

**Nexgen Reinsurance Limited (formerly Nexgen Re Limited)**

**Directors' Report and Financial Statements**

**For the year ended 31 December 2007**

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## COMPANY PROFILE

Nexgen Reinsurance Ltd (NRL, 'the Company'), an Irish incorporated company, is the reinsurance company of the Nexgen Group ('Nexgen' or 'the Nexgen Group').

The Company's ultimate parent company IXIS Corporate & Investment Bank was merged with and into its own parent company Natixis S.A. ("NATIXIS") with effect from midnight on 31 December, 2007, thus making the Company an indirect subsidiary of Natixis from that date. Nexgen is part of the Corporate Solutions division of NATIXIS BFI ('NATIXIS CORPORATE SOLUTIONS').

NATIXIS CORPORATE SOLUTIONS and Nexgen (collectively 'the Group') offer risk based tailor-made financial solutions to corporate clients, insurance companies, banks and other financial services organisations, and high net worth individuals, principally resident in Europe, the Middle East and Asia. The Group provides its clients with creative and robust solutions and executes transactions as principal counterparty, actively managing the risks assumed.

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

NRL provides both Life and Non Life solutions to insurance and reinsurance clients.

Nexgen Reinsurance Ltd is Authorised and Regulated as a composite reinsurance company by the Financial Regulator in accordance with the European Communities (Reinsurance) Regulations 2006.

Transactions entered into by NRL are sourced and structured in cooperation with Natixis Corporate Solutions Limited ("NCSL"), an Irish incorporated company authorised by the Financial Regulator in Ireland under the European Communities (Markets in Financial Instruments) Regulations 2007.

## DIRECTORS

### Board of Directors as at 31 December 2007

Mr Jerome Biet	Executive		French
Mr Peter Blessing	Non-Executive	(1)	Irish
Mr Xavier Daudin	Executive		French
Mr John Donnelly	Non-Executive	Chairman	(1) Irish
Mr Francois Robey	Executive		French
Mr Jean Terren	Executive		French

(1) Member of the Audit Committee

## 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

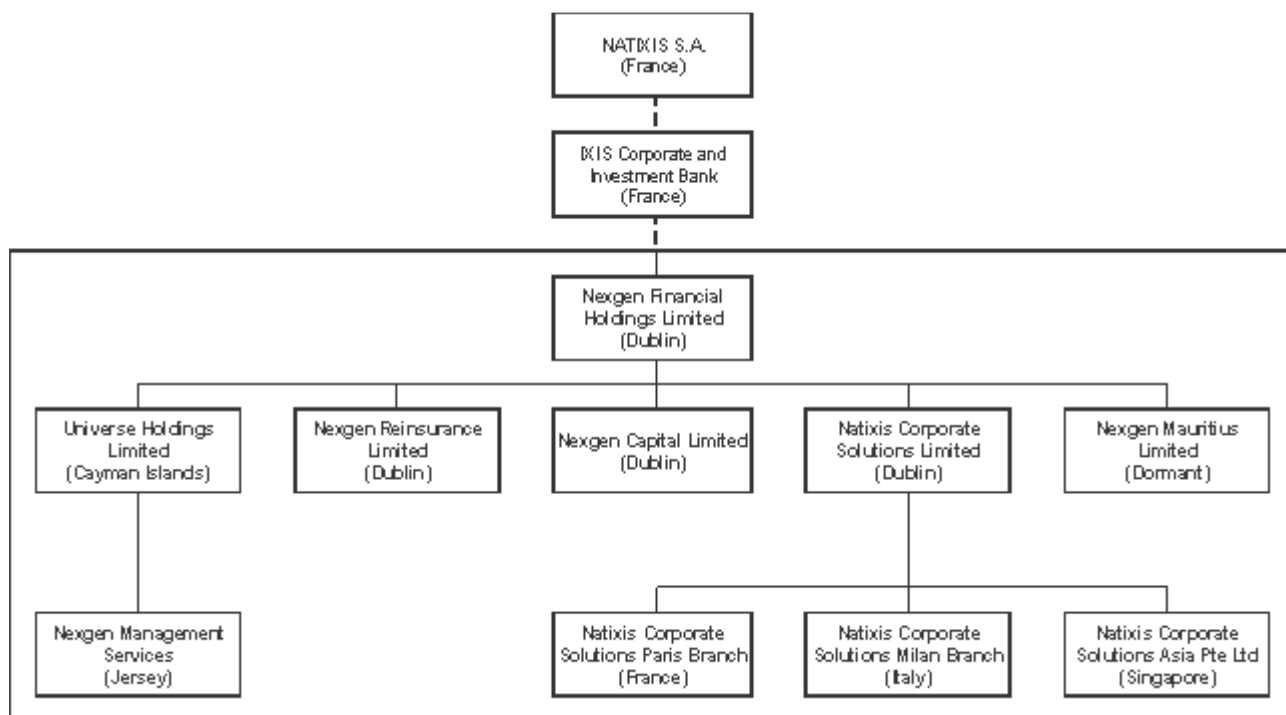
Deloitte  
Deloitte & Touche House  
Earlsfort Terrace  
Dublin 2  
Ireland

