

CONVERIUM HOLDING AG

Form 20-F/A

March 01, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549  
FORM 20-F/A  
REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR  
(g) OF THE SECURITIES EXCHANGE ACT OF 1934  
OR  
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2004.  
OR  
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
Commission file number: 333-14106  
CONVERIUM HOLDING AG  
(Exact name of Registrant as specified in its charter)  
Not Applicable  
(Translation of Registrant's name into English)  
Switzerland  
(Jurisdiction of incorporation or organization)  
Dammstrasse 19  
CH-6301 Zug  
Switzerland  
(Address of principal executive offices)  
Securities registered or to be registered pursuant to Section 12(b) of the Act.**

<b>Title of each class</b>	<b>Name of each Exchange on which registered</b>
American Depositary Shares (as evidenced by American Depositary Receipts), each representing one-half (1/2) of one registered share, nominal value CHF 5 per share	New York Stock Exchange
Registered shares, nominal value CHF 5 per share*	New York Stock Exchange
8.25% Guaranteed Subordinated Notes due 2032 issued by Converium Finance S.A.	New York Stock Exchange
Subordinated Guarantee of Subordinated Notes+	New York Stock Exchange
* Not for trading, but only in connection with the listing of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.	
+ Not for trading, but only in connection with the listing of the Subordinated Notes, pursuant to the requirements of the Securities and Exchange Commission.	

**Securities registered or to be registered pursuant to Section 12(g) of the Act.**

**None**

**(Title of Class)**

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.**

**None**

**(Title of Class)**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

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As of December 31, 2004, there were outstanding: 146,272,886 registered shares, nominal value CHF 5 per share, including 5,814,068 American Depositary Shares (as evidenced by American Depositary Receipts), each representing one-half (1/2) of one registered share.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

**Yes**  **No**

Indicate by check mark which financial statement item the registrant has elected to follow.

**Item 17**  **Item 18**

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**Explanatory Note**

This amendment on Form 20-F/A reflects the Restatement (the Restatement ) of the consolidated financial statements of Converium (the Company ) as of and for the years ended December 31, 2004 through 1998, as discussed in Note 3 to our 2004 consolidated financial statements included in Item 8. Financial Information A. Consolidated Statements and Other Financial Information, and Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 5 Operating and Financial Review and Prospects A. Operating Results of this report. Financial information for each of the quarters ended March 31, 2003 through June 30, 2005 has also been restated. All amounts included herein have been adjusted to reflect the Restatement. Previously published financial statements regarding any of the above periods should no longer be relied upon. The Restatement affects Items 3, 4, 5, 8, 11, 15 and 18 of this report. We have not amended and do not intend to amend our previously filed Annual Reports on Form 20-F or our interim reports on Form 6-K. For this reason, the consolidated financial statements, auditors reports and related financial information for the affected periods contained in such reports should no longer be relied upon.

This amendment also reflects changes made to Items 4.B ( Business Overview / Our Business, Business Overview / Non-life claims management ) and Business Overview / Loss and loss expense reserves ), 5.A ( Operating Results - Critical Accounting Estimates - Non-Life and Loss Adjustment Reserves, Operating Results - Critical Accounting Estimates - Premiums, and Operating Results - Results of Operations - Year Ended December 31, 2004 Compared to December 31, 2003 ), and 5.B ( Liquidity and Capital Resource ) in response to comments received from the Securities and Exchange Commission that were unrelated to the Restatement. In addition, we have updated Item 6 ( Directors, Senior Management and Employees ) to reflect the appointment of a new Chief Executive Officer. Except for the forgoing amended disclosures, the information in this Form 20-F/A generally has not been updated to reflect events that occurred after June 30, 2005, the filing date of the Company's Annual Report on Form 20-F which is being amended hereby, although the discussion with respect to legal proceedings and insurance industry investigations and related matters have been updated.

In addition, pursuant to the rules of the SEC, the original filing has been amended to include a currently dated consent of our independent group auditors and currently dated certifications from our Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The certifications of our Chief Executive Officer and Chief Financial Officer and the consent of the independent group auditors are attached to this Form 20-F/A as exhibits 12.1, 12.2, 13.1, 13.2 and 14.1, respectively.

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**PRESENTATION OF INFORMATION**

In this annual report on Form 20-F/A, unless the context otherwise requires, Converium, we, us, and our refer to Converium Holding AG and our consolidated entities. Please refer to the glossary beginning on page G-1 for definitions of selected insurance and reinsurance terms.

We publish our financial statements in US dollars, and unless we note otherwise, all amounts in this annual report are expressed in US dollars. As used herein, references to US dollars, dollars or \$ and cents are to US currency, references to Swiss francs or CHF are to Swiss currency, references to yen or Japanese yen are to Japanese currency, references to British pounds or £ are to British currency and references to euro or are to the single European currency of the member states of the European Monetary Union at the relevant time.

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This annual report contains certain forward-looking statements. Forward-looking statements are necessarily based on estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which, with respect to future business decisions, are subject to change. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed in any forward-looking statements.

In particular, statements using words such as expect, anticipate, intend, believe or words of similar import generally involve forward-looking statements. This annual report includes a number of forward-looking statements, including the following:

certain statements in Item 4. Information on the Company B. Business Overview with regard to strategy and management objectives, trends in market conditions, prices, market standing and product volumes, investment results, litigation and the effects of changes or prospective changes in regulation.

certain statements in Item 4. Information on the Company B. Business Overview Regulation with regard to the effects of changes or prospective changes in regulation.

certain statements in Item 5. Operating and Financial Review and Prospects with regard to trends in results, prices, volumes, operations, investment results, margins, overall market trends, risk management and exchange rates and with regard to our internal review and related Restatement.

certain statements in Item 11. Quantitative and Qualitative Disclosures About Market Risk with regard to sensitivity analyses for invested assets.

certain statements in Item 15. Controls and Procedures with regard to our actions to remediate the material weaknesses identified in our financial accounting and reporting function.

In light of the risks and uncertainties inherent in all future projections, the inclusion of forward-looking statements should not be considered a representation by us that our objectives or plans will be achieved. Numerous factors could cause our actual results to differ materially from those in the forward-looking statements, including factors set forth in Item 3. Key Information D. Risk Factors and the following:

the impact of our ratings downgrades or a further lowering or loss of one of our financial strength ratings;

uncertainties of assumptions used in our reserving process;

risks associated with implementing our business strategies and our capital improvement measures and the run-off of our North American business;

cyclicality of the reinsurance industry;

the occurrence of natural and man-made catastrophic events with a frequency or severity exceeding our estimates;

acts of terrorism and acts of war;

changes in economic conditions, including interest and currency rate conditions that could affect our investment portfolio;

actions of competitors, including industry consolidation and development of competing financial products;

a decrease in the level of demand for our reinsurance or increased competition in our industries or markets;

a loss of our key employees or executive officers without suitable replacements being recruited within a suitable period of time;

our ability to address material weaknesses we have identified in our internal control environment;

political risks in the countries in which we operate or in which we reinsure risks;

the passage of additional legislation or the promulgation of new regulation in a jurisdiction in which we or our clients operate or where our subsidiaries are organized;

the effect on us and the insurance industry as a result of the investigations being carried out by US and international regulatory authorities including the US Securities and Exchange Commission ( SEC ) and New York 's Attorney General;

changes in our investment results due to the changed composition of our invested assets or changes in our investment policy;

failure of our retrocessional reinsurers to honor their obligations or changes in the credit worthiness of our reinsurers;

our failure to prevail in any current or future arbitration or litigation; and

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extraordinary events affecting our clients, such as bankruptcies and liquidations.

The factors listed above should not be construed as exhaustive. We cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those described in any forward-looking statements. Except as otherwise required by law, we undertake no obligation to publicly release any future revisions we may make to forward-looking statements to reflect subsequent events or circumstances or to reflect the occurrence of unanticipated events.

We have made it a policy not to provide any quarterly or annual earnings guidance and we will not update any past outlook for full year earnings. We will, however, provide investors with a perspective on our value drivers, our strategic initiatives and those factors critical to understanding our business and operating environment.



**Table of Contents****PART I****ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3. KEY INFORMATION****A. SELECTED FINANCIAL AND OTHER DATA**

We have prepared our financial statements included in this annual report in accordance with accounting principles generally accepted in the United States, or US GAAP. The following financial data highlights selected information that is derived from our financial statements as of and for the years ended December 31, 2004, 2003, 2002, 2001 and 2000. Converium has restated its financial statements and selected financial and other data, as of and for the years ended December 31, 2004 through 1998. Converium concluded that a number of transactions were previously incorrectly accounted for under the requirements of SFAS No. 113, *Accounting and Reporting for Reinsurance and Short-Duration and Long-Duration Contracts* ( SFAS 113 ). As a result, the financial information relating to these transactions was restated to be recorded as deposits or on a retroactive basis, as appropriate. Converium also restated its accounting for income taxes and certain other items. For further information regarding our Consolidated Financial Statements, see Note 3 to our 2004 consolidated financial statements included in Item 8. Financial Information A. Consolidated Statements and Other Financial Information, and Item 5. Operating and Financial Review and Prospects

A. Operating Results . Financial information for each of the quarters ended March 31, 2003 through June 30, 2005 has also been restated. Previously published financial statements regarding any of the above periods should no longer be relied upon.

Converium was formed as a result of the divestiture of the former Zurich Re business of Zurich Financial Services in December 2001. For a description of the transactions that led to the divestiture, which we refer to herein as the

Formation Transactions, see Item 4. Information on the Company A. History and Development of the Company . The financial statements are presented as if we had been a separate entity for all periods presented and include estimates related to the allocation to Converium of costs of Zurich Financial Services corporate infrastructure prior to the Formation Transactions. We believe that these allocations are reasonable. However, this financial information may not be indicative of our future performance and does not necessarily reflect what our financial position and results of operations would have been had we operated as a stand-alone entity during the periods covered. This selected financial and other data should be read in conjunction with the Consolidated Financial Statements and related notes and with Management s Discussion and Analysis of Financial Condition and Results of Operations .

**Year ended December 31**

	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>
	<b>(\$ millions, except per share information)</b>				

**Income statement data:**

## Revenues:

Gross premiums written	\$ 3,978.7	\$ 4,300.4	\$ 3,372.4	\$ 2,846.8	\$ 2,547.1
Less ceded premiums written	(252.6)	(377.7)	(137.2)	(194.1)	(366.4)
Net premiums written	3,726.1	3,922.7	3,235.2	2,652.7	2,180.7
Net change in unearned premiums	156.1	(154.9)	(157.7)	(204.2)	(126.2)
Net premiums earned	3,882.2	3,767.8	3,077.5	2,448.5	2,054.5
Net investment income	312.7	234.4	251.8	234.9	176.0
Net realized capital gains (losses)	46.5	18.4	(10.3)	(18.4)	83.7
Other (loss) income	(8.2)	17.5	31.6	2.9	43.2
Total revenues	4,233.2	4,038.1	3,350.6	2,667.9	2,357.4

## Benefits, losses and expenses:

Losses, loss expenses and life benefits	(3,342.5)	(2,760.1)	(2,491.1)	(2,460.6)	(1,885.6)
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	<b>Year ended December 31</b>				
	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>
	<b>(\$ millions, except per share information)</b>				
Total costs and expenses	(1,165.3)	(1,065.5)	(841.6)	(687.5)	(614.7)
Amortization of goodwill (1)				(7.8)	(7.3)
Impairment of goodwill (1)	(94.0)				
Amortization of intangible assets	(9.9)	(1.8)			
Restructuring costs	(2.7)			(50.0)	
Total benefits, losses and expenses	(4,614.4)	(3,827.4)	(3,332.7)	(3,205.9)	(2,507.6)
(Loss) income before taxes	(381.2)	210.7	17.9	(538.0)	(150.2)
Income tax (expense) benefit	(201.3)	(32.8)	17.9	182.4	38.1
Net (loss) income	\$ (582.5)	\$ 177.9	\$ 35.8	\$ (355.6)	\$ (112.1)
(Loss) earnings per share:					
Average number of shares (millions)	63.4	39.8	39.9	40.0	40.0
Basic (loss) earnings per share (2)	\$ (9.19)	\$ 2.24	\$ 0.45	\$ (4.46)	\$ (2.80)
Diluted (loss) earnings per share (2)	(9.19)	2.23	0.45	(4.46)	(2.80)

	<b>Year ended December 31</b>				
	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>
	<b>(\$ millions, except per share information)</b>				

**Balance sheet data:**

Total invested assets	\$ 7,786.2	\$ 7,502.0	\$ 6,117.3	\$ 4,892.1	\$ 4,349.7
Total assets	14,260.9	13,280.4	10,757.5	8,862.1	8,018.2
Reinsurance liabilities	9,898.9	8,428.6	6,986.7	5,871.3	4,666.1
Debt	391.1	393.1	392.9	206.1	196.9
Total liabilities	12,526.1	11,352.4	9,162.3	7,361.3	7,011.8
Total shareholders equity	1,734.8	1,928.0	1,595.2	1,500.8	1,006.4
Book value per share (3)	11.86	48.47	39.97	37.52	25.16

	<b>Year ended December 31</b>				
	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>
	<b>(\$ millions, except ratios)</b>				

**Other data:**

Net premiums written by segment:

Standard Property & Casualty					
Reinsurance	\$1,557.9	\$1,681.6	\$1,335.6	\$1,409.8	\$1,130.8
Specialty Lines	1,736.9	1,860.8	1,584.9	1,008.7	865.5
Life & Health Reinsurance	431.3	380.3	314.7	234.2	184.4
Total net premiums written	\$3,726.1	\$3,922.7	\$3,235.2	\$2,652.7	\$2,180.7
Non-life combined ratio	115.9%(4)	97.5%	106.3%	128.8%(5)	120.8%
Ratio of earnings to fixed charges					
(6)	(7)	6.8	1.8	(8)	(9)

(1)

For a discussion of goodwill and Converium's compliance with SFAS No. 142, *Goodwill and Other Intangible Assets*, see Notes 2(k) and 9 to our 2004 consolidated financial statements.

- (2) For the periods 2001 through 2003, the earnings per share have been restated to reflect the rights offering (the 2004 rights offering) that occurred in October 2004 (see Note 25 to our 2004 consolidated financial statements). For the year 2000, the information is based on the 40,000,000 registered shares sold in the global offering in December 2001, as no other information is available for this time period. These 40,000,000 shares are considered outstanding for all periods prior to December 11, 2001.
- (3) For the year 2000, the information is based on the 40,000,000 registered shares sold in the global offering in December 2001, as no other information is available for this time period. These 40,000,000 shares are considered outstanding for all periods prior to December 11, 2001.
- (4) The impact on the non-life combined ratio of the 2004 reserve development was 16.4%
- (5) The impact on the non-life combined ratio of the September 11th terrorist attacks was 12.4%.
- (6) The ratio of earnings to fixed charges is calculated by dividing earnings by fixed charges. Fixed charges consist of interest expense and the interest portion of rental expense.
- (7) Due to Converium's loss in 2004 the ratio coverage was less than 1:1. Converium would have needed to generate additional earnings of \$381.2 million to achieve coverage of 1:1.
- (8) Due to Converium's loss in 2001 the ratio coverage was less than 1:1. Converium would have needed to generate additional earnings of \$538.0 million to achieve coverage of 1:1.
- (9) Due to Converium's loss in 2000 the ratio coverage was less than 1:1. Converium would have needed to generate additional earnings of \$150.2 million to achieve coverage of 1:1.

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**Dividends**

For a discussion of our dividend policy, see Item 8. Financial Information A. Consolidated Statements and Other Financial Information Dividends and Dividend Policy .

**B. CAPITALIZATION AND INDEBTEDNESS**

Not applicable.

**C. REASONS FOR THE OFFER AND USE OF PROCEEDS**

Not applicable.

**D. RISK FACTORS**

**Risks relating to Converium and the reinsurance industry**

*If we do not successfully implement our new strategy or if such strategy is not effective, it could have a material adverse effect on our business, financial condition, results of operations and cash flows*

Early in 2004 Converium adopted a comprehensive corporate strategy intended to build on its accomplishments since the Company was formed in 2001. Later in the year the Global Executive Committee adjusted the business model in response to adverse developments with respect to our reserves, which led to the decision to cease underwriting in North America, and to the subsequent downgrading by Standard & Poor's and A.M. Best Company of Converium AG's insurer financial strength ratings to BBB+ and B++ , respectively, and the downgrading of certain of our subsidiaries. See Item 4. Business Overview Overview and Our Strategy

There can be no assurance, however, that we will be able to successfully implement our new strategy or that such strategy will be effective. The implementation and the effectiveness of this strategy are based on a certain number of assumptions (including continued client acceptance outside the United States) and factors that are not under our control. If economic conditions, our competitive position, our rating level or our financial condition are not consistent with these assumptions or our objectives, or if the measures envisaged by the new strategy are insufficient, it is possible that our strategy would fail and that we would not achieve our objectives. In this case, our business and financial condition could deteriorate and new measures would need to be devised.

*The run-off of our North American business subjects us to particular risks*

We have ceased the writing of substantially all new business in North America and have decided to take the following additional steps with respect to our North American business:

Converium Reinsurance (North America) Inc. ( CRNA ) has been placed into run-off and will seek to commute its liabilities wherever appropriate. In addition, CRNA has hired an experienced run-off professional as its new President and CEO and has restructured its senior level staffing to function as an entity in run-off;

Converium Insurance (North America) Inc. ( CINA ) is now a limited writer, offering continuing coverage for only two discrete primary programs, one of which is mandated by state law. The plan is for CINA to maintain this status until such time as it becomes a more widely accepted carrier for its clients;

Converium has implemented a fronting arrangement to enable it to continue to participate in the Global Aerospace Underwriting Managers Limited ( GAUM ) pool. The fronting arrangement currently extends until September 30, 2005 with no contractual guarantee that it will extend beyond that date; and

We will offer reinsurance for US-originated business to select US based clients. This business will be underwritten and managed through Converium AG, Zurich.

By placing CRNA into run-off, it became subject to increased regulatory scrutiny and our plans are subject to the approval of state insurance regulators in the United States. Although we cannot predict the effect of any future regulatory orders or proceedings, state insurance regulatory agencies in the United States have broad power to institute proceedings and seek consensual orders to, among other things, take possession of the property of an insurer and to conduct the business of such insurer under rehabilitation and liquidation statutes. On September 7, 2004, we entered into a voluntary letter of understanding with the Connecticut Department of Insurance (the Department ) pursuant to which CRNA is prevented from taking a number of actions, including the payment of any dividends, without the approval of the Department. The requirements stated in this letter will remain in effect until March 15, 2006, at which

time the Department will reassess the financial condition of CRNA. Other insurance regulators may seek similar agreements or initiate other proceedings or actions. See Note 23 to our 2004 consolidated financial statements.

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The ratings downgrades as well as our decision to place CRNA into run-off have triggered special funding clauses in CRNA's and CINA's reinsurance and insurance contracts. These clauses require CRNA and CINA to provide collateral for their payment obligations under those contracts. In addition, state insurance regulators may request that CRNA and CINA make special deposits in their states or provide collateral for contracts issued to residents of their states. The approval of the Department is required before we provide collateral that is not contractually required. If the Department withholds its approval, state insurance regulators that requested special deposits or collateral not contractually required, could seek to revoke CRNA's or CINA's licenses or initiate proceedings to take possession of the property, business and affairs of CRNA or CINA in the respective states.

Additionally, there can be no assurances that commutations may be available on terms that are appropriate to our decision to run-off our North American business or that are economically acceptable.

The run-off of our North American business could ultimately have a negative impact on the perception of our franchise in the reinsurance market. As a result, we may not be able to retain personnel with the appropriate skill sets for the tasks associated with our run-off.

There also can be no assurance that we will be able to successfully write the lines that we currently contemplate from our operation in Zurich using Converium AG. Although we believe that Converium AG holds the necessary licenses to write these lines of business as a non-admitted reinsurer, Converium AG may require increased capitalization to successfully do so and we may in the future be unable to provide the necessary capitalization.

***Our ratings downgrades during 2004, and any further downgrade of our ratings, could have a material adverse effect on our business, financial condition, result of operations or cash flows***

Based on the developments of the latter part of 2004, both Standard & Poor's Ratings Services and A.M. Best lowered their respective ratings of Converium, including its subsidiaries. Following Converium Holding AG's successful 2004 rights offering, some of the ratings were subsequently raised, although not to the levels preceding the reserving action. Currently, Standard & Poor's long-term counterparty credit and insurer financial strength rating of Converium AG is

BBB+ (downgraded from a rating of A-). For Converium Rückversicherung (Deutschland) AG and Converium Insurance (UK) Ltd., the insurer financial strength rating is currently BBB+ (downgraded from a rating of A-). Based on our announcement to place CRNA into run-off, the long-term counterparty credit and insurer financial strength ratings were downgraded to R (downgraded from a rating of A-). In addition, Standard & Poor's issued a long-term counterparty credit and senior unsecured debt ratings of BB+ for Converium Holdings (North America) Inc.

(downgraded from a rating of BBB-). The current junior subordinated debt rating on Converium Finance S.A. is BBB- (downgraded from a rating of BBB+). All ratings have been assigned a stable outlook by Standard and Poor's.

Currently, A.M. Best's financial strength rating of Converium AG, Converium Rückversicherung (Deutschland) AG and Converium Insurance (UK) Ltd. is B++ (downgraded from a rating of A-) and its issuer credit rating for all three entities is bbb+ (downgraded from a rating of a-).

CINA is currently assigned a financial strength rating of B (downgraded from a rating of A-) and an issuer credit rating of bb (downgraded from a rating of a-). For Converium Finance S.A. the current issuer credit rating is bb+ (downgraded from a rating of bbb-) and the junior subordinated debt rating is bbb- (downgraded from a rating of bbb+).

All ratings have been assigned a stable outlook by A.M. Best. Following our announcement of our intention to place CRNA into run-off, the financial strength rating was

downgraded to B- from A- and the issuer credit rating to bb- from a-. For Converium Holdings (North America) Inc. issuer credit as well as the senior unsecured debt ratings were lowered to b- from bbb-.

Claims-paying ability and financial strength ratings are a key factor in establishing the competitive position of reinsurers. Given that our main competitors hold higher ratings than us, our current ratings may significantly hinder our competitive position. Our ratings may not satisfy the criteria required by some of our clients and brokers or the requirements under our existing reinsurance contracts, which would negatively impact new business and adversely affect our ability to compete in our markets. The reduction in our ratings might result in a significant decline in our premium volume in 2005.

Additionally, contracts representing approximately one-third of our total ultimate premiums with our cedents contain termination provisions relating to a downgrade of our ratings. As a result of recent downgrades, the termination provisions of many of our contracts have been triggered giving rise to a right of termination in favor of the cedent that allows the cedent to terminate the contract on a prospective basis from the date of termination. Alternatively, the

cedent and the reinsurer may renegotiate the terms of the contract. In renegotiating the contract terms, the cedent will usually require the reinsurer to post collateral to secure the obligations under the contract, which would have negative financial implications for us, as reinsurer. Moreover, limitations on our ability to post collateral could force us to renegotiate the contracts on significantly less favorable terms than if we were able to post collateral or lead to the termination of the contracts by cedents. Our recent ratings downgrades may make cedents less inclined to renegotiate the contracts at all, and has led to an increased rate of terminations.

The ratings downgrades in 2004 have also made it more difficult to renew our existing contracts, without regards to whether or not the



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existing contract contains a ratings trigger. We expect approximately one third of our existing Non-Life contracts not to be renewed in 2005 which is partially attributable to the ratings downgrade in 2004. This will, in turn, lead to a corresponding reduction our premiums written.

The pool members' agreement with respect to GAUM provides that if a member of the pool has its financial strength rating downgraded below BBB+ by Standard & Poor's Rating Service it may be served with a notice terminating its membership in the pool upon approval by the committee of representatives of the pool. Converium believes that no formal action was taken by the pool membership committee to serve a notice terminating Converium's pool membership. However, the committee has discussed Converium's downgrade and sought to take action to limit its rights to dispute the validity of any notice served on Converium. The continuation of Converium's membership at its current rating was likely to be conditional upon its entering fronting arrangements acceptable to other pool members in a timely fashion and thereafter maintaining such arrangements. Converium entered into formal written fronting arrangements, preventing the termination of its membership in the pool. The fronting arrangements require Converium to post collateral to secure its reinsurance obligations under the fronting arrangements. If Converium's membership were to be reduced to less than a 5% share, it would not be permitted to participate in future pool business and would have to collateralize by way of a letter of credit its obligations under the business written by the pool in its name prior to its termination. If Converium's membership were terminated, it also may be required to sell its shares in GAUM at an amount less than its carrying value. In 2004, this business generated \$289.0 million of gross premiums written. See Notes 4, 9 and 19 to our 2004 consolidated financial statements for additional information on GAUM.

There can be no assurance that our responses to the adverse developments of 2004 will enable us to improve or maintain our ratings.

***Our loss reserves may not adequately cover future losses and benefits***

Our loss reserves may prove to be inadequate to cover our actual losses and benefits experience. To the extent loss reserves are insufficient to cover actual losses, loss expenses or future life benefits, we would have to add to these loss reserves and incur a charge to our earnings which could have a material adverse effect on our financial condition, results of operations or cash flows.

As of December 31, 2004 we had \$8,908.3 million of gross reserves and \$7,993.8 million of net reserves for losses and loss expenses. If we underestimated these net reserves by 5%, this would have resulted in an additional \$399.7 million of incurred losses and loss expenses, before income taxes, for the year ended December 31, 2004.

Loss reserves do not represent an exact calculation of liability, but rather are estimates of the expected cost of the ultimate settlement of losses. All of our loss reserve estimates are based on actuarial and statistical projections at a given time, facts and circumstances known at that time and estimates of trends in loss severity and other variable factors, including new concepts of liability and general economic conditions. Changes in these trends or other variable factors could result in claims in excess of our loss reserves.

Unforeseen losses, the type or magnitude of which we cannot predict, may emerge in the future. These additional losses could arise from newly acquired lines of business, changes in the legal environment, or extraordinary events affecting our clients such as reorganizations and liquidations or changes in general economic conditions. We continue to conduct pricing, loss reserving, claims and underwriting studies for many casualty lines of business, including those in which preliminary loss trends are noted. Converium has experienced significant adverse development, predominantly in its US casualty reinsurance lines, for the last several years. Converium previously reported that it has experienced significant adverse development, predominantly in its US casualty reinsurance lines, for the last several years. It stated that, since 2000, Converium has recorded \$868.2 million of additional net provisions on prior year's non-life business (2000: \$65.4 million; 2001: \$123.6 million; 2002: \$148.5 million, 2003: \$(31.3) million; and 2004: \$562.0 million).

Although the Restatement did not result in changes to the reserve amounts determined as a result of Converium's process for establishing loss and loss expense reserves, it did result in corrections to the accounting for certain assumed and ceded transactions and the reserve amounts related thereto. The resulting changes relate to transactions which, at inception, did not meet the requirements for reinsurance accounting. See Note 3 to our 2004 consolidated financial statements included in Item 8. Financial Information A. Consolidated Statements and Other Financial Information, and Item 5. Operating and Financial Review and Prospects A. Operating Results. The required changes

reflected in the Restatement, substantially related to ceded reinsurance transactions, have increased/(decreased) the previously reported additional net provisions on prior non-life business as follows: (2000: \$99.6 million; 2001: \$44.2 million; 2002: \$52.6 million; 2003: (\$32.2) million; and 2004: \$3.7 million). The net strengthening of prior years loss reserves during 2004 reported in the preceding paragraph with respect to the segments were also effected by the Restatement.

Therefore, after consideration of the restated transactions and as reflected in this Form 20-F/A, since 2000, Converium has recorded a total of \$1,036.1 million of additional net provisions on prior years non-life business (2000: \$165.0 million; 2001: \$167.8 million, 2002: \$201.1 million; 2003: \$(63.5) million; and 2004: \$565.7 million).

During early 2004, Converium announced that reported losses from prior year US casualty business had exceeded expected loss emergence and that the volatility of longer-tail risks was likely to persist for some time. This adverse loss-reporting trend continued and accelerated into mid-2004 and prompted Converium to initiate additional reviews of its US business from an integrated underwriting, claims and actuarial perspective in order to examine the adequacy of prior years provisions. In addition, in order to obtain an external review of our overall reserve position, we commissioned the actuarial consulting firm Tillinghast-Towers Perrin to perform an

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independent actuarial review of our non-life loss and allocated loss expense reserves as of June 30, 2004 in respect of the Zurich and New York originated businesses. The outcome of these in-depth internal and external reviews resulted in an aggregate strengthening of prior years' non-life loss reserves by \$565.7 million for the year ended December 31, 2004. This action was taken in response to the continued adverse loss emergence due to increased claims reporting activity from clients relating to US Casualty business written from 1997 to 2001 as well as deterioration from European non-proportional motor business written in recent years. The increased claims reporting was attributable to both frequency and severity. While we believe that we have sought to fully address this issue through our reserving actions, volatility is nonetheless expected to persist for some time.

In addition, because we, like other reinsurers, do not separately evaluate each of the individual risks assumed under reinsurance treaties, we are largely dependent on the original underwriting decisions made by ceding companies. We are subject to the risk that our ceding companies may not have adequately evaluated the risks to be reinsured and that the premiums ceded to us may not adequately compensate us for the risks we assume.

***We may be unable to meet the collateral requirements necessary for our business***

As a result of the 2004 downgrades of our ratings, we have been and may continue to be required to post additional collateral in order to be accepted as sufficiently secure to write certain business. In addition, there has been a trend in our industry for a ceding company to require reinsurers to post collateral in excess of applicable regulatory collateral requirements in order to secure the reinsurers' obligation to pay claims. We may have greater limitation on our ability to post collateral than some of our competitors. If we are unable to meet the collateral requirements of ceding companies, we would be limited in our business opportunities, which could have a material adverse effect on our financial condition, results of operations or cash flows.

In November 2004, Converium AG obtained a \$1.6 billion, three-year syndicated letter of credit facility (the Syndicated Letter of Credit Facility) from various banks. The facility provides Converium's non-US operating companies with a \$1.5 billion capacity for issuing letters of credit and a \$100.0 million liquidity reserve. It replaces the existing \$900.0 million letter of credit facility that was signed in July 2003. As of December 31, 2004, Converium had outstanding letters of credit of \$955.7 million under the facility. Investments of \$1,060.8 million are pledged as collateral related to the Syndicated Letter of Credit Facility. However, Converium must comply with various financial covenants in order to avoid default under the agreement. In an event of default the majority lenders may cancel the total commitment and/or may declare that all amounts outstanding may be immediately due and payable and that full cash cover in respect of each letter of credit is immediately due and payable.

In addition to the Syndicated Letter of Credit Facility, other irrevocable letters of credit of \$639.1 million were outstanding at December 31, 2004 to secure certain assumed reinsurance contracts. Investments of \$704.7 million are pledged as collateral related to certain of these letters of credit.

See Item 3. Key information D. Risk factors Ratings changes for information on collateral requirements related to GAUM and Notes 4, 9 and 19 to our 2004 consolidated financial statements. See Item 3. Key information D. Risk factors Run-off of our North American business for information on collateral requirements related to our North American operations.

***We are subject to the cyclical nature of the reinsurance industry***

The insurance and reinsurance industries, particularly the non-life market, are cyclical. Historically, operating results of reinsurers have fluctuated significantly because of volatile and sometimes unpredictable developments, many of which are beyond their direct control. These developments include:

price competition and price setting mechanisms of clients;

frequency of occurrence or severity of both natural and man-made catastrophic events;

levels of capacity and demand;

general economic conditions; and

changes in legislation, case law and prevailing concepts of liability.

As a result, the reinsurance business historically has been characterized by periods of intense price competition due to excessive underwriting capacity as well as periods when shortages of underwriting capacity permitted attractive premium levels. We expect to continue to experience the effects of cyclicalities, which could have a material adverse effect on our business, financial condition, results of operations or cash flows.

*As a result of ongoing investigations of the insurance and reinsurance industry and non-traditional insurance products, we conducted an internal review and analysis of certain of our reinsurance transactions and restated our financial statements, however the governmental inquiries are ongoing*

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Ongoing investigations of the insurance and reinsurance industry and non-traditional insurance and reinsurance products are being conducted by U.S. and international regulators and governmental authorities, including the U.S. Securities and Exchange Commission and the New York Attorney General.

On March 8, 2005, MBIA Inc. ( MBIA ) issued a press release stating that MBIA's audit committee undertook an investigation to determine whether there was an oral agreement with MBIA under which MBIA would replace Axa Re Finance as a reinsurer to CRNA by no later than October 2005. The press release stated that it appeared likely that MBIA made such an agreement or understanding with Axa Re Finance in 1998. Thereafter, on April 19, 2005, CRNA received subpoenas from the U.S. Securities and Exchange Commission and the Office of the New York Attorney General seeking documents related to certain transactions between CRNA and MBIA. Converium has also received additional inquiries from the Securities and Exchange Commission and other governmental authorities in Europe regarding non-traditional insurance and reinsurance products and/or the restatement of its financial statements. The inquiries are ongoing and Converium is fully cooperating with the governmental authorities.

In view of the industry investigations and the events relating to MBIA described above, Converium engaged independent outside counsel to assist it in a review and analysis of certain of its reinsurance transactions, including the MBIA transactions. The internal review, which was overseen by the Audit Committee, addressed issues arising from the ongoing governmental inquiries and Converium's own decision to review certain additional items. The internal review involved the assessment of numerous assumed and ceded transactions including structured/finite risk and other reinsurance transactions and encompassed all business units of Converium, a review of hundreds of thousands of e-mails, attachments to e-mails and other documents and interviews of all current members of the Global Executive Committee and the Board of Directors, as well as certain former members of senior management and other employees of Converium. The Audit Committee believes that the scope and process of the internal review has been sufficient to determine whether Converium's assumed and ceded transactions were improperly accounted for as reinsurance, rather than as deposits. After discussing the findings of Converium's extensive internal review with independent outside counsel, the Audit Committee determined that certain accounting corrections were appropriate and authorized the Restatement of Converium's financial statements as of and for the years ended December 31, 2004 through 1998. As part of this process, the Audit Committee has involved its independent group auditors, PricewaterhouseCoopers Ltd. For further information regarding these accounting adjustments, see Note 3 to our 2004 consolidated financial statements included in Item 8. Financial Information A. Consolidated Statements and Other Financial Information, and Item 5. Operating and Financial Review and Prospects A. Operating Results . Financial information for each of the quarters ended March 31, 2003 through June 30, 2005 has also been restated. Previously published financial statements regarding any of the above periods should no longer be relied upon.

As noted above, we are fully cooperating with the governmental authorities, and are in the process of sharing the results of our internal review with the relevant authorities. Although the internal review was extensive, the ongoing governmental inquiries, or other developments, could result in further restatements of our financial results in the future and could have a material adverse effect on Converium.

***Our exposure to catastrophic events, both natural and man-made, may cause large losses***

A catastrophic event or multiple catastrophic events may cause large losses and could have a material adverse effect on our business, financial condition, and results of operations or cash flows. Natural catastrophic events to which we are exposed include windstorms, hurricanes, earthquakes, tornadoes, severe hail, severe winter weather, floods and fires, and are inherently unpredictable in terms of both their occurrence and severity. For example, in 1999 and 2002, the reinsurance industry suffered losses from unusually strong and widespread windstorms and flooding in Europe. These events adversely affected our results. In 2004, the reinsurance industry suffered losses from hurricanes in the United States and the Caribbean, the Japanese typhoons and the tsunami in the Indian Ocean.

We are also exposed to man-made catastrophic events, which may have a significant adverse impact on our industry and on us. It is possible that both the frequency and severity of man-made catastrophic events will increase.

As a result, claims from natural or man-made catastrophic events could cause substantial volatility in our financial results for any period and adversely affect our financial condition, results of operations or cash flows. Our ability to write new business could also be impacted. We believe that increases in the value and geographic concentration of insured property and the effects of inflation will increase the severity of claims from catastrophic events in the future.

The extent of our losses from catastrophic occurrences is a function of the total insured amount of losses our clients incur, the number of our clients affected, and the frequency and severity of the events. In addition, depending on the nature of the loss, the speed with which claims are made and settled, and the terms of the policies affected, we may be required to make large claims payments upon short notice. We may be forced to fund these obligations by liquidating investments unexpectedly and in unfavorable market conditions, or by raising funds at unfavorable costs, both of which could adversely affect the results of our operations.

Our efforts to protect ourselves against catastrophic losses, such as the use of selective underwriting practices, the purchasing of reinsurance (which, when bought by a reinsurer such as Converium, is known as retrocessional reinsurance) and the monitoring of risk accumulations may not prevent such occurrences from adversely affecting our profitability or financial condition.

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The majority of the natural catastrophe reinsurance we write relates to exposures within the United States, Europe and Japan. Accordingly, we are exposed to natural catastrophic events, which affect these regions, such as US hurricane, California earthquake, European windstorm and Japanese earthquake events. Our estimated potential losses, on a probable maximum loss basis, before giving effect to our retrocessional protection, for 2004, were managed to a self-imposed maximum gross event limit of \$500 million for a 250-year return period loss. See Item 9. The Offer and Listing D. Material Contracts .

### ***Terrorist attacks, national security threats, military initiatives and political unrest could result in the payment of material insurance claims and may have a negative effect on our business***

Threats of terrorist attacks, national security threats, military initiatives and political unrest have had and may continue to have a significant adverse effect on general economic, market and political conditions, increasing many of the risks in our businesses. We cannot predict the long-term effects of terrorist attacks, threats to national security, military initiatives and political unrest on our businesses at this time.

Although Zurich Financial Services, through its subsidiaries, has agreed to arrangements that cap our exposure for losses and loss expenses arising out of the September 11th terrorist attacks at \$289.2 million, net of retrocessional reinsurance recoveries, terrorist attacks and other man-made catastrophic events may have a material adverse effect on our business, financial condition or results of operations. For a discussion of the impact of the September 11th terrorist attacks on our business, see Note 10 to our 2004 consolidated financial statements.

### ***If we are unable to achieve our investment objectives, our investment results may be adversely affected***

Investment returns are an important part of our overall profitability, and fluctuations in the fixed income or equity markets could have a material adverse effect on our financial condition, results of operations or cash flows. For the years ended December 31, 2004 and 2003, net investment income and net realized capital gains accounted for 8.6% and 6.3% of our revenues, respectively. Our capital levels, ability to pay claims and our operating results substantially depend on our ability to achieve our investment objectives, which may be affected by general political and economic conditions that are beyond our control.

Fluctuations in interest rates affect our returns on fixed income investments, as well as the market values of, and corresponding levels of capital gains or losses on the fixed income securities in our investment portfolio. Generally, investment income will be reduced during sustained periods of lower interest rates as higher yielding fixed income securities are called, mature or are sold and the proceeds reinvested at lower rates. During periods of rising interest rates, prices of fixed income securities tend to fall and realized gains upon their sale are reduced.

In addition, as described under Formation transactions and relationship with Zurich Financial Services, under the Quota Share Retrocession Agreement, the Funds Withheld Asset may be prepaid to us, in whole or in part, as of the end of any calendar quarter. In the event that the Funds Withheld Asset is prepaid, we would have to reinvest these assets in investments and we may not be able to invest them at yields comparable to those payable under the Quota Share Retrocession Agreement. To the extent we are not able to invest these funds at comparable yields, our investment income could be adversely affected.

### ***Capital market fluctuations may adversely impact the value of our investments***

We had a cash and investments portfolio of \$8.5 billion as of December 31, 2004. As with any institutional investor with a similarly sized portfolio, Converium is exposed to the financial markets; in particular, an increase in interest rates, and a resulting decline in the market value of our fixed income securities, would adversely impact our shareholders' equity.

General economic conditions can adversely affect the markets for interest-rate-sensitive securities, including the extent and timing of investor participation in such markets, the level and volatility of interest rates and, consequently, the value of fixed income securities. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic political conditions and other factors beyond our control.

We have historically invested and may continue to invest a portion of our assets globally in equity securities, which are generally subject to greater risks and more volatility than fixed income securities. General economic conditions, stock market conditions and many other factors beyond our control can adversely affect the equity markets and, consequently, the value of the equity securities we own.

### ***Foreign exchange rate fluctuations may impact our financial condition, results of operation and cash flows***

We publish our financial statements in US dollars. Therefore, fluctuations in exchange rates used to translate other currencies, particularly European currencies including the Euro, British pound and Swiss franc, into US dollars will impact our reported financial condition, results of operations and cash flows from year to year. These fluctuations in exchange rates will also impact the US dollar value of our investments and the return on our investments. For 2004, approximately:



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57% of our net premiums written

43% of our net investment income

43% of our losses, loss expenses and life benefits, and

70% of our operating expenses

were denominated in currencies other than the US dollar. For a discussion of the impact of material changes in foreign exchange rates on our shareholders' equity, see Item 11. Quantitative and Qualitative Disclosures About Market Risk . As we will no longer be writing business from the United States, a smaller proportion of our business will be denominated in US dollars in the future. For a discussion of the impact of material changes in foreign exchange rates on our shareholders' equity, see Item 11. Quantitative and Qualitative Disclosures About Market Risk .

***We may face competitive disadvantages in the reinsurance industry***

The reinsurance industry is highly competitive. Some of our competitors may have greater financial or operating resources or offer a broader range of products or more competitive pricing than we do. Our ability to compete is based on many factors, including our overall financial strength and rating, geographic scope of business, client relationships, premiums charged, contract terms and conditions, products and services offered, speed of claims payment, reputation, experience and qualifications of employees and local presence. As a result of the recent ratings downgrades we expect to be in a less competitive position than we have been historically. We compete for reinsurance business in international reinsurance markets with numerous reinsurance and insurance companies, some of which have greater financial or other resources and most of which have higher financial strength ratings. We believe that our largest competitors include:

Munich Reinsurance Company;

Swiss Reinsurance Company;

General Reinsurance Company, a subsidiary of Berkshire Hathaway, Inc.;

Employers Reinsurance Corporation, a subsidiary of General Electric Company;

Hannover Re Group, which is majority-owned by the mutual insurance group HDI Haftpflichtverband der Deutschen Industrie;

Lloyd's syndicates active in the London market;

companies active in the Bermuda market, including the PartnerRe Group, XL Capital Ltd. and RenaissanceRe Holdings Ltd.;

Everest Reinsurance Company;

Transatlantic Reinsurance Company; and

SCOR.

In addition, new companies have entered the reinsurance market and existing companies have raised additional capital to increase their underwriting capacity. Other financial institutions, such as banks, are also able to offer services similar to our own. We have also recently seen the creation of alternative products from capital market participants that are intended to compete with reinsurance products. We are unable to predict the extent to which these new, proposed or potential initiatives may affect the demand for our products or the supply and terms of risks that may be available for us to consider underwriting.

***The loss of key employees and executive officers without suitable replacements being recruited within a suitable period of time could adversely affect us***

Our ability to execute our business strategy is dependent on our ability to attract, develop and retain a staff of qualified underwriters and other key employees. Our senior management team includes a number of key personnel whose skills, experience and knowledge of the reinsurance industry constitute important elements of Converium's competitive strengths. Certain of our key employees and executive officers have recently resigned. If additional executive officers or key employees leave their positions at Converium, even if we were able to find persons with suitable skills to replace them, our operations could be adversely affected. In addition, a strong financial position is important to us in order to retain and attract skilled personnel in the industry, especially underwriters with specific expertise in high-margin, non-commoditized specialty lines of business. If our current or future financial position does not allow us to do so, our operations could be adversely affected. See Item 6. Directors, Senior Management and Employees A. Directors and Senior Management .

In addition, one of the material weaknesses identified within Converium's internal control environment was the need to train or recruit suitably qualified individuals to fill the knowledge and experience gaps that have been identified within the financial accounting and reporting function. Although we are actively undertaking a recruitment search to identify and hire additional qualified staff and providing further training to existing staff to fill the knowledge and experience gaps within financial accounting and reporting, there can be no assurance that we will be able to do so. If we are unable to successfully recruit and train such staff we will be unable to remedy the material weakness.

***We have identified material weaknesses in our internal control environments; investor confidence and our share value may be adversely impacted if we are unable to remedy the material weaknesses.***

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As a foreign private issuer we are not currently subject to Section 404 of the Sarbanes-Oxley Act ( SOX 404 ). However, in connection with our year-end audit and our Sarbanes-Oxley implementation project two material weaknesses were identified within Converium's internal control environment as at December 31, 2004. For purposes of SOX 404, a material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

The first weakness identified as of December 31, 2004 was the need to train or recruit suitably qualified individuals to fill the knowledge and experience gaps caused by the departure of various key finance employees. The second weakness identified was the failure in the operation of key internal controls over the initiation of reinsurance and financial accounting data.

Converium's Audit Committee subsequently identified two additional material weaknesses. The third weakness identified was the lack of controls to ensure that the underwriting and risk transfer analyses reflect all relevant elements of contractual relationships entered into by Converium. The fourth weakness identified relates to internal controls over the determination, valuation, completeness and reporting of certain components of the income tax payables and deferred income tax balances (assets and liabilities).

Converium is in the process of addressing these weaknesses. However, if our remedial measures are not successful, our ability to report our future financial results on a timely and accurate basis may be adversely affected.

The SEC, as directed by SOX 404, adopted rules requiring public companies to include a report of management on the company's internal control over financial reporting in its Annual Report on Form 20-F that contains an assessment by management of the effectiveness of the company's internal control over financial reporting. In addition, our principal independent auditor must attest to and report on management's assessment of the effectiveness of the company's internal control over financial reporting. We cannot be certain as to the timing of completion of any remediation actions or the impact of the same on our operations. Under the current rules, as a foreign private issuer, we must begin to comply with the rules implementing SOX 404 in respect of our fiscal year ending December 31, 2006. If we are unable to remedy the material weaknesses we have identified by that time, or if new material weaknesses come to our attention and remain unremedied at that time, management will not be permitted to conclude that our internal controls over financial reporting are effective. Moreover, even if management does conclude that our internal controls over financial reporting are effective, if our independent group auditors are not satisfied with our internal controls over financial reporting or the level at which controls are documented, designed, operated or reviewed, or if the independent group auditors interpret the requirements, rules or regulations differently from us, then they may decline to attest to management's assessment or may issue a report that is qualified. Any of these possible outcomes could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our financial statements, which ultimately could negatively impact the market price of our securities.

