

Nexgen Re Limited
Directors' Report and Financial Statements
For the year ended 31 December 2006

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COMPANY PROFILE

Nexgen Re Ltd (NRL, 'the Company'), an Irish incorporated company, is the reinsurance company of the Nexgen Group, which trades as Nexgen Financial Solutions Group ('Nexgen' or 'the Nexgen Group'). As of 1st January 2006, Nexgen Re became an indirect 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.

NRL undertakes reinsurance transactions. NRL's role within the Group is to act as a principal for the client solutions involving reinsurance. It manages risk by retrocession of reinsurance risks to other reinsurers or hedging capital markets risks to Nexgen Capital Ltd (NCL), a sister company in the Nexgen Group.

The solutions offered to clients whose business is that of writing insurance or reinsurance include non life and life reinsurance.

Transactions entered into by NRL are sourced and structured by Natixis Corporate Solutions Limited ("NCSL"), an Irish incorporated company authorised by Financial Regulator¹ under the Investment Intermediaries Act, 1995.

Nexgen Re Ltd is regulated by the Financial Regulator under the transitional provisions of the Statutory Instrument implementing the "EUROPEAN COMMUNITIES (REINSURANCE) REGULATIONS 2006". The regulations are to be implemented in full by 10th December 2007.

¹ "Financial Regulator" is the operating name of the Irish Financial Services Regulatory Authority.

DIRECTORS

Board of Directors as at 31 December 2006

| | | | |
|-------------------|---------------|----------|--------|
| Mr John Donnelly | Non-Executive | Chairman | Irish |
| Mr Peter Blessing | Non-Executive | | Irish |
| Mr Jean Terren | Executive | | French |
| Mr Jerome Biet | Executive | | French |
| Mr Francois Robey | Executive | | French |
| Mr Xavier Daudin | Executive | | 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
Mr André Rolland
Mr Luc Giraud
Mr Ravi Viswanathan

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

Mr Jean Terren
Mr Jerome Biet
Mr Francois Robey
Mr Xavier Daudin

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

336440

External Auditors

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
One Spencer Dock
North Wall Quay
Dublin 1
Ireland

Internal Auditors

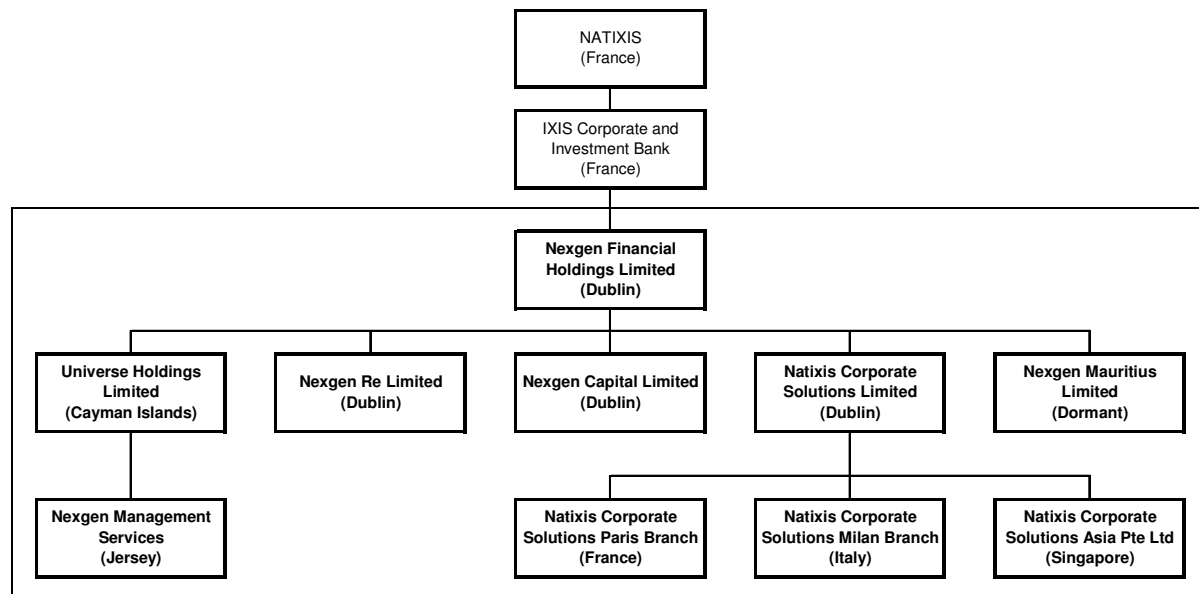
Deloitte
Deloitte & Touche House
Earlsfort Terrace
Dublin 2
Ireland

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 Natixis Corporate Solutions Ltd to Nexgen Financial Holdings Ltd.

As part of the integration within NATIXIS, Nexgen Financial Solutions Ltd was renamed NATIXIS Corporate Solutions Limited on 14th March 2007 and Nexgen Financial Solutions (Asia) Pty Ltd was renamed NATIXIS Corporate Solutions (Asia) Pte Ltd on 3rd April 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 the 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 the NATIXIS organisational structure.

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 specifics 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 also considers the effectiveness of application of the policies and controls. 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 4.

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.

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.

Management considers each risk undertaken and ascribes that risk to the most suitable entity in order to effect the appropriate transaction.

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 methodologies is part of this process.

COMPLIANCE AND INTERNAL CONTROL

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

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

INSURANCE and FINANCIAL RISKS

Reinsurance Risks

The Company has entered into a 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 to Nexgen Capital Ltd which manages the capital market portfolio.