### Bankers

Caisse Nationale des Caisses  
d'Epargne  
50, avenue Pierre-Mendès  
75201 Paris Cedex 13  
France

BNP Paribas London  
10 Harewood Avenue  
London NW16AA  
UK

**GROUP CORPORATE STRUCTURE**



The Company's ultimate parent company IXIS Corporate & Investment Bank was merged with and into its own parent company Natixis S.A. with effect from midnight on 31 December 2007, thus making the Company an indirect subsidiary of Natixis S.A. from that date.

Nexgen Re Limited was renamed Nexgen Reinsurance Limited with effect from 22 October 2007.

## DIRECTORS' REPORT

The Directors submit herewith their annual report together with the audited financial statements of Nexgen Reinsurance Ltd for the year ended 31 December 2007. The comparative figures are for the year to 31 December 2006.

### 2007 ACTIVITY

#### Reinsurance Risks

The Company entered into three new 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 manages its market risk through hedging to its fellow Nexgen Group Company NCL and retains any insurance risk. The Company engages in retrocession contracts with other reinsurance entities where applicable in order to mitigate insurance risk.

As at 31 December 2007, the Group had open mortality risk on some Guaranteed Mortality Death Benefit contracts. A provision for adverse deviation of €1.8m was held in respect of this as at 31<sup>st</sup> December 2007 (2006: €1.8m). Reinsurance contracts and the associated risk management limits are currently approved on a transaction by transaction basis and monitored in the same way.

#### Income Generation

Total income for the year was €1.6m compared to €65.7m for the previous year. In 2006 there was a gain of €45.2m on the sale of the Company's subsidiaries to NFH and a dividend received of €20.5m.

NRL entered into two quota share reinsurance transactions on blocks of insurance contracts. The first transaction was executed in March and the second in September.

NRL also participated in a structuring of a motor reinsurance securitisation transaction for a large French insurance company.

The CDO's / Credit Derivatives business was unwound in Nexgen Reinsurance Ltd in 2007. The contribution of this activity to income for the year was €1.5m (2006: loss of €(1.8)m).

#### General and resources

During 2007 staff numbers increased by 2 to 16 (2006: 14).

#### Corporate Structure

The only change to the Nexgen Group's Corporate Structure (refer to Chart on page 5) occurred with effect from midnight on 31 December 2007, with the merger of the Company's ultimate parent IXIS Corporate & Investment Bank with and into Natixis S.A, thus making the Company an indirect subsidiary of Natixis S.A with effect from that date.

#### Dividends

There were no dividends paid by the Company in 2007 (2006: €69.075m).

### Results for the year and state of affairs at 31 December 2007

The profit for the year after tax but before dividends was €1.2m compared to €61.7m for 2006.

Total income for the year was €1.6m(2006: €65.7m). The contribution of the CDO's / Credit Derivatives business was +€1.5m (2006: loss of €(1.8)m), the remaining positions were unwound before the end of 2007. The reinsurance business including the effect of derivatives hedging contributed €1.1m (2006: €0.7m). The

remaining contribution mainly comes from remuneration of own funds €0.5m (2006: €1.3m), interest income of €0.4m (2006: €0.5m) and a residual positions management loss of €(1.8)m (2006: loss of €(0.7m)).