### ***Consolidation in the insurance industry could lead to lower margins for us and less demand for our reinsurance products and services***

The insurance industry overall is undergoing a process of consolidation as industry participants seek to enhance their product and geographic reach, client base, operating efficiency and general market power through merger and acquisition activities. These larger entities may seek to use the benefits of consolidation to, among other things, implement price reductions for the products and services they purchase. If competitive pressures compel us to reduce our prices, our operating margins would decrease.

As the insurance industry consolidates, competition for customers may become more intense and the importance of acquiring and properly servicing each customer will become greater. We could incur greater expenses relating to customer acquisition and retention, which could reduce our operating margins. In addition, insurance companies that merge may be able to enhance their negotiating position when buying reinsurance and may be able to spread their risks across a larger capital base so that they require less reinsurance.

### ***Regulatory or legal changes could adversely affect our business***

Insurance laws, regulations and policies currently governing our clients and us may change at any time in ways which may adversely affect our business. Furthermore, we cannot predict the timing or form of any future regulatory initiatives. We are subject to applicable government regulation in each of the jurisdictions in which we conduct

business, particularly in Switzerland, the United States, the United Kingdom and Germany. Regulatory agencies have broad administrative power over many aspects of the insurance and reinsurance industries. Government regulators are concerned primarily with the protection of policyholders rather than shareholders or creditors.

Recently, the insurance and reinsurance regulatory framework has been subject to increased scrutiny in many jurisdictions. Changes in current insurance regulation may include increased governmental involvement in the insurance industry, initiatives aimed at premium controls, requirements for participation in guaranty associations or other industry pools and other changes which could adversely affect the reinsurance business and economic environment. Such changes could impose new financial obligations on us, require us to make unplanned modifications of our products and services, or result in delays or cancellations of sales of our products and services.

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The reinsurance industry is also affected by political, judicial, regulatory and other legal developments, which have at times in the past resulted in new or expanded theories of liability. We cannot predict the future impact of changing law or regulation on our business.

In addition the reinsurance industry may also be impacted by the New York Attorney General's investigations of the insurance industry. See Item 4. B. Business Overview Regulation .

### ***We purchase retrocessional reinsurance, which may become unavailable on acceptable terms and subjects us to credit risk***

In order to limit the effect on our financial condition of large and multiple losses, we buy retrocessional reinsurance. From time to time, market conditions have limited, and in some cases have prevented, insurers and reinsurers from obtaining the types and amounts of reinsurance which they consider adequate for their business needs. There can be no assurance that we will be able to obtain our desired amounts of retrocessional reinsurance. There is also no assurance that, if we are able to obtain such retrocessional reinsurance, we will be able to negotiate terms as favorable to us as in prior years.

A retrocessionaire's insolvency or its inability or unwillingness to make payments under the terms of its reinsurance treaty with us could have a material adverse effect on our business, financial condition, results of operations or cash flows. Therefore, our retrocessions subject us to credit risk because the ceding of risk to retrocessionaires does not relieve us of our liability to our ceding companies. See Item 4. B. Business Overview Retrocessional reinsurance and Note 27 to our 2004 consolidated financial statements.

### ***Because we depend on a small number of reinsurance brokers for a large portion of our revenue, loss of business written through them could adversely affect our financial condition, results of operations or cash flows***

We market our reinsurance products worldwide in substantial part through reinsurance brokers. In some markets we principally write through reinsurance brokers. In 2004, two reinsurance intermediaries produced approximately 11.0% and 9.0% of our gross premiums written, respectively. Loss of all or a substantial portion of the business written through brokers could have a material adverse effect on our financial condition, results of operations or cash flows.

### ***Our reliance on reinsurance brokers exposes us to their credit risk***

In 2004, approximately 52% of our gross premiums written were written through brokers. In accordance with industry practice, we frequently pay amounts owed on claims under our policies to reinsurance brokers, and these brokers, in turn, pay these amounts over to the insurers that have reinsured a portion of their liabilities with us. We refer to these insurers as ceding insurers. In some jurisdictions, or pursuant to some contractual arrangements, if a broker fails to make such a payment, we may remain liable to the ceding insurer for the deficiency. Conversely, in certain jurisdictions, when the ceding insurer pays premiums for these policies to reinsurance brokers for payment over to us, these premiums are considered to have been paid and the ceding insurer will no longer be liable to us for those amounts, whether or not we have actually received the premiums. Consequently, in connection with the settlement of reinsurance balances, we assume a degree of credit risk associated with reinsurance brokers around the world.

### ***We may be adversely affected if Zurich Financial Services or its subsidiaries fail to honor their obligations to us or our clients***

As part of the Formation Transactions described under Formation transactions and relationship with Zurich Financial Services, we entered into a number of contractual agreements with Zurich Financial Services and its affiliates including the Master Agreement, the Quota Share Retrocession Agreement, the Master Novation and Indemnity Reinsurance Agreement, service agreements, lease agreements and certain indemnity agreements. Among other things, under the Quota Share Retrocession Agreement, Zurich Financial Services, through its subsidiaries, provides us with a substantial amount of our investment returns. Additionally, Zurich Financial Services, through its subsidiaries, has agreed to arrangements that cap our exposure, net of retrocessional reinsurance recoveries, for losses and loss expenses arising out of the September 11th terrorist attacks at \$289.2 million, the amount of loss and loss expenses we recorded as of September 30, 2001. In addition, subsidiaries of Zurich Financial Services have provided us with retrocessional reinsurance protection, provided coverage for certain workers' compensation exposure, indemnified us for specified taxes and other matters and agreed to lease or sublease office space to us. Therefore, we are exposed to credit risk from Zurich Financial Services with respect to these obligations.

In addition, Zurich Financial Services subsidiaries remain the legal counterparty for many of our assumed reinsurance contracts. Although we do not have credit risk exposure with respect to these contracts, if these Zurich Financial Services subsidiaries do not honor their commitments efficiently and effectively to these clients, we might bear reputational risk. See Item 4. Information on the Company A. History and Development of the Company .  
***We may be restricted from consummating a change of control transaction, disposing of assets or entering new lines of business***

Certain tax considerations and contractual arrangements with Zurich Financial Services may make an acquisition of Converium less likely and limit our ability to dispose of assets or enter into new lines of business. See Formation transactions and relationship with Zurich Financial Services .

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We are also restricted from disposing of assets under the terms of our indenture relating to the \$200 million principal amount of 7.125% Senior Notes due 2023.

Our inability to dispose of assets or enter new lines of business may render us less able to respond to changing market and competitive conditions, which could have a material adverse effect on our financial condition, results of operations or cash flows.

### ***European Reinsurance Directive may disadvantage companies like us which are not established within the European Union***

In June 2005, the European Parliament adopted a proposal for a directive (the Directive) on reinsurance for consideration. The Directive, when implemented, will establish the principles applicable to the operation of reinsurance business in a Member State and rules regarding technical provisions and the solvency requirements applicable to reinsurance companies. The Directive is based largely on solvency related concepts stipulated in the prior directive adopted by the European Union (the EU) for insurance companies. The Directive does not provide for any discrimination of non-EU based reinsurance companies. However, if the final implementation Directive should bring about such discriminatory regulations, this could be a disadvantage for Converium AG in its doing business in the EU, as Converium AG derives a substantial proportion of its revenues within the EU and any competitive disadvantage we face there could have an adverse effect on our financial condition, results of operations or cash flows.

## **ITEM 4. INFORMATION ON THE COMPANY**

Converium Holding AG was incorporated in Switzerland on June 19, 2001 as a joint stock company as defined in article 620 et seq. of the Swiss Code of Obligations. We were registered on June 21, 2001 in the Commercial Register of the Canton of Zug with registered number CH-170.3.024.827-8. Our registered office is Dammstrasse 19, CH-6301 Zug, Switzerland.

### **A. HISTORY AND DEVELOPMENT OF THE COMPANY**

On March 22, 2001, Zurich Financial Services announced its intention to divest substantially all of its third-party reinsurance business historically operated under the Zurich Re brand name. This business had been managed and operated as a global operation since 1998. We refer to our initial public offering and the associated transactions described below in this 20-F/A as the Formation Transactions. As part of the Formation Transactions, ownership of this business was consolidated under Converium Holding AG, a newly incorporated Swiss company.

The Formation Transactions consisted of the following principal steps:

The transfer to us of the Zurich Re reinsurance business now conducted by Converium AG, through a series of steps including:

- o Our reinsurance of this business through quota share retrocession agreements with two units of Zurich Financial Services, (the Quota Share Retrocession Agreement);
- o The establishment of funds withheld balances in our favor by the applicable units of Zurich Financial Services (the Funds Withheld Asset), on which we will be paid investment returns by the Zurich Financial Services units;
- o The transfer of assets including cash, marketable securities and participations by Zurich Financial Services and its subsidiaries to Converium, together with the assumption of liabilities;

The acquisition of the Cologne reinsurance business through the transfer by a subsidiary of Zurich Financial Services to Converium AG of its 98.63% interest in ZRK, which was renamed Converium Rückversicherung (Deutschland) AG. Converium's interest in Converium Rückversicherung (Deutschland) AG increased to 100% in January 2003;

The acquisition of the North American reinsurance business through the transfer by a subsidiary of Zurich Financial Services of all of the voting securities of Zurich Reinsurance (North America) Inc. to CHNA Inc., a wholly owned subsidiary of Converium AG. In conjunction with this transfer, CHNA assumed \$200 million of public debt from a subsidiary of Zurich Financial Services, and Zurich Reinsurance (North America), Inc. was renamed CRNA;

The sale of 35,000,000 of our registered shares to the public by Zurich Financial Services on December 11, 2001 in our initial public offering and the subsequent sale of 5,000,000 of our registered shares to the public by Zurich Financial Services on January 9, 2002 as a result of the underwriters' exercise of their over-allotment option, which

sales resulted in the public owning 100% of our shares; and

After our initial public offering, Converium AG used cash transferred to us by Zurich Financial Services to acquire from subsidiaries of Zurich Financial Services approximately \$140 million of residential and commercial rental properties located in Switzerland.

As part of the Formation Transactions, Zurich Financial Services and its subsidiaries transferred cash and other assets and liabilities to Converium. The assets transferred to us included:

The shareholders' equity of the legal entities comprising our operating businesses;

The operating assets of the Zurich reinsurance business; and

The balance of the assets transferred to us consisted of investments and cash, of which approximately \$140 million was used by



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Converium AG to acquire residential and commercial rental properties located in Switzerland from subsidiaries of Zurich Financial Services

For a description of the agreements and transactions involved in the Formation Transactions and our divestiture from Zurich Financial Services, including certain ongoing contractual arrangements with Zurich Financial Services, see Item 10. Additional Information C. Material Contracts .

For description of our capital raising activities that occurred in October 2004, see Item 10. Additional Information B. Memorandum and Articles of Incorporation .

Converium Finance S.A. is a company incorporated for unlimited duration under the laws of Luxembourg on October 7, 2002. It has authorized share capital of 31,000 divided into 3,100 shares with a par value of 10 per share, 3,099 of which are owned by Converium AG and one of which is held by BAC Management S.a.r.l., a director of Converium Finance S.A., and all of which are fully paid. Converium Finance S.A.'s registered office is 54, boulevard Napoleon Ier, L-2210 Luxembourg. The objective of Converium Finance S.A., as stated in its Articles of Incorporation, is the acquisition, the management, the enhancement and the disposal of participations in whichever form in domestic and foreign companies.

Converium Insurance (UK) Ltd is an insurance company that incorporated for unlimited duration in the United Kingdom on November 11, 2002. It holds a license as an insurer from the United Kingdom Financial Services Authority dated May 27, 2003. Converium Insurance (UK) Ltd engages in issuing insurance policies in conjunction with selected cases, currently comprising of our business relating to GAUM, MDU and SATEC. It has authorized share capital of GBP 60,000,000 divided into 60,000,000 shares with a par value of GBP 1 per share, all of which are owned by Converium Holdings (UK) Ltd.

Converium PCC Ltd, Guernsey, is a company incorporated for an unlimited time in Guernsey/United Kingdom on October 31, 2000, which was set up in conjunction with the Formation Transactions of the IPO. The company holds a reinsurance license from the Guernsey Financial Services Commission dated October 12, 2001, and its purpose is to facilitate the intra-group reinsurance between certain branch offices of Converium AG and the parent.

In 2004, we formed Converium Finance (Bermuda) Ltd, as well as Converium IP Management Ltd, both of which were incorporated in Bermuda on December 17, 2004. As part of the formation process, Converium Holding AG has contributed the rights to commercially exploit the Converium brand to Converium Finance (Bermuda) Ltd, which in turn has entered into a license agreement with Converium IP Management Ltd allowing the latter to commercially exploit the Converium brand with respect to our operating insurance respectively, reinsurance branch offices and subsidiaries. We implemented this corporate change mainly to comply with relevant tax rules applicable to holding companies in the Canton of Zug, Switzerland in order to protect the current tax status of Converium Holding AG as a holding company.

## **B. BUSINESS OVERVIEW**

### **Overview**

We are an international reinsurer whose business operations are recognized for innovation, professionalism and service. We believe we are accepted as a professional reinsurer for all major lines of non-life and life reinsurance mainly in Europe, Asia-Pacific and Latin America. We actively seek to create innovative and efficient reinsurance solutions to complement our target clients' business plans and needs. We focus on core underwriting skills and on developing close client relationships while honoring our and our clients' relationships with intermediaries.

We offer a broad range of mostly traditional non-life and life reinsurance solutions to help our target clients to efficiently manage capital and risks. In non-life reinsurance, our lines of business are General Third Party Liability, Motor, Personal Accident (assumed from non-life insurers), Property, Agribusiness, Aviation & Space, Credit & Surety, Engineering, Marine & Energy, Professional Liability and other Special Liability and Workers' Compensation. In Life & Health Reinsurance, our lines of business are Life and Disability reinsurance, including quota share, surplus coverage and financing contracts, and Accident and Health.

We underwrite reinsurance both directly with ceding companies and through intermediaries, giving us the flexibility to pursue business in accordance with our ceding companies' preferred reinsurance purchasing method. In 2004, 52% of our gross premiums written were written through intermediaries and 48% were written on a direct basis.

During 2004, our business was organized around three operating segments: Standard Property & Casualty Reinsurance, Specialty Lines and Life & Health Reinsurance; which are based principally on lines of business. The business segments are supported by global business support functions such as Actuarial & Risk Management and Underwriting Technical Services, and by global services such as Human Resources, Finance and IT. We believe that this structure provides a higher degree of transparency, accountability and management control. Unless otherwise stated, the information presented in this Annual Report on Form 20-F/A is presented on the basis of these business segments as organized during 2004.

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In the first quarter of 2005, Converium formally adopted a change to the reporting line of the management of its North American operations. This change was introduced to reflect the placement of CRNA into orderly run-off and management's desire to monitor this business on a stand-alone basis. Therefore, Converium's business will be organized around three ongoing operating segments: Standard Property & Casualty Reinsurance, Specialty Lines and Life & Health Reinsurance, which are based principally on global lines of business, in addition to a Run-Off segment. The Run-Off segment includes all business, both life and non-life, originating from CRNA and CINA, excluding the US originated aviation business. Unless otherwise stated, the information included in this Annual Report on Form 20-F/A is presented on the basis of the three business segments organized during 2004 and the Run-Off segment is included within these three segments as appropriate. In addition to the four segments' financial results, the Corporate Center carries certain administration expenses, such as costs of the Board of Directors, the Global Executive Committee, and other corporate functions.

There are types of business which we historically participated in that we will no longer be able to write or will write at a significantly reduced level due to the placement of our US operations into run-off. We have discontinued the writing of reinsurance from offices located in North America. However, we will offer reinsurance for attractive US originated business to a limited number of select accounts. This business will be underwritten and managed through Converium AG, Zurich.

### **Restatement of Previously Issued Financial Statements**

Ongoing investigations of the insurance and reinsurance industry and non-traditional insurance and reinsurance products are being conducted by U.S. and international regulators and governmental authorities, including the U.S. Securities and Exchange Commission and the New York Attorney General.

On March 8, 2005, MBIA issued a press release stating that MBIA's audit committee undertook an investigation to determine whether there was an oral agreement with MBIA under which MBIA would replace Axa Re Finance as a reinsurer to CRNA by no later than October 2005. The press release stated that it appeared likely that MBIA made such an agreement or understanding with Axa Re Finance in 1998. Thereafter, on April 19, 2005, CRNA received subpoenas from the U.S. Securities and Exchange Commission and the Office of the New York Attorney General seeking documents related to certain transactions between CRNA and MBIA. Converium has also received additional inquiries from the Securities and Exchange Commission and other governmental authorities in Europe regarding non-traditional insurance and reinsurance products and/or the restatement of its financial statements. The inquiries are ongoing and Converium is fully cooperating with the governmental authorities.

In view of the industry investigations and the events relating to MBIA described above, Converium engaged independent outside counsel to assist it in a review and analysis of certain of its reinsurance transactions, including the MBIA transaction. The internal review, which was overseen by the Audit Committee, addressed issues arising from the ongoing governmental inquiries and Converium's own decision to review certain additional items. The internal review involved the assessment of numerous assumed and ceded transactions including structured/finite risk and other reinsurance transactions and encompassed all business units of Converium, a review of hundreds of thousands of e-mails, attachments to e-mails and other documents and interviews of all current members of the Global Executive Committee and the Board of Directors, as well as certain former members of senior management and other employees of Converium. The Audit Committee believes that the scope and process of the internal review has been sufficient to determine whether Converium's assumed and ceded transactions were improperly accounted for as reinsurance, rather than as deposits. After discussing the findings of Converium's extensive internal review with independent outside counsel, the Audit Committee determined that the accounting corrections below were appropriate and authorized the Restatement of Converium's financial statements as of and for the years ended December 31, 2004 through 1998, the effects of which are included in these financial statements for the years ended December 31, 2004, 2003 and 2002 and as at December 31, 2004 and 2003. As part of this process, the Audit Committee has involved its independent group auditors, PricewaterhouseCoopers Ltd. Financial information for each of the quarters ended March 31, 2003 through June 30, 2005 has also been restated. Previously issued financial statements for any of the above periods should no longer be relied upon. All amounts herein have been adjusted to reflect the restatement.

*Restatement overview*

As a result of the internal review, Converium has concluded that the accounting for a number of reinsurance transactions needed to be corrected and that its financial statements and selected financial and other data should be restated. The Restatement of reinsurance contracts relates primarily to the US GAAP requirement that in order to qualify for reinsurance accounting treatment, reinsurance agreements transfer significant risk, as required by SFAS 113. Cash flows under reinsurance contracts that transfer significant risk are recognized as premiums and losses. Reinsurance contracts that do not transfer significant risk are not reported as premiums and losses, but are instead accounted for using deposit accounting, with cash flows recognized as deposit assets or liabilities with associated other income or expense. Converium also restated its accounting for income taxes and certain other items.

**Our Strategy**

Early in 2004 Converium adopted a comprehensive corporate strategy intended to build on its accomplishments since the Company was formed in 2001. Later in the year the Global Executive Committee adjusted the business model in response to developments which led to

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the decision to cease underwriting in North America, and in response to the subsequent downgrading by Standard & Poor's and A.M. Best Company of Converium AG's insurer financial strength rating to BBB+ and B++ , respectively. Certain key elements of Converium's post-IPO strategy have remained both profitable and tactically sound. Business underwritten outside the United States, since the IPO, has met or exceeded financial targets based on current estimates. Converium continued to attract business in targeted lines and regions during the January 1, 2005 renewal period. This success underlines market appetite for a mid-sized, independent reinsurer, and justifies shareholders' decision at the Extraordinary General Meeting in late September 2004 to support Converium as a stand-alone entity delivering consistency and continuity under its existing business model. Current strengths arising from recent strategic positioning and development include the decision to continue to build direct client relationships in Continental Europe and elsewhere. In general, such relationships have proven more enduring than broker channels in the current business environment. In the specific case of Converium's contract renewals for January 1, 2005, the greatest business continuity achievements were made among clients with whom Converium has direct personal relationships at all levels, with or without the involvement of intermediaries. In addition, the strategic diversification of Converium's income streams has created a more robust organization by gaining access to business at its source. These steps include the development of strategic partnerships such as that with the Medical Defence Union ( MDU ) in the United Kingdom, participation in GAUM, and the formation of Converium's corporate name at Lloyd's to support clients operating in that market by providing capital to them directly. Other successful strategic initiatives include expansion in the Asia-Pacific region, and refocusing and expanding of Converium's Life & Health Reinsurance segment in Europe. Strategic decisions to increase activity supported by knowledge-based underwriting in certain specialty lines markets and to maintain a thoroughly technical and profitability focused approach to all aspects of Converium's business have also contributed to the Company's resilience.

### ***Looking ahead***

Despite the strength of Converium's strategic business model, changes lie ahead. The Company will continue to adjust its client base to concentrate on partnership-focused professional reinsurance buyers within client segments dependent on reinsurance. This move is supported by Converium's value proposition, built around comprehensive client services such as underwriting support and financial and natural-hazard modeling. Geographically, Converium now focuses its local presence and underwriting on clients located in Europe, Asia-Pacific, and Latin America. The Company will continue to serve North American customers selectively from Zurich, following the decision to place CRNA into an orderly run-off, which will be accompanied by an active commutation strategy. A restructuring process is now underway to ensure that Converium's physical presence matches its strategic outlook. Converium will continue to serve and develop clients that will benefit from its strong capitalization following the 2004 rights offering. Converium's existing targeting of strategic partnerships will continue, especially for rating-sensitive specialty lines underwriting. Although 2004 was a challenging year for Converium, the validity of its incumbent strategic path outside the United States has been clearly endorsed. Converium's business model will be further enhanced in 2005, with a clear line-of-business and geographical focus, an emphasis on expertise and service, and a rigorous technical approach.

### ***Our vision***

We aim to be a core competitor in the international reinsurance industry, contributing to the evolution of the sector with forward-thinking and innovative solutions that enable our clients to efficiently manage their risk. We aspire to be recognized as an agile, credible and interactive organization that provides a model to a new generation of reinsurers.

### ***Our mission***

We are an international multi-line reinsurer that satisfies our clients' business needs by excelling at analyzing, assuming and managing risks. In an ethical and responsible manner we aspire to provide:

sustainable value growth for our shareholders;

excellent service for our customers and intermediaries;

a fulfilling work environment for our employees; and

a spirit of shared responsibility within our community.

***Our core business***

Our core business is to analyze, assume and manage portfolios of insurance risks, and to invest our assets so that they support the insurance risks we assume. Our strategy for each of our business segments is as follows:

*Standard Property & Casualty Reinsurance*

The Standard Property & Casualty Reinsurance segment is comprised of the General Third Party Liability, Motor, Personal Accident (assumed from non-life insurers) and Property lines of business. The Standard Property & Casualty Reinsurance segment's strategy is to continue as a stand-alone, multi-line competitor in the international reinsurance marketplace. The strategy was redefined following the

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latest rating agencies downgrading in the second half of 2004 and now focuses on partnership-oriented professional reinsurance buyers in the markets Europe, Latin America, Asia and Australia. Our long-term client relationships are based on our capabilities, e.g. natural hazard expertise, financial modeling capabilities, structuring advice and claims and underwriting audits, contributing to earnings and cash flows. We remain committed to underwriting discipline to achieve the best possible shareholder return, which is only possible through cycle management.

### *Specialty Lines*

The Specialty Lines segment includes the Agribusiness, Aviation & Space, Credit & Surety, Engineering, Marine & Energy, Professional Liability and other Specialty Liability and Workers Compensation lines of business. The Specialty Lines segment's strategy is to develop specialty businesses in which Converium can position itself as a market leader and effectively leverage its intellectual assets in risk analysis, structuring, product design and risk modelling. We focus on specialty businesses because we believe that Converium possesses superior underwriting and structuring capabilities in certain areas, which is both a key driver of profitability as well as an effective barrier to entry in certain business lines.

Wherever possible, Converium seeks to develop preferred access to specialty lines through strong relationships, strategic partnerships or participations in entities that enjoy a unique position, such as strong control over the origination of their business, which prevent them from having to compete in annual insurance or reinsurance auctions. Examples of the approach by which we seek to develop preferred access to these businesses are our strategic partnership with MDU in the U.K., our participation in GAUM and our shares in its pools and our participation in SATEC and our share in its pool, as well as many strong relationships with specialized mono-line insurers. Also, Converium Underwriting Ltd, a Lloyd's Corporate Member, has successfully provided third-party capacity to certain specialist Lloyd's syndicates.

Some specialty lines are subject to cyclical pricing fluctuations. Converium remains committed to underwriting discipline to achieve the best possible shareholder return, which is only possible through cycle management.

### *Life & Health Reinsurance*

The Life & Health Reinsurance segment comprises the Life and Disability and Accident and Health lines of business. The Life & Health Reinsurance segment's strategy is to increase the stability of Converium's income. Traditional life reinsurance has a low correlation to property and casualty risks and can therefore improve our risk diversification. Our Life & Health Reinsurance segment will continue to grow its activities in its existing key markets, which are Germany, Italy and France; markets with significant potential for future opportunities for us include Switzerland, Austria, Denmark, Poland and the Czech Republic.

The business segments are supported by global business support functions such as Actuarial & Risk Management and Underwriting Technical Services, and by global services such as Human Resources, Finance and IT.

### ***Guiding principles for our business***

We have established the following guiding principles for the development of our business:

Our lead objective is to maximize economic value. The metrics we use to measure this are net after-tax operating income and performance excess. Performance excess is the measure we use to implement economic value-based management at Converium and is the key metric for measuring expected and actual underwriting performance.

Performance excess represents the economic value added attached to all reinsurance contracts in our portfolio and takes into account all expected benefits and costs emanating from a contract or group of contracts, including expected premiums, expected losses and all other internal and external costs including taxes and the costs of the allocated risk-based capital. Hence, performance excess equals the expected net present value created for shareholders, in excess of the cost of capital;

To optimize our overall risk profile, we balance and diversify our portfolio by line of business, by region and by duration;

All contracts we underwrite should be profitable in expectation; that is, a performance excess target of at least equal to zero. For every individual client relationship, the performance excess must be greater than or equal to zero in expectation, at every renewal;

We seek to grow our relationships with our target clients, but sustainable profitability is a prerequisite; and

Assumed retrocession, financial guarantees, underwriting authorities for assumed reinsurance and fronting are outside of our strategic scope.

In addition, we have established the following guiding principles to manage our business:

*Cycle management.* We have a systematic approach to the allocation of capital and resources to those lines of business and markets that meet our profitability standards, and to withdraw from businesses that do not meet our performance thresholds. Historically, the reinsurance cycles in different lines of business and markets have not moved simultaneously. Our strong international franchise and our distribution and servicing platform provide broad access to an international reinsurance market, and enable the flexible allocation of



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resources to those lines of business or markets in which profitability prospects are most favorable at any point in time. Our well established relationships with clients and intermediaries, as well as our transparent pricing approach, allow us to manage the cycle by moving in and out of lines of business or markets without putting long-term business relationships at risk.

*Risk management.* We continue to maintain, develop and implement an enterprise risk management culture, including underwriting, pricing, reserving, asset & liability management and operational risk management, by balancing upside potential and downside risk, based on appropriate capital allocation and relevant risk migration measures.

*Operational efficiency.* We manage our expense base effectively through continuous analysis of business processes and operational structures, with a view to enhancing business integration and achieving synergies and efficiencies.

*Retention management.* We manage our gross and net risk positions on a legal entity basis and on a group-wide basis, through global risk pooling and the limited use of retrocession.

*Investment policy.* We allocate capital primarily to support underwriting risks with the aim of optimizing the after-tax risk-return characteristics of our investment portfolio. Our asset allocation focuses on core portfolios of high-quality bonds and equities, generally managed passively. Further diversification is achieved through complementary portfolios in other asset classes, such as real estate, credit portfolios and non-traditional or alternative investments; these portfolios are generally actively managed. The acquisition of minority stakes in insurance or reinsurance companies remains outside of our strategic scope.

*Capital management.* We are committed to strengthening our capitalization in order to ensure that clients, intermediaries and rating agencies regard us as a credible reinsurer for short-, medium- and long-tail business. At the same time, we remain committed to returning capital to shareholders if such capital cannot be fully deployed to support reinsurance underwriting at adequate returns and it does not jeopardize the perception of our financial strength.

**Our business**

We are an international professional reinsurer, which offers a broad range of non-life and life reinsurance to help our clients manage capital and risk. Our principal lines of non-life reinsurance include General Third Party Liability, Motor, Personal Accident (assumed from non-life insurers), Property, Agribusiness, Aviation & Space, Credit & Surety, Engineering, Marine & Energy, Professional Liability and other Special Liability and Workers Compensation. The principal life reinsurance products are Life and Disability reinsurance, including quota share, surplus coverage and financing contracts, and Accident and Health.

In addition to our offices in Cologne, New York, Zug and Zurich, we have branch offices in Bermuda, Labuan, London, Milan, Paris, Singapore and Sydney, as well as marketing offices in Buenos Aires, Kuala Lumpur, London, Mexico City (to be closed in 2005), Sao Paulo and Tokyo. In addition, we have administrative offices in Stamford, Connecticut. We have a sub-holding company in London and finance subsidiaries in Luxembourg and Bermuda, an IP company in Bermuda (to be transferred to Zug, Switzerland in 2005) and a licensed reinsurance company in Guernsey, facilitating intra-group reinsurance within Converium.

During 2004 our business was organized around three operating segments: Standard Property & Casualty Reinsurance, Specialty Lines and Life & Health Reinsurance; which are based principally on lines of business. The business segments are supported by global business support functions such as Actuarial & Risk Management and Underwriting Technical Services, and by global services such as Human Resources, Finance and IT. We believe that this structure provides a higher degree of transparency, accountability and management control. See Item 4.

Information on the Company B. Business Overview for discussion regarding the reorganization of our segment structure in the first quarter of 2005.

The table below presents, by segment, the distribution of our premiums written and (loss) income for the year ended December 31, 2004. For additional information regarding the results of our operating segments, see Item 5 Operating and Financial Review and Prospects A. Operating Results and the Schedule of Segment Data on page F-7 of the financial statements. As a result of the ratings downgrades and the run-off of our North American business, we expect a significant decline in the amount of premiums as well as significant shifts in the geographic and line of business distributions of premiums that we write going forward as compared to our historical performance.



**Table of Contents****Year Ended December 31, 2004 (Restated)**

	<b>Gross premiums written</b>		<b>Net premiums written</b>		<b>Segment income (loss) \$ millions</b>
	<b>\$ millions</b>	<b>% of total</b>	<b>\$ millions</b>	<b>% of total</b>	
<b>Business Segment:</b>					
Standard Property & Casualty					
Reinsurance	\$1,699.5	42.7%	\$1,557.9	41.8%	\$ 40.1
Specialty Lines	1,833.2	46.1	1,736.9	46.6	(252.1)
Life & Health Reinsurance	446.0	11.2	431.3	11.6	16.9
Corporate Center					(38.2)
Total	\$3,978.7	100.0%	\$3,726.1	100.0%	(233.3)
Other loss					(8.2)
Interest expense					(33.1)
Impairment of goodwill					(94.0)
Amortization of intangible assets					(9.9)
Restructuring costs					(2.7)
Income tax expense					(201.3)
Net loss					\$(582.5)

Reported premium figures reflect the overall growth of the Company during the periods 2002 through 2004. Premium accruals are impacted if and when cedents report premium adjustments over time as the underlying exposure becomes increasingly certain. The impact is positive, i.e., accruals increase, if the cedent has assumed a higher exposure and hence higher premium than expected at policy inception. It is typically negative if estimated premiums for the assumed exposure turn out to be lower, leading to a reduction in accruals. The process of adjusting premium accruals varies greatly because cedents in many countries around the world apply local practices for, among other things, the recording of exposure, financial reporting as well as reporting to third parties (such as their reinsurers) and the timing of recording final premiums. In addition, accruals can be impacted by contracts cancelled under special termination clauses, leading to a reduction in premium accruals. The adjustment of acquisition costs tends to vary for the same reasons as the adjustment of premium accruals because acquisition costs are a function of premiums as well as actual loss experience (i.e., reinstatement premiums, sliding scale commissions, etc.), although relative amounts differ. The table below presents the composition of our gross premiums written and acquisition costs by line of business, separated between reported and change in accrual for the years ended December 31, 2004, 2003 and 2002:

	<b>Year Ended December 31,</b>								
	<b>2004</b>			<b>2003</b>			<b>2002</b>		
	<b>Reported</b>	<b>Accrued</b>	<b>Total</b>	<b>Reported</b>	<b>Accrued</b>	<b>Total</b>	<b>Reported</b>	<b>Accrued</b>	<b>Total</b>
		<b>(Restated)</b>			<b>(Restated)</b>			<b>(Restated)</b>	
		<b>(\$ millions)</b>			<b>(\$ millions)</b>			<b>(\$ millions)</b>	
	<b>Gross Premiums Written</b>								
<b>Standard Property &amp; Casualty Reinsurance</b>									
General Third Party Liability	391.4	44.9	436.3	508.6	-104.8	403.8	193.9	118.2	312.1
Motor	596.2	-65.6	530.6	562.6	-43.2	519.4	356.5	18.1	374.6
Personal Accident	51.6	-17.9	33.7	37.0	1.0	38.0	30.6	4.4	35.0

(assumed from non-life insurers)									
Property Total Standard Property & Casualty Reinsurance	656.3	42.6	698.9	893.0	-33.8	859.2	594.1	80.1	674.2
<b>Specialty Lines</b>									
Agribusiness	89.7	30.2	119.9	41.3	57.2	98.5	31.8	-9.8	22.0
Aviation & Space	486.6	-10.2	476.4	460.9	24.2	485.1	349.4	58.8	408.2
Credit & Surety	126.4	48.0	174.4	228.0	16.3	244.3	167.2	32.0	199.2
Engineering	126.1	-7.6	118.5	138.2	6.7	144.9	96.7	24.2	120.9
Marine & Energy	95.5	-6.0	89.5	108.2	-7.3	100.9	77.9	22.4	100.3
Professional Liability and other Special Liability	842.1	-210.9	631.2	690.0	0.7	690.7	478.0	90.3	568.3
Workers Compensation	246.1	-22.9	223.2	208.8	100.2	309.0	193.3	21.2	214.5
Total Specialty Lines	2,012.5	-179.3	1,833.2	1,875.4	198.0	2,073.4	1,394.3	239.1	1,633.4
<b>Life &amp; Health Reinsurance</b>									
Life and Disability	342.5	-94.6	247.9	226.4	-27.4	199.0	211.0	-27.9	183.1
Accident and Health	206.9	-8.8	198.1	199.4	8.2	207.6	132.7	27.3	160.0

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	Year Ended December 31,								
	2004			2003			2002		
	Reported	Accrued (Restated)	Total	Reported	Accrued (Restated)	Total	Reported	Accrued (Restated)	Total
	(\$ millions)			(\$ millions)			(\$ millions)		
Total Life & Health									
Reinsurance	549.4	-103.4	446.0	425.8	-19.2	406.6	343.7	-0.6	343.1
Total	4,257.3	-278.7	3,978.7	4,302.6	-2.0	4,300.4	2,913.1	459.3	3,372.4

**Acquisition Costs**

<b>Standard Property &amp; Casualty Reinsurance</b>									
General Third Party Liability	81.8	29.0	110.8	90.6	2.0	92.6	43.1	14.9	58.0
Motor	99.3	4.2	103.5	97.6	-10.0	87.6	66.5	2.9	69.4
Personal Accident (assumed from non-life insurers)	17.6	-0.9	16.7	6.3	1.0	7.3	5.9	1.3	7.2
Property	149.4	31.4	180.8	198.1	-8.1	190.0	125.4	20.4	145.8
Total Standard Property & Casualty Reinsurance	348.1	63.7	411.8	392.6	-15.1	377.5	240.8	39.5	280.3
<b>Specialty Lines</b>									
Agribusiness	8.7	3.6	12.3	4.7	2.8	7.5	1.6	-0.6	1.0
Aviation & Space	78.9	1.3	80.2	64.7	-16.6	48.1	51.7	1.0	52.7
Credit & Surety	49.7	11.2	60.9	61.7	0.5	62.2	49.2	1.1	50.3
Engineering	32.2	-2.3	29.9	34.0	5.8	39.8	24.2	-2.3	21.9
Marine & Energy	21.2	-1.5	19.7	22.0	-8.5	13.5	16.4	8.7	25.1
Professional Liability and other Special Liability	171.2	-30.9	140.3	166.3	3.4	169.7	92.5	-0.9	91.6
Workers Compensation	36.1	21.8	57.9	45.1	-11.5	33.6	51.5	8.3	59.8
Total Specialty Lines	398.0	3.2	401.2	398.7	-24.2	374.5	287.4	15.1	302.5
<b>Life &amp; Health Reinsurance</b>									
Life and Disability	92.0	-38.3	53.7	52.6	-16.0	36.6	30.8	4.0	34.8

Accident and Health	49.0	-3.3	45.7	39.9	3.5	43.4	24.7	4.4	29.1
Total Life & Health Reinsurance	141.0	-41.6	99.4	92.6	-12.6	80.0	55.6	8.4	64.0
Total	886.2	25.3	912.4	883.9	-51.9	832.0	583.8	63.0	646.8

The table below presents the geographic distribution of our gross premiums written for the years ended December 31, 2004, 2003 and 2002, based on the location of the ceding companies.

	2004		Year Ended December 31, 2003		2002	
	(Restated)		(Restated)		(Restated)	
	(\$ millions)	% of total	(\$ millions)	% of total	(\$ millions)	% of total
United Kingdom*	1,160.8	29.2	1,188.0	27.6	910.4	27.0
Germany	389.6	9.8	286.9	6.7	176.1	5.2
France	158.2	4.0	160.4	3.7	106.9	3.2
Italy	162.2	4.1	131.2	3.1	84.0	2.5
Rest of Europe	379.8	9.5	338.9	7.9	224.0	6.6
Far East	238.5	6.0	266.4	6.2	191.9	5.7
Near and Middle East	124.3	3.1	134.3	3.1	124.3	3.7
North America	1,253.3	31.0	1,642.6	38.2	1,389.8	41.2
Latin America	130.0	3.3	151.7	3.5	165.0	4.9
Total	\$3,978.7	100.0%	\$4,300.4	100.0%	\$3,372.4	100.0%

\* Premiums from the United Kingdom include business assumed through GAUM and Lloyd's syndicates for such lines of business as Aviation & Space as well as marine, where the exposures are worldwide in nature. Therefore, geographic location of the ceding company may not necessarily be indicative of the location of risk.

The table below presents the distribution of our net premiums written by line of business for the years ended December 31, 2004, 2003 and 2002.

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	<b>Year Ended December</b>					
	<b>2004</b>		<b>31,</b>		<b>2002</b>	
	<b>(Restated)</b>		<b>(Restated)</b>		<b>(Restated)</b>	
	<b>\$</b>	<b>% of</b>	<b>\$</b>	<b>% of</b>	<b>\$</b>	<b>% of</b>
	<b>millions</b>	<b>total</b>	<b>millions</b>	<b>total</b>	<b>millions</b>	<b>total</b>
<b>Standard Property &amp; Casualty Reinsurance</b>						
General Third Party						
Liability	\$ 429.7	11.6%	\$ 364.0	9.3%	\$ 301.1	9.3%
Motor	493.5	13.2	488.8	12.5	353.5	10.9
Personal Accident (assumed from non-life insurers)	34.5	0.9	35.3	0.9	35.0	1.1
Property	600.2	16.1	793.5	20.2	646.0	20.0
<b>Total Standard Property &amp; Casualty Reinsurance</b>	<b>1,557.9</b>	<b>41.8</b>	<b>1,681.6</b>	<b>42.9</b>	<b>1,335.6</b>	<b>41.3</b>
<b>Specialty Lines</b>						
Agribusiness	126.9	3.4	90.0	2.2	22.0	0.7
Aviation & Space	404.5	10.9	341.6	8.7	365.3	11.3
Credit & Surety	169.6	4.6	239.4	6.1	199.2	6.2
Engineering	112.2	3.0	139.9	3.6	116.1	3.6
Marine & Energy	86.2	2.2	95.3	2.4	94.3	2.9
Professional Liability and other Special						
Liability	611.0	16.4	643.7	16.5	567.4	17.5
Workers Compensation	226.5	6.1	310.9	7.9	220.6	6.8
<b>Total Specialty Lines</b>	<b>1,736.9</b>	<b>46.6</b>	<b>1,860.8</b>	<b>47.4</b>	<b>1,584.9</b>	<b>49.0</b>
<b>Total non-life reinsurance</b>	<b>3,294.8</b>	<b>88.4</b>	<b>3,542.4</b>	<b>90.3</b>	<b>2,920.5</b>	<b>90.3</b>
<b>Life &amp; Health Reinsurance</b>						
Life and Disability	234.8	6.3	172.9	4.4	154.7	4.8
Accident and Health	196.5	5.3	207.4	5.3	160.0	4.9
<b>Total Life &amp; Health Reinsurance</b>	<b>431.3</b>	<b>11.6</b>	<b>380.3</b>	<b>9.7</b>	<b>314.7</b>	<b>9.7</b>
<b>Total</b>	<b>\$3,726.1</b>	<b>100.0%</b>	<b>\$3,922.7</b>	<b>100.0%</b>	<b>\$3,235.2</b>	<b>100.0%</b>

**Types of Reinsurance**

Both non-life reinsurance and life reinsurance can be written on either a proportional basis or a non-proportional basis. Proportional reinsurance is also known as pro rata reinsurance. Quota share reinsurance and surplus reinsurance are types of proportional reinsurance. Some non-proportional reinsurance takes the form of excess of loss reinsurance in which the reinsurer's obligations are only triggered after covered losses exceed a specified attachment point. In the case of proportional reinsurance, the reinsurer assumes a predetermined portion of the ceding company's risks under the covered insurance contract or contracts. In the case of non-proportional reinsurance, the reinsurer assumes all or a specified portion of the ceding company's risks in excess of a specified amount, known as the ceding company's retention or the reinsurer's attachment point, subject to a negotiated reinsurance contract limit.

Premiums that the ceding company pays to a reinsurer for proportional reinsurance are a predetermined portion of the premiums that the ceding company receives from its insured, consistent with the proportional sharing of risk. In

addition, in proportional reinsurance, the reinsurer generally pays the ceding company a ceding commission. The ceding commission is usually based on the ceding company's cost of generating the business being reinsured, which includes commissions, premium taxes, assessments and miscellaneous administrative expenses and a profit participation for originating the business, the amount of which is based on the claims experience. The ceding commission may also be affected by competitive factors. Premiums that the ceding company pays to a reinsurer for non-proportional reinsurance are not directly proportional to the premiums that the ceding company receives because the reinsurer does not assume a direct proportion of the ceding company's risk. The frequency of claims under a proportional reinsurance contract is usually greater than under a non-proportional contract, and therefore the claims experience with proportional reinsurance contracts is generally more predictable.

Non-proportional non-life reinsurance is often written in layers. One or a group of reinsurers accepts the risk just above the ceding company's retention up to a specified amount, at which point another reinsurer or a group of reinsurers accepts the excess liability up to an additional specified limit or the excess liability reverts to the ceding company. The reinsurer taking on the risk just above the ceding company's retention is typically said to write lower layer excess reinsurance. A claim that reaches just beyond the ceding company's retention will create a claims payment for the lower layer reinsurer, but not for the reinsurers of any higher layers. Claims activity in lower layer reinsurance tends to be more predictable than in higher layers due to greater frequency and availability of historical data, and therefore, like proportional reinsurance, better enables underwriters and actuaries to more accurately price the underlying risks. In a limited number of cases, reinsurance is also written on an aggregate stop-loss basis to protect the ceding company's total portfolio from extraordinary losses resulting from the aggregation of individual risks.



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Both non-life reinsurance and life reinsurance can be written either through treaty or facultative reinsurance arrangements. In treaty reinsurance, the ceding company cedes, and the reinsurer assumes, a specified portion of a type or category of risks insured by the ceding company. Generally in the industry, treaty reinsurers do not separately evaluate each of the individual risks assumed under their treaties and are largely dependent on the original risk underwriting decisions made by the ceding company's underwriters. This dependence subjects reinsurers to the possibility that the ceding company has not adequately evaluated the risks to be reinsured and, therefore, that the premiums ceded to the reinsurer may not adequately compensate the reinsurer for the risk assumed. Accordingly, the reinsurer's evaluation of the ceding company's risk management and underwriting practices, as well as claims settlement practices and procedures, will usually impact the pricing of the treaty.

In facultative reinsurance, the ceding company cedes, and the reinsurer assumes, all or part of a specific risk or risks. Facultative reinsurance normally is purchased by ceding companies for risks not covered by their reinsurance treaties, for amounts in excess of the monetary limits of their reinsurance treaties and for unusual and complex risks. In addition, facultative risks often provide coverages for relatively severe exposures, which results in greater volatility. The ability to evaluate separately each risk reinsured, however, increases the probability that the reinsurance underwriter can price the contract to reflect more accurately the risks involved.