The Company remains subject to insurance risk for those reinsurance transactions. As at 31st December 2006, the Group had open mortality risk on a Guaranteed Mortality Death Benefit contract. A claims reserve of €1.8m was held in respect of this as at 31st 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.

The Company engages in retrocession contracts with fellow reinsurance entities where applicable in order to mitigate insurance risk.

Credit Risk - Credit Derivatives

The Structured Credit / CDO portfolio includes equity pieces and mezzanine pieces of synthetic CDOs which are hedged with credit default swaps. All exposures are monitored daily and hedges are adjusted based on movements in spreads and correlations within the CDO reference obligation pool. Hedge quantity is calculated using internal models based on market accepted modelling techniques. The global position is protected against extreme scenarios where spreads either tighten or widen abruptly.

Two VaR indicators are used to monitor this activity. The Default VaR captures the impact of unexpected immediate defaults on the Company P&L. Defaults are simulated using probabilities of default implied from credit default swap spreads and correlations between underlying names implied from equity markets. The Spreads VaR captures the impact of adverse credit market spreads behaviour on the Company P&L. Spread variations are simulated using both historical volatilities and correlations. Both indicators are measured over a 90-day holding period, at a 99% confidence level and are subject to independent limits.

| | | |
|-------------|-----------------------------------|-------------------------------------|
| VaR Default | 2006: €7.2m (Group limit: €29.5m) | (2005: \$9.1m (Group limit: \$30m)) |
| VaR Spreads | 2006: €0.05m (Group limit: €8.5m) | (2005: \$0.2m (Group limit: \$10m)) |

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 Re Ltd for the year ended 31 December 2006. The comparative figures are for the year to 31 December 2005 (restated in Euro at a rate of EUR/USD 1.18395).

The Company's parent, Nexgen Financial Holdings Limited, became a wholly-owned subsidiary of IXIS CIB, now a subsidiary of NATIXIS, on 1st January 2006 at which date effective control passed. The take over of the Nexgen 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 31st December 2005.

The Company 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

Nexgen Re Ltd net income in 2006 was €61.6m (2005: €6.1m), which includes a gain on the disposal of the Company's two subsidiaries of €45.2m.

Two new **reinsurance** transactions were executed in the latter part of the year compared to 1 transaction in the previous year. These deals generated total income of €4.9m (2005: €0.5m).

The **CDO's / Credit Derivatives** business was focused towards matching existing exposures and decreasing the risk on the portfolio. The risk left at the end of the year was not significant. There was a loss for the year of €(1.8)m (2005: loss of €(0.007)m).

General and resources

During 2006, staff numbers increased by 3 to 14 (2005: 11).

Corporate Structure

There was a change to the Nexgen Group's Corporate Structure (refer to Chart on page 6). 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.

Dividends

Nexgen Re paid a dividend of €69.075m to Nexgen Financial Holdings Ltd during the year (2005: nil).

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

The net income for 2006 was €61.6m (2005: €6.6m).

Most of the income was derived from the disposal of two subsidiaries during the year which realised a profit of €45.2m. The Company also received dividend payments from these subsidiaries prior to their disposal of €20.5m (2005: €4.2m).

Net reinsurance income was €4.9m (2005: €0.5m).

Net trading income incurred a loss of €(5.4)m (2005: loss of €0.4m), see note 10 (iii) for more details.

Total expenses in 2006 were €4.5m (2005: €4.7m). The decrease is due to higher bonus payments in the previous year (bonus payments are paid in arrears in the year following the period in which they were made). Other

administrative expenses were €2m (2005: €2.1m), due mainly to a decrease in professional fees and a decrease in Non Executive Directors fees following the IXIS takeover of the Nexgen Group.

There was a tax credit of €0.6m (2005: tax credit of €0.3m). The average rate of tax was -1% (2005: -15.5%).

The profit for the year after tax credit but before dividends was €61.7m compared to €2.1m for the year 2005.

The Directors proposed a dividend of €69.075m to be paid to Nexgen Financial Holdings in 2006. This was paid prior to the end of the year.

Balance sheet

The total assets as at 31 December 2006 were €18.4m (31 December 2005: €173.1m).

This decrease is due to the sale of the Company's two subsidiaries, Nexgen Capital Ltd and Natixis Corporate Solutions Ltd to its parent, Nexgen Financial Holdings Ltd

Total Shareholders Equity at 31 December 2006 was €7m compared to €166.5m at the end of 2005. This is due to a distribution of capital contribution of €152.1 to the Company's parent, Nexgen Financial Holdings Ltd, and the net profit retained 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 4).

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 have been no major changes 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.

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 10th December 2007.

Outlook for 2007

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

The range of products offered will focus on the further development of reinsurance based financial solutions for clients within the insurance industry in both life and non life sectors.

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.

Directors

The names of the persons who were directors at any time during the year ended 31 December 2006 are set out on page 4.