Total expenses in 2007 were €0.2m (2006: €4.5m). Intercompany service income was €5.9m for the year. Under the Intercompany service level agreement NRL provides support services to NCL and are reimbursed monthly based on recharging certain operating expenses and fixed expenses of the Company. Other operating expenses increased to €3.2m (2006: €1.7m) mainly as a result of an increase in staff variable remuneration. Marketing and administration expenses were €2.9m (2006: €2.8m), due to an increase in intercompany service expenses.

There was a tax charge of €0.2m (2006: tax credit of €0.6m). The average rate of tax was 15% (2006: -1%).

### **Balance sheet**

The total assets as at 31 December 2007 were €28m (31 December 2006: €18.4m).

The increase in total assets is due to an increase in cash and other financial assets and investments.

Total Shareholders Equity at 31 December 2007 was €8.2m compared to €7m at the end of 2006.

### **Corporate governance**

During 2007, the Company finalised its transition to the implementation of SI 380 of 2006. In order to complete this transition the following enhancements were made to the governance structure of Nexgen Reinsurance Ltd:

- a) The appointment of a new General Manager resident in Ireland. The General Manager reports to the Board of Directors.
- b) The appointment of a Compliance officer.
- c) The agreement by the Board of policies for the Company's retrocession strategy, its reinsurance classification policy and its Investment Guidelines.

The Board met four times during the year at regular intervals.

The Company follows the Corporate Governance policies and guidelines of its parent, Nexgen Financial Holdings Ltd. These policies can be found in the consolidated financial statements of Nexgen Financial Holdings Ltd.

### **Outlook for 2008**

The business challenge for 2008 will be to continue to expand the activities geographically and in terms of size and diversity of transactions.

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.

**Directors**

The names of the persons who were directors at any time during the year ended 31 December 2007 are set out on page 4.

**Directors' and Secretary's interests**

The beneficial interests of the directors and company secretary in office at 31 December 2007 in the ordinary share capital of the Company at 31 December 2007 and 31 December 2006 was nil.

As at 31 December 2007, the directors listed below held the following warrants to subscribe for ordinary shares in the Company:

	Number of Warrants		
	Number	Maturity date	Subscription Price
<u>31 December 2007:</u>			
Mr Jerome Biet	750,000	31 December 2008	EUR 1.00
Mr Peter Blessing	Nil	-	-
Mr Xavier Daudin	750,000	31 December 2008	EUR 1.00
Mr John Donnelly	Nil	-	-
Mr Francois Robey	1,176,500	31 December 2008	EUR 1.00
Mr Jean Terren	Nil	-	-
<u>31 December 2006:</u>			
Mr Jerome Biet	750,000	31 December 2008	EUR 1.00
Mr Peter Blessing	Nil	-	-
Mr Xavier Daudin	750,000	31 December 2008	EUR 1.00
Mr John Donnelly	Nil	-	-
Mr Francois Robey	1,176,500	31 December 2008	EUR 1.00
Mr Jean Terren	Nil	-	-

None of the other directors held other interests in any Group undertaking at 31 December 2007.

**Political Donations**

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

**Subsequent Events**

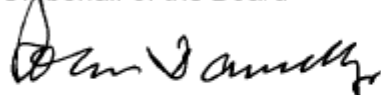
With the exception of the merger of the Company's immediate parent company IXIS Corporate & Investment Bank with and into Natixis with effect from midnight on 31 December 2007 (refer to GROUP CORPORATE STRUCTURE on page 5), there were no significant events affecting the Nexgen Group since the end of 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

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 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.

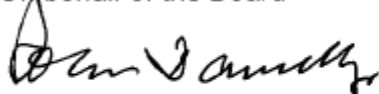
The directors confirm that they have complied with the above requirements in preparing the financial statements.