Non-traditional reinsurance involves structured reinsurance solutions tailored to meet individual client strategic and financial objectives. Both non-life reinsurance and life reinsurance can be written on a structured/finite basis. Often these reinsurance solutions provide reinsurance protection across a company's entire insurance portfolio. Because of the constantly changing industry and regulatory framework, as well as the changing market demands facing insurance companies, the approaches utilized in structured/finite programs are constantly evolving and will continue to do so. We underwrite our product lines on a non-proportional and proportional basis, as well as on a structured/finite basis. We integrate our facultative specialists with our underwriting professionals with treaty expertise, organizing them as focused teams around client relationship management and lines of business. We do not distinguish between treaty and facultative reinsurance, but rather between proportional and non-proportional underwriting and lines of business. In 2004, \$3.0 billion or approximately 76.5% of our gross premiums written were written on a proportional treaty basis, \$0.6 billion or approximately 14.9% of our gross premiums written were written on a non-proportional basis, and \$0.3 billion or approximately 8.6% of our gross premiums written were written on a structured/finite basis. The table below presents the distribution of our gross premiums written by type of reinsurance for the years ended December 31, 2004, 2003 and 2002.

	Year Ended December 31,					
	2004		2003		2002	
	(Restated)		(Restated)		(Restated)	
	\$	% of	\$	% of	\$	% of
	millions	total	millions	total	millions	total
Proportional	\$3,043.8	76.5%	\$2,714.5	63.1%	\$2,091.1	62.0%
Non-proportional	592.4	14.9	1,125.1	26.2	891.7	26.4
Structured/finite	342.5	8.6	460.8	10.7	389.6	11.6
Total	\$3,978.7	100.0%	\$4,300.4	100.0%	\$3,372.4	100.0%

***Proportional and Non-proportional***

We offer traditional reinsurance products on both a proportional and non-proportional basis in all our lines of business. Our non-proportional business includes Property, Motor, Aviation & Space and Professional Liability and other Special Liability lines, to complement our established market position in non-proportional liability. The growth in our proportional business has been mainly due to an increase in proportional Property, Aviation & Space and Motor as well as opportunities in proportional Agribusiness. In 2004, we saw increased premium writings from proportional business, especially in General Third Party Liability and Professional Liability and other Special Liability.

We believe that clients and brokers actively seek our input in the evaluation and structuring of businesses with unique or difficult risk characteristics. We believe this is a result of our innovative approach, organizational resources and financial condition. We have developed integrated teams of professionals with significant treaty and individual risk, or

facultative, expertise which support the professionals we have in our branch network. We offer facultative products to a limited extent and only to a selected number of clients on a proportional and non-proportional basis. We deploy our international specialty lines experts and local specialists to design solutions to address our clients' risk management needs.

*Structured/finite*

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Structured/finite reinsurance solutions are marketed by our Standard Property & Casualty Reinsurance, Specialty Lines and Life & Health Reinsurance segments. Our structured/finite specialists focus on providing clients with innovative financial solutions for their risk management and other financial needs, primarily through reinsurance products. Whether working directly with the client or through a broker, we seek to develop client-specific solutions after spending time with the client to understand its business needs. These client-specific solutions include such products as loss portfolio transfers and adverse loss development covers. Loss portfolio transfers involve the transfer of liability of discontinued or expired insurance programs from one company to another company for a fee. Coverage under adverse development covers is provided on an excess basis and amounts of indemnification are generally subject to specific aggregate limits.

Structured/finite products have several features that differ from traditional reinsurance products and may typically include (i) premium refunds based on actual loss experience; (ii) loss sharing provisions; (iii) additional premiums based on actual loss experience, (iv) sliding scale commission rates, (v) non-refundable reinsurer's margins; and (vi) underwriting terms that limit the maximum aggregate exposure.

We believe that to succeed in providing our clients with the solutions they need, we must take a comprehensive, iterative approach in our analysis. To accomplish this goal, we deploy teams that include underwriting, tax, accounting, actuarial and banking experts who can effectively address all aspects of the solution composed of internal and external resources. We believe this multi-disciplinary approach provides an efficient way to address the respective issues.

Some structured/finite reinsurance markets are rating-sensitive and due to our recent downgrades we expect written premium volume in this area to reduce significantly.

**Non-Life Operations****Overview**

We operate our non-life reinsurance business through our two non-life segments: Standard Property & Casualty Reinsurance and Specialty Lines. Our non-life operations had gross premiums written of \$3,532.7 million for the year ended December 31, 2004, representing 88.8% of our total gross premiums written.

The following table sets forth our non-life reinsurance gross premiums written by type and line of business for the years ended December 31, 2004, 2003 and 2002:

	Year Ended December 31,					
	2004		2003		2002	
	\$(Restated) millions	% of total	\$(Restated) millions	% of total	\$(Restated) millions	% of total
<b>Proportional</b>						
General Third Party						
Liability	\$ 410.5	15.6%	\$ 243.9	10.4%	\$ 194.5	11.0%
Motor	400.7	15.2	380.9	16.2	251.2	14.2
Personal Accident (assumed from non-life insurers)	28.0	1.1	30.3	1.3	31.9	1.8
Property	473.4	18.0	503.0	21.4	423.5	24.0
Agribusiness	113.1	4.3	83.6	3.6	3.5	0.2
Aviation & Space	446.4	17.0	417.7	17.8	310.8	17.6
Credit & Surety	203.8	7.8	181.8	7.7	133.7	7.6
Engineering	114.2	4.4	141.5	6.0	118.8	6.7
Marine & Energy	72.6	2.8	78.5	3.3	81.5	4.6
Professional Liability and other Special Liability	338.8	12.9	262.2	11.1	194.7	11.0
Workers Compensation	22.6	0.9	29.3	1.2	22.6	1.3

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Total Proportional	\$2,624.1	100.0%	\$2,352.7	100.0%	\$1,766.7	100.0%
<b>Non-Proportional</b>						
General Third Party						
Liability	\$ 0.9	0.2%	\$ 126.7	11.7%	\$ 102.5	11.7%
Motor	129.8	22.9	138.5	12.8	123.3	14.1
Personal Accident (assumed from non-life insurers)	5.7	1.0	7.7	0.7	3.1	0.4
Property	214.6	37.9	354.5	32.8	248.0	28.4
Agribusiness	6.8	1.2	14.9	1.4	18.5	2.1
Aviation & Space	30.0	5.3	67.6	6.3	97.4	11.1
Credit & Surety	17.1	3.0	40.0	3.7	35.6	4.1

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	Year Ended December 31,					
	2004		2003		2002	
	(Restated)		(Restated)		(Restated)	
	\$	% of	\$	% of	\$	% of
	millions	total	millions	total	millions	total
Engineering	4.3	0.7	3.4	0.3	2.1	0.2
Marine & Energy	16.9	3.0	22.4	2.1	18.8	2.2
Professional Liability and other Special Liability	128.3	22.7	278.9	25.8	213.5	24.5
Workers Compensation	11.6	2.1	25.9	2.4	10.1	1.2
Total Non-Proportional	\$ 566.0	100.0%	\$ 1,080.5	100.0%	\$ 872.9	100.0%
<b>Structured/Finite</b>						
General Third Party Liability	\$ 24.8	7.2%	\$ 33.2	7.2%	\$ 15.1	3.9%
Motor					0.2	
Personal Accident (assumed from non-life insurers)						
Property	11.1	3.3	1.6	0.3	2.5	0.6
Agribusiness						
Aviation & Space			-0.2			
Credit & Surety	-46.4	-13.6	22.6	4.9	29.9	7.7
Engineering						
Marine & Energy						
Professional Liability and other Special Liability	164.1	47.9	149.7	32.5	160.1	41.1
Workers Compensation	189.0	55.2	253.8	55.1	181.8	46.7
Total Structured/Finite	\$ 342.6	100.0%	\$ 460.7	100.0%	\$ 389.6	100.0%
<b>Total</b>						
General Third Party Liability	\$ 436.2	12.3%	\$ 403.8	10.4%	\$ 312.1	10.3%
Motor	530.5	15.0	519.4	13.3	374.7	12.3
Personal Accident (assumed from non-life insurers)	33.7	1.0	38.0	1.0	35.0	1.2
Property	699.1	19.8	859.1	22.1	674.0	22.2
Agribusiness	119.9	3.4	98.5	2.5	22.0	0.7
Aviation & Space	476.4	13.5	485.1	12.5	408.2	13.5
Credit & Surety	174.5	4.9	244.4	6.3	199.2	6.6
Engineering	118.5	3.4	144.9	3.7	120.9	4.0
Marine & Energy	89.5	2.5	100.9	2.6	100.3	3.3
Professional Liability and other Special Liability	631.2	17.9	690.8	17.7	568.3	18.8
Workers Compensation	223.2	6.3	309.0	7.9	214.5	7.1
Total	\$ 3,532.7	100.0%	\$ 3,893.9	100.0%	\$ 3,029.2	100.0%

The table below presents the loss, underwriting expense and combined ratios of our non-life reinsurance business both by line of business and type of reinsurance for the years ended December 31, 2004, 2003 and 2002. This table represents an aggregation of line of business ratios for our two non-life segments. Subsequent tables present ratios for

each non-life segment by line of business and type of reinsurance. Any prior underwriting year development (positive or negative) will affect the ratios of the calendar year in which the activity is recorded.

**Loss, Expense and Combined Ratios**  
**Year Ended December 31,**

	<b>2004</b>			<b>2003</b>			<b>2002</b>		
	<b>(Restated)</b>			<b>(Restated)</b>			<b>(Restated)</b>		
	<b>U/W</b>			<b>U/W</b>			<b>U/W</b>		
	<b>Loss</b>	<b>Expense</b>	<b>Combined</b>	<b>Loss</b>	<b>Expense</b>	<b>Combined</b>	<b>Loss</b>	<b>Expense</b>	<b>Combined</b>
	<b>Ratio</b>	<b>Ratio</b>	<b>Ratio(1)</b>	<b>Ratio</b>	<b>Ratio</b>	<b>Ratio(1)</b>	<b>Ratio</b>	<b>Ratio</b>	<b>Ratio(1)</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
General Third Party Liability	88.0%	27.6%	115.6%	89.1%	24.7%	113.8%	106.5%	20.4%	126.9%
Motor	97.8	19.1	116.9	86.2	18.0	104.2	90.7	19.8	110.5
Personal Accident (assumed from non-life insurers)	53.8	38.2	92.0	68.5	21.2	89.7	69.4	18.1	87.5
Property	54.2	27.2	81.4	45.8	24.6	70.4	52.8	24.0	76.8
Agribusiness	79.6	9.4	89.0	87.0	8.6	95.6	100.9	4.8	105.7
Aviation & Space	53.7	24.5	78.2	41.6	15.4	57.0	70.0	14.5	84.5

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	<b>2004</b> <b>(Restated)</b>			<b>2003</b> <b>(Restated)</b>			<b>2002</b> <b>(Restated)</b>		
	<b>Loss</b> <b>Ratio</b> <b>%</b>	<b>Expense</b> <b>Ratio</b> <b>%</b>	<b>Combined</b> <b>Ratio(1)</b> <b>%</b>	<b>Loss</b> <b>Ratio</b> <b>%</b>	<b>Expense</b> <b>Ratio</b> <b>%</b>	<b>Combined</b> <b>Ratio(1)</b> <b>%</b>	<b>Loss</b> <b>Ratio</b> <b>%</b>	<b>Expense</b> <b>Ratio</b> <b>%</b>	<b>Combined</b> <b>Ratio(1)</b> <b>%</b>
Credit & Surety	64.7	27.9	92.6	61.0	29.6	90.6	65.1	28.9	94.0
Engineering	76.7	25.5	102.2	64.7	29.8	94.5	81.7	21.9	103.6
Marine & Energy	87.5	21.4	108.9	73.5	14.4	87.9	86.3	27.7	114.0
Professional Liability and other Special Liability	138.2	21.1	159.3	79.1	27.3	106.4	103.2	18.7	121.9
Workers Compensation	96.2	23.9	120.1	114.3	13.0	127.3	84.9	24.3	109.2
Proportional	75.4	27.4	102.8	64.5	25.9	90.4	79.0	24.4	103.4
Non-Proportional	133.7	13.0	146.7	81.9	13.0	94.9	79.3	16.8	96.1
Structured/Finite	97.8	15.0	112.8	79.3	25.7	105.0	91.0	14.9	105.9
Total	87.4	23.6	111.0	71.1	22.2	93.3	80.6	21.1	101.7

(1) The combined ratios presented in this table exclude administration expenses.

For an explanation of ratio calculations, please refer to the Schedule of Segment Data on page F-7 of our 2004 consolidated financial statements. For an explanation of significant loss activity, see Item 5 Operating and Financial Review and Prospects A. Operating Results .

**Standard Property & Casualty Reinsurance**

The Standard Property & Casualty Reinsurance segment's strategy is to continue as a stand-alone, multi-line competitor in the international reinsurance marketplace. The strategy was redefined following the latest rating agencies' downgrading in the second half of 2004 and now focuses on partnership-oriented professional reinsurance buyers in the markets Europe, Latin America, Asia and Australia. Our long-term client relationships are based on our capabilities, e.g. natural hazard expertise, financial modelling capabilities, structuring advice and claims and underwriting audits, contributing to earnings and cash flows. We remain committed to underwriting discipline to achieve the best possible shareholder return, which is only possible through cycle management.

The lines of business of the Standard Property & Casualty Reinsurance segment are as follows:

**General Third Party Liability**

We provide a broad range of coverage for reinsurance of industrial, manufacturer, operational, environmental, product and general third-party liability. We provide liability coverage on both a proportional and non-proportional basis.

**Motor**

Motor insurance can include coverage in three major areas – liability, physical damage and accident benefits, for all of which we provide reinsurance coverage. Liability insurance provides coverage payment for injuries and for property damage to third parties. Physical damage provides for payment of damages to an insured automobile arising from a collision with another object or from other risks such as fire or theft. Accident benefits provide coverage for loss of income and medical and rehabilitation expenses for insured persons who are injured in an automobile accident, regardless of fault.

**Personal Accident (assumed from non-life insurers)**

We provide accident coverages for various business lines, including personal accident and travel accident.

**Property**

We reinsure liability for physical damage caused by fire and allied perils such as explosion, lightning, storm, flood, earthquake and for costs of debris removal, as well as coverage of business interruption and loss of rent as a result of an insured loss. Other sub-lines of Property reinsurance include cover for hail, burglary, water damage and glass

breakage.

The following table presents the distribution of net premiums written by our Standard Property & Casualty Reinsurance segment for the years ended December 31, 2004, 2003 and 2002.

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	Year ended December 31,					
	2004 (Restated)		2003 (Restated)		2002 (Restated)	
	\$ millions	% of total	\$ millions	% of total	\$ millions	% of total
<b>Standard Property &amp; Casualty Reinsurance:</b>						
General Third Party Liability	\$ 429.7	27.6%	\$ 364.0	21.6%	\$ 301.1	22.5%
Motor	493.5	31.7	488.8	29.1	353.5	26.5
Personal Accident (assumed from non-life insurers)	34.5	2.2	35.3	2.1	35.0	2.6
Property	600.2	38.5	793.5	47.2	646.0	48.4
Total Standard Property & Casualty Reinsurance	\$1,557.9	100.0%	\$1,681.6	100.0%	\$1,335.6	100.0%

The following table presents the loss, underwriting expense and combined ratios of our Standard Property & Casualty Reinsurance segment by line of business and type of reinsurance for the years ended December 31, 2004, 2003 and 2002.

**Loss, Expense and Combined Ratios  
Year Ended December 31,**

	2004 (Restated)			2003 (Restated)			2002 (Restated)		
	Loss Ratio %	U/W		Loss Ratio %	U/W		Loss Ratio %	U/W	
		Expense Ratio %	Combined Ratio(1) %		Expense Ratio %	Combined Ratio(1) %		Expense Ratio %	Combined Ratio(1) %
General Third Party Liability	88.0%	27.6%	115.6%	89.1%	24.7%	113.8%	106.5%	20.4%	126.9%
Motor	97.8	19.1	116.9	86.2	18.0	104.2	90.7	19.8	110.5
Personal Accident (assumed from non-life insurers)	53.8	38.2	92.0	68.5	21.2	89.7	69.4	18.1	87.5
Property	54.2	27.2	81.4	45.8	24.6	70.4	52.8	24.0	76.8
Proportional	70.7	28.1	98.8	57.1	26.8	83.9	77.2	26.7	103.9
Non-Proportional	93.0	11.3	104.3	81.6	13.3	94.9	73.8	12.4	86.2
Structured/Finite	156.8	30.1	186.9	184.3	40.2	224.5	22.9	30.5	53.4
Total Standard Property & Casualty Reinsurance	76.8	24.9	101.7	67.8	22.7	90.5	75.6	21.9	97.5

(1) The combined ratios presented in this table exclude administration expenses.

For an explanation of ratio calculations, please refer to the Schedule of Segment Data on page F-7 of our 2004 consolidated financial statements. For an explanation of significant loss activity, see Item 5 Operating and Financial Review and Prospects A. Operating Results .

**Specialty Lines**

The Specialty Lines segment's strategy is to develop specialty businesses in which Converium can position itself as a market leader and effectively leverage its intellectual assets in risk analysis, structuring, product design and risk modelling. We focus on specialty businesses because we believe that Converium possesses superior underwriting and structuring capabilities in certain areas, which is both a key driver of profitability as well as an effective barrier to entry in certain business lines. Wherever possible, Converium seeks to develop preferred access to specialty lines through strong relationships, strategic partnerships or participations in entities that enjoy a unique position, such as strong control over the origination of their business, which prevents them from having to compete in annual insurance or reinsurance auctions.

Wherever possible, Converium seeks to develop preferred access to specialty lines through strong relationships, strategic partnerships or participations in entities that enjoy a unique position, such as strong control over the origination of their business, which prevent them from having to compete in annual insurance or reinsurance auctions. Examples of the approach by which we seek to develop preferred access to these businesses are our strategic partnership with MDU in the U.K., our participation in GAUM and our shares in its pools and our participation in SATEC and our share in its pool, as well as many strong relationships with specialized mono-line insurers. Also, Converium Underwriting Ltd, a Lloyd's Corporate Member, has successfully provided third-party capacity to certain specialist Lloyd's syndicates.

Some specialty lines are subject to cyclical pricing fluctuations. Converium remains committed to underwriting discipline to achieve the best possible shareholder return, which is only possible through cycle management.

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Due to the long-tail nature of many of the specialty lines of business, the emergence of accounting profit (on the basis of US GAAP) occurs after a time lag. The high levels of carried reserves necessary for the specialty lines of business underwritten by the segment can be capital consumptive during periods of strong growth in premiums written and may pose a constraint on the amount of growth and the business mix of the segment.

The lines of business of the Specialty Lines segment are as follows:

*Agribusiness*

We provide covers for specific named perils, traditional crop hail and bundled risks. These covers can apply to almost any product in the food and fiber chain: commodity crops, specialty crops and animal crops.

*Aviation & Space*

We provide reinsurance of personal accident and liability risks and hull damage in connection with the operation of aircraft and coverage of satellites during launch and in orbit.

*Credit & Surety*

Our credit coverages provide reinsurance for financial losses sustained through the failure for commercial reasons of an insured's customers to pay for goods or services supplied to them. Our surety business relates to the reinsurance of risks associated with performance bonds and other forms of sureties or guarantees issued to third parties for the fulfillment of contractual obligations.

*Engineering*

We write all lines of engineering risks including project risks (construction all risk and erection all risk) and annual covers such as for machinery and electronic equipment, as well as consequential loss resulting from both project and annual risk.

*Marine & Energy*

We provide reinsurance relating to the property and liability coverage of goods in transit (cargo insurance) and the means of their conveyance (hull insurance).

*Professional Liability and other Special Liability*

We offer specialized underwriting, actuarial and claims expertise for professional liability, including medical malpractice, directors and officers, architects and engineers, accountants and lawyers liability. We also provide errors and omissions reinsurance coverage for specialized and other lines of business.

*Workers Compensation*

Our products include reinsurance for statutory workers' compensation programs, as well as individual risk excess workers' compensation.

The following table presents the distribution of net premiums written by our Specialty Lines segment for the years ended December 31, 2004, 2003 and 2002.

	Year ended December 31,					
	2004		2003		2002	
	(Restated)		(Restated)		(Restated)	
	\$	% of total	\$	% of total	\$	% of total
	millions		millions		millions	
<b>Specialty Lines:</b>						
Agribusiness	\$ 126.9	7.3%	\$ 90.0	4.8%	\$ 22.0	1.5%
Aviation & Space	404.5	23.3	341.6	18.4	365.3	23.0
Credit & Surety	169.6	9.8	239.4	12.9	199.2	12.6
Engineering	112.2	6.5	139.9	7.5	116.1	7.3
Marine & Energy	86.2	4.9	95.3	5.1	94.3	5.9
Professional Liability and other Special Liability	611.0	35.2	643.7	34.6	567.4	35.8
Workers Compensation	226.5	13.0	310.9	16.7	220.6	13.9
Total Specialty Lines	\$1,736.9	100.0%	\$1,860.8	100.0%	\$1,584.9	100.0%



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The following table presents the loss, underwriting expense and combined ratios of our Specialty Lines segment by line of business and type of reinsurance for the years ended December 31, 2004, 2003 and 2002.

**Loss, Expense and Combined Ratios  
Year Ended December 31,**

	<b>2004 (Restated)</b>			<b>2003 (Restated)</b>			<b>2002 (Restated)</b>		
	<b>U/W</b>			<b>U/W</b>			<b>U/W</b>		
	<b>Loss Ratio</b>	<b>Expense Ratio</b>	<b>Combined Ratio(1)</b>	<b>Loss Ratio</b>	<b>Expense Ratio</b>	<b>Combined Ratio(1)</b>	<b>Loss Ratio</b>	<b>Expense Ratio</b>	<b>Combined Ratio(1)</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Agribusiness	79.6%	9.4%	89.0%	87.0%	8.6%	95.6%	101.0%	4.8%	105.8%
Aviation & Space	53.7	24.5	78.2	41.6	15.4	57.0	70.0	14.5	84.5
Credit & Surety	64.7	27.9	92.6	61.0	29.6	90.6	65.1	28.9	94.0
Engineering	76.7	25.5	102.2	64.7	29.8	94.5	81.7	21.9	103.6
Marine & Energy	87.5	21.4	108.9	73.5	14.4	87.9	86.3	27.7	114.0
Professional Liability and other Special Liability	138.2	21.1	159.3	79.1	27.3	106.4	103.2	18.7	121.9
Workers Compensation	96.2	23.9	120.1	114.3	13.0	127.3	84.9	24.3	109.2
Proportional	80.6	26.6	107.2	72.9	24.8	97.7	80.8	22.0	102.8
Non-Proportional	185.4	14.8	200.2	82.3	12.5	94.8	86.8	22.9	109.7
Structured/Finite	92.5	13.7	106.2	69.0	24.3	93.3	93.2	14.4	107.6
Total Specialty Lines	97.2	22.4	119.6	74.3	21.8	96.1	85.0	20.4	105.4

(1) The combined ratios presented in this table exclude administration expenses.

For an explanation of ratio calculations, please refer to the Schedule of Segment Data on page F-7 of our 2004 consolidated financial statements. For an explanation of significant loss activity, see Item 5 Operating and Financial Review and Prospects A. Operating Results .

**Life & Health Reinsurance**

The Life & Health Reinsurance segment contains the following lines of business:

Life and Disability; and

Accident and Health.

We offer these lines of business on an international scale. We primarily conduct our Life and Disability reinsurance business from Cologne, Germany. We have implemented a strategy to substantially grow our life reinsurance business. In addition, we have established branch offices in Milan and Paris. We also utilize our non-life offices in many parts of the world to facilitate direct contacts with our Life & Health Reinsurance clients.

As a result of these initiatives, our Life and Disability and Accident and Health lines of business written from our European offices have grown significantly in recent years, with our net premiums written increasing from \$196.0 million in 2001 to \$313.2 million at the end of 2004.

Our primary goal is to write Life & Health Reinsurance business that generates an attractive expected return. Our strategy focuses on:

maintaining underwriting discipline and pursuing business that is attractive on a risk-adjusted basis;

pursuing growth in markets we believe offer attractive opportunities, such as Germany, Italy, France and the Middle East;

maintaining a low expense ratio;

selectively providing services in certain target markets to build loyalty and attract premiums;

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providing structured/finite solutions; and

leveraging our capital markets expertise which, among other things, provides us with additional capacity to write business.

We are seeking to grow our Life & Health business operations significantly while not compromising our underwriting standards. We believe that Life & Health Reinsurance will represent an increasing percentage of our business in the near future.

We are focusing on the life reinsurance business because, among other reasons, we believe that the market for life reinsurance is growing. In addition, life reinsurance business tends to be less cyclical than non-life reinsurance due to more predictable claims experience.

We expect that the demand from life insurers for financial support and reinsurance services will continue to increase, particularly in Europe. We believe our capital markets and other non-traditional expertise will help us bring additional innovative solutions to our clients and further enhance the market position of our life operations.

In addition to the growth in our life insurance markets described above, we believe that the following factors will also contribute to increased demand for life reinsurance:

demutualizations of life insurance companies;

the increasing importance of non-traditional and more sophisticated life products;

aging of the population;

privatization of benefits that used to be provided by governments;

deregulation and increased competition among primary insurance companies from new entrants, such as banks and other financial services companies; and

the increasing need for products that reduce the volatility of earnings following the increasing adoption of international accounting standards in many of the markets we serve.

We also believe that our health business will positively contribute to the overall profitability of this segment. We intend to carefully apply our cycle management approach and monitor the market development in this area to be able to recognize early indications of turning market conditions.

**Competition**

The reinsurance business is competitive and, except for regulatory considerations, there are relatively few barriers to entry. We compete with other reinsurers based on many factors, primarily:

financial strength;

expertise, reputation, experience and qualifications of employees;

local presence;

client relationships;

products and services offered;

premium levels; and

contract terms and conditions.

As a direct writer of reinsurance, we compete with a number of major direct marketers of reinsurance both in local markets and internationally. We also compete with a number of major reinsurers who write business through

reinsurance brokers, and with Lloyd's of London. We believe that our largest competitors, both locally and internationally, are:

Munich Reinsurance Company;

Swiss Reinsurance Company;

General Reinsurance Company, a subsidiary of Berkshire Hathaway, Inc.;

Employers Reinsurance Corporation, a subsidiary of General Electric Company;

Hannover Re Group, which is majority-owned by the mutual insurance group HDI Haftpflichtverband der Deutschen Industrie;

Lloyd's syndicates active in the London market;

companies active in the Bermuda Market, including the PartnerRe Group, XL Capital Ltd. and RenaissanceRe Holdings Ltd.;

Everest Reinsurance Company;

Transatlantic Reinsurance Company; and

SCOR.

**Non-life underwriting, pricing/structuring and accumulation control**

We regard underwriting and pricing as core skills. Underwriting is the process by which we identify desirable clients and lines of business, cultivate profitable opportunities and assess and manage our exposure, claims settlement and reserving risk for any particular



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exposure. In our view, underwriting requires a deep understanding of the client, their business and the market in which the client operates. In evaluating business opportunities, we rely heavily on a collaborative underwriting process that emphasizes communication and information sharing among our underwriting, actuarial/modeling, claims, legal and finance personnel. We bring together all of those disciplines to properly understand, assess, price and execute policies in a manner appropriate to the nature of the risk.

Our underwriters coordinate the access to our expertise and balance sheet capabilities to optimize solutions for our clients' business needs. We have underwriting specialists throughout our worldwide organization, covering a wide range of disciplines that help us assess our risk exposures. In an effort to better serve our reinsurance clients, we combine our underwriters and actuaries in client management teams. Specifically, we have access to significant internal actuarial expertise, which we deploy to assess pricing adequacy and to develop associated capital allocation approaches and risk models. Additionally, our underwriting process draws upon our multidisciplinary specialists, who include engineers, meteorologists, environmental scientists, economists, geologists, seismologists and mathematicians. These specialists and actuaries are based around the world and work together to ensure and facilitate the application of best practices and the consideration of the most recent scientific developments. Moreover, we actively utilize and develop risk models and other sophisticated tools, many of which are proprietary.

In developing underwriting guidelines, we assess market conditions, quality of risks, past experience and expectations about future exposure. Where appropriate, we seek to limit our capacity on a per claim, per event and per year basis, and employ aggregate annual limits and index clauses, which reset retention in the event of claims inflation. The overall objective of these procedures is to achieve an appropriate expected return on equity while safeguarding our solvency and creditworthiness. In particular, we seek to maintain a sufficient level of overall capital to retain a strong financial capitalization under normal circumstances and an adequate capitalization after a significant loss.

During the underwriting process, we carefully seek to ensure that we employ coherent and consistent structures, pricing and wording such that all of our contracts and commitments are in line with our underwriting guidelines. Compliance with these rules is regularly reviewed by our senior management, who may effect adjustments as deemed appropriate. For non-standard transactions, our legal staff is involved both in transaction structuring and contract wording throughout the process.

Additionally, during the underwriting process, we assess and seek to control the amount and concentration of risk underwritten for various areas by analyzing aggregates and accumulation by region, peril or line of business, such as property catastrophe, aviation, marine, Agribusiness and Credit & Surety. We normally use proprietary as well as commercially available tools to monitor our accumulations and relate them to our overall risk appetite. Aggregates are revised regularly and adapted in line with our current strategy and risk-bearing willingness and ability, and transformed into rules and parameters for underwriting decisions.

We are committed to underwriting for profit. In pricing, we are committed to price to an after-tax target return of 950 basis points above the local risk-free rate over the cycle. Meeting this target requires a constant management of the underwriting cycle including the avoidance of under-priced business.

We allocate capital to transactions based on how they contribute to our portfolio's 1-in-100 year or worse losses. Business aggregating with existing treaties (that is, treaties that do not diversify well within our existing portfolio) are allocated a disproportionately larger amount of capital than treaties that diversify well. Similarly, larger treaties are allocated a disproportionately larger amount of capital than smaller treaties. This capital approach helps the portfolio become more diverse and optimizes the treaty mix.

In pricing business, we analyze various aspects of a prospective non-life reinsured's business including, but not limited to, historical and projected loss and exposure data, expected future loss costs, historical and projected premium rate changes, financial stability and history, classes and nature of underlying business and policy forms, changes in the underlying risk exposure over time, underwriting and claims guidelines, aggregation of loss potential (between contracts), the dependence of risk factors relevant to the proposed policy with those relevant to the rest of our portfolio, existing reinsurance programs (including potential uncollectible reinsurance) and the quality and experience of management.

Our core pricing approach is to estimate the underlying frequency and severity of distributions, adjusted for trends, so that we can develop an aggregate probability distribution of ultimate loss. In order to understand the cash flows, we

estimate premium collection and loss payout patterns. Taking into account the transaction structure, we then create an aggregate probability distribution of the profit function of the contract that reflects risk-free investment income generated by the cash flows, commissions, brokerage, internal expenses and taxes. We estimate the risk capital by analyzing the treaty's dependency on the current and future planned portfolio. Key factors that we utilize in the calculation of risk capital are the loss profile of the contract, the duration of the liabilities and the correlation of the risk factors with the remainder of our book of business. From this, the performance of the deal, or Performance Excess, is then computed as the profitability of the deal less the cost of capital.

We also consider other items in our pricing analysis such as client and line of business desirability and associated business opportunities. Whenever necessary, we develop or enhance additional tools to assess non-traditional or unusual structures. For specialized lines, such as Aviation, Agribusiness and Credit & Surety, we have developed and continue to enhance pricing models based on risk factors specific to those lines of business. Our comprehensive approach to risk modeling, and our integration of analytical expertise in client-focused

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teams, allows us to quantify the potential financial impact of these measurable risks.

Our models give us the capability to easily and quickly analyze a contract under numerous structures. This in turn allows us the flexibility to be creative, innovative and responsive in seeking to create a structure that satisfies our profit goals and risk appetite while simultaneously satisfying our clients' objectives. Our modeling expertise and development of very efficient computational algorithms and simulations enable us to price different structures promptly. We are able to access our pricing system and databases online and from anywhere around the world. In order to fully realize the value of this ability, we seek to gain a deep and thorough understanding of the subject business being covered. For most of our business, including all large and complex contracts, actuaries and other technical experts are part of the transaction team. They visit the client, build the models and, jointly with the underwriters, price and structure the transaction. For the remainder of our business, internal actuaries or other experts including engineers, meteorologists, environmental scientists, economists, geologists, seismologists and mathematicians provide the analytic tools for the underwriters' use.

In order to provide maximum feedback to our underwriting teams, we have developed management information systems that track the profitability of each contract from the time it is written until the last dollar is paid. We compare ultimate loss ratios with our original expectations and use this information to populate our databases. We utilize this information to analyze the relationships between historic profitability and such variables as size of contract, production source, structure of transaction and size of client.

### **Non-life claims management**

We have relationships with a large number of cedents. These cedents are domiciled in many countries around the world and typically apply local practices and regulations when handling losses. This leads to a wide variety of approaches, in among other things, setting individual claims reserves, recording loss data and handling loss adjustments. In particular, the legal systems, loss reporting and applicable accounting rules can vary greatly by country and can potentially lead to inconsistent information and information flow from our cedents to us, with respect to timing, format and level of detail. All of these factors need to be considered appropriately when managing and assessing claims.

Individual claims reported to our non-life operating units are monitored and managed by the claims department at each unit depending on their respective thresholds. At this level, claims administration includes reviewing initial loss reports, monitoring claims handling activities of clients, requesting additional information where appropriate, establishing initial case reserves and approving payment of individual claims. Authority for payment and establishing reserves is always established in levels, depending upon rank and experience in the company.

In addition to managing reported claims and conferring with ceding companies on claims matters, our claims departments conduct periodic audits of specific claims and the overall claims procedures of our clients at the offices of ceding companies. We rely on our ability to effectively monitor the claims handling and claims reserving practices of ceding companies in order to establish the proper reinsurance premium for reinsurance agreements and to establish proper loss reserves. Moreover, prior to accepting certain risks, our claims departments are often requested by underwriters to conduct pre-underwriting claims audits of prospective ceding companies.

We attempt to evaluate the ceding company's claims-handling practices, including the organization of their claims department, their fact-finding and investigation techniques, their loss notifications, the adequacy of their reserves, their negotiation and settlement practices and their adherence to claims-handling guidelines. Following these audits, the claims department provides feedback to the ceding company, including an assessment of the claims operation and, if appropriate, recommendations regarding procedures, processing and personnel.

Our non-life operating units work together to coordinate issues in a cooperative effort involving claims services, actuarial, risk modeling and underwriting functions. For example, our Claims Services personnel help coordinate the reserving and risk assessment functions across our organization.

The claims departments are available to provide value-added services to customers, e.g., assessment, consultation, hosting professional seminars, issuing publications, including surveys on topics of interest, as well as maintaining a claims-related website.

### **Life operations underwriting and claims**

We have developed underwriting guidelines, policies and procedures with the objective of controlling the quality and pricing of the life reinsurance business we write. Our life reinsurance underwriting process emphasizes close collaboration among our underwriting, actuarial, administration and claims departments. We determine whether to write reinsurance business by considering many factors, including the type of risks to be covered, ceding company retention and binding authority, product and pricing assumptions and the ceding company's underwriting standards, financial strength and distribution systems.

We believe that one of our strengths is our expertise in medical underwriting. We seek to work closely with our clients and, as a

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value-added service, share this expertise in order to build client loyalty and better understand their risks. Additionally, we maintain a website for the German market that provides information on medical underwriting-related topics which may be accessed and utilized by our ceding companies.

We generally do not assume 100% of a life reinsurance risk and require the ceding company to retain at least 20% of every reinsured risk. We regularly update our underwriting policies, procedures and standards to take into account changing industry conditions, market developments and changes in medical technology. We also endeavor to ensure that the underwriting standards and procedures of our ceding client entities are compatible with ours. To this end, we conduct periodic reviews of our ceding companies' underwriting and claims procedures.

Life, accident and disability claims generally are reported on an individual basis by the ceding company. In case of large, difficult or doubtful claims, cedents provide us with all supporting documents. We also investigate claims generally for evidence of misrepresentation in the policy application and approval process. In addition to reviewing and paying claims, we monitor both specific claims and overall claims handling procedures of ceding companies. We monitor the loss development of our life reinsurance treaties and compare them to our expected returns on a regular basis. In the case of significant deviations, we may seek to negotiate alternative contract provisions, including increased premiums or higher retentions.

For our life reinsurance business, the interaction between our actuaries and underwriters is very close, as most of our underwriters are also mathematicians. We use commercial as well as proprietary tools to assess the profitability of the business. Our life underwriting seeks to ensure that our expected stream of distributable profits will earn an adequate risk-adjusted return. Our analysis also includes sensitivity measures to control the risk exposure of our life portfolio.

### **Catastrophe risk management and protection**

Natural peril and man-made catastrophe risk management is an essential part of our overall corporate risk management plan. To help us measure and monitor our exposure to natural catastrophic events, we have established a Global Catastrophe Group comprised of senior management members with underwriting, actuarial, risk management and other specialized expertise. This group meets on a quarterly basis to review relevant aspects of our catastrophe underwriting and risk management.

An integral part of our Global Catastrophe Group is our Natural Hazards Team, located in Zurich. This specialized team is responsible for modeling our global catastrophe exposure, and provides support to underwriters and pricing actuaries in our offices around the world. Natural Hazards Team members are integrated with our actuarial and risk modeling staff. We believe that centralizing key catastrophe risk functions in our Natural Hazards Team helps produce a consistent catastrophe exposure analysis across our international operations. For example, our catastrophe risk specialists design, maintain and support state-of-the-art risk modeling software to which our underwriters have direct access.

In addition, we have adopted a central monitoring system (the Global Cat Data Platform), which helps us to manage our worldwide accumulations of catastrophe risk by peril and region. In our analyses we focus on key zones where we face a geographic concentration or peak exposures, such as European windstorm risk. This centralized analysis is essential for an international reinsurer such as Converium, since we may write business for the same peril or region from more than one of our worldwide offices. Also, we endeavor to monitor clash potential, both from lines other than property catastrophe as well as between certain perils and regions.

A major component of our natural catastrophe risk management approach is to employ global portfolio optimization and geographic diversification. By utilizing careful risk selection, pricing and modeling of portfolio additions, we seek to diversify our exposures while optimizing available capacity and maximizing our expected return on equity. This approach helps us to fully capitalize on the natural catastrophe reinsurance premiums our balance sheet supports, while reducing the expected net impact of catastrophe losses. We believe this strategy leaves us well positioned to write additional business during periods of improving market conditions.

The principal goals of our natural hazard risk management procedures include:

**Measuring, monitoring and managing natural hazard exposures:** For measuring natural hazard exposures, we use specially developed software and techniques. For example, we use third-party models developed by specialized consultants to assist with catastrophe underwriting and accumulation control. We also compare models for certain perils or regions where our models indicate higher variability. In addition, we have developed fully proprietary

probability-based monitoring tools to enhance the utility of our models.

Our central monitoring system models loss potentials for storm and earthquake scenarios to help us measure our accumulation of risk by type of peril and geographic region. We continuously perform accumulation analyses during renewal season. We believe that this centralized review helps us monitor and manage our natural catastrophe loss potential and to take remedial action if there is a risk that our accumulations will reach levels that are not acceptable under our guidelines. In addition, our monitoring system serves as the basis for structuring our own reinsurance protection.

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**Assisting with optimal capacity utilization:** We use return on risk based capital considerations to help us to optimize expected profits from our catastrophe portfolio and to seek to improve its performance. We do this by dynamically adjusting capacity allocation during renewal periods as business is written, thereby optimizing our worldwide capacity and exploiting our diversification potential. We also review pricing levels in several markets prior to renewal, in order to incorporate this information in our business strategy.

**Supporting clients in all elements of natural hazards risk management:** The expertise developed by our catastrophe risk specialists in understanding and managing catastrophe risk allows us to assist our clients in assessing their own loss potential and in designing efficient risk transfer mechanisms. Further, we utilize our expertise to influence property catastrophe exposure reporting in the industry. For example, we made a significant contribution to the enhancement of the market standard for the exchange of exposure data between primary and reinsurance companies, thereby assisting market participants to adopt common reporting and better understand their natural catastrophe exposures. We believe that the use of data standards will improve data quality, enable more accurate risk assessment and reduce costs.

**Following post-disaster loss developments:** Our catastrophe risk specialists produce estimates of our expected losses promptly after a catastrophe event. This rapid review helps us assess our liquidity needs and determine whether we need to take any remedial action.

Historically, a majority of the natural catastrophe reinsurance we have written relates to exposures within the United States, Europe and Japan. Accordingly, we are exposed to natural catastrophic events which affect these regions, such as US hurricane, US earthquake, European windstorm and Japanese earthquake events. Our estimated potential losses, on a probable maximum loss basis, before giving effect to our retrocessional protection, are currently managed to a self-imposed maximum gross event limit of \$500 million for a 250-year return period loss.

We use retrocessional reinsurance protection to assist our efforts to ensure that our risk tolerance is not exceeded on a per event or aggregate basis. We actively seek to combine traditional reinsurance protection with capital market solutions, in order to diversify our sources of risk bearing capital. We have developed substantial capital markets expertise, which we can use both to provide additional capacity to our clients and to improve our own results and risk profile. The key business reasons for using a capital markets-based solution rather than traditional reinsurance are as follows:

- the lack of availability of high credit quality reinsurance protection at competitive prices for California earthquakes, US hurricanes and European windstorms;

- to achieve protection at stable prices for a multi-year period;

- to obtain better post-event liquidity relief compared to traditional retrocessionaires' practices and the respective counterparty credit risks on recoveries; and

- to diversify sources of risk bearing capacity from more traditional reinsurance products.

In 2004, we had the benefit of reinsurance protections on a worldwide basis in excess of \$100 million and up to \$250 million for any natural catastrophe affecting our property portfolio. These protections included both traditional reinsurance as well as the catastrophe protection described more fully below. In addition, we purchased cover for natural catastrophes affecting our non-US property portfolio in excess of \$25 million, once an annual aggregate deductible of \$50 million has been exhausted, with cover up to \$100 million. The majority of this coverage was placed with companies with AAA financial strength ratings.

In addition, in June 2004, we entered into a transaction with Helix 04 Ltd ( Helix 04 ), a dedicated Bermuda special purpose exempted company that ultimately provides us with specific high limit catastrophe protection. Helix 04's business consists solely of issuing five-year catastrophe securities; Helix 04 entered into a counterparty contract with us whereby Helix 04 will make payments to us from its funds to cover defined catastrophic losses. The owners of the securities are entitled to receive their original investment, plus interest on the notes, paid quarterly, less any loss

payments made to us. The Helix 04 transaction replaced the Trinom transaction that we had in place since 2001. See Note 12 to our 2004 consolidated financial statements for additional information on Helix.

The coverage we have obtained from the Helix 04 transaction is expected to reduce our net retained loss for large catastrophe events. Payments from Helix 04 to us are based on modeled losses on a notional portfolio. Perils covered by the Helix 04 transaction and the Catastrophe agreement include only US and Japanese earthquake, North Atlantic hurricane and European windstorm losses that occur before June 23, 2009. Helix 04 provides a second event protection. The first event is defined as any event in one of the four defined peril regions whose modeled loss for the notional portfolio exceeds \$150 million. After this first event, we are covered for any event in the four above mentioned peril regions whose modeled loss for the notional portfolio exceeds \$175 million. The amount of coverage is \$100 million.

We estimate our gross loss for each of the 2004 hurricanes to be less than the Helix 04 activation threshold of \$150 million for each such event and therefore we will not file a trigger event request in respect of these losses. Unlike traditional reinsurance, the Helix 04 transaction is fully collateralized to eliminate any counterparty credit risk on recoveries. Helix 04 provides a second event protection over a five-year horizon, securing a fixed-price capacity, which cannot be impaired by a



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severe first industry event. Due to the nature of the transaction, we are exposed to modeling uncertainty, meaning that the modeled loss might deviate somewhat from the actual indemnity loss of the notional portfolio (basis risk). The following table illustrates our catastrophe protections in place in 2004:

<b>Catastrophic Event(1)</b>	<b>Gross Loss</b>	<b>Traditional Reinsurance Recovery(2)</b>	<b>Helix Recovery(4)</b>	<b>Status</b>
1st Catastrophic Event	\$150 million to \$250 million	\$50 million to \$150 million	N/A	Cover triggered
2nd Catastrophic Event	\$175 million to \$275 million	\$75 million to \$150 million(3)	\$0 to \$100 million(4)	Cover in effect

(1) A catastrophic event in a defined peril region.

(2) On a worldwide basis in excess of \$100 million.

(3) Subject to a total recovery of \$225 million over the term of the policy.

(4) Recovery is based on modeled losses on a notional portfolio, not on actual losses.

Lastly, with respect to man-made catastrophes such as acts of terrorism, we have introduced an appropriate monitoring and accumulation approach. We utilize a matrix system to track for each contract the level of exclusion (absolute or partial, sub limit or other) and its level of exposure. This allows us to assess and estimate our current portfolio-wide terrorism aggregates by adding contract exposure and taking into account its level of exclusion. While our methodology is being further developed and refined, it enables appropriate monitoring of our current exposure.

**Retrocessional reinsurance**

We purchase retrocessional reinsurance to better manage risk exposures, protect against catastrophic losses, access additional underwriting capacity and to stabilize financial ratios. The insurance or indemnification of reinsurance is called a retrocession, and a reinsurer of a reinsurer is called a retrocessionaire. We aggregate our ceded risk across our operations to achieve superior terms and pricing for our retrocessional coverage and to help us better assess our overall portfolio risk. Additionally, we incorporate the use of retrocessional coverage as a component of our underwriting process.

The major types of retrocessional coverage we purchase include the following:

specific coverage for certain property, engineering, marine, aviation, satellite, motor and liability exposures;

catastrophe coverage for property business;

casualty clash coverage for potential accumulation of liability from treaties and facultative agreements covering losses arising from the same event or occurrence; and

aggregate stop-loss protections.

We have established a control procedure whereby our Chief Executive Officer and Chief Risk Officer, along with the other members of our senior executive team, review the business purpose for all reinsurance purchases. One or more members of our senior executive team, generally our Chief Risk Officer, approve all purchases before they are bound. Prior to entering into a retrocessional agreement, we analyze the financial strength and rating of each retrocessionaire and the financial performance and rating status of all material retrocessionaires is thereafter monitored. In addition, as part of our evaluation before purchasing reinsurance we also consider the accounting implications of the particular transaction.