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 | |
| Jean Terren | - | | 2,500 | Founders Shares |
| | - | | - | Ordinary shares |
| Francois Robey | - | | 9,496 | Founders Shares |
| | - | | 420,000 | Ordinary shares |
| Xavier Daudin | - | | 3,088 | Founders Shares |
| | - | | - | Ordinary shares |
| Nicola O'Connell (Company Secretary) | - | | 400 | Founders Shares |

At 31 December 2006, the directors listed below held the following warrants to subscribe for ordinary shares in the Company's parent, Nexgen Financial Holdings Ltd.

| | Number of Warrants | | |
|--------------------------|--------------------|--------------------------------|--------------------|
| | Number | Maturity date | Subscription Price |
| <u>31 December 2006:</u> | | | |
| Francois Robey | 1,176,500 | 31st December 2008 | EUR 1.00 |
| Xavier Daudin | 750,000 | 31st December 2008 | EUR 1.00 |
| Jerome Biet | 750,000 | 31st December 2008 | EUR 1.00 |
| <u>31 December 2005:</u> | | | |
| Francois Robey | 480,864 | 11 th December 2009 | USD 1.50 |
| | 898,367 | 11 th December 2009 | USD 2.50 |
| Xavier Daudin | 88,617 | 11 th December 2009 | USD 1.50 |
| | 165,558 | 11 th December 2009 | USD 2.50 |

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

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:

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

John Donnelly
Chairman

Xavier Daudin
Executive Director

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 of the profit or loss 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

John Donnelly
Chairman

Xavier Daudin
Executive Director

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NEXGEN RE LIMITED

We have audited the financial statements (the "financial statements") of Nexgen Re Limited for the year ended 31 December 2006 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the 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 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 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 an 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 company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2006 and of its profit 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 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 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

2 July 2007

INCOME STATEMENT**Year ended 31 December 2006**

| | Notes | Year ended 31 December 2006 EUR'000 | Year ended 31 December 2005 EUR'000 |
|---|----------|--|--|
| Insurance premium revenue | 10 (i) | 9,832 | - |
| Net insurance premium revenue | | 9,832 | - |
| Other reinsurance income | 10 (ii) | 737 | 497 |
| Net trading income/(expense) | 10 (iii) | (5,379) | (397) |
| Investment income | 10 (iv) | 20,990 | 6,455 |
| Profit on disposal of subsidiaries | 10 (v) | 45,215 | - |
| Net Income | | 61,563 | 6,555 |
| Gross change in technical provisions | 10 (vi) | (5,692) | - |
| Net insurance benefits and claims | | (5,692) | - |
| Expenses for marketing and administration | | (2,767) | (2,787) |
| Other operating expenses | | (1,734) | (1,887) |
| Expenses | 11 (i) | (4,501) | (4,674) |
| Finance costs | 11 (ii) | (28) | (84) |
| Profit before tax | | 61,174 | 1,797 |
| Income tax credit/(expense) | 13 | 568 | 267 |
| Profit for the year | | 61,742 | 2,064 |
| Attributable to: | | | |
| Equity holders of the Company | | 61,742 | 2,064 |

On behalf of the Board

John Donnelly
Chairman

Xavier Daudin
Executive Director

STATEMENT OF CHANGES IN EQUITY

| Year ended 31 December 2006 | Year ended 31 December 2006 EUR'000 | Year ended 31 December 2005 EUR'000 |
|---|--|--|
| Profit attributable to equity shareholders | 61,742 | 2,064 |
| Foreign exchange conversion reserve | (41) | - |
| Distribution of Capital Contribution | (152,052) | - |
| Dividend paid to parent company during the year | 25 (69,075) | - |
| Movement in shareholder's funds | (159,426) | 2,064 |
| Balance at the beginning of the year | 166,453 | 164,389 |
| Balance at the end of the year | <u>7,027</u> | <u>166,453</u> |

BALANCE SHEET

| | Notes | 31 December 2006 EUR'000 | 31 December 2005 EUR'000 |
|--|---------|--------------------------------|--------------------------------|
| ASSETS | | | |
| Investments in group undertakings and participating interests | 14 | - | 105,579 |
| Other financial investments | 15 | - | 8,198 |
| Cash and cash equivalents | 28 | 4,918 | 56,018 |
| Unearned Reinsurance Premiums | 26 (i) | 10,069 | - |
| Loans and receivables | 16 | 484 | 753 |
| Corporation Tax asset | 16 | 2,639 | 2,335 |
| Property, plant and equipment | 17 | 293 | 263 |
| Total assets | | <u>18,403</u> | <u>173,146</u> |
| Liabilities | | | |
| Loans from financial institutions | 18 | - | 2,694 |
| Other financial liabilities | 19 | 4,803 | 3,242 |
| Reinsurance Liabilities | 26 (ii) | 5,692 | - |
| Creditors | 20 | 881 | 756 |
| Total liabilities | | <u>11,376</u> | <u>6,692</u> |
| Capital and reserves attributable to the Company's equity holders | | | |
| Called up share capital | 21 | 1 | 1 |
| Share Premium | 22 | 844 | 844 |
| Capital contribution | 23 | 4,155 | 156,208 |
| Other reserves | 22 | (41) | - |
| Profit and Loss Account | 22 | 2,068 | 9,401 |
| Total equity | | <u>7,027</u> | <u>166,454</u> |
| Total liabilities and equity | | <u>18,403</u> | <u>173,146</u> |