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



**John Donnelly**  
Chairman



**Xavier Daudin**  
Executive Director

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NEXGEN REINSURANCE LIMITED**

We have audited the financial statements (the "financial statements") of Nexgen Reinsurance Limited for the year ended 31 December 2007 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Change in Equity, Significant Accounting Policies and the related notes to the financial statements. 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 Company Profile, 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**

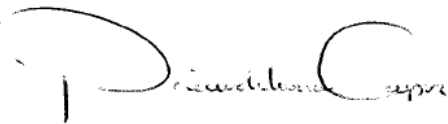
In our opinion:

- 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 2007 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 2007 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

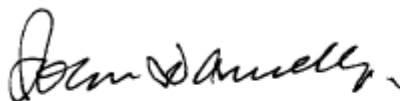
**4 April 2008**

**INCOME STATEMENT**

Year ended 31 December 2007

	Notes	Year ended 31 December 2007 EUR'000	Year ended 31 December 2006 EUR'000
Insurance premium revenue		4,407	9,832
<b>Net insurance premium revenue</b>		<b>4,407</b>	<b>9,832</b>
Gross change in technical provisions		3,783	(5,692)
<b>Net insurance benefits and claims</b>		<b>3,783</b>	<b>(5,692)</b>
Other reinsurance income	6 (i)	(546)	737
Other trading income/(expense)	6 (ii)	(6,435)	(5,379)
Investment income	6 (iii)	386	20,990
Profit on disposal of subsidiaries	6 (iv)	-	45,215
<b>Net other income</b>		<b>(6,595)</b>	<b>61,563</b>
<b>Total Income</b>		<b>1,595</b>	<b>65,703</b>
Intercompany service income	7 (i)	5,944	-
Expenses for marketing and administration	7 (ii)	(2,862)	(2,767)
Other operating expenses	7 (ii)	(3,264)	(1,734)
<b>Expenses</b>		<b>(182)</b>	<b>(4,501)</b>
Finance costs	8	(45)	(28)
<b>Profit before tax</b>		<b>1,368</b>	<b>61,174</b>
Income tax credit/(expense)	9	(201)	568
<b>Profit for the year</b>		<b>1,167</b>	<b>61,742</b>
Attributable to:			
Equity holders of the Company		1,167	61,742

On behalf of the Board



**John Donnelly**



**Xavier Daudin**

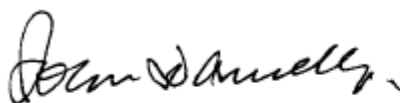
**STATEMENT OF CHANGES IN EQUITY**

<b>Year ended 31 December 2007</b>	Year ended 31 December 2007 EUR'000	Year ended 31 December 2006 EUR'000
Profit attributable to equity shareholders	1,167	61,742
Foreign exchange conversion reserve	-	(41)
Distribution of Capital Contribution	-	(152,052)
Dividend paid to parent company during the year	20 _____ -	_____ (69,075)
Movement in shareholder's funds	1,167	(159,426)
Balance at the beginning of the year	7,027	166,453
Balance at the end of the year	<u>8,194</u>	<u>7,027</u>

**BALANCE SHEET**

	Notes	31 December 2007 EUR'000	31 December 2006 EUR'000
<b>ASSETS</b>			
Other financial investments	10	5,989	-
Other financial assets	11	3,382	-
Cash and cash equivalents	23	9,294	4,918
Premiums and other reinsurance receivables	21 (i)	8,503	10,069
Loans and receivables	12	507	484
Corporation tax asset	12	-	2,639
Property, plant and equipment	13	308	293
<b>Total assets</b>		<u>27,983</u>	<u>18,403</u>
<b>Liabilities</b>			
Loans from financial institutions	14	6,068	-
Other financial liabilities	15	4,748	4,803
Reinsurance liabilities	21 (ii)	8,301	5,692
Creditors	16	545	881
Corporation tax	16	127	-
<b>Total liabilities</b>		<u>19,789</u>	<u>11,376</u>
<b>Capital and reserves attributable to the Company's equity holders</b>			
Called up share capital	17	1	1
Share premium	18	844	844
Capital contribution	19	4,155	4,155
Other reserves	18	(41)	(41)
Profit and Loss account	18	3,235	2,068
<b>Total equity</b>		<u>8,194</u>	<u>7,027</u>
<b>Total liabilities and equity</b>		<u>27,983</u>	<u>18,403</u>