Retrocessional reinsurance arrangements generally do not relieve Converium from its direct obligations to its reinsureds. Thus, a credit exposure exists with respect to reinsurance ceded to the extent that any retrocessionaire is unable or unwilling to meet the obligations assumed under the retrocessional agreements. At December 31, 2004 and

2003, Converium held \$300.9 million and \$163.2 million, respectively, in collateral as security under related retrocessional agreements in the form of deposits, securities and/or letters of credit.

In the event our retrocessionaires are not able or willing to fulfill their obligations under our reinsurance agreements with them, we will not be able to realize the full value of the reinsurance recoverable balance. We record a reserve to the extent that reinsurance recoverables are believed to be uncollectible. The reserve is based on an evaluation of each retrocessionaire's individual balances and an estimation of their uncollectible balances.

Allowances of \$30.6 million and \$26.4 million have been recorded for estimated uncollectible receivables and reinsurance recoverables at December 31, 2004 and 2003, respectively.

The following table sets forth Converium's ten largest retrocessionaires as of December 31, 2004, based on 2004 ceded premiums

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written, and their respective Standard & Poor's or A.M. Best financial strength rating.

<b>Retrocessionaire</b>	<b>Retrocessionaire Group</b>	<b>Premium ceded (Restated)</b>	<b>% of total</b>	<b>S&amp;P/A.M. Best Rating</b>
		<b>\$ millions</b>		
Lloyd's	Lloyd's	\$ 49.3	19.5%	A/A
National Indemnity Company (1)	Berkshire Hathaway Insurance Group	41.1	16.3	AAA/A++
QBE Insurance & Reinsurance (Europe)	QBE Insurance Group	20.8	8.2	A+/A
Augsburger Ruck (2)	Augsburger Ruck	17.0	6.7	A
Helvetia Patria Versicherungen	Helvetia	15.1	6.0	BBBpi/NR
Zurich Financial Services	Zurich Financial Services	13.7	5.4	A+/A
PartnerRe U.S. Group	PartnerRe Group	10.7	4.3	AA-/A+
ICM Re S.A.	ICM Re	9.9	3.9	NR
GE Frankona Reinsurance Ltd.	GE Frankona	9.0	3.6	A/A
Interpolis Reinsurance Services Ltd.	Rabobank	8.9	3.5	NR
Total provided by top ten retrocessionaires, and percentage of total retrocessional reinsurance		\$ 195.5	77.4%	
Total retrocessional reinsurance		\$ 252.6	100.0%	

(1) *National Indemnity Cover:* In order to provide additional comfort as regards to our reserve position, we acquired a retroactive stop-loss retrocession cover from National Indemnity Company, a Standard & Poor's AAA-rated member of the Berkshire Hathaway group of insurance companies. The stop-loss provides an additional \$150.0 million of cover against potential adverse reserve development on the underwriting years 1987 through 2003 for Converium AG, CRNA and CINA. The cover of \$150.0 million attaches at \$100.0 million in excess of the ultimate third-party net non-life reserves; which are defined as non-life carried losses and allocated loss expense reserves as of June 30, 2004 plus the expected losses and allocated loss expenses emanating out of the unearned premium reserves as of June 30, 2004 of the portfolio subject to cover, carried by these legal entities for these underwriting years as of June 30, 2004 and therefore excludes inter-group reinsurance arrangements. The reinsurance charge for this retrocession is \$20.0 million and has been recorded in the income statement under the caption "Other (loss) income". There are additional consideration features associated with this layer of coverage, which may result in additional consideration of up to \$60.0 million being paid in the event that the cover is fully utilized. No losses have been ceded as of December 31, 2004.

In addition, this contract has another layer of coverage of \$235.0 million for which a consideration of \$135.0 million has been paid. This layer attaches at \$235.0 million below the ultimate third-party net non-life reserves on the same underwriting years. The economics of this layer of coverage are such that the reinsurance risk transfer requirements of US GAAP are not met. Accordingly, this protection is accounted for under deposit accounting rules. As a result, there is no material income statement impact for 2004 in respect of this layer of coverage.

We have retained the right to commute the whole transaction on July 1, 2009, or thereafter at mutually agreeable terms.

(2) Augsburger Ruck: 50% of the retrocession cover is written by Brit, Lloyd's Syndicate and 50% is written by Brit Insurance Ltd. both of which are rated A by A.M. Best and Brit, Lloyd's Syndicate is rated A by S&P.

As a consequence of the Formation Transactions, Converium AG has assumed both the benefits and the financial risks relating to third-party reinsurance recoverables under the Quota Share Retrocession Agreement. We manage all third-party retrocessions related to the business reinsured by Converium AG under the Quota Share Retrocession Agreement. ZIC and ZIB are obligated under the Quota Share Retrocession Agreement, during its term, to maintain in force, renew or purchase third-party retrocessions covering the business covered by the Quota Share Retrocession Agreement at our sole discretion.

In addition, Zurich Financial Services, through its subsidiaries, provided us with a degree of retrocessional reinsurance coverage following the Formation Transactions. In particular, Zurich Financial Services, through its subsidiaries, has agreed to arrangements that cap our net exposure for losses and loss expenses arising out of the September 11th terrorist attacks at \$289.2 million, the amount of loss and loss expenses we recorded as of September 30, 2001. As part of these arrangements, subsidiaries of Zurich Financial Services have agreed to take responsibility for non-payment by the retrocessionaires of Converium AG and Converium Rückversicherung (Deutschland) AG with regard to losses arising out of the September 11th attacks. While the cap does not cover non-payment by the retrocessionaires of CRNA, our only retrocessionaire for this business is a unit of Zurich Financial Services. Therefore, we are not exposed to potential non-payments by retrocessionaires for this event in excess of the \$289.2 million cap, although we will be exposed to the risk of non-payment of Zurich Financial Services units and we will be exposed to credit risk from these subsidiaries of Zurich Financial Services.

In order to provide additional comfort as regards our reserve position, in August 2004 we acquired a retrospective stop-loss retrocession

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cover from National Indemnity Company, a Standard & Poor's AAA-rated member of the Berkshire Hathaway group of insurance companies. See Note 12 to our 2004 consolidated financial statements.

See Note 12 to our 2004 consolidated financial statements for further information on retrocesional risk management.

**Loss and loss expense reserves*****Establishment of loss and loss expense reserves***

We are required by applicable insurance laws and regulations and US GAAP to establish reserves for payment of losses and loss expenses that arise from our products. These reserves are balance sheet liabilities representing estimates of future amounts required to pay losses and loss expenses for insured claims which have occurred at or before the balance sheet date, whether already known to us or not yet reported. Significant periods of time can elapse between the occurrence of an insured claim and its reporting by the insured to the primary insurance company and subsequently by the insurance company to its reinsurance company. Loss reserves fall into two categories: reserves for reported losses and loss expenses, and reserves for IBNR losses and loss expenses.

Upon receipt of a notice of claim from a ceding company, we establish a case reserve for the estimated amount of the ultimate settlement. Case reserves are usually based upon the amount of reserves reported by the primary insurance company and may subsequently be increased or reduced as deemed necessary by our claims departments. We also establish reserves for loss amounts that have been incurred but not yet reported, including expected development of reported claims.

These IBNR reserves include estimated legal and other loss expenses. We calculate IBNR reserves by using generally accepted actuarial techniques. We utilize actuarial tools that rely on historical data and pricing information and statistical models as well as our pricing analyses. We revise reserves as additional information becomes available and as claims are reported and paid.

Our estimates of reserves from reported and unreported losses and related reinsurance recoverable assets are reviewed and updated periodically. Adjustments resulting from this process are reflected in current income. Our analysis relies upon the basic assumption that past experience, adjusted for the effect of current developments and likely trends, is an appropriate basis to estimate our current loss and loss adjustment expense liabilities. Because estimation of loss reserves is an inherently uncertain process, quantitative techniques frequently have to be supplemented by professional and managerial judgment. In addition, trends that have affected development of reserves in the past may not necessarily occur or affect reserve development to the same degree in the future.

The uncertainty inherent in loss estimation is particularly pronounced for long-tail lines such as umbrella, general and professional liability and motor liability, where information, such as required medical treatment and costs for bodily injury claims, will only emerge over time. In the overall reserve setting process, provisions for economic inflation and changes in the social and legal environment are considered. The uncertainty inherent in the reserving process for primary insurance companies is even greater for the reinsurer. This is because of, among other things, the time lag inherent in reporting information from the insurer to the reinsurer and differing reserving practices among ceding companies. As a result, actual losses and loss expenses may deviate, perhaps materially, from expected ultimate costs reflected in our current reserves.

In setting reserves, we utilize the same integrated, multi-disciplinary approach we use to establish our reinsurance terms and conditions. After an initial analysis by reserving actuaries, preliminary results are shared with appropriate underwriters, pricing actuaries, claims and finance professionals and senior management. Final actuarial recommendations incorporate feedback from these professionals.

During 2004, we updated FRAME, our reserving tool, with a new proprietary global loss reserve estimation system, which we refer to as CORE. It applies a number of standard actuarial reserving methods on a contract-by-contract basis. This allows us to calculate estimates of IBNR for each transaction based on its own characteristics. We aggregate the reserves indicated for each transaction to arrive at the total reserve requirement ( bottom-up approach ). In addition to these bottom-up approaches we utilize standard top-down analyses. For these methods we aggregate the majority of our business into a limited number of homogeneous classes and apply standard actuarial reserving techniques. These top-down analyses provide an alternative view that is less dependent on pricing information and is independent of our bottom-up approach. The comparison of these different approaches, namely bottom-up and top-down, provide additional insights into the reserve position and can lead to reserve adjustments in either bottom-up

or top-down approaches or both.

In accordance with US GAAP, we do not establish contingency reserves for future catastrophic losses in advance of the event's occurrence. As a result, a catastrophe event may cause material volatility in our incurred losses and a material impact on our reported income, subject to the effects of our retrocessional reinsurance. For further details on our catastrophe risk and reinsurance programs, see [Catastrophe risk management and protection](#) and [Retrocessional reinsurance](#).

***Core Reserving Methodology***

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### *Expected Loss/Expected Loss Ratio*

Reinsurance contracts are typically priced using proprietary pricing models. The expected loss ratio for each reinsurance contract is normally the expected loss ratio derived at the pricing of the reinsurance contract and may be subject to adjustments based on re-pricing of the reinsurance contract.

All reserve indications are conducted at the reinsurance contract level typically on a gross and retro basis; net loss and allocated loss adjustment expense reserve indications are typically derived by netting gross and retro loss and allocated loss adjustment expense reserve indications. Unallocated loss adjustments expense reserve provisions are derived at the business segment level.

Our reserving tool applies a number of standard actuarial reserving methods on a contract-by-contract basis. This allows us to calculate estimates of IBNR for each transaction based on its own characteristics. We aggregate the reserves indicated for each transaction to arrive at the total reserve requirement ( bottom-up approach ).

Every reinsurance contract is assigned to a reserving group referred to as a Reserve Equity Cell or REC. Each REC typically contains reinsurance contracts with identical or similar characteristics in respect to:

- underlying risk (e.g. line of business), geographic region or treaty type (i.e. proportional or non-proportional); and

- the time period at which losses are expected to be paid and reported (i.e. expected paid loss development factors and expected reported development factors).

For each REC, expected paid loss development factors and expected reported loss development factors are derived from either:

- statistics developed by pricing actuaries, or

- actual paid loss and reported loss (of the reinsurance contracts assigned to a given REC) aggregated into underwriting year triangles.

It is our policy to review regularly expected paid loss development factors and expected reported loss development factors for each REC.

For each REC and underwriting year, ultimate losses are projected using the following five standard actuarial methods:

- Expected Loss Method (normally derived from pricing as described above)

- Paid Loss Bornhuetter Ferguson Method

- Incurred Loss Bornhuetter Ferguson Method

- Paid Loss Development Method

- Incurred Loss Development Method

For each reinsurance contract within a given REC and underwriting year, one reserving method is selected based on professional actuarial judgment. Standard practice is to select the expected loss method for a relatively immature underwriting year (i.e. underwriting year and REC for which the expected reported loss as at the valuation period (e.g., December 31, 2004) is less than 50% of the ultimate loss that will eventually be reported) when the actual loss experience is not yet deemed credible. In addition, actual reported losses and expected reported losses are compared and in cases where the actual versus expected are materially different, the reserving actuary may (especially if the actual losses reported are higher than expected) either:

- select a different actuarial method (i.e. to be more responsive to actual loss experience)

- revise the expected loss (see expected loss / expected loss ratio above)

revise the expected paid loss and / or expected reporting loss patterns

The indicated ultimate loss is intended to represent the expected ultimate loss for the full exposure of each contract at the reserving date (e.g. December 31, 2004). Additional reserve provisions can be added for known losses (notified) that have not been recorded yet in our system.

Typically the indicated ultimate loss for each contract is then adjusted by the ratio of base earned premium to ultimate base premium in order to calculate a reserve provision (IBNR) only to the exposed / expired portion of the reinsurance contract as of the reserving date. A base premium is a premium which excludes loss sensitive premium adjustments. In essence, for each REC and underwriting year we select best estimate of ultimate losses within a reasonable range. The range estimates



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are done at the REC level and are not aggregated to the business segment or consolidated level.

***Adequacy of reserves***

Given the inherent uncertainty of the loss estimation process described above, we employ a number of methods to develop a range of estimates. On the basis of our actuarial reviews, we believe our liability for gross losses and loss expenses, referred to as gross reserves, and our gross reserves less reinsurance recoverables for losses and loss expenses ceded, referred to as net reserves, at the end of all periods presented in our financial statements were determined in accordance with our established policies and were reasonable estimates based on the information known at the time our estimates were made. These analyses were based on, among other things, original pricing analyses as well as our experience with similar lines of business, and historical trends, such as reserving patterns, exposure growth, loss payments, pending levels of unpaid claims and product mix, as well as court decisions and economic conditions. However, since the establishment of loss reserves is an inherently uncertain process, the ultimate cost of settling claims may exceed our existing loss and loss adjustment expense reserves, perhaps materially. Any adjustments that result from changes in reserve estimates are reflected in our results of operations.

Unforeseen losses, the type or magnitude of which we cannot predict, may emerge in the future. These additional losses could arise from newly acquired lines of business, changes in the legal environment, extraordinary events affecting our clients such as reorganizations and liquidations or changes in general economic conditions. We continue to conduct pricing and loss reserving studies for many casualty lines of business, including those in which preliminary loss trends are noted.

*Development of prior years' reserves:* Converium reported that it has experienced significant adverse development, predominantly in its US casualty reinsurance lines, for the last several years. It stated that, since 2000, Converium has recorded \$868.2 million of additional net provisions on prior years' non-life business (2000: \$65.4 million; 2001: \$123.6 million; 2002: \$148.5 million; 2003: \$(31.3) million; and 2004: \$562.0 million).

Although the Restatement did not result in changes to the reserve amounts determined as a result of Converium's process for establishing loss and loss expense reserves, it did result in corrections to the accounting for certain assumed and ceded transactions and the reserve amounts related thereto. The resulting changes relate to transactions which, at inception, did not meet the requirements for reinsurance accounting. See Note 3 to our 2004 consolidated financial statements included in Item 8. Financial Information - A. Consolidated Statements and Other Financial Information, and Item 5. Operating and Financial Review and Prospects - A. Operating Results. The required changes reflected in the Restatement, substantially related to ceded reinsurance transactions, have increased/(decreased) the previously reported additional net provisions on prior non-life business as follows: (2000: \$99.6 million; 2001: \$44.2 million; 2002: \$52.6 million; 2003: \$(32.2) million; and 2004: \$3.7 million). The net strengthening of prior years' loss reserves during 2004 reported in the preceding paragraph with respect to the segments were also effected by the Restatement.

Therefore, after consideration of the restated transactions and as reflected in this Form 20-F/A, since 2000, Converium has recorded a total of \$1,036.1 million of additional net provisions on prior years' non-life business (2000: \$165.0 million; 2001: \$167.8 million; 2002: \$201.1 million; 2003: \$(63.5) million; and 2004: \$565.7 million).

During early 2004, Converium announced that reported losses from prior year US casualty business had exceeded expected loss emergence and that the volatility of longer-tail risks was likely to persist for some time. This adverse loss-reporting trend continued and accelerated into mid-2004 and prompted Converium to initiate additional reviews of its US business from an integrated underwriting, claims and actuarial perspective in order to examine the adequacy of prior years' provisions. In addition, in order to obtain an external review of our overall reserve position, we commissioned the actuarial consulting firm Tillinghast-Towers Perrin to perform an independent actuarial review of our non-life loss and allocated loss adjustment expense reserves as of June 30, 2004 in respect of the Zurich and New York originated businesses. The outcome of these in-depth internal and external reviews resulted in an aggregate strengthening of prior years' non-life loss reserves by \$565.7 million for the year ended December 31, 2004. This action was taken in response to the continued adverse loss emergence due to increased claims reporting activity from clients relating to US casualty business written from 1997 to 2001 as well as deterioration from European non-proportional motor business written in recent years. The increased claims reporting was attributable to both frequency and severity. While we believe that we have fully addressed this issue through our reserving actions,

volatility is expected to persist for some time.

In the Standard Property & Casualty Reinsurance segment, the development of prior years reserves of \$95.8 million primarily related to adverse developments of General Third Party Liability (\$109.3 million), motor liability outside the United States (\$91.7 million) and Personal Accident (non-life) (\$8.1 million), which was partially offset by positive developments related to Property (\$82.1 million) and miscellaneous liability (\$31.2 million) that also included the impact of whole account retrocessions. In the Specialty Lines segment, the development of prior years reserves of \$469.9 million primarily related to adverse developments of the Professional Liability and other Special Liability lines (\$430.7 million), particularly excess & surplus lines and umbrella, Workers Compensation (\$55.4 million), and Engineering (\$12.9 million). These adverse developments in the Specialty Lines were partially offset by positive developments related to Aviation & Space (\$24.5 million), Agribusiness (\$0.7 million), and Credit & Surety (\$3.8 million).

*Commutations:* Based on the developments of 2004, we placed our US reinsurance operations into run-off and started to implement and execute a commutation strategy. Commutations can accelerate the realization of profit inherent in long-tail reserves by crystallizing

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outstanding claims reserves into payments, which are discounted to reflect the time value of money. Since commutation payments essentially reflect a discounted present value of estimated future cash flows, future investment income earned is expected to decline as the assets backing those reserves are liquidated to make payments. As of December 31, 2004, we agreed upon commutations with primarily North American cedents regarding gross loss reserves of \$545.8 million that resulted in a cash outflow of \$526.8 million.

The reserve strengthenings as described herein in **Loss Reserve Development** have been determined in accordance with our loss reserving policies as described in **Loss and Loss Adjustment Expense Reserves Establishment of Loss and Loss Adjustment Expense Reserves**, and was recorded in accordance with our established accounting policies as described in Note 2(c) to our 2004 consolidated financial statements. Under these policies, we review and update our reserves as experience develops and new information becomes known, and we bring our reserves to a reasonable level within a range of reserve estimates by recording an adjustment in the period when the new information confirms the need for an adjustment.

***Effects of currency fluctuations***

A significant factor affecting movements in our net reserve balances has been currency exchange rate fluctuations. These fluctuations affect our reserves because we report our results in US dollars. As of December 31, 2004, approximately 43% of our non-life reinsurance reserves are for liabilities that will be paid in a currency other than the US dollar. We establish these reserves in original currency, and then, during our consolidation process, translate them to US dollars using the exchange rates as of the balance sheet date. Any increase or decrease in reserves resulting from this translation process is recorded directly to shareholders' equity and has no impact on current earnings. When new losses are incurred or adjustments to prior years' reserve estimates are made, these amounts are reflected in the current year net income at the average exchange rates for the period.

***Loss reserve development***

The first table below presents changes in the historical non-life loss and loss adjustment expense reserves that we established in 1994 and subsequent years. The top lines of the tables show the estimated loss and loss adjustment reserves, gross and net of reinsurance, for unpaid losses and loss expenses as of each balance sheet date, which represent the estimated amount of future payments for all losses occurring prior to that date. The upper, or paid, portion of the first table presents the cumulative amount of payments of the loss and loss adjustment expense amounts through each subsequent year in respect of the reserves established at each initial year-end. Losses paid in currencies other than the US dollar are translated at consolidation into US dollars using the average foreign exchange rates for periods in which they are paid. The lower, or reserve re-estimated portion, gross and net of reinsurance, of the first table shows the re-estimate of the initially recorded loss and loss adjustment expense reserve as of each succeeding period-end, including claims paid, but recalculated using the foreign exchange rates for each subsequent period-end. The reserve estimates change as more information becomes known about the actual losses for which the initial reserves were established. The cumulative redundancy/(deficiency) lines at the bottom of the table are equal to the initial reserves less the liability re-estimated as of December 31, 2004.

Conditions and trends that have affected the development of our reserves for losses and loss expenses in the past may or may not necessarily occur in the future, and accordingly, our future results may or may not be similar to the information presented in the tables below.

Zurich Financial Services and its subsidiaries, including the entities then operating under the Zurich Re brand name, retroactively adopted International Accounting Standards (IAS) as of January 1, 1995. As a consequence, consolidated loss development data for Converium entities is not available on a consistent accounting basis prior to December 31, 1994 and is therefore not presented in this offering memorandum. The inconsistencies prior to December 31, 1994 principally arise from Converium entities having used different reserving methodologies on a country-by-country basis as was allowed under generally accepted accounting principles in Switzerland. As an example, some European reserving practices have historically tended to be highly conservative, and therefore not consistent with IAS and US GAAP best estimate practices. Accordingly, we have only been able to provide a consolidated loss development table commencing with December 31, 1994. As of December 31, 2004, net reserves for losses and loss expenses included approximately \$180.0 million of reserves related to losses from accident years 1994 and prior, or 2.3% of net reserves as of December 31, 2004.

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The table below presents our loss and loss adjustment expense reserve development as of the dates indicated. 1998 and subsequent years have been restated.

	As of December 31,										
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
	(\$ millions, except percentages)										
Gross reserves for losses and loss expenses	\$ 1,468.9	\$ 1,891.4	\$ 2,245.3	\$ 2,636.4	\$ 2,987.6	\$ 3,482.3	\$ 4,504.1	\$ 5,642.3	\$ 6,876.9	\$ 7,879.7	\$ 8,908.3
Reinsurance recoverable	59.6	102.9	106.9	290.1	457.3	640.9	892.3	1,099.2	1,085.7	1,041.3	914.5
Initial net reserves for losses and loss expenses	\$ 1,409.3	\$ 1,788.5	\$ 2,138.4	\$ 2,346.3	\$ 2,530.3	\$ 2,841.4	\$ 3,611.8	\$ 4,543.1	\$ 5,791.2	\$ 6,838.4	\$ 7,993.8

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	As of December 31,									
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
	(\$ millions, except percentages)									
Reserve paid as of:										
12 months later	405.9	443.9	466.0	514.5	610.0	850.6	890.6	1,171.0	1,504.4	1,938.0
18 months later	611.1	669.4	721.2	843.0	968.8	1,339.2	1,575.8	2,119.4	2,760.8	
24 months later	736.2	803.1	921.7	1,064.4	1,250.7	1,670.1	2,180.9	3,027.2		
30 months later	815.4	927.0	1,062.2	1,261.7	1,438.6	2,029.2	2,749.6			
36 months later	896.9	1,007.7	1,178.3	1,336.5	1,622.3	2,312.8				
42 months later	949.9	1,093.8	1,197.5	1,436.7	1,772.9					
48 months later	1,006.5	1,087.1	1,249.3	1,545.8						
54 months later	986.5	1,115.7	1,319.4							
60 months later	1,004.1	1,157.8								
66 months later	1,025.8									
Reserves										
Redundant as of:										
12 months later	1,457.6	1,763.3	1,901.5	2,145.6	2,292.6	2,915.7	3,727.5	4,722.5	5,995.3	6,490.0
18 months later	1,499.0	1,642.6	1,853.5	2,051.3	2,276.7	3,039.3	3,932.6	4,951.0	7,432.3	
24 months later	1,364.6	1,617.7	1,736.4	1,970.4	2,303.4	3,039.2	4,200.1	5,441.2		
30 months later	1,396.2	1,541.1	1,677.3	1,989.1	2,337.8	3,189.2	4,576.2			
36 months later	1,339.0	1,468.9	1,661.2	1,990.7	2,414.7	3,400.6				
42 months later	1,284.5	1,452.9	1,645.9	2,013.0	2,504.1					
48 months later	1,260.1	1,446.1	1,649.3	2,069.5						
54 months later	1,263.3	1,448.7	1,684.6							
60 months later	1,272.4	1,476.8								
66 months later	1,293.6									
Reserve recoverable										
Redundant as of:										
December 31, 2004	130.6	246.3	336.3	422.8	687.7	1,216.9	1,238.0	1,160.6	1,091.4	873.0
Reserves										
Redundant as of:										
December 31, 2004	1,424.2	1,723.1	2,020.9	2,492.3	3,191.9	4,617.6	5,814.3	6,601.8	7,582.0	8,305.0
Reserve net										
Redundancy/(deficiency)	115.8	311.7	453.8	276.8	26.2	(559.2)	(964.5)	(898.1)	(699.4)	(593.0)
Reserve										
Redundancy/(deficiency)										
Percentage of initial										
Reserves	8.2%	17.4%	21.2%	11.8%	1.0%	(19.7)%	(26.7)%	(19.8)%	(12.1)%	(8.1)%
Reserve gross										
Redundancy/(deficiency)	44.8	168.2	224.4	144.2	(204.3)	(1,135.3)	(1,310.2)	(959.5)	(705.1)	(425.0)
Reserve										
Redundancy/(deficiency)										
Percentage of initial										
Reserves	3.0%	8.9%	10.0%	5.5%	(6.8)%	(32.6)%	(29.1)%	(17.0)%	(10.3)%	(5.1)%

As a significant portion of our reserves relate to liabilities payable in currencies other than US dollars, any fluctuations of the US dollar to those currencies will have an impact on the reserve redundancy/(deficiency). As shown on the table above, the net reserve position for 1998 developed favorably from \$2,530.3 million as of December 31, 1998 to \$2,504.1 million as of December 31, 2004, reflecting a redundancy of \$26.2 million. However, shown on the table

below, applying the exchange rate as of December 31, 1998 to the 1998 reserves re-estimated as of December 31, 2004 would result in re-estimated reserves of \$2,588.8 million, or a deficiency of \$58.5 million, illustrating that a substantial part of the apparent redundancy is due to currency movements, which may or may not persist to the date claims are actually paid. As a result of these currency movements, the cumulative redundancy/(deficiency) shown above is considerably higher/(lower) as of December 31, 2004 than if the reserves were shown on a constant exchange rate basis for all years presented. Due to the inherent volatility of exchange rates, this effect may change in the future. Accordingly, we expect that future changes in foreign exchange rates will impact our reserve adequacy re-estimates. However, with respect to our primary currencies, we believe that the potential volatility of our liabilities is offset to a large extent by our efforts to invest in assets denominated in the same currency.



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Less reinsurance recoverable	1,041.3	1,085.7	1,099.2
Net reserves for losses and loss expenses	6,838.4	5,791.2	4,543.1
Losses and loss expenses incurred (1)			

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(\$ millions)	2004 (Restated)	2003 (Restated)	2002 (Restated)
Current year	2,895.3	2,736.1	2,264.6
Prior years	336.8	(63.5)	201.1
Total	3,232.1	2,672.6	2,465.6
Losses and loss expenses paid			
Current year	541.4	437.1	340.2
Prior years	1,938.9	1,504.4	1,171.0
Total	2,480.3	1,941.5	1,511.2
Foreign currency translation effects	403.6	316.1	293.7
<b>As of December 31,</b>			
Net reserves for losses and loss expenses	7,993.8	6,838.4	5,791.2
Reinsurance recoverable	914.5	1,041.3	1,085.7
Gross reserves for losses and loss expenses	\$8,908.3	\$7,879.7	\$6,876.9

(1) The loss and loss expenses incurred includes \$219.5 million, \$267.1 million and \$234.1 million of loss and loss expenses incurred related to business included in the Life & Health Reinsurance segment for the years ended December 31, 2004, 2003 and 2002, respectively.

In 2004, Converium recorded \$(336.8) million at the 2004 average exchange rate and \$63.5 million at the 2003 average exchange rate of adverse development. See Adequacy of Reserves .

Prior years loss and loss expenses incurred in 2004 of \$(336.8) million net were primarily driven by reserve strengthening of (\$565.7 million) (See Adequacy of reserves ), and the impacts on losses and loss expenses incurred of (i) adjustments of ultimate premium estimates (\$186.4 million) and (ii) the reduction of reinsurance recoverables of (\$12.0 million), which is offset by the effect of commutations. As a result of the restatement the previously reported prior years loss and loss expenses incurred in 2004 has changed from \$(342.5) to \$(336.8), of which the commutation of the stop-loss protection regarding underwriting year 2001 of the professional liability business generated through our strategic partnership with MDU accounted for \$10.5 million of this change.

In 2003, the positive development of \$63.5 million consisted of positive development on Property lines (\$113.5 million) and Aviation & Space (\$110.7 million), offset by adverse development on Workers Compensation and Professional Liability and other Special Liability lines (\$120.3 million) and the Motor and General Third Party Liability lines (\$40.4 million). The reserve releases in 2003 were primarily from the 2002 underwriting year, while the US business written in 1997 to 2001 mostly saw continued strengthening.

In 2002, Converium strengthened reserves for prior years by \$201.1 million. Throughout the year, increased loss experience related to prior years continued to emerge, which resulted in an in-depth actuarial reserve analysis of certain lines of business. This resulted in an additional \$201.1 million provision for losses, primarily related to underwriting years 1997 through 2000. In the Standard Property & Casualty Reinsurance segment, there were additional provisions of \$114.8 million for the liability, Motor and Property lines. In the Specialty Lines segment, there were additional provisions of \$86.3 million, primarily related to the Professional Liability and other Special Liability Lines of business.

**Reserves for Asbestos and Environmental Losses**

We have exposure to liabilities for asbestos and environmental impairment from our assumed reinsurance contracts, primarily arising from business written by Converium Rückversicherung (Deutschland) AG, historically known as Agrippina Rückversicherung AG and subsequently known as Zürich Rückversicherung (Köln) AG ( ZRK ). Our asbestos and environmental exposure primarily originates from US business written through the London Market and from treaties directly written with reinsurers in the United States. We cancelled our relevant London Market reinsurance contracts in 1966 and 1967. At the time, we reduced our participation in asbestos and environmental-exposed US treaties, with the eventual result that Converium Rückversicherung (Deutschland) AG ceased property and liability underwriting in the United States in 1990. Due to uncertainties as to the definitions and

to incomplete reporting from clients, exact separation of asbestos and environmental exposures cannot be reached. We believe that CRNA's exposure to asbestos-related and environmental pollution claims is limited due to the diminutive amount of business written prior to 1987 and the protection provided by the continuing reinsurance protections described below under "Formation Transactions and Relationship with Zurich Financial Services". In addition, Converium AG's exposure is also minimal because, under the terms of the Quota Share Retrocession Agreement, Converium AG will only reinsure business written with an inception or renewal date on or after January 1, 1987. In 1986, our contract wording was revised, consistent with a general industry change, such that asbestos and environmental claims were generally excluded.

As of December 31, 2004 and 2003, our total loss and adjustment expense reserves, including additional reserves and IBNR reserves, for US-originated asbestos and environmental losses were approximately \$49.2 million or 0.6% and \$45.8 million or 0.7% of our total net reserves for losses and loss expenses, respectively. This provision includes reserves originally communicated by our cedents, together with additional reserves we established.

We estimate that the survival ratio of our asbestos and environmental risk portfolio, calculated as the ratio of reserves held, including IBNR, over claims paid over the average of the last three years, is approximately 13.6 years as of December 31, 2004 and 2003. Survival

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ratio is an industry measure of the number of years it would take a company to exhaust its reserves for asbestos and environmental liabilities based on that company's current level of claims payments.

Reserving for asbestos and environmental claims is subject to a range of uncertainties that has historically been greater than those presented by other types of claims. Among the complications are a lack of historical data, long reporting delays and uncertainty as to the number and identity of insureds with potential exposure. In addition, there are complex, unresolved legal issues regarding policy coverage and the extent and timing of contractual liability. These uncertainties and issues are not likely to be resolved in the near future. Consequently, traditional loss reserving techniques cannot wholly be relied on and, therefore, the uncertainty with respect to the ultimate cost of these types of claims is greater than the uncertainty relating to standard lines of business. In addition, changes to existing legal interpretation, new legislation or new court decisions could materially impact our reserves, results of operations, cash flows and financial position in future periods.

**Investments**

Our overall financial results are in large part dependent upon the quality and performance of our investment portfolio. Net investment income and net realized capital gains (losses) accounted for 8.5%, 6.3% and 7.2% of our revenues for the years ended December 31, 2004, 2003 and 2002, respectively.

Our assets are invested with the objective of achieving investment returns consistent with those of the markets in which we invest, using appropriate risk management, diversification, tax and regulatory considerations, and to provide sufficient liquidity to enable us to meet our obligations on a timely basis. We principally focus on high quality, liquid securities, and seek to invest in securities whose durations correspond to the estimated duration of the reinsurance liabilities they support.

Our approach to fixed income investments is to limit credit risk by focusing on investments rated A or better and to reduce concentration risk by limiting the amount that may be invested in securities of any single issuer or group of issuers. With respect to equity investments, we seek to diversify our equity portfolio so as to provide a broad exposure across major sectors of individual stock markets. To reduce the effects of currency exchange rate fluctuations, we seek to match the currencies of our investments with the currencies of our underlying reinsurance liabilities.

Our investments are managed mostly by external investment managers, and their performance is measured against benchmarks. Our investment practices are governed by guidelines established and approved by our Board of Directors. Although these guidelines stress diversification of risks, conservation of principal and liquidity, these investments are subject to market-wide risks and fluctuations, as well as risks inherent in particular securities.

As of December 31, 2004, total invested assets (excluding cash and cash equivalents) were \$7.8 billion compared to \$7.5 billion as of December 31, 2003, an increase of \$284.2 million, or 3.8%. This increase is mainly due to the investment of the net proceeds from the 2004 rights offering, positive operating cash flow and the weakening of the US dollar against European currencies. The increase was offset by commutations of certain of our North American treaties as well as amounts paid related to the retroactive stop-loss retrocession cover from National Indemnity Company.

The table below presents the carrying value of our consolidated investment portfolios as of December 31, 2004, 2003 and 2002.

	As of December 31,					
	2004		2003		2002	
	(Restated)		(Restated)		(Restated)	
	\$	% of	\$	% of	\$	% of
	millions	Total	millions	Total	millions	Total
Fixed maturities securities	\$5,685.2	73.0%	\$4,928.6	65.7%	\$3,443.1	56.3%
Equity securities	399.4	5.1	834.9	11.1	525.4	8.6
Funds Withheld Asset	1,305.1	16.8	1,530.6	20.4	1,648.1	26.9
Short-term investments	117.3	1.5	55.7	0.7	318.0	5.2
Other investments	279.2	3.6	152.2	2.1	182.7	3.0

Total investments	\$7,786.2	100.0%	\$7,502.0	100.0%	\$6,117.3	100.0%
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***Fixed Maturities***

As of December 31, 2004, our fixed maturities portfolio, excluding the Funds Withheld Asset (described more fully below), had a carrying value of \$5.7 billion and represented 67.1% of our total investment portfolio including cash and cash equivalents (82.6% including the Funds Withheld Asset). This represents an increase in carrying value of \$756.6 million, or 15.3%, from December 31, 2003. This increase is mainly due to the sale of approximately \$500.0 million in equity securities, which were subsequently reinvested into fixed maturities, in order to reduce our exposure to equity securities, as well as the continued weakening of the US dollar against

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European currencies. In addition, the increase was due to the deployment of operating cash flow into fixed maturity securities during 2004. The \$400.0 million proceeds of the 2004 rights offering and related capital increase were mainly invested in treasury securities or remained in cash at the end of 2004.

We invest in government, agency and corporate fixed income securities of issuers from around the world that meet our liquidity and credit standards. We place an emphasis on investing in listed fixed income securities that we believe to be liquid.

The table below presents the composition of our fixed income securities portfolio, excluding short-term investments, based on carrying value by scheduled maturity.

(\$ millions, except percentages)	Estimated fair value		Carrying value	
	Available-for-sale (AFS)	% of total AFS	Held-to-maturity (HTM)	% of total HTM
<b>As of December 31, 2004</b>				
Less than one year	\$ 182.5	3.8%	\$ 15.9	1.9%
One year through five years	2,871.8	59.4	450.8	53.0
Five years through ten years	923.2	19.1	353.5	41.6
Over ten years	91.8	1.9	30.2	3.5
Subtotal	4,069.3	84.2	850.4	100.0
Mortgage and asset-backed securities	616.6	12.7		
Unit trust bonds	148.9	3.1		
Total as of December 31, 2004	\$ 4,834.8	100.0%	\$ 850.4	100.0%

Most of our fixed income securities are rated by Standard & Poor's, Moody's or similar rating agencies. As of December 31, 2004, approximately 97.3% of our fixed maturities securities portfolio was invested in securities rated A or better by these agencies and approximately 83.2% was invested in AAA/Aaa-rated securities.

The table below presents the composition of our fixed income securities portfolio by rating as assigned by Standard & Poor's or Moody's, using the lower of these ratings for any security where there is a split rating.

(\$ millions, except percentages)	Estimated fair value		Carrying value	
	Available-for-sale (AFS)	% of total AFS	Held-to-maturity (HTM)	% of total HTM
<b>As of December 31, 2004</b>				
AAA/Aaa	\$ 4,022.5	83.2%	\$ 822.1	96.7%
AA/Aa2	452.0	9.4	16.2	1.9
A/A2	229.6	4.7	12.1	1.4
BBB/Baa2	11.1	0.2		
BB	3.0	0.1		
Not rated <sup>1</sup>	116.6	2.4		
Total as of December 31, 2004	\$ 4,834.8	100.0%	\$ 850.4	100.0%

<sup>1</sup> Includes \$89.3 million private collateralized loans issued by German banks with a credit rating equivalent to S&P AAA, purchased during 2004.

Our guidelines also restrict our maximum investment in bonds issued by any group or industry sector by reference to local benchmarks and applicable insurance regulations. As of December 31, 2004 no aggregated amount of bonds issued by a single group (excluding governments and funds) represented more than 5% of our fixed maturities securities portfolio.

**Equity Securities**

As of December 31, 2004, our equity securities portfolio had a carrying value of \$399.4 million (including our participation in PSP Swiss Property AG). This represents a decrease in carrying value of \$435.5 million, or 52.1%, from December 31, 2003. The decrease was primarily the result of the sale of a substantial portion of our equity

securities portfolio in order to lower our equity exposure and related capital charges. Equity securities were approximately 3.5% and 9.7% of our total investment portfolio as of December 31, 2004 and 2003, respectively, including cash and cash equivalents and excluding our participation in PSP Swiss Property AG.

Substantially all of our entire equity portfolio consists of listed securities held directly or through funds. All the equity portfolios are in developed markets. As experienced in recent years, the equity markets around the world can produce highly volatile and significantly varied results due to local and worldwide economic and political conditions.

Our exposure to private equity fund investments as of December 31, 2004 was approximately \$61.5 million. This represents the sum of the fair value of invested capital (as determined by the fund managers) and remaining unpaid commitments. Of this total, the value of remaining unpaid commitments was approximately \$4.1 million as of December 31, 2004.

At December 31, 2004 and 2003, gross unrealized gains on our equity portfolio were \$73.0 million and \$96.2 million and gross

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unrealized losses were \$2.5 million and \$1.7 million, respectively. We have reviewed the securities that have declined in value and have recorded impairments accordingly.

Our impairment policy requires us to record, as realized capital losses, declines in value that exceed 20% over a period of six months, that exceed 50% regardless of the period of decline or any declines in value of equity securities over a period of more than twelve months. The same policy applies to fixed maturities securities when the decline in value is attributable to the deteriorating credit-worthiness of the issuer. At management's judgment, we impair additional securities based on prevailing market conditions by considering various factors such as the financial condition of the issuer, the market value and the expected future cash flows of the security.

Our guidelines also restrict our maximum investment in any one equity security or industry sector by reference to local benchmarks and applicable insurance regulations. As of December 31, 2004, excluding our investments in funds and our participation in PSP Swiss Property AG, no single equity security represented more than 5% of our equity securities portfolio.

***Funds Withheld Asset***

The transfer of certain historical reinsurance business to Converium was affected as of July 1, 2001 by means of the Quota Share Retrocession Agreement with Zurich Financial Services. In addition, on that date, the Funds Withheld Asset was established. Its initial balance was set to match the net balance of the liabilities, less the premium receivables (including outstanding collectible balances and reinsurance deposits) on the business to which the Quota Share Retrocession Agreement applies. As of December 31, 2004, the Funds Withheld Asset was \$1,305.1 million. The decrease of \$225.5 million over December 31, 2003 was primarily due to paid claims.

In general, the Funds Withheld Asset is reduced by paid claims, profit commissions, amounts paid to maintain the retrocession agreements and other amounts paid on the business subject to the Quota Share Retrocession Agreement, and is increased by premiums (less premium refunds), salvage and subrogation, recoveries under retrocession agreements, profit commissions and other amounts received for the business subject to the Quota Share Retrocession Agreement. The balance of the Funds Withheld Asset will decrease over time. However, business historically written on the Zurich Insurance Company ( ZIC ) and Zurich International (Bermuda) Ltd ( ZIB ) balance sheets is being renewed and written on the Converium balance sheet. As a result, we will generate invested assets from the new and renewal business written on the Converium balance sheet which we expect to at least partially offset reductions of the balance of the Funds Withheld Asset.

***Short-Term Investments***

Our short-term investment portfolio includes investments in fixed-term deposits and fiduciary investments. These investments generally have maturities of between three months and one year. As of December 31, 2004, we had short-term investments with a carrying value of \$117.3 million, representing 1.4% of our total investment portfolio, including cash and cash equivalents. Short-term investments at December 31, 2003 were \$55.7 million or 0.7% of our total investment portfolio, including cash and cash equivalents.

***Real Estate***

At December 31, 2004, we had real estate held for investment of \$138.8 million, consisting primarily of investments in residential and commercial rental properties located in Switzerland. Our direct real estate portfolio represented 1.6% of our total investment portfolio, including cash and cash equivalents.

In addition to these properties, Converium owns a 4.9% participation in PSP Swiss Property AG (an indirect real estate investment, included in equity securities) with a market value of \$98.9 million as of December 31, 2004. The ownership in PSP Swiss Property AG decreased from 7.4% as of December 31, 2003, due to the merger of PSP Swiss Property AG with REG Real Estate Group, another Swiss real estate company, during 2004.

During 2004, we invested approximately \$100.0 million in funds of hedge funds. At December 31, 2004, these funds had a carrying value of \$102.5 million. This investment is included under the caption Other investments in the balance sheet.

***Premiums Receivable***

We had premiums receivable of \$1.8 billion at December 31, 2004 compared to \$1.7 billion at December 31, 2003, an increase of \$178.1 million, or 10.8%. This increase is due to premiums written in 2004 and the weakening of the US dollar against European currencies. Premiums receivable include those currently due, as well as deferred premiums

receivable, which is comprised primarily of accruals on premium balances which have not yet been reported and which are not contractually due to be paid until some time in the future. See Reinsurance results section for additional information regarding adjustments of ultimate premium estimates. Current premiums receivable represented 20.1% and 22.4% of total premiums receivable at December 31, 2004 and 2003, respectively, and accrued premiums receivable represented 79.9% and 77.6%, respectively.



**Table of Contents****Reinsurance Assets**

Retrocessional reinsurance arrangements generally do not relieve Converium from its direct obligations to its reinsureds. Thus, a credit exposure exists with respect to reinsurance ceded to the extent that any retrocessionaire is unable or unwilling to meet the obligations assumed under the retrocessional agreements. At December 31, 2004, Converium held \$300.9 million in collateral as security under related retrocessional agreements in the form of deposits, securities and/or letters of credit.

As of December 31, 2004, we had reinsurance recoverables from retrocessionaires of approximately \$1.1 billion on paid and unpaid losses and loss expenses, unearned premium reserves and future life benefits balances. Allowances of \$30.6 million have been recorded for estimated uncollectible receivables and reinsurance recoverables at December 31, 2004, compared to \$20.4 million at December 31, 2003 .

**Capital Expenditures**

For the three years ended December 31, 2004, we invested a total of \$63.7 million in fixed assets. Most of these amounts were invested in equipment and information technology, and were financed from our free cash flow. We currently intend to continue to make capital investments at a similar pace and, in particular, to further enhance our global intellectual information technology platforms.

**Ratings**

Based on the developments of the latter part of 2004, both Standard & Poor's Ratings Services and A.M. Best initially lowered our ratings, but following our successful 2004 rights offering, some of the ratings were subsequently raised. Such ratings are as follows.

Currently, Standard & Poor's long-term counterparty credit and insurer financial strength rating of Converium AG is

BBB+ (downgraded from a rating of A ). For Converium Rückversicherung (Deutschland) AG and Converium Insurance (UK) Ltd., the insurer financial strength rating is currently BBB+ (downgraded from a rating of A ). Based on our announcement to place CRNA into run-off, the long-term counterparty credit and insurer financial strength ratings were downgraded to R (downgraded from a rating of A ). In addition, Standard & Poor's issued a long-term counterparty credit and senior unsecured debt ratings of BB+ for Converium Holdings (North America) Inc. (downgraded from a rating of BBB ). The current junior subordinated debt rating on Converium Finance S.A. is BBB- (downgraded from a rating of BBB+ ). All ratings have been assigned a stable outlook by Standard and Poor's.