On behalf of the Board

John Donnelly
Chairman

Xavier Daudin
Executive Director

CASH FLOW STATEMENT

| | | Year ended 31 December 2006 | Year ended 31 December 2005 |
|--|--------------|-----------------------------------|-----------------------------------|
| | <i>Notes</i> | EUR'000 | EUR'000 |
| Cash generated from operations | 29 | 22,138 | 23,763 |
| Interest paid | | (28) | (83) |
| Income tax paid | | (3) | (1,766) |
| Net cash from operating activities | | 22,107 | 21,914 |
| Cash flows from investing activities | | | |
| Proceeds from sale of subsidiaries | | 150,793 | - |
| Purchases of property, plant and equipment | 17 | (177) | (259) |
| Net cash used in investing activities | | 150,616 | (259) |
| Cash flows from financing activities | | | |
| Repayments of borrowings | | (2,694) | (1,909) |
| Distribution of capital contribution | | (152,054) | - |
| Dividends paid | 25 | (69,075) | - |
| Net cash used in financing activities | | (223,823) | (1,909) |
| Net increase/(decrease) in cash | | (51,100) | 19,746 |
| Opening cash and cash equivalents | | 56,018 | 36,272 |
| Exchange gains/(losses) on cash | | - | - |
| Closing cash and cash equivalents | 28 | 4,918 | 56,018 |

1 General Information

Nexgen Re Limited (NRL) is a 100% subsidiary of Nexgen Financial Holdings Limited. 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.

The consolidated financial statements of Nexgen Re Ltd's parent, Nexgen Financial Holdings Ltd were approved by the Board of Directors on 21st February 2007.

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 31st 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 financial statements have been prepared under the historical cost convention as modified to include the fair valuation of certain financial instruments.

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 31st 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 where applicable for the financial year ended 31st December 2007:

New and amended standards

IFRS 7 - Financial instruments: Disclosures, Amendment to IAS 1 - Capital disclosures
IAS 21 (Amendment), Net Investment in a Foreign Operation;
IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts;
IFRS 6, Exploration for and Evaluation of Mineral Resources;
IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards;
IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
IFRIC 4, Determining whether an Arrangement Contains a Lease;
IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds;and
IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

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.

Nexgen Re Ltd's subsidiaries were transferred to its parent during the year.

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

2.4 Derivatives and financial assets and liabilities at fair value through profit and loss (FVTPL)

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 Company 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.

The Fair value option

In accordance with the amendments to IAS 39 made in June 2005 as approved by the EU, Nexgen Re Ltd may apply 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.

2.5 Recognition of deferred day one profit and loss

The best evidence of fair value at initial recognition is the transaction price (i.e., 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 (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

Nexgen Re Ltd 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.

2.6 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.

2.7 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 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.

2.8 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.

2.9 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.

2.10 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 Company. All bookings are made based on the Company'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.

(vii) 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 company separates the embedded derivative and values it in accordance with IAS 39.

2.11 Taxation

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

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 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.

2.12 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.

2.13 Property, plant and equipment

Property, plant and equipment 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 |

2.14 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.

2.15 Share Capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax. Incremental costs directly attributable to the issue of equity instruments as consideration for the acquisition of a business are included in the cost of acquisition.

3 Financial risk management and insurance risk

3.1 Principles, policies and procedures

Please refer to pages 7-10.

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.

| As at 31 December 2006 (EUR '000) | < 1 month | 3 - 12 months | Non Interest Bearing | Other | Total |
|--|-------------------------|--------------------------|-------------------------------------|---------------|---------------|
| Investments in group undertakings | - | - | - | - | - |
| Other financial investments | - | - | - | - | - |
| Cash and cash equivalents | 4,918 | - | - | - | 4,918 |
| Unearned Reinsurance Premiums | - | - | - | 10,069 | 10,069 |
| Other assets | - | - | - | 3,416 | 3,416 |
| Total assets | 4,918 | - | - | 13,485 | 18,403 |
| Total liabilities | - | - | 881 | 10,495 | 11,376 |
| Total interest sensitivity gap | 4,918 | - | | | |

| As at 31 December 2005 (EUR '000) | < 1 month | 3 - 12 months | Non Interest Bearing | Other | Total |
|--|-------------------------|--------------------------|-------------------------------------|----------------|----------------|
| Investments in group undertakings | - | - | - | 105,579 | 105,579 |
| Other financial investments | - | - | - | 8,198 | 8,198 |
| Cash and cash equivalents | 56,018 | - | - | - | 56,018 |
| Unearned Reinsurance Premiums | - | - | - | - | - |
| Other assets | - | - | - | 3,351 | 3,351 |
| Total assets | 56,018 | - | - | 117,128 | 173,146 |
| Total liabilities | - | - | 756 | 5,936 | 6,692 |
| Total interest sensitivity gap | 56,018 | - | | | |