On behalf of the Board



**John Donnelly**



**Xavier Daudin**

**CASH FLOW STATEMENT**

	<i>Notes</i>	Year ended 31 December 2007 EUR'000	Year ended 31 December 2006 EUR'000
Cash generated from operations	24	4,579	22,138
Interest paid		(45)	(28)
Income tax paid		(5)	(3)
<b>Net cash from operating activities</b>		<u><b>4,529</b></u>	<u><b>22,107</b></u>
<b>Cash flows from investing activities</b>			
Proceeds from sale of subsidiaries		-	150,793
Purchases of property, plant and equipment	13	(232)	(177)
<b>Net cash used in investing activities</b>		<u><b>(232)</b></u>	<u><b>150,616</b></u>
<b>Cash flows from financing activities</b>			
Borrowings from financial institutions		6,068	(2,694)
Distribution of capital contribution		-	(152,054)
Dividends paid	20	-	(69,075)
<b>Net cash used in financing activities</b>		<u><b>6,068</b></u>	<u><b>(223,823)</b></u>
<b>Net increase/(decrease) in cash</b>		<u><b>10,365</b></u>	<u><b>(51,100)</b></u>
Opening cash and cash equivalents		4,918	56,018
Closing cash and cash equivalents	23	<u><b>15,283</b></u>	<u><b>4,918</b></u>

## 1 General Information

Nexgen Reinsurance 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 120 people including those seconded from related NATIXIS Group companies.

The consolidated financial statements of Nexgen Reinsurance Ltd's parent, Nexgen Financial Holdings Ltd were approved by the Board of Directors on 20 February 2008.

## 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 December 2007. 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.

Nexgen Reinsurance Ltd complies with the EU endorsed version of IAS 39.

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

The following prospective accounting policy changes have not been applied:

#### New and amended standards

***Amendment to IFRS 2, Share based payments***

Effective date: annual periods beginning on or after 1 January 2009

***IFRS 3 (Revised), Business combinations***

Effective: annual periods beginning on or after 1 January 2009

***IAS 27 (Revised), Consolidated and separate financial statements***

Effective: annual periods beginning on or after 1 January 2009

***Revised IAS 1, Presentation of financial statements***

Effective date: Annual periods beginning on or after 1 January 2009

***Revised IAS 23, Borrowing costs***

Effective date: Annual periods beginning on or after 1 January 2009 (prospective application).

***IFRS 8, Operating segments***

Effective date: Annual periods beginning on or after 1 January 2009

#### IFRIC interpretations issued but not yet effective:

***IFRIC 14, IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction***

Effective date: Annual periods beginning on or after 1 January 2008

***IFRIC 13, Customer loyalty programmes relating to IAS 18, Revenue***

Effective date: Annual periods beginning on or after 1 July 2008

***IFRIC 12, Service concession arrangements***

Effective date: Annual periods beginning on or after 1 January 2008

## **2.2 Derivative financial instruments**

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently measured 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, although the Group may choose to designate the whole hybrid contract at fair value through profit and loss.

## **2.3 Hedge Accounting**

Nexgen Reinsurance Ltd 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**

Trading securities positions, liabilities and derivative instruments arising from hedging and risk management of the NRL business are carried 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.

## **2.5 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.

## **2.6 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.

## **2.7 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.

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

The technical result is determined annually using earned premium and incurred claims costs. For Long Term Business in particular, incurred claims costs include the movement in technical provisions after allowing for future premiums and for discounting of all cashflows.

### **(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.

**2.9 Taxation**

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

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.

**2.10 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.

### **2.11 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

### **2.12 Functional Currency**

The functional currency of the Company is Euro.

### **2.13 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 Critical accounting estimates and judgments**

Nexgen Reinsurance 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.

#### **3.1 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.

#### **3.2 Income taxes**

Nexgen Reinsurance 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.

## 4. Risk Management

### 4.1 Reinsurance Risks

The Nexgen Group, via NRL, has undertaken contracts in both life and non life business. In the life business, risks borne are mortality risk (Guaranteed Minimum Death Benefit and similar GMXB contracts) and market risk exposure to both interest rate and equity prices through the underlying treaties. The market risks are managed through an intercompany risk transfer and active management in the capital markets through NCL. Mortality risk is borne by NRL and provided for according to actuarial principles.