Currently, A.M. Best's financial strength rating of Converium AG, Converium Rückversicherung (Deutschland) AG and Converium Insurance (UK) Ltd. is B++ (downgraded from a rating of A ) and its issuer credit rating for all three entities is bbb+ (downgraded from a rating of a ). CINA is currently assigned a financial strength rating of B (downgraded from a rating of A ) and an issuer credit rating of bb (downgraded from a rating of a ). For Converium Finance S.A. the current issuer credit rating is bb+ (downgraded from a rating of bbb ) and the junior subordinated debt rating is bbb- (downgraded from a rating of bbb+ ). All ratings have been assigned a stable outlook by A.M. Best. Following our announcement of our intention to place CRNA into run-off, the financial strength rating was downgraded to B- from A and the issuer credit rating to bb- from a . For Converium Holdings (North America) Inc. issuer credit as well as the senior unsecured debt ratings were lowered to b- from bbb- .

**Regulation****General**

The business of reinsurance is regulated in most countries, although the degree and type of regulation varies significantly from one jurisdiction to another. Reinsurers are generally subject to less direct regulation than primary insurers in most countries. In Switzerland and Germany, we operate under relatively less intensive regulatory regimes. Historically, neither Swiss nor German regulations have materially restricted our business. However, in the United States, licensed reinsurers must comply with financial supervision standards comparable to those governing primary insurers. Accordingly, our US subsidiaries are subject to extensive regulation under state statutes, which delegate regulatory, supervisory and administrative powers to state insurance commissioners.

This regulation, which is described in more detail below, generally is designed to protect policyholders rather than investors, and relates to such matters as rate setting; limitations on dividends and transactions with affiliates; solvency standards which must be met and maintained; the licensing of insurers and their agents; the examination of the affairs of insurance companies, which includes periodic market conduct examinations by the regulatory authorities; annual

and other reports, prepared on a statutory accounting basis; establishment and maintenance of reserves for unearned premiums and losses; and requirements regarding numerous other matters. US regulations accordingly have in the past materially affected our US business operations, although not, we believe, in a manner disproportionate to or unusual in our industry. We allocate considerable time and resources to comply with these requirements, and could be adversely affected if a regulatory authority believed we had failed to comply with applicable law or regulation. We believe that Converium and all of its subsidiaries are in material compliance with all applicable laws and regulations pertaining to

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their business and operations. Set forth below is a summary of the material regulations applicable to us.

**Switzerland**

Converium AG has received an operating license from the Federal Office of Private Insurance (Bundesamt für Privatversicherungen) (the FOPI), an administrative unit of the Swiss Ministry of Finance (Eidgenössisches Finanzdepartement) and is subject to the continued supervision by the FOPI pursuant to the Swiss Insurance Supervisory Act of June 23, 1978, as amended (Versicherungsaufsichtsgesetz). The FOPI has supervisory authority as well as the authority to make decisions to the extent that the Swiss Ministry of Finance is not explicitly designated by law.

Unlike insurance business, which is strictly regulated in Switzerland, regulation of reinsurance business is less intensive and most of the technical rules for direct insurers are not applicable to the reinsurance business. The supervision exercised by the FOPI is mainly indirect through the supervision of direct insurance companies and the reinsurance arrangements which they have established. Reinsurance companies from other countries which conduct only reinsurance business in Switzerland from their foreign domicile are exempt from supervision by the FOPI. Based upon a decree of the Federal Council of November 30, 2001, a commission has been constituted to consider a revision of the overall framework of the Swiss banking and insurance supervision. The first part of the report was released in July 2003 by the commission. The proposal includes the formation of a uniform financial services authority, which will become the supervisory authority for banks (currently supervised by the Federal Banking Commission) and insurance (currently supervised by the FOPI).

Under current regulations, Swiss insurance and reinsurance companies cannot operate in any field other than reinsurance and insurance. This rule is subject to exceptions, which are granted by the FOPI. Generally, these exceptions are granted if the nature and volume of the proposed non-insurance or non-reinsurance business does not threaten the solvency of the company. Investments in an entity operating outside the reinsurance or insurance field are subject to supervisory authority approval if the investment represents more than 20% (or 10% in the case of a life insurance business) of the share or cooperative capital of the non-insurance entity or if the investment represents more than 10% of the insurer's or reinsurer's shareholders' equity.

The FOPI requires each reinsurance company to submit a business plan which provides details about the calculation of its technical reserves and about its retrocession policies, and information about the reinsurer's solvency. The FOPI initially examines documents relating to the company's solvency, organization and management. If all legal requirements are met, an operating license is granted by the Swiss Ministry of Finance. Thereafter, companies must submit an annual business report, including financial statements, detailing information on all aspects of their business activities, such as premium income, paid out benefits, reserves and profits.

The Swiss Insurance Supervisory Act (Versicherungsaufsichtsgesetz) is currently subject to a total revision. The draft proposal passed by the Swiss Federal Council, on May 9, 2003, is currently subject of the discussions in the Swiss parliament. The final revised Act is expected to become effective, at the earliest, as of July 1, 2005. The main changes resulting from the revised Act relate to the amended definition of solvency (Art. 9 of the proposal), which will include consideration of financial and operational risks, an emphasis on the control of corporate governance elements by the Swiss insurance supervisory authority and an increased transparency and consumer protection. The solvency related amendments will result in the Swiss regulatory system introducing a system, which pre-empts the forthcoming changes in the EU, based upon the EU Solvency II Directive.

By letter dated September 27, 2004, the FOPI has requested that Converium AG provide notice on certain intra-group transactions between Converium AG and its subsidiaries including loans, guarantees, cost sharing agreements, capital injections, and investments in subsidiaries. Furthermore the FOPI requested by letter dated October 14, 2004 certain additional information including Converium's business strategy, planning, reserves, solvency and collateral issues. Converium is cooperating with the FOPI and is providing all required information and documentation.

In December 2004, per the FOPI's request, Converium AG agreed to submit for approval the following intra-group transactions: intra-group loans and capital increases to subsidiaries exceeding \$100.0 million; guarantees exceeding \$10.0 million; transfer of portfolios or novations involving changes in reserves exceeding \$25.0 million, dividends to Converium Holding AG and all intra-group reinsurance transactions that are not at arm's length. Absent consent of the FOPI, the intra-group transactions exceeding the thresholds cannot be executed, which may in turn have an impact on

the funding in conjunction with intra-group transactions.

**United States**

***Agreement with Connecticut Department of Insurance***

As a result of the reserve strengthening Converium recorded in 2004 and the subsequent placement of its North American business into run-off, the Connecticut Insurance Department (the Department ) has implemented additional financial monitoring of CRNA. CRNA has entered into a voluntary letter of understanding with the Department pursuant to which CRNA is prevented from taking a number of actions without first obtaining the Department's approval, including:

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making any material change in its management or operations;

making any withdrawal of monies from its bank accounts, disbursements or payments outside the ordinary course of the business run-off;

incurring any debt, obligation or liability for borrowed money not related directly to the ordinary course of the business run-off;

writing, assuming or issuing any new insurance policies;

making any dividend payment or other payment or distribution to or engaging in any transaction, or entering into any agreement directly or indirectly with its parent company, or any affiliated company;

entering into any new material reinsurance agreement; and

entering into any sales, purchases, exchanges, loans, extensions of credit or investments not in the ordinary course of its run-off business.

In addition, CRNA is required to provide to the Department written reports on a monthly basis containing detailed information on all commutations of reinsurance treaties and related activities, including specific impact on CRNA's statutory financial statements, as well as any additional reports that the Department reasonably determines are necessary to ascertain the financial condition of the Company. The voluntary letter of understanding does not preclude the Department from initiating any further actions that it deems in its discretion to be necessary for the protection of CRNA's policyholders, reinsureds and the public.

The foregoing requirements will continue until March 15, 2006, at which time the Department will reassess the financial condition of CRNA.

The recent ratings downgrades as well as our decision to place CRNA into run-off have triggered special funding clauses in CRNA's and CINA's reinsurance and insurance contracts. These clauses require CRNA and CINA to provide collateral for their payment obligations under those contracts. In addition, state insurance regulators may request that CRNA and CINA make special deposits in their states or provide collateral for contracts issued to residents of their states. The approval of the Department is required before we provide collateral that is not contractually required. If the Department withholds its approval, state insurance regulators that requested special deposits or collateral not contractually required, could seek to revoke CRNA's or CINA's licenses or initiate proceedings to take possession of the property, business and affairs of CRNA or CINA in the respective states.

***General US state supervision***

Insurance and reinsurance regulation is enforced by the various state insurance departments and the extent and nature of regulation varies from state to state. CRNA is a Connecticut-domiciled reinsurer which is licensed, accredited or approved in all 50 states, is an accredited reinsurer in the District of Columbia, is an admitted reinsurer for the United States Treasury and has a license to transact certain lines of business in Canada. Pursuant to its voluntary letter of understanding with the Department, CRNA currently must seek prior approval from the Department to write, assume or issue any new policies in the United States. In addition, CRNA is amending its Canadian license to restrict its activities to servicing existing policies. CINA is a New Jersey-domiciled insurer licensed in 49 states (excluding only New Hampshire) and the District of Columbia (as a reinsurer). In addition, some states consider an insurer to be commercially domiciled in their states if the insurer writes insurance premiums that exceed certain specified thresholds. As a commercially domiciled insurer, an insurer would be subject to some of the requirements normally applicable only to insurers domiciled in those states, including, in particular, certain requirements of the insurance holding company laws. CRNA is not currently commercially domiciled in any state. CINA is currently commercially domiciled in California and Florida.

***Insurance holding company regulation***

We and our US insurance and reinsurance subsidiaries are subject to regulation under the insurance holding company laws of various states. The insurance holding company laws and regulations vary from state to state, but generally require insurers and reinsurers that are subsidiaries of insurance holding companies to register and file with state regulatory authorities certain reports including information concerning their capital structure, ownership, financial condition and general business operations. Generally, all transactions involving the insurers in a holding company system and their affiliates must be fair and, if material, require prior notice and approval or non-disapproval by the state insurance department. Further, state insurance holding company laws typically place limitations on the amounts of dividends or other distributions payable by insurers and reinsurers. Connecticut and New Jersey, the jurisdictions in which CRNA and CINA are domiciled, each provide that, unless the prior approval of the state insurance commissioner has been obtained, dividends may be paid only from earned surplus and the annual amount payable is limited to the greater of 10% of policyholder surplus at the end of the prior year or 100% of statutory net income for the prior year (excluding realized gains, in the case of the New Jersey insurer). In addition, CRNA may not, for a period of two years from the date of any change of control, make any dividends to its shareholders without the prior approval of the Insurance Commissioner. Further, pursuant to its voluntary letter of understanding with the Department, CRNA may not make any dividend payment without prior approval from the Department. State insurance holding company laws also require prior notice or state insurance department approval of changes in control of an insurer or reinsurer or its holding company. The insurance laws of Connecticut and New Jersey provide that no corporation or other person may acquire control of a domestic insurance or reinsurance company unless it has given notice to such company and obtained prior written approval of the state insurance commissioner. Any purchaser of 10% or more of the outstanding voting securities of an insurance or

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reinsurance company or its holding company is presumed to have acquired control, unless this presumption is rebutted. Therefore, an investor who intends to acquire 10% or more of our outstanding voting securities may need to comply with these laws and would be required to file notices and reports with the Connecticut and New Jersey insurance commissioners prior to such acquisition.

In addition, many state insurance laws require prior notification to the state insurance department of a change in control of a non-domiciliary insurance company licensed to transact insurance in that state. While these pre-notification statutes do not authorize the state insurance departments to disapprove the change in control, they authorize regulatory action in the affected state if particular conditions exist such as undue market concentration. Any future transactions that would constitute a change in control of CHNA or either of its US insurance subsidiaries may require prior notification in the states that have adopted pre-acquisition notification laws.

***Insurance regulation***

As a licensed primary insurer, CINA is subject to broad state insurance department administrative powers with respect to all aspects of the insurance business including: licensing to transact business, licensing agents, admittance of assets to statutory surplus, regulating premium rates, approving policy forms, regulating unfair trade and claims practices, methods of accounting, establishing reserve requirements and solvency standards, and regulating the type, amounts and valuations of investments permitted and other matters.

State insurance laws and regulations require our US insurance and reinsurance subsidiaries to file financial statements with insurance departments everywhere they do business, and the operations of our US insurance and reinsurance subsidiaries and accounts are subject to the examination by those departments at any time. Our US insurance and reinsurance subsidiaries prepare statutory financial statements in accordance with accounting practices and procedures prescribed or permitted by these departments.

State insurance departments conduct periodic examinations of the books and records, financial reporting, policy filings and market conduct of insurance companies domiciled in their states, generally once every three to five years. Examinations are generally carried out in cooperation with the insurance departments of other states under guidelines promulgated by the National Association of Insurance Commissioners (the NAIC). The Connecticut Insurance Department last completed a financial examination of CRNA for the five-year period ending December 31, 2002. The New Jersey Department of Banking and Insurance last completed a financial examination of CINA for the five-year period ending December 31, 2000.

***Reinsurance regulation***

CRNA is subject to regulation and supervision that is similar to the regulation of licensed primary insurers in many respects. Generally, state regulatory authorities monitor compliance with, and periodically conduct examinations regarding, state mandated standards of solvency, licensing requirements, investment limitations, restrictions on the size of risks which may be reinsured, deposits of securities for the benefit of reinsureds, methods of accounting, and reserves for unearned premiums, losses and other purposes. However, in contrast with primary insurance policies which are regulated as to rate, form and content, the terms and conditions of reinsurance agreements generally are not subject to regulation by state insurance regulators.

CRNA is accredited or approved to write reinsurance in certain states. The ability of any primary insurer, as reinsured, to take credit for the reinsurance placed with reinsurers is a significant component of reinsurance regulation.

Typically, a primary insurer will only enter into a reinsurance agreement if it can obtain credit on its statutory financial statements for the reinsurance ceded to the reinsurer. Credit is usually granted when the reinsurer is licensed or accredited in the state where the primary insurer is domiciled. In addition, many states allow credit for reinsurance ceded to a reinsurer that is licensed in another state and which meets certain financial requirements, or if the primary insurer is provided with collateral to secure the reinsurer's obligations.

***US reinsurance regulation of our non-US reinsurance subsidiaries***

Converium AG and Converium Rückversicherung (Deutschland) AG, our non-US reinsurance subsidiaries, also assume reinsurance from primary US insurers. In order for primary US insurers to obtain financial statement credit for the reinsurance obligations of our non-US reinsurers, our non-US reinsurers must satisfy reinsurance requirements. Non-US reinsurers that are not licensed in a state generally may become accredited by filing certain financial information with the relevant state commissioner and maintaining a US trust fund for the payment of valid reinsurance

claims in an amount equal to the reinsurer's US reinsurance liabilities covered by the trust plus an additional \$20 million. In addition, unlicensed and unaccredited reinsurers may secure the US primary insurer with funds equal to its reinsurance obligations in the form of cash, securities, letters of credit or reinsurance trusts.

***NAIC ratios***

The NAIC has developed a set of financial relationships or tests known as the NAIC Insurance Regulatory Information System to assist state regulators in monitoring the financial condition of insurance companies and identifying companies that require special attention or action by insurance regulatory authorities. Insurance companies generally submit data quarterly to the NAIC, which in turn analyzes the data using prescribed financial data ratios, each with defined usual ranges. If an insurance company's results vary significantly from expected ranges, regulators may make further inquiries. Regulators have the authority to impose remedies ranging from increased



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monitoring to certain business limitations to various degrees of supervision. For example, as a result of having three IRIS loss reserve tests fall outside of the specified parameters as of December 31, 2001 and December 31, 2002, CRNA was required by the State of New York Insurance Department to engage a qualified independent loss reserve specialist to render an opinion as to the adequacy of its loss and loss expense reserves at December 31, 2002 and December 31, 2003, respectively. For 2004, the same independent loss reserve specialist was used, although only one IRIS loss reserve ratio was out of the specified range as of December 31, 2003.

***Risk-based capital***

The Risk-Based Capital for Insurers Model Act (the Model Act) as it applies to non-life insurers and reinsurers, was adopted by the NAIC in 1993. The main purpose of the Model Act is to provide a tool for insurance regulators to evaluate the capital of insurers relative to the risks assumed by them and determine whether there is a need for possible corrective action. US insurers and reinsurers are required to report the results of their risk-based capital calculations as part of the statutory annual statements filed with state insurance regulatory authorities. The Model Act provides for four different levels of regulatory actions based on annual statements, each of which may be triggered if an insurer's Total Adjusted Capital, as defined in the Model Act, is less than a corresponding level of risk-based capital (RBC).

The Company Action Level is triggered if an insurer's Total Adjusted Capital is less than 200% of its Authorized Control Level RBC, as defined in the Model Act. At the Company Action Level, the insurer must submit a RBC plan to the regulatory authority that discusses proposed corrective actions to improve its capital position. The Regulatory Action Level is triggered if an insurer's Total Adjusted Capital is less than 150% of its Authorized Control Level RBC. At the Regulatory Action Level, the regulatory authority will perform a special examination of the insurer and issue an order specifying corrective actions that must be followed. The Authorized Control Level is triggered if an insurer's Total Adjusted Capital is less than 100% of its Authorized Control Level RBC, and at that level the regulatory authority is authorized (although not mandated) to take regulatory control of the insurer. The Mandatory Control Level is triggered if an insurer's Total Adjusted Capital is less than 70% of its Authorized Control Level RBC, and at that level the regulatory authority must take regulatory control of the insurer. Regulatory control may lead to rehabilitation or liquidation of an insurer. As of December 31, 2004, the Total Adjusted Capital of our US reinsurance subsidiary was less than the Company Action Level. As a result, CRNA filed an RBC plan with the state of domicile, Connecticut, on March 28, 2005. The Connecticut Insurance Department approved the RBC plan for implementation on May 9, 2005. Our US insurance subsidiary, CINA, exceeded amounts requiring company or regulatory action at any of the four levels.

***The Gramm-Leach-Bliley Act***

In November 1999, the Gramm-Leach-Bliley Act of 1999 (the GLBA) was enacted, implementing fundamental changes in the regulation of the financial services industry in the United States. The GLBA permits the transformation of the already converging banking, insurance and securities industries by permitting mergers that combine commercial banks, insurers and securities firms under one holding company, a financial holding company. Bank holding companies and other entities that qualify and elect to be treated as financial holding companies may engage in activities, and acquire companies engaged in activities that are financial in nature or incidental or complementary to such financial activities. Such financial activities include acting as principal, agent or broker in the underwriting and sale of life, property, casualty and other forms of insurance and annuities. However, although a bank cannot act as an insurer nor can it own an insurer as a subsidiary in most circumstances, a financial holding company can own any kind of insurer, insurance broker or agent. Under the GLBA, national banks retain their existing ability to sell insurance products in some circumstances.

Under state law, the financial holding company must apply to the insurance commissioner in the insurer's state of domicile for prior approval of the acquisition of the insurer. Under the GLBA, no state may prevent or restrict affiliations between banks and insurers, insurance agents or brokers. Further, states cannot prevent or significantly interfere with bank or bank subsidiary sales activities. Finally, both bank and bank affiliates can obtain licenses as producers.

Until the passage of the GLBA, the Glass-Steagall Act of 1933, as amended, had limited the ability of banks to engage in securities-related businesses, and the Bank Holding Company Act of 1956, as amended, had restricted banks from

being affiliated with insurers. With the passage of the GLBA, among other things, bank holding companies may acquire insurers, and insurance holding companies may acquire banks.

***Insurance Guaranty Association assessments***

Each state has insurance guaranty association laws under which property and casualty insurers doing business in the state may be assessed by state insurance guaranty associations for certain obligations of insolvent insurance companies to policyholders and claimants. These laws do not apply to reinsurers. Typically, states assess each member insurer in an amount related to the member insurer's proportionate share of the business written by all member insurers in the state. Extraordinary loss experience, loss reserve deficiencies, or prior investment results may result in the insolvency of certain US insurance companies, increasing the possibility that our US insurance subsidiaries will be assessed by state insurance guaranty associations. While we cannot predict the amount and timing of any future assessments on our insurance companies under these laws, we have established reserves that we believe are adequate for assessments relating to insurance companies that are currently subject to insolvency proceedings.

**Table of Contents*****Terrorism legislation***

On November 26, 2002, President George W. Bush signed into law the Terrorism Risk Insurance Act of 2002 ( TRIA ). This legislation establishes a program under which the Federal government will share the risk of loss arising from future terrorist attacks with the insurance industry. The law does not apply to reinsurers, and the federal government does not share in the risk of loss emanating from future terrorist attacks with the reinsurance industry. Each reinsurer is free to make its own contractual arrangements with its ceding partners, as it deems appropriate.

Regarding our ceding companies, TRIA offers a three-year program, imposes a deductible that must be satisfied before federal assistance is triggered and contains a co-insurance feature. The deductible is based on a percentage of direct earned premiums for commercial insurance lines from the previous calendar year. It rises from 1% during the transition period, running from the date of enactment to December 31, 2002, to 7% during year one of the program (2003), 10% during year two, and 15% in year three. The federal program covers 90% of losses in excess of the applicable deductible, while the insurance company retains the remaining 10%. The program imposes an annual cap of \$100 billion on covered losses. Participation in the program for insurers providing commercial property and casualty insurance is mandatory. While in effect, the TRIA appears to provide the property and casualty sector with an increased ability to withstand the effect of potential terrorist events, any company's results of operations or shareholders' equity could nevertheless be materially adversely impacted, in light of the unpredictability of the nature, targets, severity or frequency of such potential events. In June of 2004, the US Treasury Department extended the make available provisions of TRIA until December 31, 2005. These provisions, originally scheduled to expire on December 31, 2004, require insurers to offer terrorism insurance coverage in all commercial property and casualty insurance policies. While the US Congress is considering legislation to extend TRIA beyond its scheduled expiration on December 31, 2005, the success of such efforts to extend the program is uncertain.

***Proposed US legislation regarding US asbestos liability***

Both the US Senate and the US House of Representatives are considering a bill called the Fairness in Asbestos Injury Resolution Act of 2005. The proposed bill would establish a privately financed trust fund to provide payments to individuals with asbestos-related illnesses and would stay asbestos claims in the tort litigation system. The trust would be financed by primary insurers, reinsurers and industrial enterprises and the insurance industry would be responsible for funding a certain share of the total costs. Under the proposed bill an Office of Asbestos Disease Compensation within the Department of Labor will manage the trust fund and oversee the settlement of all asbestos claims with awards from the fund. Medical criteria would be established to ensure that only people who showed signs of asbestos-related illnesses would be entitled to payments from the trust. An Asbestos Insurers Commission will determine the trust fund payment obligations of insurers. Judicial review will be possible, under expedited consideration, for final determinations regarding trust fund obligations in the US Court of Appeals for the District of Columbia and for award decisions in the US Court of Appeals for the circuit in which the claimant resides.

We are unable to predict whether the proposed bill will be enacted, and if so, what proportion of trust fund monies the insurance industry will be responsible to provide. Additionally, we are unable to predict how the insurance industry's obligations to provide the trust fund monies would be allocated among industry participants.

**Germany**

Converium Rückversicherung (Deutschland) AG is regulated in Germany and is engaged exclusively in the reinsurance business. It is thus an insurance enterprise within the meaning of the German Insurance Supervision Act and as such is subject to governmental supervision. This supervision is exercised by the Federal Insurance Supervisory Office (BaFin) located in Bonn, Germany.

Until the end of 2004, and in contrast to insurance enterprises, companies that had been engaged exclusively in reinsurance activities were subject to a less extensive scope of governmental supervision. The supervisory authority's monitoring of reinsurers was limited to ensuring their compliance with the specific accounting regulations applicable to insurance enterprises. For this purpose, reinsurance enterprises were required to submit quarterly and annual financial statements to the supervisory authority.

In addition, reinsurers were obligated to submit detailed reports on the nature and volume of their business to the supervisory authority in accordance with the Ordinance on Reporting by Insurance Enterprises to the Federal Insurance Supervisory Office.

The supervisory authority may, at its discretion, perform inspections at the reinsurer's premises to verify compliance with these statutory obligations.

Under the old regime, German reinsurers used to only be supervised indirectly, principally through the supervision of primary insurance companies. In particular, the Federal Insurance Supervisory Office requires German insurance companies to monitor their reinsurance agreements, which has led to the creation of internal rating systems for reinsurers by German insurance companies.

The German legislative has passed an enhanced supervisory act that now fully integrates the reinsurance industry into the regulatory

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scheme applicable to the insurance industry under the EU Directive on reinsurance. See European Union directives . The new law became effective by January 1, 2005. The new regulation has an impact on various aspects of reinsurers, including legal form of the company, location of the headquarters, qualification of the executive management, control procedures towards shareholders, investment principles, solvency requirements and special intervention rights for the supervising bodies.

In late 2004, in order to meet newly established solvency requirements for reinsurance companies in Germany, Converium Rückversicherung (Deutschland) AG increased its capital on a local statutory basis by 100.0 million (\$135.9 million). This was accomplished by means of a capital contribution from Converium AG in the amount of 80.0 million (\$108.7 million). In addition, Converium AG granted Converium Rückversicherung (Deutschland) AG a subordinated loan in the amount of 20.0 million (\$27.2 million) for a term of twenty years.

In December 2004, Converium AG established a branch office in Cologne, Germany. This move was made in response to the favorable legal regulatory environment in Germany as the rules regarding establishment of branch offices were slated to change as of January 1, 2005 . We do not currently transact any business in this branch.

### **United Kingdom**

Converium Insurance (UK) Ltd ( CIL ) is subject to U.K. insurance regulation and the supervision by the UK Financial Services Authority (FSA). It is anticipated that the U.K. regulatory environment will be subject to considerable change between 2004 and 2006. This will include adoption of increased solvency requirements, which are based upon the EU Solvency I Directive. The latter will trigger increased capital requirements for certain liability business. Prior to the introduction of the EU Solvency II Directive, the FSA is expected to introduce enhanced capital requirements for general insurers, which will include capital charges based upon assets, claims and premium (Consultation Paper CP 190). CIL has taken steps to anticipate the new requirements, in particular the initial capitalization of the company has been set at a level that is expected to meet the capital requirements for general insurers, which take effect from January 1, 2005.

### **European Union directives**

Our businesses in the United Kingdom and Germany, as well as in the other member states of the EU and the European Economic Area, (the EEA ), are impacted by EU directives. These directives are implemented through legislation in each member state. Switzerland, which is not a member state of the EU, entered into a treaty with the EU in 1989 which allows Swiss direct insurers, other than life insurers, the free establishment of branches and subsidiaries within the EU. Without being part of the EEA nor being bound by contract, Switzerland reviews and largely conforms its financial services regulations with EU directives.

In April 2004, the EC presented a proposal for the EU Directive on reinsurance, which will now be considered under the procedure known as co-decision for adoption by the European Parliament and Council. The proposed EU Directive, if and when adopted, will essentially establish the principles applicable to the operation of reinsurance business in a Member State and rules regarding technical provisions and the solvency requirements applicable to reinsurance companies. The EU Directive is based largely on solvency related concepts stipulated in the prior directive adopted by the EU for insurance companies. The proposed EU Directive does not currently provide for any discrimination of non-EU based reinsurance companies. However, if the final adopted EU Directive should include such discriminatory regulations, this could be a disadvantage for Converium AG in its doing business in the EU, as Converium AG derives a substantial proportion of its revenues within the EU and any competitive disadvantage we face there could have an adverse effect on our financial condition, result of operations or cash flows.

### **Asia**

#### ***Restrictions imposed by the Monetary Authority of Singapore***

Citing recent developments affecting the Converium Group, the Monetary Authority of Singapore has imposed certain restrictions on the conduct of our business originating from our Singapore branch. Our Singapore branch must, among other things:

- cease issuing any new loans out of insurance funds;

- cease acting as a guarantor/surety;

cease investing in the equities of related companies; and

refrain from appointing foreign custodians for any of the assets of the branch.

**Canada**

***Amended approval by the Office of Superintendent of Financial Institutions***

Effective September 14, 2004, the Office of the Superintendent of Financial Institutions amended its order approving CRNA's insuring of risks in Canada. The amended order limits such activity to the business of reinsurance and to the servicing of existing policies.

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**C. ORGANIZATIONAL STRUCTURE**

Converium Holding AG has substantially no net assets other than its ownership of 100% of the shares of Converium AG. As of December 31, 2004, Converium AG held approximately 50% of our net assets itself, and an additional 48% through its direct and indirect ownership of each of our subsidiaries.

We are a multinational group of companies with insurance and reinsurance subsidiaries and other companies organized in jurisdictions worldwide. Our significant subsidiaries are Converium AG, Converium Finance S.A., Converium Rückversicherung (Deutschland) AG and CHNA, which holds our subsidiaries CRNA and CINA. Converium AG owns directly or indirectly, 100% of all of our operating companies. Additionally, Converium Holding AG holds 100% of the shares in each of Converium Finance Ltd., Bermuda and Converium IP Management, Ltd. The following chart summarizes our corporate structure.

(1) Currently in the process of transferring to Zug, Switzerland.

**D. PROPERTY, PLANTS AND EQUIPMENT**

Our operational head office is located at General Guisan Quai 26, 8002 Zurich, Switzerland, where we lease an aggregate of 227,226 square feet. We also maintain offices at:

our US headquarters in New York, New York, at One Chase Manhattan Plaza, New York, NY 10005 where we sublease an aggregate of 77,013 square feet; and

our German headquarters in Cologne, Germany, at Clever Strasse 36, 50668 Köln, Germany where we lease an aggregate of 44,918 square feet.

In addition to our headquarter offices, we lease space for our branch and marketing offices. In addition, we have administrative offices in Stamford, Connecticut. We also hold other properties for investment purposes.

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As a result of the transition to a run-off entity in North America, a decision was made in January 2005 to vacate the primary office space in New York, New York and consolidate in the Stamford, Connecticut office space. Converium expects the effective date of the transfer to be July 1, 2005.

**ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

**A. OPERATING RESULTS**

*The following discussion and analysis should be read in conjunction with our financial statements, including the related notes to those financial statements. This discussion contains forward-looking statements that involve risks and uncertainties and actual results may differ materially from the results described or implied by these forward-looking statements. See Cautionary note regarding forward-looking statements .*

*To the extent that the description of our business presents historical financial data, such financial data may not reflect our future operating performance. As a result of the ratings downgrades and the run-off of our North American business, we expect a significant decline in the amount of premiums as well as significant shifts in the geographic and line of business distributions of premiums that we write going forward as compared to our historical performance.*

**Restatement of Previously Issued Financial Statements**

*Background to the Restatement: internal review*

Ongoing investigations of the insurance and reinsurance industry and non-traditional insurance and reinsurance products are being conducted by U.S. and international regulators and governmental authorities, including the U.S. Securities and Exchange Commission and the New York Attorney General.

On March 8, 2005, MBIA issued a press release stating that MBIA's audit committee undertook an investigation to determine whether there was an oral agreement with MBIA under which MBIA would replace Axa Re Finance as a reinsurer to CRNA by no later than October 2005. The press release stated that it appeared likely that MBIA made such an agreement or understanding with Axa Re Finance in 1998. Thereafter, on April 19, 2005, CRNA received subpoenas from the U.S. Securities and Exchange Commission and the Office of the New York Attorney General seeking documents related to certain transactions between CRNA and MBIA. Converium has also received additional inquiries from the Securities and Exchange Commission and other governmental authorities in Europe regarding non-traditional insurance and reinsurance products and/or the restatement of its financial statements. The inquiries are ongoing and Converium is fully cooperating with the governmental authorities.

In view of the industry investigations and the events relating to MBIA described above, Converium engaged independent outside counsel to assist it in a review and analysis of certain of its reinsurance transactions, including the MBIA transaction. The internal review, which was overseen by the Audit Committee, addressed issues arising from the ongoing governmental inquiries and Converium's own decision to review certain additional items. The internal review involved the assessment of numerous assumed and ceded transactions including structured/finite risk and other reinsurance transactions and encompassed all business units of Converium, a review of hundreds of thousands of e-mails, attachments to e-mails and other documents and interviews of all current members of the Global Executive Committee and the Board of Directors, as well as certain former members of senior management and other employees of Converium. The Audit Committee believes that the scope and process of the internal review has been sufficient to determine whether Converium's assumed and ceded transactions were improperly accounted for as reinsurance, rather than as deposits. After discussing the findings of Converium's extensive internal review with independent outside counsel, the Audit Committee determined that the accounting corrections below were appropriate and authorized the Restatement of Converium's financial statements as of and for the years ended December 31, 2004 through 1998. As part of this process, the Audit Committee has involved its independent group auditors, PricewaterhouseCoopers Ltd. For further information regarding these accounting adjustments, see Note 3 to our 2004 consolidated financial statements included in Item 8. Financial Information A. Consolidated Statements and Other Financial Information, and Item 5. Operating and Financial Review and Prospects A. Operating Results . Financial information for each of the quarters ended March 31, 2003 through June 30, 2005 has also been restated. All amounts included herein have been adjusted to reflect the Restatement. Previously published financial statements regarding any of the above periods should no longer be relied upon.

As noted above, Converium is fully cooperating with the governmental authorities, and is in the process of sharing the results of its internal review with the relevant authorities. Although the internal review was extensive, the ongoing



governmental inquiries, or other developments, could result in further restatements of Converium's financial results in the future and could have a material adverse effect on Converium.

*Restatement overview*

As a result of the internal review, Converium concluded that the accounting for a number of reinsurance transactions needed to be corrected and that its financial statements and selected financial and other data should be restated. The Restatement of reinsurance

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contracts relates primarily to the US GAAP requirement that in order to qualify for reinsurance accounting treatment, reinsurance agreements transfer significant risk, as required by SFAS 113. Cash flows under reinsurance contracts that transfer significant risk are recognized as premiums and losses. Reinsurance contracts that do not transfer significant risk are not reported as premiums and losses, but are instead accounted for using deposit accounting, with cash flows recognized as deposit assets or liabilities with associated other income or expense. Converium also restated its accounting for income taxes and certain other items.

The tables below show the reconciliation of the previously reported income statements and balance sheets to the restated versions, broken out by respective adjustment category as of and for the years ended December 31, 2004, 2003, 2002, 2001, 2000, 1999 and 1998.

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## Consolidated statement of loss

(US\$ million)

Year ended December 31

2004

	As previously reported	Reinsurance transactions	Taxes	Other Items	As restated
<b>Revenues</b>					
Gross premiums written	3,840.9	-17.2		155.0	3,978.7
Less ceded premiums written	-287.9	70.6		-35.3	-252.6
Net premiums written	3,553.0	53.4		119.7	3,726.1
Net change in unearned premiums	132.1	24.0			156.1
Net premiums earned	3,685.1	77.4		119.7	3,882.2
Net investment income	311.6			1.1	312.7
Net realized capital gains (losses)	46.5				46.5
Other (loss) income	-2.6	3.5		-9.1	-8.2
Total revenues	4,040.6	80.9		111.7	4,233.2
<b>Benefits, losses and expenses</b>					
Losses, loss expenses and life benefits	-3,263.1	-44.7		-34.7	-3,342.5
Acquisition costs	-842.5	9.9		-79.8	-912.4
Other operating and administration expenses	-217.9			-1.9	-219.8
Interest expense	-33.1				-33.1
Impairment of goodwill	-94.0				-94.0
Amortization of intangible assets	-9.9				-9.9
Restructuring costs	-2.7				-2.7
Total benefits, losses and expenses	-4,463.2	-34.8		-116.4	-4,614.4
(Loss) income before taxes	-422.6	46.1		-4.7	-381.2
Income tax (expense) benefit	-338.2	-17.1	152.2	1.8	-201.3
Net (loss) income	-760.8	29.0	152.2	-2.9	-582.5

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## Consolidated statement of income

(US\$ million)

Year ended December 31

2003

	As previously reported	Reinsurance transactions	Taxes	Other Items	As restated
<b>Revenues</b>					
Gross premiums written	4,223.9	-28.4		104.9	4,300.4
Less ceded premiums written	-396.9	96.9		-77.7	-377.7
Net premiums written	3,827.0	68.5		27.2	3,922.7
Net change in unearned premiums	-150.5	-4.4			-154.9
Net premiums earned	3,676.5	64.1		27.2	3,767.8
Net investment income	233.0			1.4	234.4
Net realized capital gains (losses)	18.4				18.4
Other income (loss)	2.7	17.5		-2.7	17.5
Total revenues	3,930.6	81.6		25.9	4,038.1
<b>Benefits, losses and expenses</b>					
Losses, loss expenses and life benefits	-2,674.2	-85.9			-2,760.1
Acquisition costs	-803.2	-16.6		-12.2	-832.0
Other operating and administration expenses	-197.8			-4.7	-202.5
Interest expense	-31.0				-31.0
Impairment of goodwill Amortization of intangible assets				-1.8	-1.8
Restructuring costs					
Total benefits, losses and expenses	-3,706.2	-102.5		-18.7	-3,827.4
Income (loss) before taxes	224.4	-20.9		7.2	210.7
Income tax (expense) benefit	-39.3	-10.2	13.2	3.5	-32.8
Net income (loss)	185.1	-31.1	13.2	10.7	177.9

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## Consolidated statement of income

(US\$ million)

Year ended December 31

2002

	As previously reported	Reinsurance transactions	Taxes	Other Items	As restated
<b>Revenues</b>					
Gross premiums written	3,535.8	-163.3		-0.1	3,372.4
Less ceded premiums written	-213.6	76.4			-137.2
Net premiums written	3,322.2	-86.9		-0.1	3,235.2
Net change in unearned premiums	-156.7	-1.0			-157.7
Net premiums earned	3,165.5	-87.9		-0.1	3,077.5
Net investment income	251.8				251.8
Net realized capital gains (losses)	-10.3				-10.3
Other (loss) income	-1.2	32.8			31.6
Total revenues	3,405.8	-55.1		-0.1	3,350.6
<b>Benefits, losses and expenses</b>					
Losses, loss expenses and life benefits	-2,492.0	1.0		-0.1	-2,491.1
Acquisition costs	-666.7	23.9		-4.0	-646.8
Other operating and administration expenses	-173.3			-5.1	-178.4
Interest expense	-16.4				-16.4
Total benefits, losses and expenses	-3,348.4	24.9		-9.2	-3,332.7
Income (loss) before taxes	57.4	-30.2		-9.3	17.9
Income tax benefit (expense)	49.4	2.5	-34.7	0.7	17.9
Net income (loss)	106.8	-27.7	-34.7	-8.6	35.8

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Historical combined statement of loss

(US\$ million)

Year ended December 31

	As previously reported	Reinsurance transactions	2001 Taxes	Other Items	As restated
<b>Revenues</b>					
Gross premiums written	2,881.2	-34.4			2,846.8
Less ceded premiums written	-398.6	204.5			-194.1
Net premiums written	2,482.6	170.1			2,652.7
Net change in unearned premiums	-187.4	-16.8			-204.2
Net premiums earned	2,295.2	153.3			2,448.5
Net investment income	228.7			6.2	234.9
Net realized capital gains (losses)	-18.4				-18.4
Other (loss) income	-5.8	14.9		-6.2	2.9
Total revenues	2,499.7	168.2			2,667.9
<b>Benefits, losses and expenses</b>					
Losses, loss expenses and life benefits	-2,300.5	-160.1			-2,460.6
Acquisition costs	-508.1	-8.8			-516.9
Other operating and administration expenses	-146.4				-146.4
Interest expense	-24.2				-24.2
Total benefits, losses and expenses	-3,037.0	-168.9			-3,205.9
Loss before taxes	-537.3	-0.7			-538.0
Income tax benefit (expense)	169.9	-0.3	12.8		182.4
Net (loss) income	-367.4	-1.0	12.8		-355.6

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Historical combined statement of loss

(US\$ million)

Year ended December 31

2000

	As previously reported	Reinsurance transactions	Taxes	Other Items	As restated
<b>Revenues</b>					
Gross premiums written	2,565.8	-18.7			2,547.1
Less ceded premiums written	-569.8	203.4			-366.4
Net premiums written	1,996.0	184.7			2,180.7
Net change in unearned premiums	-134.5	8.3			-126.2
Net premiums earned	1,861.5	193.0			2,054.5
Net investment income	176.0				176.0
Net realized capital gains (losses)	83.7				83.7
Other income	29.3	13.9			43.2
Total revenues	2,150.5	206.9			2,357.4
<b>Benefits, losses and expenses</b>					
Losses, loss expenses and life benefits	-1,604.5	-281.1			-1,885.6
Acquisition costs	-454.4	-27.2			-481.6
Other operating and administration expenses	-116.0				-116.0
Interest expense	-17.1				-17.1
Amortization of goodwill	-7.3				-7.3
Total benefits, losses and expenses	-2,199.3	-308.3			-2,507.6
Loss before taxes	-48.8	-101.4			-150.2
Income tax benefit (expense)	19.5	28.2	-9.6		38.1
Net loss	-29.3	-73.2	-9.6		-112.1

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## Historical combined statement of income

(US\$ million)

Year ended December 31

	1999				
	As previously reported	Reinsurance transactions	Taxes	Other Items	As restated
<b>Revenues</b>					
Gross premiums written	1,928.7	-18.6			1,910.1
Less ceded premiums written	-358.5	17.5			-341.0
Net premiums written	1,570.2	-1.1			1,569.1
Net change in unearned premiums	-168.7	1.0			-167.7
Net premiums earned	1,401.5	-0.1			1,401.4
Net investment income	214.0				214.0
Net realized capital gains (losses)	76.3				76.3
Other income	22.1	2.1		1.2	25.4
Total revenues	1,713.9	2.0		1.2	1,717.1
<b>Benefits, losses and expenses</b>					
Losses, loss expenses and life benefits	-1,138.7	-0.6			-1,139.3
Acquisition costs	-340.3	-0.7		-1.3	-342.3
Other operating and administration expenses	-112.8				-112.8
Interest expense	-17.5				-17.5
Amortization of goodwill	-6.2				-6.2
Total benefits, losses and expenses	-1,615.5	-1.3		-1.3	-1,618.1
Income (loss) before taxes	98.4	0.7		-0.1	99.0
Income tax expense	-40.6	-0.3			-40.9
Net income (loss)	57.8	0.4		-0.1	58.1



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## Historical combined statement of income

(US\$ million)

Year ended December 31

	As previously reported	Reinsurance transactions	1998 Taxes	Other Items	As restated
<b>Revenues</b>					
Gross premiums written	1,458.8	-6.1			1,452.7
Less ceded premiums written	-213.7	4.9			-208.8
Net premiums written	1,245.1	-1.2			1,243.9
Net change in unearned premiums	-17.7	0.5			-17.2
Net premiums earned	1,227.4	-0.7			1,226.7
Net investment income	255.4				255.4
Net realized capital gains (losses)	78.9				78.9
Other income	24.8	0.7		2.1	27.6
Total revenues	1,586.5			2.1	1,588.6
<b>Benefits, losses and expenses</b>					
Losses, loss expenses and life benefits	-917.3	0.5			-916.8
Acquisition costs	-340.7	0.3		-2.1	-342.5
Other operating and administration expenses	-127.9				-127.9
Interest expense	-16.1				-16.1
Amortization of goodwill	-6.2				-6.2
Total benefits, losses and expenses	-1,408.2	0.8		-2.1	-1,409.5
Income before taxes	178.3	0.8			179.1
Income tax expense	-62.0	-0.3			-62.3
Net income	116.3	0.5			116.8

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Consolidated balance sheet

(US\$ million)

	2004				
	As previously reported	Reinsurance transactions	Taxes	Other Items	As restated
<b>Assets</b>					
<b>Invested assets</b>					
Held-to-maturity securities:					
Fixed maturities	850.4				850.4
Available-for-sale securities:					
Fixed maturities	4,834.8				4,834.8
Equity securities	399.4				399.4
Other investments	281.4			-2.2	279.2
Short-term investments	117.3				117.3
Total investments	6,483.3			-2.2	6,481.1
Funds Withheld Asset	1,305.1				1,305.1
Total invested assets	7,788.4			-2.2	7,786.2
<b>Other assets</b>					
Cash and cash equivalents	680.9				680.9
Premiums receivable	1,812.0	8.8		11.4	1,832.2
Reserves for unearned premiums, retro	111.6	-72.1		15.7	55.2
Reinsurance assets:					
Underwriting reserves	1,226.2	-357.1		68.8	937.9
Insurance and reinsurance balances receivable	233.5	-94.2			139.3
Funds held by reinsureds	1,721.3	-78.9		95.3	1,737.7
Deposit assets	137.0	33.4			170.4
Deferred policy acquisition costs	484.7	-0.8		-1.2	482.7
Deferred income taxes	78.3	-67.2	61.6	7.1	79.8
Other assets	335.4	-35.1	58.2	0.1	358.6
Total assets	14,609.3	-663.2	119.8	195.0	14,260.9
<b>Liabilities and shareholders equity</b>					
<b>Liabilities</b>					
Reinsurance liabilities					
Unpaid losses and loss expenses	8,915.6	-115.2		107.9	8,908.3
Reserves for life benefits, gross	407.1				407.1
Insurance and reinsurance balances payable	585.9			-2.4	583.5
Reserves for unearned premiums, gross	1,312.3	-80.4		15.8	1,247.7
Other reinsurance liabilities	110.4	-57.0		17.4	70.8
Funds held under reinsurance contracts	379.3	-237.8		53.3	194.8
Deposit liabilities	348.5	8.0			356.5
Deferred income taxes	157.2	-69.7	-6.8	1.1	81.8
Accrued expenses and other liabilities	281.7			2.8	284.5
Debt	391.1				391.1
Total liabilities	12,889.1	-552.1	-6.8	195.9	12,526.1

**Shareholders equity**

Common stock	554.9				554.9
Additional paid-in capital	1,430.6		-70.1		1,360.5
Treasury stock	-7.7				-7.7
Unearned stock compensation	-7.5				-7.5
Total accumulated other comprehensive income:					
Accumulated other comprehensive income	-6.7		-1.0		-7.7
Net unrealized gains on investments, net of taxes	116.7		-11.7	0.2	105.2
Cumulative translation adjustments	194.1	-7.9	5.3	-0.3	191.2
Total accumulated other comprehensive income	304.1	-7.9	-7.4	-0.1	288.7
Retained (deficit) earnings	-554.2	-103.2	134.0	69.3	-454.1
Total shareholders equity	1,720.2	-111.1	126.6	-0.9	1,734.8
Total liabilities and shareholders equity	14,609.3	-663.2	119.8	195.0	14,260.9

Note: The As previously reported figures at December 31, 2004 in the table above, reflect the balances reported for the December 31, 2004 balance sheet in the 2Q 2005 6-K.