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 31 December 2006 (EUR '000s) | < 1 month | 1 - 3 months | 3 - 12 months | 1 - 5 years | > 5 years | Total |
|---|-------------------------|-------------------------|--------------------------|------------------------|-------------------------|----------------|
| Assets | | | | | | |
| Investments in group undertakings | - | - | - | - | - | - |
| Other financial investments | - | - | - | - | - | - |
| Cash and cash equivalents | 4,918 | - | - | - | - | 4,918 |
| Unearned Reinsurance Premiums | - | - | - | 737 | 9,332 | 10,069 |
| Other assets | 3,416 | - | - | - | - | 3,416 |
| Total assets | 8,334 | - | - | 737 | 9,332 | 18,403 |
| Liabilities | | | | | | |
| Loans from financial institutions | - | - | - | - | - | - |
| Other financial liabilities | 1,103 | 17 | - | - | 3,683 | 4,803 |
| Reinsurance Liabilities | - | - | - | - | 5,692 | 5,692 |
| Creditors | 881 | - | - | - | - | 881 |
| Total liabilities | 1,984 | 17 | - | - | 9,375 | 11,376 |
| Net liquidity gap | 6,350 | (17) | - | 737 | (43) | 7,027 |
| As at 31 December 2005 (EUR '000s) | | | | | | |
| As at 31 December 2005 (EUR '000s) | < 1 month | 1 - 3 months | 3 - 12 months | 1 - 5 years | > 5 years | Total |
| Assets | | | | | | |
| Investments in group undertakings | - | - | - | - | 105,579 | 105,579 |
| Other financial investments | 8,198 | - | - | - | - | 8,198 |
| Cash and cash equivalents | 56,018 | - | - | - | - | 56,018 |
| Unearned Reinsurance Premiums | - | - | - | - | - | - |
| Other assets | 3,351 | - | - | - | - | 3,351 |
| Total assets | 67,567 | - | - | - | 105,579 | 173,146 |
| Liabilities | | | | | | |
| Loans from financial institutions | 2,694 | - | - | - | - | 2,694 |
| Other financial liabilities | 3,242 | - | - | - | - | 3,242 |
| Reinsurance Liabilities | - | - | - | - | - | - |
| Creditors | 756 | - | - | - | - | 756 |
| Total liabilities | 6,692 | - | - | - | - | 6,692 |
| Net liquidity gap | 60,875 | - | - | - | 105,579 | 166,454 |

3.4 Currency Risk

The table below shows the breakdown of the assets and liabilities by significant currency zone. There were no credit commitments or guarantees given by the Company in the event of a failure by the client or entity to meet its obligations as at 31 December 2006 or 31 December 2005.

Currency Balance Sheet

As at 31 December 2006 (EUR '000s)

| | EUR | USD | OTHER | Total |
|--------------------------------------|---------------|--------------|-----------|---------------|
| Assets | | | | |
| Investments in group undertakings | - | - | - | - |
| Other financial investments | - | - | - | - |
| Cash and cash equivalents | 1,258 | 3,625 | 35 | 4,918 |
| Unearned Reinsurance Premiums | 10,069 | - | - | 10,069 |
| Other assets | 3,346 | 57 | 13 | 3,416 |
| Total assets | 14,673 | 3,682 | 48 | 18,403 |
| Liabilities | | | | |
| Loans from financial institutions | - | - | - | - |
| Other financial liabilities | 4,766 | 37 | - | 4,803 |
| Reinsurance Liabilities | 5,692 | - | - | 5,692 |
| Creditors | 881 | - | - | 881 |
| Total liabilities | 11,339 | 37 | - | 11,376 |
| Net on balance sheet position | 3,334 | 3,645 | 48 | 7,027 |
| Credit Commitments | - | - | - | - |

Currency Balance Sheet

As at 31 December 2005 (EUR '000s)

| | EUR | USD | OTHER | Total |
|--------------------------------------|--------------|----------------|-----------|----------------|
| Assets | | | | |
| Investments in group undertakings | - | 105,579 | - | 105,579 |
| Other financial investments | - | 8,198 | - | 8,198 |
| Cash and cash equivalents | 487 | 55,486 | 45 | 56,018 |
| Unearned Reinsurance Premiums | - | - | - | - |
| Other assets | 3,110 | 230 | 11 | 3,351 |
| Total assets | 3,597 | 169,493 | 56 | 173,146 |
| Liabilities | | | | |
| Loans from financial institutions | - | 2,694 | - | 2,694 |
| Other financial liabilities | - | 3,242 | - | 3,242 |
| Reinsurance Liabilities | - | - | - | - |
| Creditors | 378 | 378 | - | 756 |
| Total liabilities | 378 | 6,314 | - | 6,692 |
| Net on balance sheet position | 3,219 | 163,179 | 56 | 166,454 |
| Credit Commitments | - | - | - | - |

3.5 Credit Risk

The company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the company is potentially exposed to credit risk are:

- retrocessionaires share of reinsurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from reinsurance contract holders;
- amounts due from intermediaries; and
- counterparty risk with respect to derivative transactions.

The company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty, and to geographical and industry segments. Such risks are subject to an annual or more frequent review. Limits on the level of credit risk by category and territory are approved quarterly by the Board of Directors.

Reinsurance may be used to manage risk. This does not, however, discharge the company's liability as to the insured. If a retrocessionaire fails to pay a claim for any reason, the company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract.

4 Critical accounting estimates and judgments

Nexgen Re Ltd 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 is 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. Such estimates are based on assumptions related to prevailing market conditions and market practice. Changes in assumptions could affect the reported fair value of financial instruments.

4.2 Income taxes

The company is subject to income taxes in numerous jurisdictions. Estimates are required in determining the provision for income taxes in each jurisdiction of operation. Nexgen Re Ltd 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.

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 22. The transition has not had a significant impact on the company.