In the non life business, NRL has participated in securitisation activity in the capacity of a transformer whereby traditional reinsurance risks are transferred to capital market counterparties and additionally as a principle in reinsurance transaction where the net insurance risk is addressed through the purchase of external retrocession,

### 4.2 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:

- future premiums receivable from cedants in respect of multi year non life transactions and long term life contracts;
- amounts due from retrocessionaires in respect of recoveries against claims received from cedants;
- amounts due from reinsurance contract holders in respect of withheld balances or other collateral arrangements;
- 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, the approach to such risk mitigation is governed by the Board Approved Retrocession Strategy. 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.

The maximum exposure at 31 December 2007 is as presented in the balance sheet.

It is limited to two receivables from insurance and financial institutions.

### 4.3 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.

Liquidity and cashflow are evaluated within limits set on a transaction by transaction basis, with allowance made for the impact of possible future underlying instrument price deviations before entering into the transaction.

The table below analyses the liabilities of NRL into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date. All liabilities are considered held for trading.

As at December 31 2007 (EUR '000)	< 1 month	1 - 3 months	1 - 5 years	> 5 years	Total
<b>Liabilities</b>					
Derivative (Short)	-	-	-	4,748	4,748
Loans from financial Institutions	6,068	-	-	-	6,068
Reinsurance	-	-	-	8,301	8,301
Other Liabilities	672	-	-	-	672
<b>Total Liabilities</b>	<b>6,740</b>	<b>-</b>	<b>-</b>	<b>13,049</b>	<b>19,789</b>
<b>Total Assets</b>	<b>10,502</b>	<b>5,989</b>	<b>2,114</b>	<b>9,378</b>	<b>27,983</b>
<b>Net liquidity gap</b>	<b>3,762</b>	<b>5,989</b>	<b>2,114</b>	<b>(3,671)</b>	<b>8,194</b>

As at December 31 2006 (EUR '000)	< 1 month	1 - 3 months	1 - 5 years	> 5 years	Total
<b>Liabilities</b>					
Derivative (Short)	1,158	-	-	3,645	4,803
Reinsurance	-	-	-	5,692	5,692
Other Liabilities	826	17	-	38	881
<b>Total Liabilities</b>	<b>1,984</b>	<b>17</b>	<b>-</b>	<b>9,375</b>	<b>11,376</b>
<b>Total Assets</b>	<b>8,334</b>	<b>-</b>	<b>737</b>	<b>9,332</b>	<b>18,403</b>
<b>Net liquidity gap</b>	<b>6,350</b>	<b>(17)</b>	<b>737</b>	<b>(43)</b>	<b>7,027</b>

## 5 Ultimate Holding Company

The Company's ultimate parent undertaking is Nexgen Financial Holdings Limited, a company incorporated in Ireland. Nexgen Financial Holdings Limited is the lowest level at 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 NATIXIS S.A. NATIXIS S.A is the highest level at which group accounts are prepared.

6 (i) Other reinsurance income/(expense)	Year ended 31 December 2007 EUR'000	Year ended 31 December 2006 EUR'000
- Fee income received	504	737
- Transaction fees payable	(1,050)	-
	<u>(546)</u>	<u>737</u>

<b>6 (ii) Other trading income</b>	Year ended 31 December 2007 EUR'000	Year ended 31 December 2006 EUR'000
Net trading income comprises:		
- Derivatives held for hedging purposes*	(6,497)	(4,153)
- Residual positions mgmt	(1,776)	(716)
- Remuneration own funds	502	1,290
- Collateralised debt obligations	1,481	(1,793)
- Other income	-	2
- Transaction related professional fees	(145)	(9)
	<u>(6,435)</u>	<u>(5,379)</u>

\*Derivatives are used to hedge market risk embedded within reinsurance contracts

<b>6 (iii) Investment income</b>	Year ended 31 December 2007 EUR'000	Year ended 31 December 2006 EUR'000
Interest income	386	490
Dividend received from Nexgen Capital <sup>^</sup>	-	18,000
Dividend received from Natixis Corporate Solutions <sup>^</sup>	-	2,500
	<u>386</u>	<u>20,990</u>

<sup>^</sup> Prior to their disposal

#### **6 (iv) Gain on Disposal of Subsidiaries prior year**

In 2006 the gain of EUR45.215m arose 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 15 November 2006 at net book value.

