through P&L**

- Loans and advances linked to and/or collateralised by equities	911	218
	911	218

**10 (iv) Financial instruments measured at fair value using a valuation technique**

The total amount of the change in fair value estimated using a valuation technique that was recognized in profit or loss during the period is a loss of €90.052m. (2005: a profit of €306.686m). Transactions valued using valuation techniques are those derivative, securities with embedded derivatives and assets carried at fair value through profit and loss that are not valued directly from independent market quotes and therefore rely on some element of modeling. All models used are market standard models applied to observable inputs.

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**Nexgen Financial Holdings Limited**

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<b>11 Operating expenses</b>	Year ended 31 December 2006 EUR'000	Year ended 31 December 2005 EUR'000
<b>Group:</b>		
Operating expenses comprises:		
Staff Costs	37,508	11,528
Auditors' remuneration	170	160
Depreciation	325	311
Other administrative expenses		
- Professional fees	3,387	2,311
- Non Executive directors fees	242	521
- Travel and Subsistence	1,190	858
- Rent and Office expenses	1,915	1,385
- Data Information and Research	596	574
- Other administrative expenses	1,616	1,472
	<u>46,949</u>	<u>19,120</u>
Staff costs comprise:		
Wages and salaries	29,955	7,759
Social welfare costs	5,088	1,587
Pension costs	1,020	945
Other staff costs	<u>1,445</u>	<u>1,237</u>
	<u>37,508</u>	<u>11,528</u>
Directors' emoluments	1,074	1,218

The number of persons employed by the Group at 31 December 2006 was 90 (31 December 2005: 68).

## Nexgen Financial Holdings Limited

### 12 Taxation

	Year ended 31 December 2006 EUR'000	Year ended 31 December 2006 EUR'000
<b>Group:</b>		
Corporation tax charge/(credit) for the period	12,539	(1,249)
(Increase)/decrease in deferred tax asset	198	2,091
	<u>12,737</u>	<u>842</u>
<b>Movement in deferred tax on the Balance Sheet</b>	Deferred Tax 31 Dec 2006 EUR'000	Deferred Tax 31 Dec 2005 EUR'000
At 1 January 2006	(71)	(2,156)
Charged to the profit and loss account	198	2,091
Utilised during the period	9	(6)
At 31 December 2006	<u>136</u>	<u>(71)</u>
	31 December 2006 EUR'000	31 December 2005 EUR'000
Profit on ordinary activities before taxation	79,179	3,690
Profit on ordinary activities multiplied by the standard rate of corporation tax in Ireland of 12.5% (2005: 12.5%)	9,898	461
Passive income at 25%	30	6
Disallowed expenses	7	52
Adjustment in respect of previous years	17	174
Differences due to foreign tax	2,797	179
Capital allowances in excess of depreciation	(12)	(30)
	<u>12,737</u>	<u>842</u>

## Nexgen Financial Holdings Limited

<b>13 Tangible fixed assets</b>	<b>Computer Equipment</b> EUR'000	<b>Office Equipment</b> EUR'000	<b>Computer Software</b> EUR'000	<b>Other Assets</b> EUR'000	<b>Total</b> EUR'000
<b>Cost</b>					
At 31 December 2005	1,113	931	514	31	2,589
Additions	270	77	42		389
Disposals		(19)			(19)
fx gains/losses					
At 31 Dec 2006	<u>1,383</u>	<u>989</u>	<u>556</u>	<u>31</u>	<u>2,959</u>
<b>Accumulated Depreciation</b>					
At 31 December 2005	789	540	464	8	1,801
Charge for the period	193	87	35	10	325
Disposals		(6)			(6)
fx gains/losses	(5)	(5)	-	-	(10)
At 31 Dec 2006	<u>977</u>	<u>616</u>	<u>499</u>	<u>18</u>	<u>2,110</u>
<b>Net Book Value</b>					
At 31 December 2005	<u>324</u>	<u>391</u>	<u>50</u>	<u>23</u>	<u>788</u>
At 31 Dec 2006	<u>406</u>	<u>373</u>	<u>57</u>	<u>13</u>	<u>849</u>
<b>14 Loans to and receivables from Financial institutions</b>					
			31 December 2006	31 December 2005	
			EUR'000	EUR'000	
<b>Amounts falling due within one year</b>					
<b>Group:</b>					
- unsecured			47	51	
- collateralised			860,878	161,339	
			<u>860,925</u>	<u>161,390</u>	
<b>Company</b>					
- unsecured			4,909	1,075	
			<u>4,909</u>	<u>1,075</u>	
<b>Amounts include:</b>					
- due from related parties			<u>782,908</u>	<u>87,314</u>	
<b>15 Loans to and receivables from Customers</b>					
			31 December 2006	31 December 2005	
			EUR'000	EUR'000	
<b>Amounts falling due within one year</b>					
- collateralised			34,157	32,970	
			<u>34,157</u>	<u>32,970</u>	