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Consolidated balance sheet

(US\$ million)

	As		2003		As
	previously	Reinsurance	Taxes	Other	As
	reported	transactions		Items	restated
<b>Assets</b>					
<b>Invested assets</b>					
Held-to-maturity securities:					
Fixed maturities	500.4				500.4
Available-for-sale securities:					
Fixed maturities	4,428.2				4,428.2
Equity securities	840.2			-5.3	834.9
Other investments	173.5			-21.3	152.2
Short-term investments	55.8			-0.1	55.7
Total investments	5,998.1			-26.7	5,971.4
Funds Withheld Asset	1,530.6				1,530.6
Total invested assets	7,528.7			-26.7	7,502.0
<b>Other assets</b>					
Cash and cash equivalents	280.8				280.8
Premiums receivable	2,008.3	-72.2		-282.0	1,654.1
Reserves for unearned premiums, retro		-88.8		198.1	109.3
Reinsurance assets:					
Underwriting reserves	1,718.6	-472.5		-152.0	1,094.1
Insurance and reinsurance balances receivable	224.0	-183.2			40.8
Funds held by reinsureds	1,374.0	-121.2		42.1	1,294.9
Deposit assets		58.8			58.8
Deferred policy acquisition costs	380.1	-0.8			379.3
Deferred income taxes	345.1	21.2	-5.8	4.2	364.7
Other assets	495.0	-39.8		46.4	501.6
Total assets	14,354.6	-898.5	-5.8	-169.9	13,280.4
<b>Liabilities and shareholders equity</b>					
<b>Liabilities</b>					
Reinsurance liabilities					
Unpaid losses and loss expenses	7,842.8	-127.8		164.7	7,879.7
Reserves for life benefits, gross	483.5			-139.2	344.3
Insurance and reinsurance balances payable		-108.8		313.4	204.6
Reserves for unearned premiums, gross	1,467.4	-73.5		21.1	1,415.0
Other reinsurance liabilities	1,087.3	-73.1		-910.0	104.2
Funds held under reinsurance contracts	529.8	-399.0		42.1	172.9
Deposit liabilities		22.4		335.8	358.2
Deferred income taxes	158.3	1.6	14.3		174.2
Accrued expenses and other liabilities	311.6	-2.9		-2.5	306.2
Debt	390.6			2.5	393.1
Total liabilities	12,271.3	-761.1	14.3	-172.1	11,352.4

**Shareholders equity**

Common stock	253.0				253.0
Additional paid-in capital	1,326.7			-70.1	1,256.6
Treasury stock	-10.0				-10.0
Unearned stock compensation	-6.1				-6.1
Total accumulated other comprehensive income:					
Accumulated other comprehensive income				-1.2	-1.2
Net unrealized gains on investments, net of taxes	145.3		0.3		145.6
Cumulative translation adjustments	116.1	-5.1	-2.1	1.1	110.0
Total accumulated other comprehensive income	261.4	-5.1	-1.8	-0.1	254.4
Retained (deficit) earnings	258.3	-132.3	-18.3	72.4	180.1
Total shareholders equity	2,083.3	-137.4	-20.1	2.2	1,928.0
Total liabilities and shareholders equity	14,354.6	-898.5	-5.8	-169.9	13,280.4
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Consolidated balance sheet

(US\$ million)

	As previously reported	Reinsurance transactions	2002 Taxes	Other Items	As restated
<b>Assets</b>					
<b>Invested assets</b>					
Held-to-maturity securities:					
Fixed maturities					
Available-for-sale securities:					
Fixed maturities	3,443.1				3,443.1
Equity securities	530.8			-5.4	525.4
Other investments	177.3			5.4	182.7
Short-term investments	318.0				318.0
Total investments	4,469.2				4,469.2
Funds Withheld Asset	1,648.1				1,648.1
Total invested assets	6,117.3				6,117.3
<b>Other assets</b>					
Cash and cash equivalents	361.5			39.7	401.2
Premiums receivable	1,721.3	-46.6		-584.0	1,090.7
Reserves for unearned premiums, retro		-70.8		94.7	23.9
Reinsurance assets:					
Underwriting reserves	1,627.7	-423.0		-95.7	1,109.0
Insurance and reinsurance balances receivable	239.9	-142.8		-5.0	92.1
Funds held by reinsureds	935.9	-76.4			859.5
Deposit assets		45.7			45.7
Deferred policy acquisition costs	264.9	-0.9			264.0
Deferred income taxes	391.8	28.8	-31.4	0.7	389.9
Other assets	390.7	-60.2		33.7	364.2
Total assets	12,051.0	-746.2	-31.4	-515.9	10,757.5
Liabilities and shareholders' equity					
<b>Liabilities</b>					
Reinsurance liabilities					
Unpaid losses and loss expenses	6,821.3	-130.0		185.6	6,876.9
Reserves for life benefits, gross	371.7			-185.6	186.1
Insurance and reinsurance balances payable		-96.7		20.4	-76.3
Reserves for unearned premiums, gross	1,170.7	-61.5			1,109.2
Other reinsurance liabilities	661.6	-60.8		-527.7	73.1
Funds held under reinsurance contracts	429.5	-351.5			78.0
Deposit liabilities		58.1			58.1
Deferred income taxes	133.9	-1.0	0.1		133.0
Accrued expenses and other liabilities	333.9			-2.6	331.3
Debt	390.4			2.5	392.9
Total liabilities	10,313.0	-643.4	0.1	-507.4	9,162.3

**Shareholders equity**

Common stock	253.0				253.0
Additional paid-in capital	1,330.9			-70.1	1,260.8
Treasury stock	-3.3				-3.3
Unearned stock compensation	-10.0				-10.0
Total accumulated other comprehensive income:					
Accumulated other comprehensive income					
Net unrealized gains on investments, net of taxes	-53.3			50.3	-3.0
Cumulative translation adjustments	113.9	-1.7		-50.3	61.9
Total accumulated other comprehensive income	60.6	-1.7			58.9
Retained earnings (deficit)	106.8	-101.1	-31.5	61.6	35.8
Total shareholders equity	1,738.0	-102.8	-31.5	-8.5	1,595.2
Total liabilities and shareholders equity	12,051.0	-746.2	-31.4	-515.9	10,757.5
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Consolidated balance sheet

(US\$ million)

	As previously reported	Reinsurance transactions	2001 Taxes	Other Items	As restated
<b>Assets</b>					
<b>Invested assets</b>					
Held-to-maturity securities:					
Fixed maturities					
Available-for-sale securities:					
Fixed maturities	2,331.4				2,331.4
Equity securities	701.4			-63.3	638.1
Other investments	195.1			63.5	258.6
Short-term investments	89.5			-24.0	65.5
Total investments	3,317.4			-23.8	3,293.6
Funds Withheld Asset	1,598.5				1,598.5
Total invested assets	4,915.9			-23.8	4,892.1
<b>Other assets</b>					
Cash and cash equivalents	420.5			49.7	470.2
Premiums receivable	1,015.1	-14.6		-303.0	697.5
Reserves for unearned premiums, retro		-55.0		78.9	23.9
Reinsurance assets:					
Underwriting reserves	1,668.1	-445.8		-78.9	1,143.4
Insurance and reinsurance balances receivable	400.2	-104.3			295.9
Funds held by reinsureds	523.4	-40.2		-28.4	454.8
Deposit assets		52.6			52.6
Deferred policy acquisition costs	217.9	-1.0			216.9
Deferred income taxes	300.4	37.1	3.3		340.8
Other assets	245.0			29.0	274.0
Total assets	9,706.5	-571.2	3.3	-276.5	8,862.1
Liabilities and shareholders' equity					
<b>Liabilities</b>					
Reinsurance liabilities					
Unpaid losses and loss expenses	5,710.5	-68.2			5,642.3
Reserves for life benefits, gross	252.0			8.3	260.3
Insurance and reinsurance balances payable		-12.7		-18.6	-31.3
Reserves for unearned premiums, gross	968.7	-48.2			920.5
Other reinsurance liabilities	315.9	-92.2		-227.5	-3.8
Funds held under reinsurance contracts	430.8	-333.9		-28.4	68.5
Deposit liabilities		47.6			47.6
Deferred income taxes	106.5	9.8			116.3
Accrued expenses and other liabilities	154.3			-19.5	134.8
Debt	197.0			9.1	206.1
Total liabilities	8,135.7	-497.8		-276.6	7,361.3



**Shareholders equity**

Common stock	253.0				253.0
Additional paid-in capital	1,336.5			-70.1	1,266.4
Treasury stock					
Unearned stock compensation	-27.1				-27.1
Total accumulated other comprehensive income:					
Accumulated other comprehensive income					
Net unrealized gains on investments, net of taxes	30.3			-19.0	11.3
Cumulative translation adjustments	-21.9			19.1	-2.8
Total accumulated other comprehensive income	8.4			0.1	8.5
Retained earnings (deficit)		-73.4	3.3	70.1	
Total shareholders equity	1,570.8	-73.4	3.3	0.1	1,500.8
Total liabilities and shareholders equity	9,706.5	-571.2	3.3	-276.5	8,862.1
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Historical combined balance sheet

(US\$ million)

	As	Reinsurance	2000	Other	As
	previously	transactions	Taxes	Items	restated
	reported				
<b>Assets</b>					
<b>Invested assets</b>					
Held-to-maturity securities:					
Fixed maturities					
Available-for-sale securities:					
Fixed maturities	2,236.2				2,236.2
Equity securities	611.0				611.0
Other investments	52.2				52.2
Short-term investments	115.1				115.1
Total investments	3,014.5				3,014.5
Funds Withheld Asset	1,335.2				1,335.2
Total invested assets	4,349.7				4,349.7
<b>Other assets</b>					
Cash and cash equivalents	121.9				121.9
Premiums receivable	937.3	0.3			937.6
Reserves for unearned premiums, retro		-44.3			-44.3
Reinsurance assets:					
Underwriting reserves	1,292.9	-319.9			973.0
Insurance and reinsurance balances receivable	341.6	-53.8			287.8
Funds held by reinsureds	681.8				681.8
Deposit assets		85.1			85.1
Deferred policy acquisition costs	184.6	2.2			186.8
Deferred income taxes	165.2	27.2			192.4
Other assets	246.3	0.2		-0.1	246.4
Total assets	8,321.3	-303.0		-0.1	8,018.2
<b>Liabilities and shareholders equity</b>					
<b>Liabilities</b>					
Reinsurance liabilities					
Unpaid losses and loss expenses	4,546.0	-41.9			4,504.1
Reserves for life benefits, gross	162.0				162.0
Insurance and reinsurance balances payable					
Reserves for unearned premiums, gross	774.4	-54.2			720.2
Other reinsurance liabilities	491.8	-65.4			426.4
Funds held under reinsurance contracts	512.4	-127.2			385.2
Deposit liabilities		58.4			58.4
Deferred income taxes	175.2	-1.6	9.6		183.2
Accrued expenses and other liabilities	374.2	1.2			375.4
Debt	196.9				196.9
Total liabilities	7,232.9	-230.7	9.6		7,011.8

**Shareholders equity**

Common stock					
Additional paid-in capital					
Treasury stock					
Unearned stock compensation					
Total accumulated other comprehensive income:					
Accumulated other comprehensive income					
Net unrealized gains on investments,					
net of taxes	18.8				18.8
Cumulative translation adjustments	40.5				40.5
Total accumulated other comprehensive income	59.3				59.3
Retained earnings (deficit)	1,029.1	-72.3	-9.6	-0.1	947.1
Total shareholders equity	1,088.4	-72.3	-9.6	-0.1	1,006.4
Total liabilities and shareholders equity	8,321.3	-303.0		-0.1	8,018.2
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Historical combined balance sheet

(US\$ million)

	1999				
	As previously reported	Reinsurance transactions	Taxes	Other Items	As restated
Assets					
<b>Invested assets</b>					
Held-to-maturity securities:					
Fixed maturities					
Available-for-sale securities:					
Fixed maturities	2,098.9				2,098.9
Equity securities	557.3				557.3
Other investments	80.1				80.1
Short-term investments	83.8				83.8
Total investments	2,820.1				2,820.1
Funds Withheld Asset	1,412.7				1,412.7
Total invested assets	4,232.8				4,232.8
<b>Other assets</b>					
Cash and cash equivalents	68.1				68.1
Premiums receivable	590.3	-0.1			590.2
Reserves for unearned premiums, retro		-18.2			-18.2
Reinsurance assets:					
Underwriting reserves	772.2	-64.0			708.2
Insurance and reinsurance balances receivable	247.4				247.4
Funds held by reinsureds	484.8				484.8
Deposit assets		57.7			57.7
Deferred policy acquisition costs	168.6	-1.1			167.5
Deferred income taxes	131.4	0.1			131.5
Other assets	220.4	0.6		-0.1	220.9
Total assets	6,916.0	-25.0		-0.1	6,890.9
Liabilities and shareholders' equity					
<b>Liabilities</b>					
Reinsurance liabilities					
Unpaid losses and loss expenses	3,545.7	-63.4			3,482.3
Reserves for life benefits, gross	193.7				193.7
Insurance and reinsurance balances payable					
Reserves for unearned premiums, gross	629.7	-19.7			610.0
Other reinsurance liabilities	356.6	-3.2			353.4
Funds held under reinsurance contracts	323.2				323.2
Deposit liabilities		59.8			59.8
Deferred income taxes	157.0	-0.4			156.6
Accrued expenses and other liabilities	291.9	1.0			292.9
Debt	196.8				196.8
Total liabilities	5,694.6	-25.9			5,668.7

**Shareholders equity**

Common stock				
Additional paid-in capital				
Treasury stock				
Unearned stock compensation				
Total accumulated other comprehensive income:				
Accumulated other comprehensive income				
Net unrealized gains on investments,				
net of taxes	16.9			16.9
Cumulative translation adjustments	52.1			52.1
Total accumulated other comprehensive income	69.0			69.0
Retained earnings (deficit)	1,152.4	0.9	-0.1	1,153.2
Total shareholders equity	1,221.4	0.9	-0.1	1,222.2
Total liabilities and shareholders equity	6,916.0	-25.0	-0.1	6,890.9

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Historical combined balance sheet

(US\$ million)

	As previously reported	Reinsurance transactions	1998 Taxes	Other Items	As restated
<b>Assets</b>					
<b>Invested assets</b>					
Held-to-maturity securities:					
Fixed maturities					
Available-for-sale securities:					
Fixed maturities	1,919.2				1,919.2
Equity securities	487.3				487.3
Other investments	116.7				116.7
Short-term investments	115.1				115.1
Total investments	2,638.3				2,638.3
Funds Withheld Asset	1,259.8				1,259.8
Total invested assets	3,898.1				3,898.1
<b>Other assets</b>					
Cash and cash equivalents	286.1				286.1
Premiums receivable	520.1	-0.4			519.7
Reserves for unearned premiums, retro		-4.4			-4.4
Reinsurance assets:					
Underwriting reserves	499.0				499.0
Insurance and reinsurance balances					
receivable	164.8				164.8
Funds held by reinsureds	436.0				436.0
Deposit assets		66.8			66.8
Deferred policy acquisition costs	118.3	-1.0			117.3
Deferred income taxes	109.3	-0.1			109.2
Other assets	259.2				259.2
Total assets	6,290.9	60.9			6,351.8
Liabilities and shareholders equity					
<b>Liabilities</b>					
Reinsurance liabilities					
Unpaid losses and loss expenses	2,988.1	-0.5			2,987.6
Reserves for life benefits, gross	312.7				312.7
Insurance and reinsurance balances					
payable					
Reserves for unearned premiums, gross	450.1	-4.9			445.2
Other reinsurance liabilities	353.2	-3.1			350.1
Funds held under reinsurance contracts	305.8				305.8
Deposit liabilities		68.7			68.7
Deferred income taxes	185.6	-0.3			185.3
Accrued expenses and other liabilities	268.4	0.5			268.9

Debt	196.7		196.7
Total liabilities	5,060.6	60.4	5,121.0
<b>Shareholders equity</b>			
Common stock			
Additional paid-in capital			
Treasury stock			
Unearned stock compensation			
Total accumulated other comprehensive income:			
Accumulated other comprehensive income			
Net unrealized gains on investments, net of taxes	100.2		100.2
Cumulative translation adjustments	16.7		16.7
Total accumulated other comprehensive income	116.9		116.9
Retained earnings	1,113.4	0.5	1,113.9
Total shareholders equity	1,230.3	0.5	1,230.8
Total liabilities and shareholders equity	6,290.9	60.9	6,351.8

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The table below shows the impact of the above adjustments on basic (loss) earnings per share for the years ended December 31, 2004 through 1998.

	2004	2003	2002	2001	2000	1999	1998
<b>US\$</b>							
Basic (loss) earnings per share as previously reported	(12.00)	2.33	1.34	(4.61)	(0.73)	1.46	2.93
Adjustments to basic (loss) earnings per share	2.81	(0.09)	(0.89)	0.15	(2.07)		
Basic (loss) earnings per share as restated	(9.19)	2.24	0.45	(4.46)	(2.80)	1.46	2.93

See Note 25 to our 2004 consolidated financial statements for additional information on (loss) earnings per share.

**(c) Details of the Restatement**

The Restatement corrects errors in the Company's accounting for assumed and ceded reinsurance transactions, its accounting for income taxes and certain other items. Some of the adjustments relate to both the timing and recognition of revenues and expenses and affect the comparison of period-to-period results. Although some of the restated items do not affect previously reported net income or consolidated shareholders' equity, they do affect both the consolidated and business segment reporting of certain line items within the income statement and balance sheet. See the Schedule of Segment Data and Note 7 to our 2004 consolidated financial statements included herein, for additional information on Converium's business segments, as restated. We have set forth below, a summary of the impact of the Restatement on certain of Converium's consolidated statement of income and balance sheet accounts affected by the Restatement.

***Overall impact of correction to the accounting treatment of certain assumed and ceded transactions***

The effect of the correction to the accounting treatment of certain assumed and ceded transactions on certain of Converium's consolidated statement of income and balance sheet accounts is as follows:

	2004	2003	2002	2001	2000	1999	1998
<b>Increase (decrease) for the years ended December 31, (US\$ million, except per share amounts)</b>							
Selected consolidated statement of income accounts:							
Gross premiums written	-17.2	-28.4	-163.3	-34.4	-18.7	-18.6	-6.1
Net premiums written	53.3	68.5	-86.9	170.1	184.7	-1.1	-1.2
Net premiums earned	77.4	64.1	-87.9	153.3	193.0	-0.1	-0.7
Losses, loss expenses and life benefits	-44.7	-85.9	1.0	-160.1	-281.1	-0.6	0.5
Acquisition costs	9.9	-16.6	23.9	-8.8	-27.2	-0.7	0.3
Income (loss) before taxes	46.1	-20.9	-30.2	-0.7	-101.4	0.7	0.8
Net income (loss)	29.0	-31.1	-27.7	-1.0	-73.2	0.4	0.5
Basic earnings (loss) per share (US\$)	0.46	-0.39	-0.35	-0.01	-1.83	0.01	0.01

**Increase (decrease) as of December 31, (US\$ million)**

Selected consolidated balance sheet accounts:



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Reinsurance assets (including reserves for unearned premium)	-523.4	-744.5	-636.6	-605.1	-418.0	-82.2	-4.4
Funds held by reinsureds	-78.9	-121.2	-76.4	-40.2			
Other assets	-35.1	-39.8	-60.2		0.2	0.6	
Reinsurance liabilities (including reserves for unearned premiums)	-195.6	-310.1	-288.2	-129.1	-96.1	-83.1	-5.4
Funds held under reinsurance contracts	-237.8	-399.0	-351.5	-333.9	-127.2		
Shareholders equity	-111.1	-137.4	-102.8	-73.4	-72.3	0.9	0.5
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Detailed discussion of the primary transactions or categories of assumed and ceded transactions affected by the Restatement is provided below.

1. In 1998, Zurich Reinsurance (North America) Inc., now CRNA, entered into a series of transactions comprised of two assumed contracts with MBIA – an excess of loss contract (the Excess Contract) and a quota share contract (the Quota Share Contract) – and a retrocession of substantially all of the liability under these assumed contracts to third parties.

Based upon its consideration of the overall transaction economics and in light of information revealed during the internal review, the Company determined that, at inception, these transactions did not transfer sufficient risk to qualify for reinsurance accounting.

Accordingly, the Company has corrected the accounting treatment of both the Excess Contract and the Quota Share Contract, as well as the retroceded contracts, from reinsurance to deposit accounting.

The pre-tax effect of the Restatement of the MBIA transaction on certain of Converium's consolidated statement of income and balance sheet accounts is as follows:

	2004	2003	2002	2001	2000	1999	1998
<b>Increase (decrease) for the years ended December 31, (US\$ million)</b>							
Selected consolidated statement of income accounts:							
Gross premiums written	-12.7	-16.9	-16.9	-16.9	-17.0	-16.9	-4.6
Net premiums written	-1.5	-2.1	-0.9	-3.8	-2.4	-2.5	0.3
Net premiums earned	-0.8	-0.7	-0.7	-0.3	0.9	-0.6	-0.1
Losses, loss expenses and life benefits	0.3	0.4	0.2	0.2	-0.2		
Acquisition costs	0.1	0.1	0.1	0.1	0.1		
(Loss) income before taxes	-0.8	0.3	0.7	1.8	3.1	2.1	-0.1
<b>Increase (decrease) as of December 31, (US\$ million)</b>							
Selected consolidated balance sheet accounts:							
Reinsurance assets (including reserves for unearned premium)	-69.8	-64.1	-53.1	-43.1	-33.9	-18.2	-4.4
Reinsurance liabilities (including reserves for unearned premiums)	-81.3	-74.6	-61.7	-51.3	-38.5	-19.7	-4.0

2. In late 2003, the Company entered into a Guaranteed Minimum Death Benefit ( GMDB ) Stop Loss Reinsurance Agreement ( the GMDB Contract ) with a third party which provided coverage of \$75,000,000 in excess of reserves for losses arising out of GMDB reinsurance contracts bound or issued by the Company prior to January 1, 2003. The GMDB Contract was accounted for as if it had transferred sufficient risk to qualify for reinsurance accounting treatment. However, as a result of a related ceded property catastrophe contract with the same party, and a master profit sharing agreement with the same party linking both of the foregoing contracts, and certain other related transactions, the Company has now determined that the initial risk transfer analysis did not include evaluation of the entire arrangement between the parties and that there are transactions that involved other parties and payments to the third parties. The Company has now determined that, at inception, there was insufficient risk transfer such that the conditions for reinsurance accounting under SFAS 113 had not been met. Accordingly, the Company has corrected the accounting treatment of the GMDB Contract and the property catastrophe agreement from reinsurance to deposit accounting. Reinsurance accounting has been retained for that portion of the risk that was transferred to a separate third party.

The Company entered into a Combined Excess of Loss Reinsurance Agreement (the CEL Agreement ) with another third party, effective October 1, 2001 for a three-month period and subsequently renewed the CEL Agreement for calendar years 2002, 2003 and 2004, respectively. In 2003, coverage for GMDB liability was added to the CEL Agreement. Based upon evidence from the internal review, the Company determined that the initial risk transfer analysis did not include evaluation of the entire arrangement between the parties and that there is a likelihood that a side agreement was consummated. The Company has now determined that, at inception, there was insufficient risk transfer such that the conditions for reinsurance accounting under SFAS 113 had not been met. Accordingly, the Company has corrected the accounting treatment for these transactions from reinsurance to deposit accounting.

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Because all of these transactions were cancelled or commuted effective no later than December 31, 2004, there is no impact on total shareholders' equity and net income thereafter. The pre-tax effect of the Restatement of these transactions on certain of Converium's consolidated statement of income and balance sheet accounts is as follows:

	2004	2003	2002	2001	2000	1999	1998
<b>Increase (decrease) for the years ended December 31, (US\$ million)</b>							
Selected consolidated statement of income accounts:							
Net premiums written	12.4	25.0	5.3	5.1			
Net premiums earned	22.0	15.3	5.3	5.1			
Losses, loss expenses and life benefits	-1.4	-35.0					
Acquisition costs	-9.1						
Income (loss) before taxes	11.6	-21.7	5.1	5.0			

**Increase (decrease) as of December 31, (US\$ million)**

Selected consolidated balance sheet accounts:

Reinsurance assets (including reserves for unearned premium)	-44.7
Other reinsurance liabilities	-36.5

3. From at least 1998 on, subsidiaries of ZFS have provided and continue to provide coverage to CRNA, including stop-loss coverage relating to losses attributable to the settlement of litigation with the Unicover Pool, 100% quota share coverage of certain structured/finite risk contracts, and aggregate excess of loss coverage in respect of CRNA's 2001 accident year losses. In turn, the subsidiaries of ZFS have ceded a substantial portion of these liabilities to third parties. On a stand-alone basis, CRNA has accounted and continues to account for its cession to ZFS subsidiaries as reinsurance accounting. However, as part of the Formation Transactions, Converium AG accepted the financial benefits and risks (including the risk that all or any portion of the reinsurance would not be recovered from those third parties) relating to these ZFS transactions. Therefore, in its consolidated financial statements, Converium has accounted for and continues to account for the cessions by the subsidiaries of ZFS to third parties as if the cessions were made directly from CRNA to the third parties.

Converium treated these retroceded contracts as if they transferred sufficient risk to qualify for reinsurance accounting. However, based on certain related agreements involving those third parties, documentation concerning the overall relationship between the parties and the conduct of the parties after the contracts were entered into, the Company concluded that the risk transfer analysis did not include evaluation of the entire arrangement between the parties, including transactions that involved other parties and payments to the third parties. Based upon evidence from the internal review, the Company determined that the initial risk transfer analysis did not include evaluation of the entire arrangement between the parties and that there is a reasonable possibility of side agreements. The Company has

now determined that at inception there was insufficient risk transfer such that the conditions for reinsurance accounting under SFAS 113 had not been met. Accordingly, the Company has corrected the accounting treatment for these ceded transactions from reinsurance to deposit accounting. Certain portions of these transactions that transferred sufficient risk to qualify for reinsurance accounting have not been restated. Irrespective of the risk transfer analysis for accounting purposes, the Company reserves its right to enforce contracts in accordance with their terms. The pre-tax effect of these transactions on certain of Converium's consolidated statement of income and balance sheet accounts is as follows:

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	2004	2003	2002	2001	2000	1999	1998
<b>Increase (decrease) for the years ended December 31, (US\$ million)</b>							
Selected consolidated statement of income accounts:							
Gross premiums written				-2.6	-0.2	-0.1	
Net premiums written	36.9	30.3	4.6	138.8	137.3	-0.1	
Net premiums earned	34.9	30.3	6.4	138.8	135.5	-0.1	
Losses, loss expenses and life benefits	-31.2	-32.1	-60.6	-145.4	-228.9		
Acquisition costs	19.9	-17.9	1.7		-16.2	-0.1	
Income (loss) before taxes	38.1	7.3	-30.5	5.1	-99.2	-0.5	

**Increase  
(decrease) as of  
December 31,  
(US\$ million)**

Selected consolidated balance sheet accounts:							
Reinsurance assets (including reserves for unearned premium)	-291.3	-451.9	-436.2	-447.5	-284.6		
Funds held by reinsureds	-1.1	-54.6	-32.6	-3.8			
Reinsurance liabilities (including reserves for unearned premiums)	-0.5	-126.3	-87.4	-30.4	-0.1		
Funds held under reinsurance contracts	-152.3	-275.9	-265.3	-271.6	-127.2		

4. Six transactions have been corrected because the Company has determined that, at inception, they transferred insufficient risk to qualify for reinsurance accounting and instead should be accounted for using deposit accounting. Some are transactions in which the Company ultimately reassumed from third parties all or virtually all of the long-tailed liability that it had ceded to third parties. This subset of transactions involved cessions to a Bermuda reinsurer, 9.0% of which was and is owned by Converium, or to another reinsurer not subject to US GAAP (and thus able to account for estimated ultimate losses on a discounted to present value basis.) The restatement of these transactions eliminates the entire effect of the reinsurance accounting, including (where applicable) the inherent discount related to the ceded loss reserves.

All but one of these transactions expired or were commuted effective no later than March 31, 2005, resulting in no impact on total shareholders' equity or net income thereafter with respect to those expired or commuted contracts. In

particular, certain of the contracts with the Bermuda reinsurer were commuted in 2004 and the first quarter of 2005, resulting in net losses being reported in those years, which are being reversed as a result of the Restatement. The impact of these reversals on the previously reported (loss) income before taxes is \$40.0 million in 2005 and \$15.7 million in 2004.

The pre-tax effect of the Restatement of these transactions on certain of Converium's consolidated statement of income and balance sheet accounts is as follows:

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	2004	2003	2002	2001	2000	1999	1998
<b>Increase (decrease) for the years ended December 31, (US\$ million)</b>							
Selected consolidated statement of income accounts:							
Gross premiums written	-4.5	-11.4	-33.1	-14.9	-1.5	-1.5	-1.5
Net premiums written	-1.2	8.8	-2.6	29.9	49.9	1.5	-1.5
Net premiums earned	14.4	12.7	-6.1	29.5	37.3	1.5	-1.5
Losses, loss expenses and life benefits	-12.5	-16.2	-0.6	-33.3	-34.1	-0.5	0.5
Acquisition costs		1.3	-5.6	-8.8	-11.1	-0.8	0.3
(Loss) income before taxes	-0.1	-6.7	-5.9	-11.0	-6.8		

**Increase  
(decrease) as of  
December 31,  
(US\$ million)**

Selected consolidated balance sheet accounts:							
Reinsurance assets (including reserves for unearned premium)	-159.4	-180.7	-133.8	-114.5	-99.7	-64.0	
Funds held by reinsureds	-77.8	-66.6	-32.0	-36.4			
Other assets	-35.1	-39.8	-48.2				
Reinsurance liabilities (including reserves for unearned premiums)	-113.8	-109.3	-100.4	-47.5	-56.5	-64.0	-0.5
Funds held under reinsurance contracts	-85.5	-123.1	-86.1	-62.3			

5. Of the other transactions that the Company has restated, (a) two ceded and two assumed transactions appear to have involved clerical errors, where the Company recognized the appropriate accounting treatment, but a different accounting treatment was mistakenly entered into the Company's accounting system; and (b) two involved assumed transactions as to which the Company previously recognized that its original decision to use reinsurance accounting instead of deposit accounting was in error, corrected the mistake in the period in which it was identified, but did not adjust the prior year where the quantitative impact of the errors was immaterial. Of the four transactions with clerical errors, one was a ceded transaction where reinsurance accounting was used in error instead of deposit accounting, one



was a ceded transaction where prospective reinsurance accounting was used in error instead of retroactive reinsurance accounting, and two were assumed transactions where prospective reinsurance accounting was used in error instead of retroactive accounting.

All but one of these transactions expired or were commuted effective no later than March 31, 2005, resulting in no impact on total shareholders' equity or net income thereafter, with respect to those expired or commuted transactions. The pre-tax effect of the Restatement of these six transactions on certain of Converium's consolidated statement of income and balance sheet accounts is as follows:

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	2004	2003	2002	2001	2000	1999	1998
<b>Increase (decrease) for the years ended December 31, (US\$ million)</b>							
Selected consolidated statement of income accounts:							
Gross premiums written		-0.1	-113.3			-0.1	
Net premiums written	6.8	6.5	-93.3	0.1	-0.1		
Net premiums earned	6.9	6.5	-92.8	-19.8	19.3	-0.9	0.9
Losses, loss expenses and life benefits	0.1	-3.0	62.0	18.4	-17.9	-0.1	
Acquisition costs	-1.0		27.7	-0.1		0.2	
(Loss) income before taxes	-2.7	-0.2	0.4	-1.6	1.5	-0.9	0.9

**Increase (decrease) as  
of December 31,  
(US\$ million)**

Selected consolidated balance sheet accounts:							
Reinsurance assets (including reserves for unearned premium)	-2.9	-3.1	-13.5		0.2		
Funds held by reinsureds			-11.8				
Other assets			-12.0		0.2	0.6	
Reinsurance liabilities (including reserves for unearned premiums)		0.1	-38.7	0.1	-1.0	0.6	-1.4

**Income tax accounting restatements**

For the years ended December 31, 2004 through 2000, the Company incorrectly calculated deferred income taxes and the respective valuation allowance to certain deferred tax assets. These valuation allowances have been recomputed and adjustments of \$95.0 million and \$9.9 million have been reflected in the related income tax expense and deferred income tax accounts for the years ended December 31, 2004 and 2003, respectively. There was no impact in 2002. In addition, for the year ended December 31, 2004, the Company incorrectly recorded a full valuation allowance on the deferred tax asset in the amount of \$58.2 million. This valuation allowance related to Converium's U.S. operations arose from IRC Section 847, *Special Estimated Tax Payments* and was reflected in the income tax expense, deferred income tax assets and other assets. IRC Section 847 provides a mechanism that assures recoverability for the tax asset (receivable) arising from the discounting of property and casualty loss reserves for tax purposes. This provision allows a reinsurer to take a special income tax deduction in the United States equal to the discount on post 1986 accident year and loss expense reserves while making special estimated tax payments equal to the amount of the tax benefit derived

from the special deduction. The special estimated tax payments can be carried forward for 15 years to offset taxes arising from decreases in the special deduction and are treated as regular estimated tax payments or refunded at the end of the carryforward period.

In 2003, Converium filed a refund request for prior years special estimated tax payments covered under IRC Section 847. As a result of the claim, Converium reclassified approximately \$58.2 million from deferred tax assets into other assets. In 2004, however, the Internal Revenue Service denied the refund, and consequently, Converium reversed the prior reclassification to current income tax receivable. Subsequently, for the year ended December 31, 2004, the Company incorrectly recorded a full valuation allowance against its net deferred tax asset, which included the \$58.2 million referred to above. The Restatement reverses the valuation allowance provided against the \$58.2 million as this amount is expected to be recovered through future deductions in tax payments or future refund requests. The deferred tax asset has been reclassified to other assets.

In addition, for its Australian operations, Converium did not provide deferred taxes for its temporary differences in accordance with SFAS No. 109, *Accounting for Income Taxes* ( SFAS 109 ). The restatement corrects its accounts and results in an expense for the years ended December 31, 2004, 2003 and 2002 of \$4.4 million, \$3.1 million and nil, respectively.

The effect of the Restatement related to income tax accounting on certain of Converium s consolidated statement of income and balance sheet accounts is as follows:

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	2004	2003	2002	2001	2000
<b>Increase (decrease) for the years ended December 31, (US\$ million, except per share amounts)</b>					
Selected consolidated statement of income accounts:					
Income taxes	-152.2	-13.2	34.7	-12.8	9.6
Net income (loss)	152.2	13.2	-34.7	12.8	-9.6
Basic earnings (loss) per share (US\$)	2.39	0.17	-0.44	0.16	-0.24

**Increase (decrease) as of December 31,  
(US\$ million)**

Selected consolidated balance sheet accounts:					
Other assets	58.2				
Deferred income tax assets	61.6	-5.8	-31.4	3.3	
Deferred income tax liabilities	-6.8	14.3			9.6
Shareholders' equity	126.6	-20.1	-31.5	3.3	-9.6

**Correction of other items**

In the Restatement, Converium corrected its financial statements for certain other items. A summary of the correction of these items is as follows:

	Participation at Lloyd's		Other corrections		
	2004	2003	2004	2003	2002
<b>Increase (decrease) for the years ended December 31, (US\$ million, except per share amounts)</b>					
Selected consolidated statement of income accounts:					
Gross premiums written	155.0	104.9			
Income (loss) before taxes	3.2		-7.9	7.2	-9.3
Net (loss) income	2.1		-5.0	10.7	-8.6
Basic earnings (loss) per share (US\$)	0.03		-0.08	0.13	-0.11

**Increase (decrease) as of  
December 31, (US\$ million)**

Shareholders' equity	2.3		-3.2	2.2	
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These corrections are comprised of the following items:

**Participations at Lloyd's**

*Gross presentation of syndicate transactions:* Converium participates as a member of a number of syndicates operating in the Lloyd's of London insurance market. Converium has in prior financial statements reported its participations in certain Lloyd's syndicate premium and loss activity on a net basis. Subsequent accounting developments in the Lloyd's market have led to the reporting of more detailed information to participants. Converium has corrected the previously reported amounts.

*Reinsurance to close:* Syndicates at Lloyd's are formed for a duration of one calendar year. Two years after the conclusion of that year the syndicate will typically transfer any remaining liabilities to a successor syndicate by way of payment of a portfolio premium, known as a reinsurance to close, RITC. In previously reported financial statements, Converium did not record the RITC in the correct reporting period; therefore, Converium has adjusted the recording of the RITC so that it is now reported in the proper period.

*Miscellaneous corrections:* Corrections, which were originally concluded to be immaterial, arising on the accounting for the Lloyd's participations were previously reported in the financial statements in the period they were identified. Through the Restatement, Converium is recording the adjustments made in previous periods in the proper period.

The pre-tax effect of the restated accounting for the participations at Lloyd's on certain of Converium's consolidated statement of income and balance sheet accounts is as follows:

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(US\$ million)**

	<b>2004</b>	<b>2003</b>
Selected consolidated statement of income accounts:		
Gross premiums written	\$155.0	\$104.9
Net premiums written	119.7	27.3
Net premiums earned	119.7	27.3
Losses, loss expenses and life benefits	-34.8	
Acquisition costs	-73.4	-13.4
Income before taxes	3.2	

**Increase (decrease) as of December 31,  
(US\$ million)***Other corrections*

Other corrections were also recorded in connection with the Restatement that include miscellaneous immaterial items previously made in Converium's financial statements in the periods they were identified. Through the Restatement, Converium is recording these items in their proper periods.

In the second quarter of 2005, Converium refined its chart of accounts to enhance the presentation of the line items within its financial statements, which was disclosed at that time. As part of the Restatement, Converium applied the refined chart of accounts on its financial statements of prior years which resulted in some adjustments between certain line items within the consolidated statements of income and balance sheets. The most significant financial statement adjustments were in the line items premiums receivable, underwriting reserves, reinsurance liabilities, other reinsurance liabilities in the consolidated balance sheets and the losses, loss expenses and life benefits caption in the statements of income. These adjustments did not have any impact on net income or shareholders' equity.

*Additional paid-in capital*

Included in the caption "Other items" is a decrease to additional paid-in capital of \$70.1 million. This adjustment relates to the cumulative effect of all Restatement adjustments made to net income for the periods prior to December 31, 2001 as these adjustments reduced the net assets of the predecessor businesses of Converium as contributed in the Formation Transactions.

**Overview**

Converium Holding AG and subsidiaries (Converium) is an international reinsurer whose business operations are recognized for innovation, professionalism and service. We believe we are accepted as a professional reinsurer for all major lines of non-life and life reinsurance in Europe, Asia-Pacific and Latin America. We actively seek to create innovative and efficient reinsurance solutions to complement our target clients' business plans and needs. We focus on core underwriting skills and on developing close client relationships while honoring our and our clients' relationships with intermediaries.

We offer a broad range of traditional non-life and life reinsurance products as well as non-traditional solutions to help our target clients efficiently manage capital and risks. In non-life reinsurance, our lines of business are General Third Party Liability, Motor, Personal Accident (assumed from non-life insurers), Property, Agribusiness, Aviation & Space, Credit & Surety, Engineering, Marine & Energy, Professional Liability and other Special Liability and Workers' Compensation. In Life & Health Reinsurance, our lines of business are Life and Disability reinsurance, including quota share, surplus coverage and financing contracts, and Accident and Health.

Converium was formed through the restructuring and integration of substantially all of the third-party assumed reinsurance business of Zurich Financial Services through a series of transactions (the Transactions). On December 1, 2001, Converium entered into a Master Agreement with Zurich Financial Services, which set forth the terms of the separation from Zurich Financial Services. In December 2001, Zurich Financial Services sold 87.5% of its interest in Converium through an initial public offering, which date represented the legal separation from Zurich Financial Services. Zurich Financial Services' remaining 12.5% interest in Converium was sold in January 2002.

Due to the reserving actions and subsequent lowering of Converium's ratings during 2004, we placed our US operations into run-off, which resulted in the discontinuation of writing reinsurance from offices located in North America. See Item 4. Information on the Company B. Business Overview Ratings. We will, however, offer reinsurance for attractive US-originated business to a limited number of select accounts. This business will be underwritten and managed through Converium AG, Zurich. CRNA was placed into

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orderly run-off and we are seeking to commute CRNA's liabilities wherever appropriate (see Note 4 to our 2004 consolidated financial statements).

As a result of ratings downgrades, it was necessary to re-evaluate our global strategy to optimize shareholder value. See Item 4. Information on the Company B. Business Overview Our Strategy . The decision to place CRNA into run-off and to transfer the underwriting of North American non-life business to Zurich will result in a reduction of gross premiums written of North American originated business of approximately \$1.0 billion for underwriting year 2005, predominantly in Standard Property & Casualty Reinsurance and Specialty Lines. We also expect additional reductions in other parts of our business. Based on the January 1 renewal period, Converium's renewable non-life premium income was reduced by approximately \$727.4 million, or 37% as compared to 2004. Based on this development, Converium's gross premiums written in 2005 are expected to reach approximately \$2.0 billion. During 2004 our business was organized around three operating segments: Standard Property & Casualty Reinsurance, Specialty Lines and Life & Health Reinsurance; which are based principally on lines of business. The business segments are supported by global business support functions such as Actuarial & Risk Management and Underwriting Technical Services, and by global services such as Human Resources, Finance and IT. We believe that this structure provides a higher degree of transparency, accountability and management control. See Item 4. Information on the Company B. Business Overview for discussion regarding the reorganization of our segment structure in the first quarter of 2005.

We prepare segregated financial information for each of our operating segments. In the future, we plan to continue conducting our business and measuring our financial and operating performance based on these segments.

We derive our revenues principally from:

- premiums from our non-life and life reinsurance and insurance businesses;

- investment income and investment gains from our portfolio of invested assets, net of investment expenses; and

- interest on premium and loss deposits withheld by our clients.

Our costs and expenses principally consist of:

- losses and loss expenses, which include:

  - non-life reinsurance and insurance losses and loss expenses;

  - death and other life reinsurance benefits;

  - operating and administration costs, which include:

    - treaty and individual risk acquisition costs, commonly referred to as commissions;

    - overhead costs, predominantly consisting of salaries and related costs;

    - interest expenses; and

    - income taxes.

Our profitability depends to a large extent on:

- the quality of our underwriting and pricing;

- the level of incurred losses and commissions;

- the timing of loss and benefit payments;

- our ability to earn appropriate yields on our investment portfolio;



our ability to manage operating and administration costs; and

our ability to efficiently and effectively manage risk, including retrocessions.

When reviewing our financial statements, there are certain business characteristics that affect the reporting of our results. The most significant factors are set forth below.

***Critical Accounting Policies***

Our discussion and analysis of the financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ( US GAAP ). The preparation of these financial statements in accordance with US GAAP requires the use of estimates and judgments that affect the reported amounts and related disclosures. Changes in our financial and operating environment could influence the accounting estimates that support our financial statements. The following presents those accounting policies that management believes are the most critical to its operations and those policies that require significant judgment on the part of management. The assumptions and judgments used by management are the ones they believe to be the most appropriate at this time. However, as described below, these estimates could change materially if different information or assumptions were used. The descriptions below are summarized and have been simplified for clarity. A more detailed description of these and other significant accounting policies used by us in preparing our financial statements is

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included in the Notes to the Consolidated Financial Statements.

*Non-life loss and loss expense reserves*

We are required by applicable insurance laws and regulations, as well as US GAAP, to establish reserves for payment of losses and loss expenses that arise from our non-life reinsurance and insurance businesses. Loss and loss expense reserves are based on estimates of future payments to settle claims, including legal and other expenses. The liability for unpaid losses and loss expenses for property and casualty business includes amounts determined from loss reports on individual cases ( case reserves ) and amounts for losses incurred but not yet reported ( IBNR ), including expected development of reported claims. Upon receipt of a notice of claim from a ceding company, we establish a case reserve for the estimated amount of the ultimate settlement. Case reserves are usually based upon the amount of reserves reported by the primary insurance company and may subsequently be increased ( additional case reserves or ACR s ) or reduced as deemed necessary by our claims departments. Our cedents are domiciled in many countries around the world and typically apply local practices and regulations when handling losses. This leads to a wide variety of approaches, in among other things, setting individual claims reserves, recording loss data and handling loss adjustments. In particular, the legal systems, loss reporting and applicable accounting rules can vary greatly by country and can potentially lead to inconsistent information and information flow from our cedents to us, with respect to timing, format and level of detail. These factors are considered when managing and assessing claims and establishing loss reserves and should be considered when reviewing the reserve splits shown in the table below. The following table shows gross non-life loss reserves separated between case reserves and IBNR for each segment as of December 31, 2004:

	<b>Case reserves</b>	<b>IBNR (\$ millions)</b>	<b>Total gross non-life loss reserves (\$ millions)</b>
Standard Property & Casualty	1,565.7	1,944.2	3,509.9
Specialty Lines	2,343.7	2,692.4	5,036.1
Life & Health Reinsurance	80.0	282.3	362.3
Total	3,989.4	4,918.9	8,908.3

The Life & Health Reinsurance segment contains loss reserves related to Accident and Health business.

If a contract is commuted, we reduce loss and loss expenses carried on our balance sheet and record a gain or loss for the difference between loss and loss expenses carried on our balance sheet and the commutation payment.