<b>7 (i) Intercompany Service Income</b>	Year ended 31 December 2007 EUR'000	Year ended 31 December 2006 EUR'000
Intercompany service income	<u>5,944</u>	<u>-</u>
	<u>5,944</u>	<u>-</u>

Nexgen Reinsurance Ltd provides support services to Nexgen Capital Ltd under a Service Level Agreement. These support services are reimbursed by Nexgen Capital Ltd monthly.

<b>7 (ii) Expenses by nature</b>	Year ended 31 December 2007 EUR'000	Year ended 31 December 2006 EUR'000
Operating expenses comprise:		
Staff Costs	2,763	1,360
Auditors' remuneration	284	227
Depreciation	217	147
Intercompany service expenses	1,160	803
Other administrative expenses		
- Professional fees	81	200
- Non Executive Directors fees	54	86
- Other administrative fees	1,567	1,678
	<u>6,126</u>	<u>4,501</u>
Staff costs comprise:		
Wages and salaries	2,119	908
Social welfare costs	323	135
Pension costs	137	115
Other staff costs	184	202
	<u>2,763</u>	<u>1,360</u>
Directors' emoluments	<u>134</u>	<u>153</u>

The 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. Seconded personnel costs are based on remuneration plus a percentage representing the cost of various benefits.

The average number of persons employed by the Company during the year was 15 (2006: 14), including three seconded employees.

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

<b>8 Finance costs</b>	Year ended 31 December 2007 EUR'000	Year ended 31 December 2006 EUR'000
- Interest expense	<u>(45)</u>	<u>(28)</u>
	(45)	(28)
<b>9 Taxation</b>	Year ended 31 December 2007 EUR'000	Year ended 31 December 2006 EUR'000
Corporation tax charge for the year	<u>201</u>	<u>(568)</u>
	<u>201</u>	<u>(568)</u>
Effective tax rate	15%	-1%

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 2007 is shown as follows:

	31 December 2007 EUR'000	31 December 2006 EUR'000
Profit on ordinary activities before taxation	<u>1,368</u>	<u>61,174</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in Ireland of 12.5% (2006: 12.5%)	171	7,647
Effects of:		
Expenses not deductible for tax purposes	16	2
Depreciation in excess of Capital allowances	14	(2)
Dividend as franked investment income	-	(2,563)
Profit on disposal of subsidiaries exempt from Corporation Tax	-	(5,652)
Adjustment in respect of previous years	<u>-</u>	<u>-</u>
Current tax charge/(credit) for year	<u><u>201</u></u>	<u><u>(568)</u></u>
<b>10 Other financial investments</b>	<b>31 December 2007 EUR'000</b>	<b>31 December 2006 EUR'000</b>
Balances on deposit in escrow accounts	<u>5,989</u>	<u>-</u>
	<u><u>5,989</u></u>	<u><u>-</u></u>
<b>11 Other financial assets</b>	<b>31 December 2007 EUR'000</b>	<b>31 December 2006 EUR'000</b>
Derivative structures	<u>3,382</u>	<u>-</u>
	<u><u>3,382</u></u>	<u><u>-</u></u>
<b>12 Loans and receivables</b>	<b>31 December 2007 EUR'000</b>	<b>31 December 2006 EUR'000</b>
Amounts due from Nexgen group undertakings	464	354
Prepayments	38	124
Other debtors	<u>5</u>	<u>6</u>
	507	484
Corporation Tax asset	<u>-</u>	<u>2,639</u>
	<u><u>507</u></u>	<u><u>3,123</u></u>

13	Property, plant and equipment	Computer Equipment EUR '000	Office Equipment EUR '000	Computer Software EUR '000	Other Assets EUR '000	Total EUR '000
<b>Cost</b>						
	At 31 December 2006	541	218	295	30	1,084
	Additions	197	16	19	-	232
	At 31 December 2007	<u>738</u>	<u>234</u>	<u>314</u>	<u>30</u>	<u>1,316</u>
<b>Accumulated Depreciation</b>						
	At 31 December 2006	369	158	247	17	791
	Charge for the year	142	34	31	10	217
	At 31 December 2007	<u>511</u>	<u>192</u>	<u>278</u>	<u>27</u>	<u>1,008</u>
<b>Net Book Value</b>						
	At 31 December 2006	<u>172</u>	<u>60</u>	<u>48</u>	<u>13</u>	<u>293</u>
	At 31 December 2007	<u>227</u>	<u>42</u>	<u>36</u>	<u>3</u>	<u>308</u>

The Company did not have any capital commitments at 31 December 2007.