## **Nexgen Financial Holdings Limited**

<b>16 Trading securities – long positions</b>	31 December 2006 EUR'000	31 December 2005 EUR'000
<b>Shares:</b>		
- listed	723,389	133,303
<b>Bonds and convertibles</b>		
- listed and/or indexed to listed shares	125,093	245,936
- collateralised debt obligations	51,958	67,555
- government bonds	213,696	-
- corporate bonds – unlisted	260,666	98,867
	<u>1,374,802</u>	<u>545,661</u>
<b>17 Derivative financial instruments – long positions</b>	31 December 2006 EUR'000	31 December 2005 EUR'000
<b>Analysed by categories of counterparty:</b>		
- financial institutions	484,168	152,108
- other institutions	314,426	265,731
	<u>798,594</u>	<u>417,839</u>
<b>Analysed by maturity:</b>		
less than 1 year	345,022	53,913
between 1 and 5 years	446,398	336,942
greater than 5 years	7,174	26,984
	<u>798,594</u>	<u>417,839</u>
<b>Amounts include:</b>		
- due from related parties	413,923	111,635
<b>18 Financial assets designated at Fair value through Profit or Loss</b>	31 December 2006 EUR'000	31 December 2005 EUR'000
<b>Amounts falling due within one year</b>		
- collateralised	21,814	-
<b>Amounts falling due after one year</b>		
- collateralised	25,585	21,686
	<u>47,399</u>	<u>21,686</u>

## Nexgen Financial Holdings Limited

19 Debtors	31 December 2006 EUR'000	31 December 2005 EUR'000
<b>Group</b>		
<b>Amounts falling due within one year</b>		
Deferred tax asset	-	71
Other debtors	4,767	3,061
Corporation tax recoverable	-	2,440
	<u>4,767</u>	<u>5,572</u>
<b>Amounts falling due after one year</b>		
Other debtors and advances	265	263
	<u>5,032</u>	<u>5,835</u>
<b>20 Trading securities – short positions</b>		
	31 December 2006 EUR'000	31 December 2005 EUR'000
<b>Shares</b>		
- listed	708,804	205,528
<b>Bonds and convertibles</b>		
- government bonds	260,666	-
<b>Sold listed options</b>		
	53,706	12,324
	<u>1,023,176</u>	<u>217,852</u>
<b>21 Derivative financial instruments – short positions</b>		
	31 December 2006 EUR'000	31 December 2005 EUR'000
<b>Analysed by categories of counterparty:</b>		
- financial institutions	518,215	122,417
- other institutions	108,661	94,231
	<u>626,876</u>	<u>216,648</u>
<b>Analysed by maturity:</b>		
less than 1 year	148,785	46,785
between 1 and 5 years	457,731	158,071
greater than 5 years	20,360	11,792
	<u>626,876</u>	<u>216,648</u>
<b>Amounts include:</b>		
- due to related parties	451,620	46,730
<b>22 Loans from financial institutions</b>		
	31 December 2006 EUR'000	31 December 2005 EUR'000
<b>Amounts falling due within one year:</b>		
- unsecured	1,072,022	104,590
- collateralised loans	99,894	323,151
	<u>1,171,915</u>	<u>427,741</u>
<b>Amounts include:</b>		
- due to related parties	1,148,080	348,387

## Nexgen Financial Holdings Limited

23 Creditors	31 December 2006 EUR'000	31 December 2005 EUR'000
<b>Group:</b>		
Accruals	27,712	2,668
Other creditors	3,922	1,832
Provisions for deferred tax	136	-
Corporation tax due	2,240	-
	<u>34,010</u>	<u>4,500</u>
<b>Company:</b>		
Corporation tax due	8	7
Due to group undertakings	177	325
	<u>185</u>	<u>332</u>
<b>24 Debt securities in issue</b>		
	31 December 2006 EUR'000	31 December 2005 EUR'000
Debt securities in issue repayable:		
Less than one year	<u>134,129</u>	<u>137,508</u>

Debt securities in issue at 31<sup>st</sup> December 2006 are equity linked notes which have been issued to the subscriber in 3 tranches maturing at the end of 2007. This instrument contains both a liability and a third party equity linked component. It also has a knock out feature which automatically redeems the note when the price of the underlying equity reaches a certain level.