We estimate our loss and loss expense reserves on the basis of facts reported to us by ceding companies, and in conjunction with actuarial estimates and methodologies for instances where we have not received reports from ceding companies. Our estimates of losses and loss expenses are subject to assumptions reflecting economic and other factors such as inflation rates, changes in legislation, court rulings, case law and prevailing concepts of liability, which can change over time. In addition, if ceding company data is not provided to us on a timely basis, this could potentially impact the accuracy of our estimates. The risks associated with making the estimate for assumed loss reserves include, among other things, those uncertainties prevalent in making assumptions for long-tailed lines of business, the time lag in information reporting by cedents and differing reserving approaches among cedents.

The amount of time that elapses before a claim is reported to the cedent and then subsequently reported to the reinsurer is commonly referred to in the industry as the reporting tail . Lines of business for which claims are reported quickly are commonly referred to as short-tailed lines; and lines of business for which a longer period of time elapses before claims are reported to the reinsurer are commonly referred to as long-tailed lines. The uncertainty inherent in loss estimation is particularly pronounced for long-tail lines such as umbrella, general and professional liability and motor liability, where information, such as required medical treatment and costs for bodily injury claims, will only emerge over time. In the overall reserve setting process, provisions for economic inflation and changes in the social and legal environment are considered. The uncertainty inherent in the reserving process for primary insurance

companies is even greater for the reinsurer. This is because of, among other things, the time lag inherent in reporting information from the insurer to the reinsurer and differing reserving practices among ceding companies. As a consequence, the estimation of loss and loss expense reserves is dependent on many assumptions and selection of parameters, and their combination. One of the most critical assumptions, particularly for lines with long-tail characteristics, is the selection of the reporting tail. The reporting tail is the period of time that elapses before a claim is reported to the cedent and then subsequently reported to the reinsurer. A change of this factor can lead to a substantially different estimate of ultimate losses and therefore reserves for loss and loss expenses. This change in the tail factor could be triggered by any of the drivers mentioned above, or a combination thereof. For example, a change in the tail factor of 5% for a line with one of the longest tails, Treaty Umbrella (in North America), which is included in the Professional Liability and Other Special Liability line of business, would increase/decrease total held net loss reserves of \$7,993.8 million by \$14.2 million.

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As a result of these uncertainties and other factors, actual losses and loss expenses may deviate, perhaps materially, from expected ultimate costs which are reflected in our current reserves. This is evident in our actual experience of prior years' calendar year adverse/(favorable) loss reserve development, which was as follows:

	<b>Net loss reserves beginning of year</b>	<b>Development of prior years' loss reserves during the year</b>	<b>Development on prior years' loss reserves (%)</b>
	(\$ millions)	(\$ millions)	
2000	2,841.4	165.0	5.9
2001	3,611.8	167.8	4.6
2002	4,543.1	201.1	4.4
2003	5,791.2	(63.5)	(1.1)
2004	6,838.4	336.8	4.9

The current year development reflects the composite effect of the factors described above. It is not possible to identify the effect of each individual factor because of the inter-relationship between such factors.

Prior years' loss and loss expenses incurred in 2004 of \$(336.8) million net were primarily driven by reserve strengthening of (\$565.7 million) (See Adequacy of reserves), and the impacts on losses and loss expenses incurred of (i) adjustments of ultimate premium estimates (\$186.4 million) and (ii) the reduction of reinsurance recoverables of (\$12.0) million), which is offset by the effect of commutations. As a result of the restatement the previously reported prior years' loss and loss expenses incurred in 2004 has changed from \$(342.5) to \$(336.8) of which the commutation of the stop-loss protection regarding underwriting year 2001 of the professional liability business generated through our strategic partnership with MDU accounted for \$10.5 million of this change.

We, like other reinsurers, do not separately evaluate each of the individual risks assumed under reinsurance treaties, therefore we are largely dependent on the original underwriting decisions made by ceding companies. We are subject to the risk that our ceding companies may not have adequately evaluated the risks to be reinsured and that the premiums ceded to us may not adequately compensate us for the risks we assume. To mitigate this risk our claims departments conduct periodic audits of specific claims and the overall claims procedures of our clients at the offices of ceding companies. We rely on our ability to effectively monitor the claims handling and claims reserving practices of ceding companies in order to establish proper loss reserves. Moreover, prior to accepting certain risks, our claims departments are often requested by underwriters to conduct pre-underwriting claims audits of prospective ceding companies. We attempt to evaluate the ceding company's claims-handling practices, including the organization of their claims departments, their fact-finding and investigation techniques, their loss notifications, the adequacy of their reserves, their negotiation and settlement practices and their adherence to claims-handling guidelines. Following these audits, the claims departments provide feedback to the ceding company, including an assessment of the claims operation and, if appropriate, recommendations regarding procedures, processing and personnel.

We use historical loss information in our assessment/analysis of existing loss reserves and/or as a means of noticing unusual trends in the information received from the cedents. Our analyses of estimated loss reserves are based on, among other things, original pricing analyses as well as our experience with similar lines of business, and historical trends, such as reserving patterns, exposure growth, loss payments, pending levels of unpaid claims and product mix, as well as court decisions and economic conditions. Our estimates of reserves from reported and unreported losses and related reinsurance recoverable assets are reviewed and updated periodically. Adjustments resulting from this process are reflected in current income. Our analyses rely upon the basic assumption that past experience, adjusted for the effect of current developments and likely trends, is an appropriate basis to estimate our current loss and loss expense liabilities. Because estimation of loss reserves is an inherently uncertain process, quantitative techniques frequently have to be supplemented by professional and managerial judgment. In addition, trends that have affected development

of reserves in the past may not necessarily occur or affect reserve development to the same degree in the future. The impact of changes in loss estimates can be mitigated by risk diversification. Risk diversification is a basic risk management tool in the insurance and reinsurance industry; as a multi-line reinsurer there are always likely to be reserve adjustments at the line of business level. Our book of business is broadly diversified by line of business as well as balanced by region and by the expected duration of its claims obligations.

Our Standard Property and Casualty Reinsurance segment is primarily comprised of short and medium-tail lines of business and accounted for 39.4% and 35.5% of our gross non-life loss and loss expense reserves at December 31, 2004 and 2003, respectively. Our Specialty Lines segment is primarily comprised of medium and long-tail lines of business and accounted for 63.8% and 55.8% of our gross non-life loss and loss expense reserves at December 31, 2004 and 2003, respectively. As discussed in the reporting tail description above, this factor can have a significant impact on the volatility of reserves and the uncertainties that exist in the reserve estimation process.

**Table of Contents***Premiums*

When we underwrite business, we receive premiums for assuming the risk. Premiums written in any given period include premiums reported to us by our clients and those we estimate and accrue on contracts underwritten. Reported premiums written and earned are based upon reports received from cedents, supplemented by our own estimates of premiums written for which ceding company reports have not been received.

In a typical reporting period, we generally earn a portion of the premiums written during that period together with premiums that were written during earlier periods. Likewise, some part of our premiums written will not be earned until future periods. We allocate premiums written but not yet earned to an unearned premium reserve, which represents a liability on our balance sheet. As time passes, the unearned premium reserve is gradually reduced and the corresponding amount is released through the income statement as premiums earned. Premiums are typically earned on a pro rata basis over the period that the coverage is in effect. Our premium earned and written estimates are regularly reviewed and enhanced as information is reported to us by our clients and we are able to refine our estimates and assumptions. Differences between such estimates and actual amounts are recorded in the period in which estimates are changed or the actual amounts are determined.

A key assumption used by Management to arrive at its best estimate of assumed premiums is its assessment of expected reporting lags. In addition, they also use the following assumptions: (i) estimated written premium, (ii) change in mix of business, and (iii) ceding company seasonality of premium writing.

Management uses information provided by ceding companies as the initial basis for determining its premium accrual estimates and then further refines it based on known trends within the industry and the book of business.

We write a wide range of different types of insurance and reinsurance policies, some of which are earned during periods shorter than one reporting period, while some are earned during substantially longer periods. This mix of business can change significantly from one period to the next and these changes can cause the relationship between written and earned premiums to differ, perhaps significantly, on a year-to-year basis. Typically, differences in the percentage growth or decline between premiums written and earned mainly reflect this difference in our mix of business from year to year. Our underwriters and client relationship managers, in their analysis of trends, relate the change in premiums earned to the change in premiums written.

Similarly, the seasonality of premium writings, are also analyzed on a regular basis by our underwriters and client relationship managers, taking into account the underlying business, the local market environments and emerging trends.

Our estimation procedures are also affected by the timeliness and comprehensiveness of the information our clients provide to us. The time lag between the release of this information from the ceding company to us can be significant and depends on the reporting frequency of the underlying accounts. During the course of 2004, we implemented enhanced procedures for establishing written premium estimates. The new process mechanically derives the accrued written and earned premium from our ultimate premium estimates for a period of two years after the expiration of the underlying direct policy. Following this, the cedent's actual reported premiums are used.

Our processes require underwriters and others to assess the realization of premium estimates on a quarterly basis. This was supplemented at year-end 2004 by a detailed review using actuarial techniques, primarily for European non-life business, which compared estimates with actuarially derived amounts using ceding companies actual reported premium information. These analyses resulted in a decrease in net premiums written and earned in the Standard Property & Casualty Reinsurance and Specialty Lines segments in the amount of \$221.1 million; after reflecting the impact on accrued acquisition costs of \$16.5 million and losses of \$186.4 million, the impact of these adjustments on the technical result was \$18.2 million.

*Reinsurance recoverables*

We cede reinsurance to retrocessionaires in the normal course of business. Under US GAAP, reinsurance is recorded gross in the balance sheet. Reinsurance assets (recoverables) include the balances due from retrocessionaires for paid and unpaid losses and loss expenses, ceded unearned premiums, and ceded future life benefits. Amounts recoverable from retrocessionaires are estimated in a manner consistent with the liabilities associated with the reinsured contracts. Retrocessional reinsurance arrangements generally do not relieve us from our direct obligations to our reinsureds. Thus, a credit exposure exists with respect to reinsurance ceded to the extent that any retrocessionaire is unable or

unwilling to meet the obligations assumed under the retrocessional agreements. Failure of retrocessionaires to indemnify us due to insolvencies or disputes could result in uncollectible amounts and losses to us. We establish an allowance for potentially uncollectible recoverables from retrocessionaires for amounts owed to us that management believes will not be collected. In addition, we immediately charge operations for any recoverable balances that are deemed to be uncollectible. Collateral and other offsets are considered in determining the allowance or expense. See Note 28 to our 2004 consolidated financial statements for additional information regarding retrocessional risk management.

**Table of Contents***Risk transfer*

In the ordinary course of business, we both purchase, or cede, and sell, or assume, Property & Casualty reinsurance protection. For both ceded and assumed reinsurance, risk transfer requirements as per SFAS 113 must be met in order to obtain reinsurance accounting, principally resulting in the recognition of cash flows under the contract as premium and losses. If risk transfer requirements are not met, a contract is to be accounted for as a deposit, typically resulting in the recognition of cash flows under the contract through a deposit asset or liability and not as revenue or expense. To meet risk transfer requirements, a reinsurance contract must include both insurance risk, consisting of underwriting and timing risk, and a reasonable possibility of a significant loss for the assuming entity.

Reinsurance and insurance contracts that include both significant risk sharing provisions, such as adjustments to premiums or loss coverage based on loss experience, and relatively low policy limits as evidenced by a high proportion of maximum premium assessments to loss limits, can require considerable judgment to determine whether or not risk transfer requirements are met. For such contracts, often referred to as finite or structured products, we require that risk transfer be specifically assessed for each contract by developing expected cash flow analyses at contract inception. To support risk transfer, the cash flow analyses must support the fact that a significant loss is reasonably possible, such as a scenario in which the ratio of the net present value of losses divided by the net present value of premiums equals or exceeds 110 percent. For purposes of cash flow analyses, we generally use a risk-free rate of return consistent with the expected average duration of loss payments. In addition, to support insurance risk, we must prove the reinsurer's risk of loss varies consistently with that of the reinsured and/or support various scenarios under which the assuming entity can recognize a significant loss.

In the event that a transaction does not meet the risk transfer requirements promulgated by SFAS 113, the transaction will be accounted for in full accordance with AICPA Statement of Position 98-7, *Deposit Accounting: Accounting for Insurance and Reinsurance Contracts That Do Not Transfer Insurance Risk* (SOP 98-7). SOP 98-7 applies to proposed assumed and ceded reinsurance transactions that fail risk transfer because there is (1) underwriting risk and timing risk but the underwriting risk is not significant or (2) significant underwriting risk but timing risk is not significant, or (3) underwriting risk and timing risk but not significant underwriting and timing risk. In general, most of the assumed finite transactions underwritten by Converium fail the risk transfer test because there is underwriting risk and timing risk but the underwriting risk is not significant. In these instances a deposit asset/liability is recognized on the balance sheet based on the net cash flows of the transaction. These amounts accrete interest income/expense utilizing the effective interest method based on amounts ultimately estimated to be paid and the time to settlement of the asset/liability. Most of the finite transactions also include a non-refundable fee (reinsurer's margin) which is retained by the reinsurer irrespective of the experience on the contract. This fee is recognized as other income/(expense) over the coverage period of the policy and is not recorded as a deposit asset/liability.

In the event that the circumstances change and a loss will be ceded to the contract which will not ultimately be supported by an interest rate that can be earned on the deposit, then the deposit will be recognized into income/expense over the coverage period of the contract and a loss liability/recoverable will be recognized equal to the expected losses on the contract discounted by the risk free rate in accordance with SOP 98-7.

*Foreign currency translation*

In view of our global scale and the fact that more of our business is transacted in US dollars than in any other currency, we report our financial information in US dollars. However, a large portion of our revenues and expenses are denominated in other currencies including the Euro, UK pound, Swiss franc, and Japanese yen. Since these currencies are functional currencies for our business units, translation differences are recorded directly in shareholders equity. Exchange rate differences arising from holding assets, other than investment assets, and liabilities denominated in non-functional currencies are recorded as income or expense, as the case may be, in our income statement.

*Invested assets*

The majority of our fixed maturities and equity securities are classified as available-for-sale; these investments are carried at fair value. Fixed maturities for which we have the intent and ability to hold to maturity are classified as held-to-maturity. Held-to-maturity securities are carried at amortized cost, if purchased, or carrying value, if transferred from the available-for-sale category to the held-to-maturity category. The difference between the fair value and amortized cost at the date of transfer of such securities is amortized over the life of the respective securities. The



carrying value of transferred securities is the fair value at the date of transfer less unamortized net unrealized gains. Fixed maturities and equity securities, which we buy with the intention to resell in the near term, are classified as trading and are carried at fair value. Unrealized gains or losses on investments carried at fair value, except those designated as trading, are recorded in other comprehensive income, net of deferred income taxes.

When declines in values of securities below cost or amortized cost are considered to be other than temporary, an impairment charge is recorded as a realized capital loss in the statement of income for the difference between cost or amortized cost and estimated fair value. Other than temporary declines are declines in value of the security that exceed 20% over a period of six months, that exceed 50% regardless of the period of decline or any declines in value of equity securities over a period of more than twelve months. The same

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policy applies to fixed maturities securities when the decline in value is attributable to the deteriorating credit-worthiness of the issuer. At management's judgment, we impair additional securities based on prevailing market conditions by considering various factors such as the financial condition of the issuer, the market value and the expected future cash flows of the security.

*Income taxes*

Deferred income taxes are provided for all temporary differences, which are based on the difference between financial statement carrying amounts and the income tax bases of assets and liabilities using enacted local income tax rates and laws. In addition, a deferred tax asset is established for net operating loss carry forwards. We have significant net operating loss carry forwards that we can use to offset future taxable income. Realization of the deferred tax asset related to these carry forwards is dependent upon generating sufficient taxable income within specified future periods. We establish a valuation allowance against our deferred tax asset based upon our assessment if it is more than likely than not that some or the entire deferred tax asset will not be realized in the applicable jurisdiction. In establishing the appropriate valuation allowance against our deferred tax asset, we must make judgments about our ability to recognize the benefit of the asset over time, including our ability to utilize the net operating loss carry forwards. To the extent that no valuation allowance has been established and in the event that we are unable to realize a deferred tax asset, net income would be adversely affected to the extent a valuation allowance has not been established.

*Goodwill and Other Intangible Assets*

SFAS 142 prohibits the amortization of goodwill and intangible assets that have indefinite useful lives, and requires impairment testing of goodwill annually or if any event occurs which would indicate an impairment of goodwill. Except for the reduction of amortization of goodwill, adoption of SFAS 142 did not impact Converium's financial condition or results of operations.

SFAS 142 requires that goodwill and other intangible assets be tested annually for impairment using a two-step process. The first step is to identify a potential impairment. The second step of the goodwill and other intangible assets impairment test measures the amount of the impairment loss, if any, and must be completed by the end of the fiscal year. Intangible assets deemed to have an indefinite life are tested for impairment using a one-step process, which compares the fair value to the carrying amount of the asset as of the beginning of the fiscal year.

Upon application of SFAS 142, Converium ceased amortizing goodwill on January 1, 2002.

*Investment Results*

Investment results are an important part of our overall profitability. Our net investment income increased \$78.3 million, or 33.4% for the year ended December 31, 2004 as compared to the same period in 2003. The increase largely resulted from growth in invested assets during 2004, particularly in our fixed maturities portfolio, as well as income received from the transition of a fixed income bond fund to a direct fixed income investment portfolio. The decline in income from the Funds Withheld Asset is due to the declining asset balance. See Item 4. Information on the Company B. Business Overview Investments Funds Withheld Asset. Our net investment income decreased \$17.4 million, or 6.9%, for 2003 as compared to 2002. The decrease reflects lower investment income yields offset by an increase in invested assets from operating cash flows. Our average annualized net investment income yield (pre-tax) was 3.8% for the year ended December 31, 2004 as compared to 3.3% and 4.2% for the same periods in 2003 and 2002, respectively.

We recorded net realized capital gains of \$46.5 million and \$18.4 million for the years ended December 31, 2004 and 2003, respectively. The 2004 amount includes pre-tax net realized capital gains associated with the sale of equity securities to adjust our asset allocation. Impairment charges of \$6.2 million are included in the pre-tax net realized capital gains in 2004 as compared to \$27.4 million in 2003. Included in the impairment charges for 2004 were \$2.5 million related to our equity securities portfolio, \$3.0 million related to our real estate portfolio and \$0.7 million related to other investments. In 2002, we recorded pre-tax net realized capital losses of \$10.3 million. Included in this amount are gains on the restructuring of the fixed maturities portfolio of \$62.9 million, offset by losses on the restructuring of the equity portfolio of \$48.2 million, losses realized on the sale of WorldCom fixed income investments of \$15.8 million and impairment charges of \$48.3 million.

We recorded \$6.2 million, \$27.4 million and \$48.3 million of impairment charges during 2004, 2003 and 2002, respectively. See Item 4. Information on the Company B. Business Overview Critical accounting policies for details

on our fixed maturities and equity securities impairment policy.

The following table shows the average pre-tax yields and investment results on our investment portfolio for the years ended December 31, 2004, 2003 and 2002.

**Table of Contents****Net Investment Income and Net Realized and Unrealized Capital Gains (Losses)  
Year Ended December 31,**

	2004 (Restated)			2003 (Restated)			2002 (Restated)		
	Net Investment Income	Pre-tax Yield	Realized gains (losses)	Net Investment Income	Pre- tax yield	Realized gains (losses)	Net Investment Income	Pre-tax yield	Realized gains (losses)
Fixed maturity securities	\$ 198.3	2.4%	\$ 5.7	\$ 120.4	1.7%	\$ 34.5	\$ 132.6	2.2%	\$ 88.0
Equity securities	14.8	0.2	48.0	12.1	0.2	(16.1)	13.4	0.2	(101.2)
Funds Withheld Asset /Zurich Financing Agreement	75.1	0.9		85.6	1.2		81.9	1.4	
Short-term and other	37.7	0.5	(7.2)	27.3	0.4		38.9	0.7	2.9
Less investment expenses	(13.2)			(11.0)			(15.0)		
Total	312.7	3.8		234.4	3.3		251.8	4.2	
Net realized capital gains (losses)	46.5			18.4			-10.3		
Net investment income and net realized capital gains (losses)	359.2	4.4		252.8	3.5		241.5	4.1	
Change in net unrealized gains (losses)	(25.1)			154.2			(109.0)		
Total investment return	\$ 334.1	4.1%		\$ 407.0	5.7%		\$ 132.5	2.2%	

Our average net investment income yield was 3.8% for the year ended December 31, 2004, as compared to 3.3% and 4.2% for the same periods in 2003 and 2002, respectively.

Our average annualized total investment income yield (pre-tax) was 4.4% for the year ended December 31, 2004 as compared to 3.5% and 4.1% for the same periods in 2003 and 2002, respectively. Yields are calculated based on the average of beginning and ending total invested assets balances (including cash and cash equivalents). The total investment income yields were positively impacted by the increase in realized gains in 2004 resulting from the sale of equity securities to adjust our asset allocation in order to reduce investment portfolio risks as well as the decline in impairment charges compared to 2003. We paid fees in the amount of \$11.6 million, \$8.0 million and \$6.1 million to our asset managers and custodians in 2004, 2003 and 2002, respectively, including other investment-related costs.

Our average annualized total investment return (pre-tax) was 4.1% for the year ended December 31, 2004 as compared to 5.7%, and 2.2% for the same periods in 2003 and 2002, respectively. The total investment return includes

the effect of pre-tax net unrealized gains and losses. The return was driven by a reduction in net unrealized capital gains due to the realization of gains triggered by the sale of equity securities, partially offset by the continued positive development of the stock markets in 2004. In 2003, we had an increase in net unrealized capital gains of \$94.5 million as a result of the strong recovery of the stock markets. The average total investment return in 2002 included the effect of foreign currency on the change in net unrealized capital gains and losses of \$(50.3) million, lowering the return by 0.8%. As of 2003 and forward, the currency effect on the change in net unrealized capital gains and losses was directly booked to cumulative currency translation adjustments, and therefore no longer affects the investment return.

***Restructuring Costs***

The placement of CRNA into orderly run-off and the ratings downgrades resulted in a reduction of premium volume and subsequently the need to reduce the global cost base going forward. As a result, Converium notified certain of its employees that their employment would be terminated. For the year ended December 31, 2004, \$2.7 million in restructuring costs has been expensed primarily due to the costs associated with these severance plans. As a result of the transition to a run-off entity in North America, a decision was made in January 2005 to vacate our primary office space in New York, New York and consolidate in our Stamford, Connecticut office space. We expect the effective date of the transfer to be July 1, 2005. Office space in Zurich is also under review. Associated costs will be recorded as restructuring costs.

***Income Tax***

We are subject to local income tax requirements in the jurisdictions in which we operate. Significant judgment is required in determining our worldwide provision for income taxes and recording the related assets and liabilities. The income tax expense reflected in our financial statements therefore reflects a number of different local tax rates, and as a result may change from one period to the next depending on both the amount and the geographic contribution of our taxable income or loss. In addition, the income tax we pay is based on local tax returns in which our reported income or loss and expenses may differ from that reported in our financial statements.

As a result of changes in our geographic contribution of taxable income or loss as well as changes in the amount of our non-taxable income and expense and changes in our valuation allowance, the relationship between our reported income before tax and our income tax expense may change significantly from one period to the next.

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As a result of the developments of 2004, we established a full valuation allowance against the net deferred income tax balances previously carried at CRNA and a valuation allowance against the net operating losses carried forward at Converium AG. For further information about our income tax expenses, see Note 14 to our 2004 consolidated financial statements. See Note 3 to our 2004 consolidated financial statements for information regarding the correction of our accounting for income taxes as a result of the Restatement of our financial statements.

Under U.S. tax law, the utilization of the deferred tax asset related to the net operating loss carryforwards generated by CRNA, of approximately \$800.0 million, is subject to an annual limitation if there is a more than 50 percentage point change in shareholder ownership. As a result of Converium's rights offering in 2004 and in combination with prior changes in ownership, the Company may have potentially triggered this limitation. Management is currently reviewing the impact of the rights offering during 2004 along with the other changes in ownership to determine whether a limitation has actually been triggered. The finalization of this assessment could result in adjustments to the net operating loss carryforwards as well as other current and deferred tax assets and liabilities; however, there will be no income statement impact as we have established a full valuation allowance against the net deferred tax balances previously recorded at CRNA.

**Regulatory and Legislative Environment**

Our business is subject to regulation in all of the jurisdictions in which we operate. Regulation includes compliance with applicable laws covering operating and reporting requirements, monitoring of solvency and reserves and asset valuation. Changes in government policy or taxation also may affect our results of operations. In addition, political, judicial and legislative developments could broaden the intent and scope of coverage of existing policies written by our clients, which may result in additional liabilities for reinsurers. See Item 4. Information on the Company B. Business Overview Regulation .

**Results of Operations**

The information in the following section reflects the effects of the Restatement of our financial statements as of and for the years ended December 31, 2004 through 1998, highlighting below the effects for the years ended December 31, 2004, 2003 and 2002 and as at December 31, 2004 and 2003. For further details regarding the Restatement see the information provided at the beginning of this section as well as Note 3 to our 2004 consolidated financial statements included in Item 8. Financial Information A. Consolidated Statements and Other Financial Information, of this report.

The table below presents summary income statement data for the years ended December 31, 2004, 2003 and 2002.

	<b>Year Ended December 31,</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>
	<b>(\$ millions)</b>		
<b>Revenues:</b>			
Gross premiums written	\$ 3,978.7	\$ 4,300.4	\$ 3,372.4
Net premiums written	\$ 3,726.1	\$ 3,922.7	\$ 3,235.2
Net premiums earned	\$ 3,882.2	\$ 3,767.8	\$ 3,077.5
Net investment income	312.7	234.4	251.8
Net realized capital gains (losses)	46.5	18.4	(10.3)
Other (loss) income	(8.2)	17.5	31.6
Total revenues	4,233.2	4,038.1	3,350.6
<b>Benefits, losses and expenses:</b>			
Losses, loss expenses and life benefits	(3,342.5)	(2,760.1)	(2,491.1)
Acquisition costs	(912.4)	(832.0)	(646.8)
Other operating and administration expenses	(219.8)	(202.5)	(178.4)
Interest expense	(33.1)	(31.0)	(16.4)
Impairment of goodwill	(94.0)		

Amortization of intangible assets	(9.9)	(1.8)	
Restructuring costs	(2.7)		
Total benefits, losses and expenses	(4,614.4)	(3,827.4)	(3,332.7)
(Loss) income before taxes	(381.2)	210.7	17.9
Income tax (expense) benefit	(201.3)	(32.8)	17.9
Net (loss) income	\$ (582.5)	\$ 177.9	\$ 35.8

During 2004, there were several items that resulted in measurable effects on our financial results. These items include (i) the strengthening of prior years reserves, (ii) adjustments of premium accruals and associated loss and acquisition costs, (iii) adjustment of retrocessional recoveries to reflect gross loss developments, and (iv) commutations, which collectively resulted in a net impact on the

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technical result of \$561.5 million. In addition, we established a full valuation allowance against the net deferred income tax balances previously carried at CRNA of \$347.6 million and a valuation allowance against the net deferred tax assets at Converium AG of \$126.1 million, and recorded an impairment of goodwill of \$94.0 million.

The table below shows the reconciliation between pre-tax results and pre-tax operating results. We use pre-tax operating results to measure performance, as this measure focuses on the underlying fundamentals of our operations without the influence of realized gains and losses from the sale of investments, or other non-operating items such as goodwill impairment.

	<b>Year Ended December 31,</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>
	<b>(\$ millions)</b>		
<b>Pre-Tax Operating (Loss) Income</b>			
(Loss) income before taxes	\$(381.2)	\$ 210.7	\$ 17.9
Net realized capital gains (losses)	46.5	18.4	(10.3)
Impairment of goodwill	(94.0)		
Amortization of intangible assets	(9.9)	(1.8)	
Restructuring costs	(2.7)		
Pre-tax operating (loss) income	\$(321.1)	\$ 194.1	\$ 28.2
Net (loss) income	\$(582.5)	\$ 177.9	\$ 35.8

**Year Ended December 31, 2004 Compared to Year Ended December 31, 2003***Converium Consolidated Net (Loss) Income*

For the year ended December 31, 2004 we reported a net loss of \$582.5 million versus net income of \$177.9 million for the same period in 2003. The decline is primarily due to the impact of those items as described above, in addition to losses related to the natural catastrophes that occurred in 2004.

We reported a pre-tax operating loss (defined as pre-tax income or loss excluding pre-tax net realized capital gains or losses, impairment of goodwill, amortization of intangible assets and restructuring costs) of \$321.1 million for the year ended December 31, 2004, a decrease of \$515.2 million as compared to the same period in 2003. We use pre-tax operating results to measure performance, as this measure focuses on the underlying fundamentals of our operations without the influence of realized gains and losses from the sale of investments, or other non-operating items such as goodwill impairment and restructuring costs.

For the year ended December 31, 2004, gross premiums written decreased 7.5%, net premiums written decreased 5.0% and net premiums earned increased 3.0%. The reduction in gross and net premiums written primarily resulted from clients exercising their rights of special termination under various reinsurance contracts and adjustments of ultimate premium estimates, as described below. Despite the decrease in premiums, there still remained some growth across lines of business within the Specialty Lines segment as well as in the Life & Health Reinsurance segment resulting from overall market conditions and new client relationships.

Adjustments of ultimate premium estimates: During the course of 2004 Converium implemented enhanced procedures for establishing written premium estimates. Our processes require underwriters and others to assess the realization of premium estimates on a quarterly basis. This was supplemented at year-end by a detailed review using actuarial techniques, primarily for European non-life business, which compare estimates with actuarially derived amounts using ceding companies actual reported premium information. These analyses resulted in a decrease in net premiums written and earned in the Standard Property & Casualty Reinsurance and Specialty Lines segments in the amount of \$221.1 million; after reflecting the impact on accrued acquisition costs of \$16.5 million and losses of \$186.4 million, the impact of these adjustments on the technical result was \$18.2 million.

Our non-life combined ratio was 116.0% for the year ended December 31, 2004 as compared to 97.5% for the same period in 2003. Reserve actions and natural catastrophes in 2004 increased the combined ratio by 16.4 points and 4.5 points, respectively for the year ended December 31, 2004.



We recorded net realized capital gains of \$46.5 million and \$18.4 million for the years ended December 31, 2004 and 2003, respectively. The 2004 amount includes pre-tax net realized capital gains associated with the sale of equity securities to adjust our asset allocation. Impairment charges of \$6.2 million are included in the pre-tax net realized capital gains in 2004 as compared to \$27.4 million in 2003. Included in the impairment charges for 2004 were \$2.5 million related to our equity securities portfolio, \$3.0 million related to our real estate portfolio and \$0.7 million related to other investments.

Our effective tax rate was (52.8%) for the year ended December 31, 2004 as compared to 15.6% for the same period in 2003. The 2004 consolidated income tax expense reflects an additional expense of \$473.7 million related to the establishment of a full valuation allowance against the net deferred income tax balances previously carried at CRNA (\$347.6 million) and a valuation allowance against the net deferred tax assets at Converium AG (\$126.1 million).

**Table of Contents***Converium Consolidated Premiums*

Net premiums written decreased for the year ended December 31, 2004 over the same period in 2003 largely due to premium reductions resulting from clients exercising their rights of special termination under various reinsurance contracts, as described below, adjustments of ultimate premium estimates, and a reduction of reinsurance recoverables of \$12.0 million. For the year ended December 31, 2004, Standard Property & Casualty Reinsurance decreased by \$123.7 million or 7.4% and Specialty Lines decreased by \$123.9 million or 6.7%. Despite this, net premiums written in the Life & Health Reinsurance segment grew by \$51.0 million or 13.4%. We retained 93.7% and 91.2% of our gross premiums written for the year ended December 31, 2004 and 2003, respectively.

*Special terminations:* Many reinsurance contracts include a ratings or statutory surplus level provision. Ratings and surplus triggers typically give rise to a right of termination in favor of the cedent that allows the cedent to terminate the contract on a prospective basis from the date of termination. As a result of the rating agencies' actions and the reduction in surplus due to the reserve strengthening, contracts with an estimated ultimate premium income of \$508.8 million were triggered in the second half of 2004. This resulted in an estimated impact on gross premiums written of \$(114.5) million for the second half of 2004.

As of December 31, 2004, Converium's reserves for unearned premiums, gross were \$1,247.7 million, which relates to business primarily written in 2003 and 2004, and is expected to materially earn out in 2005. The earn out of these reserves for unearned premiums and the reduced non-life premium income of the January 1, 2005 renewal period, are expected to result in a reduction of reserves for unearned premiums in future periods.

For the year ended December 31, 2004, based on stable exchange rates, gross premiums written decreased by 7.5%, net premiums written decreased by 5.0%, and net premiums earned increased by 3.0%.

*Converium Consolidated Net Investment Income and Net Realized Capital Gains (Losses)*

Investment results are an important part of our overall profitability. Our net investment income increased \$78.3 million, or 33.4% for the year ended December 31, 2004 as compared to the same period in 2003. The increase largely resulted from growth in invested assets during 2004, particularly in our fixed maturities portfolio, as well as income received from the transition of a fixed income bond fund to a direct fixed income investment portfolio. The decline in income from the Funds Withheld Asset is due to the declining asset balance.

Our average net investment income yield was 3.8% for the year ended December 31, 2004, as compared to 3.3% and 4.2% for the same periods in 2003 and 2002, respectively.

Our average annualized total investment income yield (pre-tax) was 4.4% for the year ended December 31, 2004 as compared to 3.5% and 4.1% for the same periods in 2003 and 2002, respectively. Yields are calculated based on the average of beginning and ending total invested assets balances (including cash and cash equivalents). The total investment income yields were positively impacted by the increase in realized gains in 2004 resulting from the sale of equity securities to adjust our asset allocation in order to reduce investment portfolio risks as well as the decline in impairment charges compared to 2003. We paid fees in the amount of \$11.6 million and \$8.0 million to our asset managers and custodians in 2004 and 2003, respectively, including other investment-related costs.

Our average annualized total investment return (pre-tax) was 4.1% for the year ended December 31, 2004 as compared to 5.7%, and 2.2% for the same periods in 2003 and 2002, respectively. The total investment return includes the effect of pre-tax net unrealized gains and losses. The return was driven by a reduction in net unrealized capital gains due to the realization of gains triggered by the sale of equity securities, partially offset by the continued positive development of the stock markets in 2004. In 2003, we had an increase in net unrealized capital gains of \$94.5 million as a result of the strong recovery of the stock markets. The average total investment return in 2002 included the effect of foreign currency on the change in net unrealized capital gains and losses of \$(50.3) million, lowering the return by 0.8%. As of 2003 and forward, the currency effect on the change in net unrealized capital gains and losses was directly booked to cumulative currency translation adjustments, and therefore no longer affects the investment return. We recorded \$6.2 million and \$27.4 million of impairment charges during 2004 and 2003, respectively.

*Converium Consolidated Other (Loss) Income*

Other loss for the year ended December 31, 2004 was \$8.2 million as compared to other income of \$17.5 million in 2003. Other loss for 2004 includes an amount of \$20.0 million for a retroactive stop-loss retrocession cover from National Indemnity Company, offset by a reduction of \$9.6 million in the bad debt provision related to the U.S. Life

Insurance Company settlement (see Notes 22 and 27 to our 2004 consolidated financial statements). Other (loss) income components also include interest income on reinsurance deposits, interest expense on funds held under reinsurance contracts, fee income, write-off of uncollectible balances and results from private equity funds.

*Converium Consolidated Losses, Loss Expenses and Life Benefits*

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Our losses, loss expenses and life benefits incurred and non-life loss ratio increased for the year ended December 31, 2004 as compared to the same period in 2003, mainly due to the development of prior years' loss reserves, as described below. In addition, the impact of the hurricanes, typhoons and the tsunami in 2004 added \$154.5 million of incurred losses, or 4.5 points to the 2004 loss ratio.

*Development of prior years' reserves:* Converium reported that it has experienced significant adverse development, predominantly in its US casualty reinsurance lines, for the last several years. It stated that, since 2000, Converium has recorded \$868.2 million of additional net provisions on prior years' non-life business (2000: \$65.4 million; 2001: \$123.6 million; 2002: \$148.5 million, 2003: \$(31.3) million; and 2004: \$562.0 million).

Although the Restatement did not result in changes to the reserve amounts determined as a result of Converium's process for establishing loss and loss expense reserves, it did result in corrections to the accounting for certain assumed and ceded transactions and the reserve amounts related thereto. The resulting changes relate to transactions which, at inception, did not meet the requirements for reinsurance accounting. See Note 3 to our 2004 consolidated financial statements included in Item 8. Financial Information - A. Consolidated Statements and Other Financial Information, and Item 5. Operating and Financial Review and Prospects - A. Operating Results. The required changes reflected in the Restatement, substantially related to ceded reinsurance transactions, have increased/(decreased) the previously reported additional net provisions on prior non-life business as follows: (2000: \$99.6 million; 2001: \$44.2 million; 2002: \$52.6 million; 2003: \$(32.2) million; and 2004: \$3.7 million). The net strengthening of prior years' loss reserves during 2004 reported in the preceding paragraph with respect to the segments were also effected by the Restatement.

Therefore, after consideration of the restated transactions and as reflected in this Form 20-F/A, since 2000, Converium has recorded a total of \$1,036.1 million of additional net provisions on prior years' non-life business (2000: \$165.0 million; 2001: \$167.8 million, 2002: \$201.1 million; 2003: \$(63.5) million; and 2004: \$565.7 million).

During early 2004, Converium announced that reported losses from prior year US casualty business had exceeded expected loss emergence and that the volatility of longer-tail risks was likely to persist for some time. This adverse loss-reporting trend continued and accelerated into mid-2004 and prompted Converium to initiate additional reviews of its US business from an integrated underwriting, claims and actuarial perspective in order to examine the adequacy of prior years' provisions. In addition, in order to obtain an external review of our overall reserve position, we commissioned the actuarial consulting firm Tillinghast-Towers Perrin to perform an independent actuarial review of our non-life loss and allocated loss expense reserves as of June 30, 2004 in respect of the Zurich and New York originated businesses. The outcome of these in-depth internal and external reviews resulted in an aggregate strengthening of prior years' non-life loss reserves by \$565.7 million for the year ended December 31, 2004. This action was taken in response to the continued adverse loss emergence due to increased reporting activity from clients relating to US casualty business written from 1997 to 2001 as well as deterioration from European non-proportional motor business written in recent years. The increased claims reporting was attributable to both frequency and severity. While we believe that we have fully addressed this issue through our reserving actions, volatility is expected to persist for some time.

In the Standard Property & Casualty Reinsurance segment, the development of prior years' reserves of \$95.8 million primarily related to adverse developments of General Third Party Liability (\$109.3 million), motor liability outside the United States (\$91.7 million) and Personal Accident (non-life) (\$8.1 million), which was partially offset by positive developments related to Property (\$82.1 million) and miscellaneous liability (\$31.2 million) that also included the impact of whole account retrocessions. In the Specialty Lines segment, the development of prior years' reserves of \$469.9 million primarily related to adverse developments of the Professional Liability and other Special Liability lines (\$430.7 million), particularly excess & surplus lines and umbrella, Workers' Compensation (\$55.4 million), and Engineering (\$12.9 million). These adverse developments in the Specialty Lines were partially offset by positive developments related to Aviation & Space (\$24.5 million), Agribusiness (\$0.7 million), and Credit & Surety (\$3.8 million).

In 2003, the positive development of \$63.5 million consisted of positive development on Property lines (\$113.5 million) and Aviation & Space (\$110.7 million), offset by adverse development on Workers' Compensation and Professional Liability and other Special Liability lines (\$120.3 million) and the Motor and General Third Party

Liability lines (\$40.4 million). The reserve releases in 2003 were primarily from the 2002 underwriting year, while the US business written in 1997 to 2001 mostly saw continued strengthening.

*Commutations:* Based on the developments of 2004, we placed our US reinsurance operations into run-off and started to implement and execute a commutation strategy. Commutations can accelerate the realization of profit inherent in long-tail reserves by crystallizing outstanding claims reserves into payments, which are discounted to reflect the time value of money. Since commutation payments essentially reflect a discounted present value of estimated future cash flows, future investment income earned is expected to decline as the assets backing those reserves are liquidated to make payments. As of December 31, 2004, we agreed upon commutations with primarily North American cedents regarding gross loss reserves of \$545.8 million that resulted in a cash outflow of \$526.8 million.

*Guaranteed Minimum Death Benefit (GMDB) business:* For the year ended December 31, 2004 there were no additional reserving actions required for the GMDB book of business. In 2003 and 2002, the Life & Health Reinsurance segment strengthened reserves for this closed block of variable annuity business by \$55.5 and \$15.6 million, respectively. As a result of the positive performance of the US stock markets, GMDB's net amount at risk further decreased to \$635.5 million at December 31, 2004 from \$809.7 million at December 31, 2003. For further information regarding this accounting adjustments, see Note 3 to our 2004 consolidated financial

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statements included in Item 8. Financial Information A. Consolidated Statements and Other Financial Information, and Item 5. Operating and Financial Review and Prospects A. Operating Results.

*Impact of aviation and space business:* Our aviation and space business contributes substantially to the profitability of the Specialty Lines segment. Related to this business, we had net premiums written of \$404.5 million and \$341.6 million and a net non-life technical result (defined as net premiums earned minus losses and loss expenses and acquisition costs) of \$71.4 million and \$134.2 million in 2004 and 2003, respectively.

*Impact of property catastrophe losses:* We reported the following large natural catastrophe losses, defined as those in excess of \$10.0 million or more of net incurred losses to us for our proportional and non-proportional property catastrophe business: hurricanes in the US and the Caribbean, the Japanese typhoons and the tsunami in the Indian Ocean (\$154.5 million) in 2004 and Typhoon Maemi (\$15.4 million) and the Algerian earthquake (\$10.6 million) in 2003.

*September 11th terrorist attacks:* The September 11th terrorist attacks in the United States represented the largest loss event in the insurance industry's history. In 2001, we recorded gross losses and loss expenses of \$692.9 million arising out of the terrorist attacks. Net of retrocessional recoveries and the cap from Zurich Financial Services, our recorded losses and loss expenses were \$289.2 million, coming primarily from our aviation and Property lines of business. The remainder of the losses were from our Workers' Compensation, life and third-party liability lines of business. Zurich Financial Services, through its subsidiaries, agreed to arrangements that cap our net exposure for losses and loss expenses arising out of the September 11th terrorist attacks at \$289.2 million. As part of these arrangements, these subsidiaries of Zurich Financial Services have agreed to take responsibility for non-payment by the retrocessionaires of Converium AG and Converium Rückversicherung (Deutschland) AG with regard to losses arising out of the September 11th terrorist attacks in excess of the \$289.2 million cap. While the cap does not cover non-payment by the retrocessionaires of CRNA, our only retrocessionalaire for this business is a unit of Zurich Financial Services. This business is fully collateralized in the form of letters of credit. Therefore, we are not exposed to potential non-payments by retrocessionaires for these events in excess of the \$289.2 million cap, although we will be exposed to the risk of non-payment of Zurich Financial Services' units and we are exposed to credit risk from these subsidiaries of Zurich Financial Services.

In December 2004, a federal jury in New York concluded that the two planes that crashed into the World Trade Center during the attacks of September 11th, for insurance purposes, represented two separate attacks. This ruling increased our gross losses and loss expenses by \$8.7 million, but as our losses are capped at \$289.2 million by Zurich Financial Services, as described above, this ruling did not have an effect on our net loss position. In 2004 and 2003 there was no additional development in net reserves for the September 11th terrorist attacks.

*Asbestos and environmental exposures:* As of December 31, 2004 and 2003, we had reserves for environmental impairment liability and asbestos-related claims of \$49.2 million and \$45.8 million, respectively. Our survival ratio (calculated as the ratio of reserves held, including IBNR, over claims paid over the average of the last three years) for asbestos and environmental reserves was 13.6 years at December 31, 2004 and 2003.

*Converium Consolidated Acquisition Costs*

Acquisition costs primarily relate to commissions on treaty and individual risk business. Our acquisition costs increased for the year ended December 31, 2004 as compared to the same period in 2003. The underwriting expense ratio was relatively stable in 2004 as compared to 2003.

*Converium Consolidated Operating and Administration Expenses*

Operating and administration expenses increased for the year ended December 31, 2004 over the same period in 2003 due to increased expenditures to support the growth in operations, additional costs of \$15.7 million related to the retention plans that were rolled out in late 2004 (see Note 16 to our 2004 consolidated financial statements), and the continued weakening of the US dollar. In addition approximately \$7.0 million of advisory fees were recorded in conjunction with various corporate strategic initiatives during 2004. The non-life administration expense ratio remained relatively stable for the year ended December 31, 2004 as compared to the same period in 2003.

We fully charge the cost of options to operating expense under the fair value approach of SFAS No.123, *Accounting for Stock Based Compensation* ( SFAS 123 ), and recorded compensation expense of \$10.7 million and \$6.1 in 2004 and 2003, respectively.

*Converium Consolidated Interest Expense, Goodwill and Other Intangible Assets and Restructuring costs*

*Interest expense:* Interest expense remained relatively stable for the year ended December 31, 2004 as compared to the same period in 2003.

*Goodwill and other intangible assets:* Impairment of goodwill was \$94.0 million for the year ended December 31, 2004. Amortization

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of intangible assets was \$9.9 million for the year ended December 31, 2004.

SFAS 142, requires impairment testing of goodwill annually or more regularly if any event or change in business circumstances occurs which would indicate that the carrying value of goodwill may be impaired. An impairment charge of \$94.0 million was recorded due to the reserving actions taken during 2004 in respect of prior year development in the Specialty Lines segment's business written in North America, and the subsequent decision to take a full valuation allowance against the net deferred tax asset at CRNA. The goodwill impairment charge represents all the goodwill relating to CRNA.