14	Loans from financial institutions	31 December 2007 EUR'000	31 December 2006 EUR'000
	Loans from Nexgen group undertakings	<u>6,068</u>	<u>-</u>
		<u>6,068</u>	<u>-</u>

15	Other financial liabilities	31 December 2007 EUR'000	31 December 2006 EUR'000
	Derivative structures	<u>4,748</u>	<u>4,803</u>
		<u>4,748</u>	<u>4,803</u>
	<b>Amounts include:</b>		
	- due to related parties	<u>4,748</u>	<u>4,803</u>

16	Creditors	31 December 2007 EUR'000	31 December 2006 EUR'000
	Accruals and deferred income	406	802
	Other creditors	<u>139</u>	<u>79</u>
		545	881
	Corporation Tax	<u>127</u>	<u>-</u>
		<u>672</u>	<u>881</u>

**17 Ordinary Share Capital**

**Authorised as at 31 December 2007:**

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

**Issued as at 31 December 2007:**

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

**Authorised as at 31 December 2006:**

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

**Issued as at 31 December 2006**

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

**18 Reserves**

Company	Share Premium Account EUR '000	Currency Translation Reserves EUR '000	Profit and Loss Account EUR '000	Total EUR '000
At 1 January 2007	844	(41)	2,068	2,871
Profit retained for the year	-	-	1,167	1,167
At 31 December 2007	<u>844</u>	<u>(41)</u>	<u>3,235</u>	<u>4,038</u>

19 Capital contribution	31 December 2007 EUR'000	31 December 2006 EUR'000
Opening balance	4,155	156,208
Distributed during the year	-	152,053
Closing balance	<u>4,155</u>	<u>4,155</u>

**20 Dividends Proposed and Paid**

There were no dividends paid or proposed by the Company during the year (2006: €69.075m).

**21 (i) Reinsurance – assets**

	Year ended 31 December 2007 EUR'000	Year ended 31 December 2006 EUR'000
Reinsurance Asset – life	3,914	10,069
Future premium receivable - non life risk component	2,475	-
Other receivable – non life deposit component	2,114	-
	<u>8,503</u>	<u>10,069</u>

**21 (ii) Reinsurance – liabilities**

	Year ended 31 December 2007 EUR'000	Year ended 31 December 2006 EUR'000
Mortality/morbidity	5,826	1,762
Reinsurance premium payable – non life risk component	<u>2,475</u>	<u>3,930</u>
Closing Balance	<u>8,301</u>	<u>5,692</u>

**22 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 at arm's length 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 2007 are disclosed in the relevant notes above. (See note 12, 14, 15, 20).

The amount of Key Management Personnel Compensation paid by the Company for the year was:

	Year ended 31 December 2007 EUR'000	Year ended 31 December 2006 EUR'000
Short term employee benefits	<u>134</u>	<u>153</u>
Total	<u>134</u>	<u>153</u>

## 23 Cash and Cash Equivalents

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

	Year ended 31 December 2007 EUR'000	Year ended 31 December 2006 EUR'000
Cash and balances with Central Banks	1	2
Deposits (with an original maturity of less than 3 months)		
- to other financial institutions	9,293	4,916
- balances on deposit in escrow accounts	5,989	-
	15,283	4,918

## 24 Cash generated from operations

	Year ended 31 December 2007 EUR'000	Year ended 31 December 2006 EUR'000
Insurance premium received	4,407	500
Cash paid to employees, intermediaries and other suppliers for services and goods	(4,708)	(3,867)
Dividends received	-	20,500
Interest received	163	1,839
Net realised gains	4,672	3,166
Other operating cash flows	45	-
Net purchase of operating assets	-	-
<b>Cash generated from operations</b>	<b>4,579</b>	<b>22,138</b>

## 25 Commitments and Guarantees

There were no commitments or guarantees given at 31 December 2007 or 31 December 2006.

## 26 Approval of financial statements

The board of directors approved the financial statements on 5th March 2008.