## 25 Financial Instruments

Dealing in derivative financial instruments forms a fundamental part of the Group's activities. Accordingly, the Group has a number of interest rate swaps, equity swaps, equity forwards, equity options, equity index futures and foreign exchange spot and forward contracts and credit default swap contracts at 31 December 2006. Gains and losses arising on marking these financial instruments to market are included in dealing profits in accordance with the Group's accounting policies.

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

	<b>31 December 2006</b>		
	Notional Amount EUR'000	Fair Value Asset EUR'000	Fair Value Liability EUR'000
Interest rate contracts	6,610,415	42,481	264,798
Foreign Exchange contracts	227,168	288	8,270
Equity contracts	5,702,643	698,605	315,004
Credit Derivative contracts	19,444,033	57,220	38,804
Total contracts	<u>31,984,259</u>	<u>798,594</u>	<u>626,876</u>

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**Nexgen Financial Holdings Limited**

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**31 December 2005**

	Notional Amount	Fair Value Asset	Fair Value Liability
	EUR'000	EUR'000	EUR'000
Interest rate contracts	1,237,484	7,106	19,811
Foreign Exchange contracts	265,129	1,092	11,606
Equity contracts	1,837,335	316,338	125,985
Credit Derivative contracts	11,441,130	93,303	59,246
	<u>14,781,078</u>	<u>417,839</u>	<u>216,648</u>

**26 Ordinary Share Capital**

During the first quarter of the year a restructuring of the share capital of the Company took place to coincide with the acquisition of Nexgen by IXIS CIB. This involved the redemption of the USD denominated capital and premium and the issuance of EUR denominated capital and premium.

**Authorised as at 31 December 2006:**

Ordinary shares of EUR 1 each	100,000,000
	<u>100,000,000</u>

**Issued as at 31 December 2006**

Ordinary shares of EUR 1 each	100,000,000
	<u>100,000,000</u>

*(Comparative in USD)*

**Authorised as at 31 December 2005:**

Ordinary shares of USD0.01 each	6,000
Founders shares of USD0.01 each	3
	<u>6,003</u>

**Issued as at 31 December 2005**

Ordinary shares of USD0.01 each	1,860
Founders shares of USD0.01 each	1
	<u>1,861</u>

Note – USD1,861 equates to EUR1,572 using the closing rate for 2005.

**27 Warrants**

The Company has authorised the issue of such number of warrants as would, if exercised, and constitute 8.25% of the Company's capital.

As at 31<sup>st</sup> December, 2006, 6,500,000 such warrants had been issued to certain members of senior management to subscribe in cash for Ordinary Shares in the capital of the Company (one Ordinary Share for each warrant held). The warrants may be exercised on 31<sup>st</sup> December, 2008, at a price of EUR€1 each. All warrants not exercised on that date will immediately lapse.

## Nexgen Financial Holdings Limited

### 28 Reserves

Group	Share Premium Account EUR '000	Currency Translation Reserves EUR '000	Profit and Loss Account EUR '000	Total EUR '000
At 1 January 2006	158,479	75	28,092	186,646
Redemption of USD shares	(158,479)	-	-	(158,479)
Issue of EUR shares	60,051	-	-	60,051
Profit retained for the year	-	-	66,442	66,442
Dividend paid to parent company	-	-	(67,000)	(67,000)
Currency translation difference on foreign currency net investments	-	(23)	-	(23)
At 31 December 2006	60,051	52	27,534	87,637

Company	Share Premium Account EUR '000	Other Reserves EUR '000	Profit and Loss Account EUR '000	Total EUR '000
At 1 January 2006	158,479	-	(886)	157,593
Redemption of USD shares	(158,479)	-	-	(158,479)
Issue of EUR shares	60,051	-	-	60,051
Profit retained for the year	-	-	69,020	69,020
Dividend paid to parent company	-	-	(67,000)	(67,000)
At 31 December 2006	60,051	-	1,134	61,185

### 29 Foreign Exchange translation reserve

	31 December 2006 EUR'000	31 December 2005 EUR'000
At beginning of period	75	94
Exchange translation adjustment during the period	(23)	(19)
At end of period	52	75

### 30 Reconciliation of movement in number of issued shares

	Ordinary	Founder
Opening number of shares (USD denominated) 1 <sup>st</sup> Jan 2006	186,023,810	120,678
Redemption of shares (USD denominated)	(186,023,810)	(120,678)
Issue of shares (EUR denominated)	100,000,000	-
Closing number of shares (EUR denominated) 31 <sup>st</sup> Dec 2006	100,000,000	-

**31 Dividends Proposed and Paid**

The Company paid a dividend of EUR 67m to its parent during the year (2005: Nil).