6 Significant Accounting Policy Differences between Irish GAAP and IFRS

| Irish GAAP | IFRS |
|--|---|
| <p><u>Presentation of the Profit and Loss Account</u></p> <p>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.</p> | <p>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.</p> |
| <p><u>Fair Value</u></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 Nexgen Re Ltd. 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</p> |

| | |
|---|--|
| | <p>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><u>Presentation of dividends and interest</u></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 (iv).</p> |
| <p><u>Offsetting Financial instruments</u></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"> - 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. <p>This has not impacted the financial statements.</p> |
| <p><u>Reinsurance</u></p> <p>There were no significant reinsurance transactions open as at the end of the prior year.</p> | <p>The company 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 |
|---|---|------------------------------|----------------------|-----------------------------------|
| Balance on technical account | 383 | (383) | - | - |
| Investment income and gains | 1,865 | (1,865) | - | - |
| Dividend received from subsidiaries | 4,223 | (4,223) | - | - |
| Other Charges | (4,674) | 4,674 | - | - |
| Profit before tax (old format) | <u>1,797</u> | <u>(1,797)</u> | - | - |
| Insurance premium revenue | - | - | - | - |
| Net insurance premium revenue | - | - | - | - |
| Other reinsurance income | - | 497 | - | 497 |
| Net trading income | - | (397) | - | (397) |
| Investment Income | - | 6,455 | - | 6,455 |
| Net Income | - | 6,555 | - | 6,555 |
| Gross change in technical provisions | - | - | - | - |
| Net insurance benefits and claims | - | - | - | - |
| Expenses for marketing and administration | - | (2,787) | - | (2,787) |
| Other operating expenses | - | (1,887) | - | (1,887) |
| Expenses | - | (4,674) | - | (4,674) |
| Finance costs | - | (84) | - | (84) |
| Profit before tax | <u>-</u> | <u>1,797</u> | <u>-</u> | <u>1,797</u> |
| Income tax credit/(expense) | 267 | - | - | 267 |
| Profit for the year | <u>2,064</u> | <u>-</u> | <u>-</u> | <u>2,064</u> |

8 Reconciliation of Opening 2005 / Opening 2006 Balance Sheet from Irish GAAP to IFRS:

There was no impact on the balance sheet arising from the changeover to IFRS from Irish GAAP.

9 Ultimate Holding Company

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

Nexgen Financial Holdings 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. NATIXIS is the largest group company for which group accounts are prepared.

| 10 (i) Insurance premium revenue | Year ended 31 December 2006 EUR'000 | Year ended 31 December 2005 EUR'000 |
|---|--|--|
| - Life insurance premiums | 9,832 | - |
| - Non-life insurance premiums | - | - |
| | <u>9,832</u> | <u>-</u> |

| 10 (ii) Other reinsurance income | Year ended 31 December 2006 EUR'000 | Year ended 31 December 2005 EUR'000 |
|---|--|--|
| - Fee income received | <u>737</u> | <u>497</u> |
| | 737 | 497 |

| 10 (iii) Net trading income | Year ended 31 December 2006 EUR'000 | Year ended 31 December 2005 EUR'000 |
|------------------------------------|--|--|
|------------------------------------|--|--|

Net trading income comprises:

| | | |
|---|----------------|--------------|
| - Residual positions management | (4,869) | (2,784) |
| - Remuneration own funds | 1,290 | 2,329 |
| - Collateralised debt obligations | (1,793) | (7) |
| - Other income | 2 | 176 |
| - Transaction related professional fees | <u>(9)</u> | <u>(111)</u> |
| | <u>(5,379)</u> | <u>(397)</u> |

| 10 (iv) Investment income | Year ended 31 December 2006 EUR'000 | Year ended 31 December 2005 EUR'000 |
|----------------------------------|--|--|
| Interest income | 490 | 2,232 |

| | | |
|---|---------------|--------------|
| Dividend received from Nexgen Capital* | 18,000 | 4,223 |
| Dividend received from Natixis Corporate Solutions* | 2,500 | - |
| | <u>20,990</u> | <u>6,455</u> |

* Prior to their disposal.

10 (v) Gain on Disposal of Subsidiaries

The gain of EUR 45.215m arises from the sale of shares in Nexgen Capital Ltd and Natixis Corporate Solutions Ltd (as renamed from Nexgen Financial Solutions Ltd subsequent to sale) to Nexgen Financial Holdings Ltd on 15th November 2006 at net book value. See also Note 14 - Investments in group undertakings.

10 (vi) Gross change in technical reserves

| | Year ended 31 December 2006 EUR'000 | Year ended 31 December 2005 EUR'000 |
|---|--|--|
| - Change in life insurance technical reserves | <u>(5,692)</u> | <u>-</u> |
| | <u><u>(5,692)</u></u> | <u><u>-</u></u> |

There were no claims during the year. A non life contract was entered into during the year, for which there was potential for future claims under the terms of the contract. No claims had been incurred in the year end 31st December 2006 and a retrocession agreement was in place that ensured that any future claims for business transacted in 2006 will be offset by future recoveries under this agreement.

11 (i) Expenses by nature

| | Year ended 31 December 2006 EUR'000 | Year ended 31 December 2005 EUR'000 |
|--|--|--|
| Operating expenses comprise: | | |
| Staff Costs | 1,360 | 1,539 |
| Auditors' remuneration | 227 | 226 |
| Depreciation | 147 | 122 |
| Intercompany service expenses (see note 6) | 803 | 650 |
| Other administrative expenses | | |
| - Professional fees | 200 | 537 |
| - Non Executive Directors fees | 86 | 211 |
| - Other administrative fees | 1,678 | 1,389 |
| | <u>4,501</u> | <u>4,674</u> |

Staff costs comprise:

| | | |
|----------------------|--------------|--------------|
| Wages and salaries | 908 | 1,026 |
| Social welfare costs | 135 | 194 |
| Pension costs | 115 | 145 |
| Other staff costs | 202 | 174 |
| | <u>1,360</u> | <u>1,539</u> |

| | | |
|-----------------------|------------|------------|
| Directors' emoluments | <u>573</u> | <u>850</u> |
|-----------------------|------------|------------|

The average number of persons employed by the Company during the year was 14 (2005: 12), including four seconded employees.

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

11 (ii) Finance costs

| | Year ended 31 December 2006 EUR'000 | Year ended 31 December 2005 EUR'000 |
|--------------------|--|--|
| - Interest expense | (28) | (84) |
| | <u>(28)</u> | <u>(84)</u> |

12 Intercompany Services

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

13 Taxation

| | Year ended 31 December 2006 EUR'000 | Year ended 31 December 2005 EUR'000 |
|-------------------------------------|--|--|
| Corporation tax charge for the year | (568) | (2,335) |
| Movement in deferred tax asset | - | 2,068 |
| | <u>(568)</u> | <u>(267)</u> |
| Effective tax rate | -1% | -15% |

The reconciliation of current tax on profit on ordinary activities at the standard Irish corporation tax rate to the Company's actual current tax charge for the year ended 31 December 2006 is shown as follows:

| | 31 December 2006 EUR'000 | 31 December 2005 EUR'000 |
|--|--------------------------------|--------------------------------|
| Profit on ordinary activities before taxation | <u>61,174</u> | <u>1,797</u> |
| Profit on ordinary activities multiplied by the standard rate of corporation tax in Ireland of 12.5% (2005: 12.5%) | 7,647 | 225 |
| Effects of: | | |
| Expenses not deductible for tax purposes | 2 | 8 |
| Capital allowances in excess of depreciation | (2) | (3) |
| Dividend as franked investment income | (2,563) | (528) |
| Profit on disposal of subsidiaries exempt from Corporation Tax | (5,652) | - |
| Adjustment in respect of previous years | - | 31 |
| Current tax charge/(credit) for year | <u>(568)</u> | <u>(267)</u> |

14 Investments in group undertakings and participating interests

| | 31 December 2006 EUR'000 | 31 December 2005 EUR'000 |
|---|--------------------------------|--------------------------------|
| Investments in and capital contributions made to group undertakings | - | 105,579 |
| | <u>-</u> | <u>105,579</u> |

Details of subsidiary undertakings are as follows:

| | % Interest 31 December 2006 | % Interest 31 December 2005 | Amount of Investment including capital contribution | Country of incorporation and principal area of operation | Nature of Business |
|--|-----------------------------------|-----------------------------------|--|--|-----------------------|
| Nexgen Capital Ltd | - | 100% | USD 120,000,001 | Ireland | Financial Structures |
| Nexgen Financial Solutions Ltd | - | 100% | USD 5,000,000 | Ireland | Financial Structuring |
| Nexgen Financial Solutions (Asia) Pte Ltd* | - | 100% | SGD 2,000,000 | Singapore | Financial Structuring |

* indirect holding

15 Other financial investments

| | 31 December 2006 EUR'000 | 31 December 2005 EUR'000 |
|--------------------------------------|--------------------------------|--------------------------------|
| Derivative structures-long positions | - | 8,198 |
| | <u>-</u> | <u>8,198</u> |

16 Loans and receivables

| | 31 December 2006 EUR'000 | 31 December 2005 EUR'000 |
|--|--------------------------------|--------------------------------|
| Amounts due from Nexgen group undertakings | 354 | 568 |
| Prepayments | 124 | 180 |
| Other debtors | 6 | 5 |
| | <u>484</u> | <u>753</u> |
| Corporation Tax asset | 2,639 | 2,335 |
| | <u>3,123</u> | <u>3,088</u> |

| 17 Property, plant and equipment | Computer Equipment EUR '000 | Office Equipment EUR '000 | Computer Software EUR '000 | Other Assets EUR '000 | Total EUR '000 |
|---|--|--|---|--------------------------------------|---------------------------|
| Cost | | | | | |
| At 31 December 2005 | 423 | 191 | 263 | 30 | 907 |
| Additions | 118 | 27 | 32 | - | 177 |
| At 31 December 2006 | <u>541</u> | <u>218</u> | <u>295</u> | <u>30</u> | <u>1,084</u> |
| Accumulated Depreciation | | | | | |
| At 31 December 2005 | 285 | 133 | 219 | 7 | 644 |
| Charge for the year | 84 | 25 | 28 | 10 | 147 |
| At 31 December 2006 | <u>369</u> | <u>158</u> | <u>247</u> | <u>17</u> | <u>791</u> |
| Net Book Value | | | | | |
| At 31 December 2005 | <u>138</u> | <u>58</u> | <u>44</u> | <u>23</u> | <u>263</u> |
| At 31 December 2006 | <u>172</u> | <u>60</u> | <u>48</u> | <u>13</u> | <u>293</u> |

The Company did not have any capital commitments at 31 December 2006.

| 18 Loans from financial institutions | 31 December 2006 EUR'000 | 31 December 2005 EUR'000 |
|---|--------------------------------|--------------------------------|
| Loans from Nexgen group undertakings | - | 2,694 |
| | <u>-</u> | <u>2,694</u> |

| 19 Other financial liabilities | 31 December 2006 EUR'000 | 31 December 2005 EUR'000 |
|---------------------------------------|--------------------------------|--------------------------------|
| Derivative structures-short positions | 4,803 | 3,242 |
| | <u>4,803</u> | <u>3,242</u> |
| Amounts include: | | |
| - due to related parties | <u>4,803</u> | <u>3,242</u> |

| 20 Creditors | 31 December 2006 EUR'000 | 31 December 2005 EUR'000 |
|--|--------------------------------|--------------------------------|
| Amounts due to Nexgen group undertakings | - | - |
| Accruals and deferred income | 802 | 541 |
| Other creditors | 79 | 215 |
| | <u>881</u> | <u>756</u> |

21 Ordinary Share Capital

During the first quarter of 2006 the share capital of the Company was redenominated from USD to EURO. The EUR/USD conversion rate used was 1.18395 which was the Company's closing rate for 2005.