**32 (i) Reinsurance – assets**

	Year ended 31 December 2006 EUR'000	Year ended 31 December 2005 EUR'000
Premium receivable	10,069	-
	<hr/> 10,069 <hr/>	<hr/> - <hr/>

**32 (ii) Reinsurance – liabilities**

	Year ended 31 December 2006 EUR'000	Year ended 31 December 2005 EUR'000
Technical provision for mortality related losses	1,762	
Technical provision for market risk related losses	3,930	-
	<hr/> 5,692 <hr/>	<hr/> - <hr/>

**33 Related Party Transactions**

The Group has carried out a number of transactions during the year with IXIS CIB, La Compagnie 1818, part of the same group as IXIS CIB and Caisse d'Epargne Ile de France Ouest.

All of the transactions with the shareholders of the Group and its affiliates 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.

There is a transfer pricing mechanism in place within the group to allocate revenue to the appropriate jurisdiction.

Details of the amounts due to and from related parties by Group companies at 31 December 2006 are disclosed in the relevant notes above. (See notes 14,17,21,22).

**34 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 amount of the guarantee as at 31 December 2006 was EUR 0.2m.

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 EUR 45.65m revolving facility granted by UOB to Nexgen Capital Limited. Nil was utilised as at 31 December 2006.

The Company issued a letter of undertaking on 6 October 2006 to the Monetary Authority of Singapore (MAS) in respect of all present and future obligations of its indirect 100% subsidiary Nexgen Financial Solutions (Asia) Pte Ltd ("NFSA"). The maximum amount of the undertaking is SGD\$20m.

There were no other commitments or guarantees at 31 December 2006.

**35 Off Balance Sheet Collateral & Pledges***Securities Borrowing and Lending, Repurchase and Reverse Repurchase Agreements*

The Group enters into collateralized reverse repurchase and repurchase agreements and securities borrowing and securities lending transactions that may result in credit exposure in the event that the counterparty to the transaction is unable to fulfil its contractual obligations. The Group controls credit risk associated with these activities by monitoring counterparty credit exposure and collateral values on a daily basis and requiring additional collateral to be deposited with or returned when deemed necessary.

Assets sold / lent subject to repurchase agreements

	31 December 2006 EUR 000	31 December 2005 EUR 000
Fair value of securities lent which can be sold or repledged:	91,297	291,063
Fair value of securities lent which cannot be sold or repledged:	-	-
Value of collateral taken:	<u>91,327</u>	<u>307,564</u>

Liabilities covered by reverse repurchase or stock borrow agreements

	31 December 2006 EUR 000	31 December 2005 EUR 000
Fair value of securities borrowed which can be sold or repledged:	1,002,831	206,098
Fair value of securities borrowed which cannot be sold or repledged	-	-
Value of collateral placed	<u>782,908</u>	<u>87,314</u>

*Other Pledged securities*

The company has also entered into a number of transactions with counterparties who have pledged securities to the Group in a third party bank account as security for the transaction, usually through share forward agreements. These shares cannot be sold or re-pledged.

31<sup>st</sup> December 2006 EUR '000Fair Value of shares pledged to Group under share forward agreements: EUR 548,89431<sup>st</sup> December 2005 EUR '000Fair Value of shares pledged to Group under share forward agreements: EUR 362,721

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## **Nexgen Financial Holdings Limited**

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### **36 Cash and Cash Equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances:

	Year ended 31 December 2006 EUR'000	Year ended 31 December 2005 EUR'000
<b>Group</b>		
Cash and balances with Central Banks	52,291	6,298
Loans to and receivables from financial institutions (with an original maturity of less than 3 months)	859,568	161,390
	<u>911,859</u>	<u>167,688</u>
<b>Company</b>		
Cash and balances with Central Banks	71	50
Loans to and receivables from financial institutions (with an original maturity of less than 3 months)	4,909	1,075
	<u>4,980</u>	<u>1,125</u>

### **37 Ultimate Holding Company**

The Company is a 100% subsidiary of IXIS Corporate and Investment Bank, which is a 100% subsidiary of NATIXIS, a bank listed on the Bourse de Paris, France.

### **38 Approval of Financial Statements**

The directors approved the 2006 Financial Statements on 21 February 2007.