Authorised as at 31 December 2006:

| | |
|------------------------------|--------------|
| Ordinary shares of EUR1 each | <u>1,000</u> |
| | <u>1,000</u> |

Issued as at 31 December 2006

| | |
|------------------------------|--------------|
| Ordinary shares of EUR1 each | <u>1,000</u> |
| | <u>1,000</u> |

(Comparative in USD)

Authorised as at 31 December 2005:

| | |
|------------------------------|--------------|
| Ordinary shares of USD1 each | <u>1,000</u> |
| | <u>1,000</u> |

Issued as at 31 December 2005

| | |
|------------------------------|--------------|
| Ordinary shares of USD1 each | <u>1,000</u> |
| | <u>1,000</u> |

22 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 | 844 | - | 9,401 | 10,245 |
| Profit retained for the year | - | - | 61,742 | 61,742 |
| Dividend paid to parent company | - | - | (69,075) | (69,075) |
| FX on conversion to Euro | - | (41) | - | (41) |
| At 31 December 2006 | <u>844</u> | <u>(41)</u> | <u>2,068</u> | <u>2,871</u> |

| | | 31 December 2006 | 31 December 2005 |
|-----------|-----------------------------|---------------------|---------------------|
| | | EUR'000 | EUR'000 |
| 23 | Capital contribution | | |
| | Opening balance | 156,208 | 156,208 |
| | Distributed during the year | 152,053 | - |
| | Closing balance | <u>4,155</u> | <u>156,208</u> |

24 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:

| | 31 December 2006 | | |
|-----------------------------|-------------------------------|-----------------------------------|---------------------------------------|
| | Notional Amount EUR'000 | Fair Value Asset EUR'000 | Fair Value Liability EUR'000 |
| Interest rate contracts | 300,000 | - | 3,645 |
| Foreign Exchange contracts | - | - | - |
| Equity contracts | - | - | - |
| Credit Derivative contracts | - | - | 1,158 |
| Total contracts | <u>300,000</u> | <u>-</u> | <u>4,803</u> |

| | 31 December 2005 | | |
|------------------------------|-------------------------|------------------------|----------------------------|
| | Notional Amount | Fair Value Asset | Fair Value Liability |
| | EUR'000 | EUR'000 | EUR'000 |
| Interest rate contracts | - | - | - |
| Foreign Exchange contracts | 9,884 | 62 | 33 |
| Equity contracts | - | - | - |
| Credit Derivative contracts* | 684,151 | 8,136 | 3,209 |
| | <u>694,035</u> | <u>8,198</u> | <u>3,242</u> |

* The notional amount for credit derivative contracts excludes intragroup amounts with Nexgen Capital of €637m gross (2005: €3,272m) or €637m net (2005: €207m).

25 Dividends Proposed and Paid

The Company paid a dividend of €69.075m to its parent during the year (2005: Nil).

26 (i) Reinsurance – assets

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

26 (ii) Reinsurance – liabilities

| | Year ended 31 December 2006 EUR'000 | Year ended 31 December 2005 EUR'000 |
|--|--|--|
| At January 1 | - | - |
| Adjustments due to changes in assumptions: | | |
| Mortality/morbidity | 1,762 | - |
| Fair value of embedded derivative | 3,930 | - |
| Closing Balance | <u>5,692</u> | <u>-</u> |

27 Related Party Transactions

The Company has carried out a number of transactions during the year with Nexgen Capital Ltd.

All of the transactions are carried out in the normal course of business and encompass loans, deposits and derivative transactions.

Details of the amounts due to and from related parties at 31 December 2006 are disclosed in the relevant notes above. (See note 16, 18, 19, 20).

28 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 |
|--|--|--|
| Cash and balances with Central Banks | 2 | 1 |
| Deposits (with an original maturity of less than 3 months) | | |
| - to other financial institutions | 4,916 | 7,631 |
| - to group undertakings | - | 48,386 |
| | <u>4,918</u> | <u>56,018</u> |

29 Cash generated from operations

| | Year ended 31 December 2006 EUR'000 | Year ended 31 December 2005 EUR'000 |
|---|--|--|
| Insurance premium received | 500 | 497 |
| Cash paid to employees, intermediaries and other suppliers for services and goods | (3,867) | (3,665) |
| Dividends received | 20,500 | - |
| Interest received | 1,839 | 1,682 |
| Net realised gains | 3,166 | 25,249 |
| Other operating cash flows | - | - |
| Net purchase of operating assets | - | - |
| Cash generated from operations | <u>22,138</u> | <u>23,763</u> |

30 Commitments and Guarantees

There were no commitments or guarantees at 31 December 2006 or 31 December 2005.

31 Approval of financial statements

The board of directors approved the financial statements on 22 June 2007.