SFAS 142 also requires that useful lives for intangible assets other than goodwill be reassessed and the remaining amortization periods be adjusted accordingly. On October 1, 2004, the useful life of our intangible asset relating to GAUM was reduced to less than one year resulting in an amortization charge of \$9.9 million. See Note 9 to our 2004 consolidated financial statements for additional information regarding the reassessment of the useful life related to GAUM.

*Restructuring costs:* The placement of CRNA into orderly run-off and the ratings downgrades resulted in a reduction of premium volume and subsequently the need to reduce the global cost base going forward. As a result, Converium notified certain of its employees that their employment would be terminated. For the year ended December 31, 2004, \$2.7 million in restructuring costs has been expensed primarily due to the costs associated with these severance plans. In addition, as a result of the global restructuring, a decision was made in January 2005 to vacate our primary office space in New York, New York and consolidate in our Stamford, Connecticut office space. We expect the effective date of the transfer to be July 1, 2005. Office space in Zurich is also under review. Associated costs will be recorded as restructuring costs.

*Converium Consolidated Income Tax Expense*

Converium's consolidated income tax expense for the year ended December 31, 2004 reflects an additional expense of \$473.7 million related to the establishment of a full valuation allowance against the net deferred tax balances previously carried at CRNA and a valuation allowance against the net deferred tax assets at Converium AG. The 2003 consolidated income tax expense reflects an increase in the tax loss carryforward due to the retrocession of certain contracts from Germany to Switzerland.

As required under SFAS 109, Converium is required to assess if it is more likely than not that some or all of the net deferred tax assets will not be realized. In making this assessment, reference is made to, among other things, historical losses. Therefore, a full valuation allowance was established against CRNA's and Converium AG's net deferred tax assets to reflect the continued net loss position of the companies. The companies may offset future taxable income against the existing net operating losses carried forward, subject to certain limitations, resulting in no income tax expense on such income until such time as the net operating losses are utilized or expire. Converium AG presents deferred taxes for timing differences only. Future positive income will offset against net operating losses carried forward and will not cause any income taxes except changes in timing differences.

As of December 31, 2004, Converium's valuation allowance on deferred tax assets was \$534.1 million, comprising net operating losses carried forward (\$414.0 million), loss reserve discount (\$106.9 million) and other temporary differences, net (\$13.2 million). As of December 31, 2003, the valuation allowance was \$38.0 million, all of which related to net operating losses carried forward.

As of December 31, 2004, Converium has total net operating losses carried forward of \$2,109.7 million available to offset future taxable income of certain branches and subsidiaries. Substantially all of these net operating losses carried forward relate to CRNA and Converium AG and expire in the years 2020 through 2024 and 2008 through 2011, respectively.

Converium will continue to monitor its tax position and reassess the need for a full valuation allowance on its net deferred tax assets on a periodic basis. Realization of the deferred tax asset related to net operating losses carried forward is dependent upon generating sufficient taxable income within specified future periods. The decision to place CRNA into run-off may limit the ability to generate taxable income to fully utilize its net operating loss carryforwards.

Under U.S. tax law, the utilization of the deferred tax asset related to the net operating loss carryforwards generated by CRNA, of approximately \$800.0 million, is subject to an annual limitation if there is a more than 50 percentage point



change in shareholder ownership. As a result of Converium's rights offering in 2004 and in combination with prior changes in ownership, the Company may have potentially triggered this limitation. Management is currently reviewing the impact of the rights offering during 2004 along with the other changes in ownership to determine whether a limitation has actually been triggered. The finalization of this assessment could result in adjustments to the net operating loss carryforwards as well as other current and deferred tax assets and liabilities; however, there will be no income statement impact as we have established a full valuation allowance against the net deferred tax balances previously recorded at CRNA.

*Converium Consolidated Combined Ratios*

Our combined ratio was 117.0% in 2004 and 97.5% in 2003. The decrease in the combined ratio resulted from the significant adverse development recorded in 2004.

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Converium reported net income of \$177.9 million for the year ended December 31, 2003, an improvement of \$142.1 million as compared to net income of \$35.8 million for 2002. The increase was due to continued improvements in the non-life underwriting results, as well as pre-tax net realized capital gains in 2003 versus pre-tax net realized capital losses in 2002. Developments on our GMDB book were offset by an overall improved non-life combined ratio. Converium reported pre-tax operating income (defined as pre-tax income or loss excluding pre-tax net realized capital gains or losses, amortization of goodwill and restructuring costs) of \$194.1 million for the year ended December 31, 2003, an improvement of \$165.9 million as compared to pre-tax operating income of \$28.2 million for 2002. The improvement in pre-tax operating income was due to significant premium growth and an overall improved non-life combined ratio.

For the year ended December 31, 2003, gross premiums written increase 27.5%, net premiums written increased 21.2% and net premiums earned increased 22.4%. The growth was spread across most lines of business and resulted from increased rates and increasing the share of clients' business upon renewing existing business or writing new business.

In 2003, we recorded \$63.5 million of net positive development on prior years' loss reserves. In 2002, our results were impacted by losses from the European floods of \$51.1 million (net of reinstatement premiums of \$3.1 million) and the recognition of a \$201.1 million provision for net adverse development on prior years' reserves. Our non-life combined ratio was 97.5% for the year ended December 31, 2003 as compared to 106.3% in the same period of 2002.

Converium recorded pre-tax net realized capital gains of \$18.4 million for the year ended December 31, 2003 as compared to pre-tax net realized capital losses of \$10.3 million for the same period of 2002. The pre-tax net realized capital gains in 2003 included \$27.4 million of impairment charges on our equity portfolio as compared to \$48.3 million of impairment charges in 2002.

Converium's effective tax rate was 15.6% for the year ended December 31, 2003, compared to a benefit of 100.0% in 2002. The 2002 consolidated tax benefit reflects a one-time benefit of \$21.3 million as the result of a ruling received from the Swiss tax authorities regarding a tax loss carry forward.

***Converium Consolidated Premiums***

Gross premiums written for the year ended December 31, 2003 increased \$928.0 million, or 27.5% compared to the same period of 2002. Net premiums written for 2003 increased \$687.5 million, or 21.2% compared to 2002. For the year ended December 31, 2003, we retained 91.2% of our gross premiums written, compared to 95.9% in 2002. Our net retention ratio decreased principally due to the purchase of increased retrocessions to reduce peak exposures associated with our increased participation in the Global Aerospace Underwriting Managers Limited (GAUM) pool. The increases in non-life net premiums written predominately reflected the continued improved market conditions, new client relationships in certain key markets and the expansion of shares of business with existing clients. During 2003, we took advantage of growth opportunities in the Standard Property & Casualty Reinsurance segment, where net premiums written grew by \$346.0 million, or 25.9% for the year. This was due to increased penetration in all lines of business, but predominantly within Property and Motor. For the year ended December 31, 2003, the Specialty Lines segment grew by \$275.9 million or 17.4% compared with 2002, driven by strong growth in Agribusiness, Workers Compensation, Credit & Surety, and Professional Liability and other Special Liability lines. The Life & Health Reinsurance segment grew by \$65.6 million or 20.8%, driven by growth in Accident and Health business in North America and in Continental Europe.

Net premiums earned for the year ended December 31, 2003 increased \$690.3 million, or 22.4% compared to 2002. Net premiums earned increased at a higher rate than net premiums written due to the seasonality of certain business within our portfolio.

***Converium Consolidated Net Investment Income and Net Realized Capital Gains (Losses)***

Investment results are an important part of our overall profitability. Our net investment income was \$234.4 million for the year ended December 31, 2003, representing a decrease of \$17.4 million, or 6.9% as compared to the same period of 2002. The decrease reflects lower investment income yields offset by an increase in invested assets from operating cash flows.

Our average annualized total investment income yield was 3.5% for the year ended December 31, 2003, as compared to 4.1% for the same period in 2002. Yields are calculated based on the average of beginning and ending investment balances (including cash and cash equivalents). The decrease in yield in 2003 was due to sustained lower interest rates worldwide. In addition, we positioned our fixed income portfolios to a shorter duration in anticipation of a potential interest rate increase. We paid fees in the amount of \$8.0 million and

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\$6.1 million to our asset managers and custodians in 2003 and 2002, respectively, including other investment related costs.

We had net realized capital gains for the year ended December 31, 2003 of \$18.4 million, compared to net realized capital losses of \$10.3 million for the year ended December 31, 2002. Included in the 2002 realized amounts were gains on the restructuring of the fixed maturities portfolio of \$62.9 million, offset by losses on the restructuring of the equity portfolio of \$48.2 million, and losses realized on the sale of WorldCom fixed income investments of \$15.8 million.

We recorded \$27.4 million and \$48.3 million of impairment charges during 2003 and 2002, respectively, primarily on our equity portfolio. To continue to adhere to emerging asset impairment standards, beginning in the second quarter of 2003, we revised our impairment policy to also record as realized capital losses any declines in value of equity securities over a period of more than twelve months. The same policy applies to fixed maturities securities when the decline in value is attributable to the deteriorating credit-worthiness of the issuer. This resulted in additional impairment charges of \$3.4 million in 2003.

*Converium Consolidated Other Income (Loss)*

Other income for the year ended December 31, 2003 was \$17.5 million as compared to other income of \$31.6 million for the year ended December 31, 2002. Other income (loss) includes interest income on reinsurance deposits, interest expense on funds held under reinsurance contracts, fee income, write-off of uncollectible balances and results from private equity funds.

*Converium Consolidated Losses, Loss Expenses and Life Benefits*

Our losses, loss expenses and life benefits incurred increased \$269.0 million, or 10.8%, in 2003 versus an increase of \$30.5 million, or 1.2%, in 2002. The non-life loss ratio was 71.1% in 2003 as compared to 80.6% in 2002. Our reported losses, loss expenses and life benefits were impacted by the following loss events:

*Net reserve development:* In 2003, there was \$63.5 million net positive development on prior years' loss reserves, consisting of positive development of \$73.1 million in the Standard Property & Casualty Reinsurance segment, offset by \$9.6 million of adverse development in the Specialty Lines segment. Risk diversification is a basic risk management tool in the insurance and reinsurance industry; as a multi-line reinsurer there are always likely to be reserve adjustments at the line of business level. Our book of business was broadly diversified by line of business as well as balanced by region and by the expected duration of its claims obligations.

In 2002, Converium strengthened reserves for prior years by \$201.1 million. Throughout the year, increased loss experience related to prior years continued to emerge, which resulted in an in-depth actuarial reserve analysis of certain lines of business. This resulted in an additional \$201.1 million provision for losses, primarily related to underwriting years 1997 through 2000. In the Standard Property & Casualty Reinsurance segment, there were additional provisions of \$114.8 million for the liability, Motor and Property lines. In the Specialty Lines segment, there were additional provisions of \$86.3 million, primarily related to the commercial umbrella and medical errors and omissions liability lines of business.

*Guaranteed Minimum Death Benefit (GMDB) Business:* In addition to the non-life reserve development described above, the Life & Health Reinsurance segment strengthened reserves on a closed block of variable annuity business by \$55.5 million and \$15.6 million in 2003 and 2002, respectively. As a result of the strong performance of the US stock markets, the GMDB's net amount at risk further decreased to \$809.7 million and \$1,243.0 million at December 31, 2003 and 2002, respectively.

In late 2003, the Company entered into a Guaranteed Minimum Death Benefit (GMDB) Stop Loss Reinsurance Agreement (the GMDB Contract) with a third party which provided coverage of \$75,000,000 in excess of reserves for losses arising out of GMDB reinsurance contracts bound or issued by the Company prior to January 1, 2003. The GMDB Contract was accounted for as if it had transferred sufficient risk to qualify for reinsurance accounting treatment. However, as a result of a related ceded property catastrophe contract with the same party, and a master profit sharing agreement with the same party linking both of the foregoing contracts, and certain other related transactions, the Company has now determined that the initial risk transfer analysis did not include evaluation of the entire arrangement between the parties and that there are transactions that involved other parties and payments to the third parties. The Company has now determined that at inception there was insufficient risk transfer such that the

conditions for reinsurance accounting under SFAS 113 had not been met. Accordingly, the Company has corrected the accounting treatment of the GMDB Contract and the property catastrophe agreement from reinsurance to deposit accounting. Reinsurance accounting has been retained for that portion of the risk that was transferred to a separate third party.

The Company entered into a Combined Excess of Loss Reinsurance Agreement (the CEL Agreement ) with another third party, effective October 1, 2001 for a three-month period and subsequently renewed the CEL Agreement for calendar years 2002, 2003 and 2004, respectively. In 2003, coverage for GMDB liability was added to the CEL Agreement. Based upon evidence from the internal review, the Company determined that the initial risk transfer analysis did not include evaluation of the entire arrangement between the parties and that there is a likelihood that a side agreement was consummated. The Company has now determined that at inception there was insufficient risk transfer such that the conditions for reinsurance accounting under SFAS 113 had not been met. Accordingly, the Company has corrected the accounting treatment for these transactions from reinsurance to deposit accounting. For the year ended December 31, 2003, this resulted in a charge to income (loss) before taxes of approximately \$35.0 million.

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We believe that the current carried reserves for our GMDB exposure are adequate, but we continue to monitor and review other reinsurance and financial product solutions to address the risks associated with this business. For further information regarding this accounting adjustments, see Note 3 to our 2004 consolidated financial statements included in Item 8. Financial Information A. Consolidated Statements and Other Financial Information, and Item 5. Operating and Financial Review and Prospects A. Operating Results.

*Impact of aviation and space business:* Our aviation and space business contributes substantially to the profitability of the Specialty Lines segment. Related to this business, we had net premiums written of \$341.6 million and \$365.3 million and a net non-life technical result (defined as net premiums earned minus losses and loss expenses and acquisition costs) of \$134.2 million and \$56.7 million in 2003 and 2002, respectively. There were no large losses, defined as those in excess of \$10.0 million or more of net incurred losses to us, in either 2003 or 2002.

*Impact of property catastrophe losses:* We reported the following large natural catastrophe losses, defined as those in excess of \$10.0 million or more of net incurred losses to us for our proportional and non-proportional property catastrophe business: Typhoon Maemi (\$15.4 million) and the Algerian Earthquake (\$10.6 million) in 2003 and the European floods in 2002 (\$51.1 million).

*Asbestos and environmental exposures:* As of December 31, 2003 and 2002, we had reserves for environmental impairment liability and asbestos-related claims of \$45.8 million and \$44.6 million, respectively. Our survival ratio (calculated as the ratio of reserves held, including IBNR, over claims paid over the average of the last three years) for asbestos and environmental reserves was 13.6 years at December 31, 2003, compared to 13.5 years at December 31, 2002.

During 2003 and 2002, there was no additional development in net reserves for the September 11<sup>th</sup> terrorist attacks (as losses are capped at \$289.2 million by Zurich Financial Services Group ( ZFS ). In 2003 and 2002, the ultimate losses related to Enron declined \$17.2 million and \$5.2 million, respectively.

*Converium Consolidated Acquisition Costs*

Acquisition costs primarily relate to commissions on treaty and individual risk business. Our acquisition costs increased \$185.2 million, or 28.6%, in 2003 versus an increase of \$129.9 million, or 25.1%, in 2002. This increase is mainly related to the increase in net premiums earned. The non-life underwriting expense ratio for the years ended December 31, 2003 and 2002 was 22.2% and 21.1%, respectively.

*Converium Consolidated Operating and Administration Expenses*

Operating and administration expenses increased 13.5% in 2003 and 21.9% in 2002. These increases primarily arose from expenditures to support the growth in operations. Operating and administration expenses were also impacted in 2003 and 2002 by the decrease of the US dollar against the strengthening European currencies. Despite the increase in operating and administration expenses, the non-life administration expense ratio decreased slightly to 4.2% in 2003 as compared to 4.6% in 2002. This was due to continued strong premium growth relative to the growth in expenses.

We fully charge the cost of options to operating expense under the fair value approach of SFAS 123 and recorded compensation expense of \$6.1 million and \$5.8 million for 2003 and 2002, respectively, in connection with our stock option plans.

*Converium Consolidated Interest Expense*

Interest expense for the year ended December 31, 2003 was \$31.0 million compared to \$16.4 million in 2002. Interest expense on our Senior Notes was \$14.2 million in each year. The increase in 2003 was mainly due to \$16.5 million in interest expense on our \$200.0 million 8.25% guaranteed subordinated notes issued in December 2002.

*Converium Consolidated Income Tax (Expense) Benefit*

Our income tax (expense) benefit was \$(32.8) million and \$17.9 million for the years ended December 31, 2003 and 2002, respectively. Our effective tax rate for 2003 was 15.6%, compared to a benefit of 100.0% in 2002. The 2002 consolidated tax benefit reflected a one-time benefit of \$21.3 million as the result of a ruling received from the Swiss tax authorities regarding a tax loss carried forward.

*Converium Consolidated Combined Ratios*

Our combined ratio was 97.5% in 2003 and 106.3% in 2002. The improvement in the combined ratio was largely the result of overall solid results in the Property line of business, as 2003 was absent of any major catastrophe activity.

**Results of Operations by Operating Segment**



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The information in the following section reflects the effects of the Restatement of our financial statements as of and for the years ended December 31, 2004 through 1998, highlighting below the effects for the years ended December 31, 2004, 2003 and 2002 and as at December 31, 2004 and 2003, specifically relating to our business segments. For further details regarding the Restatement see the information provided at the beginning of this section as well as Note 3 to our 2004 consolidated financial statements included in Item 8 Financial Information A. Consolidated Statements and Other Financial Information, of this report.

In 2004, Converium's business was organized around three operating segments: Standard Property & Casualty Reinsurance, Specialty Lines and Life & Health Reinsurance, which are based principally on global lines of business. In addition to the three segments' financial results, the Corporate Center carries certain administration expenses, such as costs of the Board of Directors, the Global Executive Committee, and other global functions. See Item 4.

Information on the Company B. Business Overview for discussion regarding the reorganization of our segment structure in the first quarter of 2005.

During 2004, there were several items that resulted in measurable effects on Converium's financial results. These items include (i) the strengthening of prior years' reserves, (ii) adjustments of premium accruals and associated loss and acquisition costs, (iii) adjustment of retrocessional recoveries to reflect gross loss developments, and (iv) commutations, which collectively resulted in a net impact on the technical result of \$561.5 million. In addition, we established a full valuation allowance against the net deferred income tax balances previously carried at CRNA of \$347.6 million and a valuation allowance against the net deferred tax assets at Converium AG of \$126.1 million, and recorded an impairment of goodwill of \$94.0 million. The following table compares Converium's segment results for the years ended December 31, 2004, 2003, and 2002 and reconciles segment results to (loss) income before taxes:

	<b>Year Ended December 31,</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>
	<b>(\$ millions)</b>		
Segment (loss) income:			
Standard Property & Casualty Reinsurance	\$ 40.1	\$ 187.8	\$ 70.1
Specialty Lines	(252.1)	123.7	(26.8)
Life & Health Reinsurance	16.9	(51.2)	(10.3)
Corporate Center	(38.2)	(34.3)	(30.3)
Total segment (loss) income	(233.3)	226.0	2.7
Other (loss) income	(8.2)	17.5	31.6
Interest expense	(33.1)	(31.0)	(16.4)
Impairment of goodwill	(94.0)		
Amortization of intangible assets	(9.9)	(1.8)	
Restructuring costs	(2.7)		
(Loss) income before taxes	(381.2)	210.7	17.9
Income tax (expense) benefit	(201.3)	(32.8)	17.9
Net (loss) income	\$(582.5)	\$ 177.9	\$ 35.8

**Non-Life**

The table below presents information regarding results of operations of our non-life business for the years ended December 31, 2004, 2003 and 2002. This information is further discussed on a segment basis below.

	<b>Year Ended December 31,</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>
	<b>(\$ millions, except ratios)</b>		

**Revenues:**



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Gross premiums written	\$ 3,532.7	\$ 3,893.9	\$ 3,029.2
Net premiums written	\$ 3,294.8	\$ 3,542.5	\$ 2,920.5
Net premiums earned	\$ 3,447.2	\$ 3,383.7	\$ 2,766.7
Net investment income and net realized capital gains (losses)	329.2	235.3	223.4
Total revenues	3,776.4	3,619.0	2,990.1
<b>Losses and expenses:</b>			
Losses and loss expenses	(3,013.7)	(2,405.7)	(2,231.1)
Acquisition costs	(813.0)	(752.0)	(582.8)
Other operating and administration expenses	(161.7)	(149.8)	(132.9)
Total losses and expenses	(3,988.4)	(3,307.5)	(2,946.8)
Segment (loss) income	\$ (212.0)	\$ 311.5	\$ 43.3

**Ratios:**

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	<b>Year Ended December 31,</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>
	<b>(\$ millions, except ratios)</b>		
Loss ratio	87.4%	71.1%	80.6%
Underwriting expense ratio	23.6%	22.2%	21.1%
Administration expense ratio	4.9%	4.2%	4.6%
Combined ratio	115.9%	97.5%	106.3%

**Standard Property & Casualty Reinsurance**

The table below presents information regarding the results of operations of our Standard Property & Casualty Reinsurance segment for the years ended December 31, 2004, 2003 and 2002.

	<b>Year Ended December 31,</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>
	<b>(\$ millions, except ratios)</b>		
<b>Revenues:</b>			
Gross premiums written	\$ 1,699.5	\$ 1,820.4	\$ 1,395.8
Net premiums written	\$ 1,557.9	\$ 1,681.6	\$ 1,335.6
Net premiums earned	\$ 1,652.8	\$ 1,665.9	\$ 1,282.3
Net investment income and net realized capital gains (losses)	144.0	102.1	98.1
Total revenues	1,796.8	1,768.0	1,380.4
<b>Losses and expenses:</b>			
Losses and loss expenses	(1,268.7)	(1,129.5)	(968.9)
Acquisition costs	(411.8)	(377.5)	(280.3)
Other operating and administration expenses	(76.2)	(73.2)	(61.1)
Total losses and expenses	(1,756.7)	(1,580.0)	(1,310.3)
Segment income	\$ 40.1	\$ 187.8	\$ 70.1
<b>Ratios:</b>			
Loss ratio	76.8%	67.8%	75.6%
Underwriting expense ratio	24.9%	22.7%	21.9%
Administration expense ratio	4.9%	4.4%	4.6%
Combined ratio	106.6%	94.9%	102.1%

**Year Ended December 31, 2004 Compared to Year Ended December 31, 2003****Standard Property & Casualty Reinsurance Segment Income**

Standard Property & Casualty Reinsurance reported segment income of \$40.1 million in 2004 as compared to segment income of \$187.8 million in 2003. The segment income in 2004 was primarily attributable to the following:

Premium volume was impacted by clients exercising their rights of special termination under various reinsurance contracts, which resulted in a reduction of estimated ultimate premium of \$57.6 million in the second half of 2004. In addition to the reductions triggered by special termination clauses, the decrease of the Standard Property & Casualty Reinsurance segment's net premium written was further affected by adjustments of ultimate premium estimates in the amount of \$120.1 million resulting from a change in estimate due to the implementation of enhanced procedures for establishing written premium estimates throughout 2004, as well as additional expenses of \$18.8 million for catastrophe protection.

Hurricanes in the US and the Caribbean, the Japanese typhoons and the tsunami in the Indian Ocean impacted results negatively by \$154.5 million (incl.\$3.7 million for the section Specialty).

The development of prior years reserves of \$95.8 million primarily related to adverse developments of General Third Party Liability (\$109.3 million), motor liability outside the United States (\$91.7 million) and Personal Accident (assumed from non-life insurers) (\$8.1 million), and was partially offset by positive developments related to Property (\$82.1 million) and miscellaneous liability (\$31.2 million) which also included the impact of whole account retrocessions.

Slightly offsetting the results for 2004 was the increase in investment results due to the continued recovery of the global capital markets as well as capital gains realized from the sale of equity securities to adjust our asset allocation to reduce investment portfolio risk during 2004.

*Standard Property & Casualty Reinsurance Premiums*

For the year ended December 31, 2004, gross premiums written decreased 6.6% to \$1,699.5 million, net premiums written decreased 7.4% to \$1,557.9 million and net premiums earned decreased 0.8 % to \$1,652.8 million.

Adjustments of ultimate premium estimates resulted in a decrease in net premiums written and earned in the amount of \$120.1 million; after reflecting for accrued acquisition costs (\$18.1 million) and losses (\$101.1 million), the impact of these adjustments of ultimate premium estimates on the technical result was

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\$0.9 million. Partially offsetting the reduction in gross premiums written resulting from our clients exercising their rights of special termination, was the increase in business from Lloyd's of \$71.9 million for the year ended December 31, 2004.

For the year ended December 31, 2004, the reduction in net premiums written in the Standard Property & Casualty Reinsurance segment by line of business included:

Property, which decreased by 24.4% or \$193.3 million to \$600.2 million, due to cedents in North America exercising special termination clauses as well as a restructuring of a specific treaty; and

Personal accident (non-life), which decreased by 2.3% or \$0.8 million to \$34.5 million.

These decreases were partially offset by:

Motor, which increased by 1.0% or \$4.7 million to \$493.5 million, due to growth in Western Europe despite cedents in North America exercising special termination clauses, as well as a decrease in net premiums written in North America due to the ratings agencies' actions; and

General Third Party Liability, which increased by 18.0% or \$65.7 million to \$429.7 million.

*Standard Property & Casualty Reinsurance Net Investment Income and Net Realized Capital Gains (Losses)*

Standard Property & Casualty Reinsurance reported net investment income and net realized capital gains of \$144.0 million for the year ended December 31, 2004, an increase of \$41.9 million, or 41.0%, compared to net investment income and net realized capital gains of \$102.1 million for the same period in 2003. The investment results were positively impacted due to the continued recovery of the global capital markets as well as capital gains realized from the sale of equity securities to adjust our asset allocation to reduce investment portfolio risk during 2004.

*Standard Property & Casualty Reinsurance Losses and Loss Expenses*

Standard Property & Casualty Reinsurance had losses and loss expenses incurred of \$1,268.7 million in 2004, an increase of \$139.2 million, or 12.3%, over 2003. The non-life loss and loss expense ratio was 76.8% in 2004 as compared to 67.8% in 2003.

The development of prior years' reserves of \$95.8 million primarily related to adverse developments of General Third Party Liability (\$109.3 million), motor liability outside the United States (\$91.7 million) and Personal Accident (assumed from non-life insurers) (\$8.1 million), and was partially offset by positive developments related to Property (\$82.1 million) and miscellaneous liability (\$31.2 million) which also included the impact of whole account retrocessions.

In the latter half of 2004, the Standard Property & Casualty Reinsurance segment agreed upon commutations with primarily North American cedents regarding gross loss reserves of \$125.9 million.

*Standard Property & Casualty Reinsurance Acquisition costs*

Acquisition costs primarily relate to commissions on treaty and individual risk business. Standard Property & Casualty Reinsurance acquisition costs increased \$34.3 million or 9.1% to \$411.8 million. The non-life underwriting expense ratios 24.9% in 2004 compared to 22.7% in 2003.

*Standard Property & Casualty Reinsurance Operating and Administration Expenses*

Operating and administration expenses increased \$3.0 million or 4.1% to \$76.2 million in 2004. The increase primarily arose from costs related to the retention plans that were rolled out in late 2004 and the continued weakening of the US dollar. The non-life administration ratio was 4.9% in 2004 compared to 4.4% in 2003.

*Standard Property & Casualty Reinsurance Combined Ratios*

Standard Property & Casualty Reinsurance's combined ratio was 106.7% in 2004 and 94.9% in 2003. The increase in the combined ratio was primarily driven by the adverse development of prior years' loss reserves as well as losses due to the hurricanes in the US and Caribbean, the Japanese typhoons and the tsunami in the Indian Ocean, which added 14.9 points to the loss ratio.

***Year Ended December 31, 2003 Compared to Year Ended December 31, 2002***

*Standard Property & Casualty Reinsurance Segment Income*

Standard Property & Casualty Reinsurance reported a segment income of \$187.8 million in 2003 compared to a segment income of \$70.1 million in 2002. The increase in segment income was primarily attributable to:



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The non-life loss ratio improved by 7.8 percentage points for the year ended December 31, 2003, versus the same period in 2002. This improvement resulted from overall solid results in the Property line of business, as 2003 was absent any major catastrophe activity.

The investment results and return for 2003 were positively impacted by the recovery of the global capital markets.

*Standard Property & Casualty Reinsurance Premiums*

For the year ended December 31, 2003, gross premiums written increased 30.4% to \$1,820.4 million, net premiums written increased 25.9% to \$1,681.6 million and net premiums earned increased 29.9% to \$1,665.9 million. The increase in gross premiums written resulted from the addition of business from Lloyd's, which resulted in an increase of \$137.9 million for the year ended December 31, 2003.

For the year ended December 31, 2003, net premium written growth in Standard Property & Casualty Reinsurance by line of business included:

Property, increased by 22.8% or \$147.5 million to \$793.5million;

Motor, increased by 38.3% or \$135.3 million to \$488.8 million; and

General Third Party Liability, increased by 20.8% or \$62.7 million to \$364.0 million.

*Standard Property & Casualty Reinsurance Net Investment Income and Net Realized Capital Gains (Losses)*

Standard Property & Casualty Reinsurance reported net investment income and net realized capital gains of \$102.1 million for the year ended December 31, 2003, which was higher by \$4.0 million, or 4.1%, compared to net investment income and net realized capital losses of \$98.1 million for the same period of 2002. The investment results and return for 2003 were positively impacted by the recovery of the global capital markets.

*Standard Property & Casualty Reinsurance Losses and Loss Expenses*

Standard Property & Casualty Reinsurance had losses and loss expenses incurred of \$1,129.5 million in 2003, an increase of \$160.6 million, or 16.6% over 2002. The non-life loss and loss expense ratio was 67.8% in 2003 as compared to 75.6% in 2002. This improvement resulted from overall solid results in the Property line of business, as 2003 was absent any major catastrophe activity.

In 2003, segment income was increased by \$73.1 million from positive developments of prior years' reserves. Net positive development of prior years' loss reserves on Property lines of \$113.5 million (primarily from the 2002 year) was partially offset by net adverse development of the Motor and General Third Party Liability lines of \$40.4 million (primarily from 2001 and prior years). The Standard Property & Casualty Reinsurance segment's book of business is broadly diversified by line of business as well as balanced by region and by the expected duration of its claims obligations.

In 2002, Standard Property & Casualty Reinsurance experienced \$51.1 million (net of reinstatement premiums of \$3.1 million) in losses from the European floods and \$62.2 million in net adverse loss development on prior years' business, primarily from the Motor, General Third Party Liability and Property lines of business.

*Standard Property & Casualty Reinsurance Acquisition costs*

Acquisition costs increased \$97.2 million or 34.7% in 2003. This increase is mainly related to the increase in net premiums earned. The non-life underwriting expense ratio was 22.7% in 2003 as compared to 21.9% in 2002.

*Standard Property & Casualty Reinsurance Operating and Administration Expenses*

Operating and administration expenses increased 19.8% in 2003. The increase primarily arose from expenditures to support the growth in operations. Operating and administration expenses were also impacted in 2003 and 2002 by the decrease of the US dollar against the strengthening European currencies. Despite the increase in operating and administration expenses, the non-life administration expense ratio was 4.4% in 2003, compared to 4.6% in 2002. This was due to continued strong premium growth relative to the growth in expenses.

*Standard Property & Casualty Reinsurance Combined Ratios*

Standard Property & Casualty Reinsurance's combined ratio was 94.9% in 2003 and 102.1% in 2002. The improvement in the combined ratio was largely the result of overall solid results in the Property line of business, as 2003 was absent of any major catastrophe activity.

***Specialty Lines***

The table below presents information regarding results of operations of our Specialty Lines segment for the years ended December 31, 2004, 2003 and 2002.

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2004, 2003 and 2002.

	<b>Year Ended December 31,</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>
	<b>(\$ millions, except ratios)</b>		
<b>Revenues:</b>			
Gross premiums written	\$ 1,833.2	\$ 2,073.5	\$ 1,633.4
Net premiums written	\$ 1,736.9	\$ 1,860.8	\$ 1,584.9
Net premiums earned	\$ 1,794.4	\$ 1,717.8	\$ 1,484.4
Net investment income and net realized capital gains (losses)	185.2	133.2	125.3
Total revenues	1,979.6	1,851.0	1,609.7
<b>Losses and expenses:</b>			
Losses and loss expenses	(1,745.0)	(1,276.2)	(1,262.2)
Acquisition costs	(401.2)	(374.5)	(302.5)
Other operating and administration expenses	(85.5)	(76.6)	(71.8)
Total losses and expenses	(2,231.7)	(1,727.3)	(1,636.5)
Segment (loss) income	\$ (252.1)	\$ 123.7	\$ (26.8)
<b>Ratios:</b>			
Loss ratio	97.2%	74.3%	85.0%
Underwriting expense ratio	22.4%	21.8%	20.4%
Administration expense ratio	4.9%	4.1%	4.5%
Combined ratio	124.5%	100.2%	109.9%

**Year Ended December 31, 2004 Compared to Year Ended December 31, 2003***Specialty Lines Segment (Loss) Income*

Specialty Lines reported a segment loss of \$252.1 million in 2004 compared to segment income of \$123.7 million in 2003. The segment loss in 2004 was primarily attributable to the following:

Premium volume was impacted by clients exercising their rights of special termination under various reinsurance contracts, which resulted in a reduction of estimated ultimate premium of \$50.5 million in the second half of 2004. In addition to the reductions triggered by special termination clauses, the decrease of the Specialty Lines segment net premium written was further affected by adjustments of ultimate premium estimates, net of expenses, in the amount of \$101.0 million resulting from a change in estimate due to the implementation of enhanced procedures for establishing written premium estimates throughout 2004.

The development of prior years reserves of \$469.9 million primarily related to adverse developments of the Professional Liability and other Special Liability lines (\$430.7 million), particularly excess & surplus lines and umbrella, Workers Compensation (\$55.4 million) and Engineering (\$12.9 million). These adverse developments in the Specialty Lines were partially offset by positive developments related to Aviation & Space (\$24.5 million), Agribusiness (\$0.7 million) and Credit & Surety (\$3.8 million).

Slightly offsetting the results for 2004 was the increase in investment results due to the continued recovery of the global capital markets as well as capital gains realized from the sale of equity securities to adjust our asset allocation to reduce investment portfolio risks during 2004.

*Specialty Lines Premiums*

For the year ended December 31, 2004, gross premiums written decreased 11.6% to \$1,833.2 million, net premiums written decreased 6.7% to \$1,736.9 million and net premiums earned increased 4.5% to \$1,794.4 million. Adjustments of ultimate premium estimates resulted in a decrease in net premiums written and earned in the amount of



\$101.0 million; after reflecting for accrued acquisition costs (\$1.7 million) and losses (\$105.3 million), the impact of these adjustments of ultimate premium estimates on the technical result was \$2.6 million. Included in the adjustments were premium estimate adjustments of the business relationship with a Lloyd's syndicate, a major client of ours, which resulted in a decrease in net premiums written and earned in the amount of \$35.1 million. After reflecting for accrued acquisition costs (\$-0.3 million) and losses (\$24.4 million), the impact of this specific premium accrual adjustment on the technical result was \$(-11.1) million.

For the year ended December 31, 2004, the reduction in net premiums written in the Specialty Line segment by line of business included:

Workers' Compensation, which decreased by 27.1% or \$84.4 million to \$226.5 million, due to the result of lower premium accruals in

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2004 related to the 2003 underwriting year based on revised estimated premiums received from a large cedent who reports on a lag, as well as a decrease in run-off premiums from older underwriting years. In addition, there was a reduction of participation on premiums written through the involuntary market with one of our ceding companies;

Credit & Surety, which decreased by 29.2% or \$69.8 million to \$169.6 million, due to cedents in North America exercising special termination clauses, as well as a decrease in net premiums written due to the ratings agencies actions; and

Professional Liability and other Special Liability, which decreased by 5.1% or \$32.7 million to \$611.0 million, due to cedents in North America exercising special termination clauses, as well as a decrease in net premiums written due to the ratings agencies actions.

These decreases were offset by an increase in net premiums written in the Agribusiness line of business, which increased by 41.0% or \$36.9 million to \$126.9 million. This was mainly the result of new business written, as well as return premium received on a specific contract due to favorable technical results. In addition the Aviation & Space line of business increased by 18.4% or \$62.9 million to \$404.5 million, which grew as a result of an increased retention in the business underwritten by GAUM.

*Specialty Lines Net Investment Income and Net Realized Capital Gains (Losses)*

Specialty Lines reported a net investment income and net realized capital gains of \$185.2 million for the year ended December 31, 2004, an increase of \$52.0 million, or 39.0%, compared to net investment income and net realized capital gains of \$133.2 million. The investment results and returns for 2004 were positively impacted by the continued recovery of the global capital markets as well as capital gains realized from the sale of equity securities to adjust our asset allocation to reduce investment portfolio risks during 2004.

*Specialty Lines Losses and Loss Expenses*

Specialty Lines losses and loss expenses increased \$468.8 million, or 36.7%, in 2004. The non-life loss and loss expense ratio was 97.2% in 2004 compared to 74.3% in 2003, an increase of 22.9 percentage points.

The development of prior years reserves of \$469.9 million primarily related to adverse developments of the Professional Liability and other Special Liability lines (\$430.7 million), particularly excess & surplus lines and umbrella, Workers Compensation (\$55.4 million) and Engineering (\$12.9 million). These adverse developments in the Specialty lines were partially offset by positive developments related to Aviation & Space (\$24.5 million), Agribusiness (\$0.7 million) and Credit & Surety (\$3.8 million).

In the latter half of 2004, the Specialty Lines segment agreed upon commutations with primarily North American cedents regarding gross loss reserves of \$401.3 million.

*Specialty Lines Acquisition costs*

Acquisition costs increased \$26.7 million, or 7.1%, in 2004. This increase is mainly related to the increase in net premiums earned. The non-life underwriting expense ratio remained stable at 22.4% in 2004 as compared to 21.8% in 2003.

*Specialty Lines Operating and Administration Expenses*

Operating and administration expenses increased \$8.9 million, or 11.6%, in 2004. The increase primarily arose from costs related to the retention plans that were rolled out in late 2004 and the continued weakening of the US dollar. The non-life administration ratio was 4.9% in 2004 and 4.1% in 2003.

*Specialty Lines Combined Ratios*

Specialty Lines combined ratio was 124.5% in 2004 and 100.2% in 2003. The increase in the combined ratio was largely the result of prior years loss reserve development.

***Year Ended December 31, 2003 Compared to Year Ended December 31, 2002****Specialty Lines Segment Income*

Specialty Lines reported segment income of \$123.7 million in 2003 compared to a segment loss of \$ 26.8 million in 2002. In addition to the positive results for 2003, the cash flow generated by the continuing growth in longer tail lines increased total invested assets. Therefore, a substantial part of this segment's expected profitability will emerge as investment income in future periods. The increase in segment income was primarily attributable to:

The non-life loss ratio improved by 10.7 percentage points for the year ended December 31, 2003, versus the same period in 2002. This was primarily attributable to an improved loss ratio for the Aviation & Space line of business of 28.4 percentage points, which was due to the absence of any major losses in 2003.

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The investment results and return for 2003 were positively impacted by the recovery of the global capital markets. These improvements were somewhat offset by an increase of 1.4 percentage points in the underwriting expense ratio in 2003, from 20.4% in 2002 to 21.8% in 2003.

*Specialty Lines Premiums*

For the year ended December 31, 2003, gross premiums written increased 26.9% to \$2,073.5 million, net premiums written increased 17.4% to \$1,860.8 million and net premiums earned increased 15.7% to \$1,717.8 million. Part of the increase in gross premiums written resulted from the addition of business from Lloyd's of \$161.7 million for the year ended December 31, 2003.

Specialty Lines' growth was spread across most lines and primarily resulted from increased rates, increasing the share of clients' business upon renewing existing business or writing new business.

For the year ended December 31, 2003, net premium written growth in Specialty Lines by line of business included:

Professional Liability and other Special Liability, which increased by 13.4% or \$76.3 million to \$643.7 million, as a result of the improving directors and officers market in the United States and new business written in North America and sourced through the London broker market;

Workers' Compensation, which increased by 40.9% or \$90.3 million to \$310.9 million, as a result of the renewal of a large program in 2003;

Credit & Surety, which increased by 20.2% or \$40.2 million to \$239.4 million; and

Agribusiness, which increased by 309.1% or \$68.0 million to \$90.0 million, reflecting the hardening market that resulted from the exit of several insurers and reinsurers in mid-to-late 2002.

The above increases were offset by a decrease in net premiums written in the Aviation & Space line of business resulting from an increase in ceded premiums for external reinsurance protection, principally associated with Converium's increased participation in the GAUM pool, and softening markets as a result of recent low loss activity.

*Specialty Lines Net Investment Income and Net Realized Capital Gains (Losses)*

Specialty Lines reported net investment income and net realized capital gains of \$133.2 million for the year ended December 31, 2003, an increase of \$7.9 million, or 6.3%, compared to net investment income and net realized capital losses of \$125.3 million for the same period of 2002. The investment results and return for 2003 were positively impacted by the recovery of the global capital markets.

*Specialty Lines Losses and Loss Expenses*

Specialty Lines' losses and loss expenses incurred increased \$14.0 million, or 1.1% in 2003. The non-life loss and loss expense ratio was 74.3% in 2003 as compared to 85.0% in 2002, a decrease of 10.7 percentage points. This decrease was mostly due to lower reserve development in 2003.

In 2003, segment income was decreased by \$9.6 million from net adverse developments of prior years' loss reserves. Adverse development on Workers' Compensation and Professional Liability and other Special Liability lines of \$120.3 million (primarily from 2000 and prior years) was largely offset by net positive development of prior years' loss reserves on Aviation & Space of \$110.7 million (primarily from the 2002 year). As a multi-line reinsurer, there are always likely to be reserve adjustments at the line of business level. The Specialty Lines segment's book of business is broadly diversified by line of business as well as balanced by region and by the expected duration of its claims obligations.

In 2002, Specialty Lines experienced \$86.3 million in net adverse loss development on prior years' business, primarily from the commercial umbrella and medical errors and omissions liability lines of business.

*Specialty Lines Acquisition costs*

Acquisition costs increased \$72.0 million or 23.8% in 2003. This increase is mainly related to the increase in net premiums earned. The non-life underwriting expense ratio was 21.8% in 2003 as compared to 20.4% in 2002.

*Specialty Lines Operating and Administration Expenses*

Operating and administration expenses increased \$4.8 million or 6.7% in 2003. The increase primarily arose from expenditures to support the growth in operations. Operating and administration expenses were also impacted in 2003

and 2002 by the decrease of the US dollar against the hardening European currencies. Despite the increase in operating and administration expenses, the non-life administration expense ratio was 4.1% in 2003, compared to 4.5% in 2002. This was due to continued strong premium growth relative to

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the growth in expenses.

*Specialty Lines Combined Ratios*

Specialty Lines combined ratio was 100.2% in 2003 and 109.9% in 2002. The non-life loss ratio improved by 9.7 percentage points for the year ended December 31, 2003, versus the same period in 2002. This improvement was somewhat offset by an increase of 1.4 percentage points in the underwriting expense ratio in 2003.

*Life & Health Reinsurance*

The table below presents information regarding results of operations of our Life & Health Reinsurance segment for the years ended December 31, 2004, 2003 and 2002.

	<b>Year Ended December 31,</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>
	<b>(\$ millions, except ratios)</b>		
<b>Revenues:</b>			
Gross premiums written	\$ 446.0	\$ 406.5	\$ 343.2
Net premiums written	\$ 431.3	\$ 380.3	\$ 314.7
Net premiums earned	\$ 435.0	\$ 384.1	\$ 310.8
Net investment income and net realized capital gains (losses)	30.0	17.5	18.1
Total revenues	465.0	401.6	328.9
<b>Losses and expenses:</b>			
Losses, loss expenses and life benefits	(328.8)	(354.4)	(260.0)
Acquisition costs	(99.4)	(80.0)	(64.0)
Other operating and administration expenses	(19.9)	(18.4)	(15.2)
Total benefits, losses and expenses	(448.1)	(452.8)	(339.2)
Segment income (loss)	\$ 16.9	\$ (51.2)	\$ (10.3)
<b>Ratios:</b>			
Underwriting expense ratio	22.9%	20.8%	20.6%
Administration expense ratio	4.6%	4.8%	4.8%

**Year Ended December 31, 2004 Compared to Year Ended December 31, 2003***Life & Health Reinsurance Segment Income (Loss)*

The Life & Health Reinsurance reported a segment income of \$16.9 million for the year ended December 31, 2004 as compared to a segment loss of \$51.2 million for the same period in 2003. The technical result for the year ended December 31, 2004 was \$14.1 million as compared to (\$44.9) million for the same period in 2003. Technical result is defined as net premiums earned minus losses, loss expenses and life benefits minus acquisition costs plus technical interest. The increase in 2004 was primarily attributable to the following:

Strong growth in premium volume driven by the expansion of existing reinsurance transactions in Continental Europe and increased shares of current business, which was slightly offset by a decline in premiums due to commutations in the Accident and Health line of business. The termination of the Life & Health Reinsurance segment's Master Retrocession Agreement for its financing contracts, resulting in a repayment of the non-amortized financing of \$36.9 million. The provisions for this termination led to a realization of a profit of \$3.4 million in 2004.

The termination of the Life & Health Reinsurance segment's Master Retrocession Agreement for its financing contracts, resulting in a repayment of the non-amortized financing of \$36.9 million. The provisions for this termination led to a realization of a profit of \$3.4 million in 2004.

The development of our GMDB book during 2004 as compared to 2003. In 2003 net reserves were strengthened by \$55.5 million, while no actions were required in 2004. As a result of the strong performance of the US stock markets, the GMDB's net amount at risk further decreased to \$635.5 million at December 31, 2004 from \$809.7 million at December 31, 2003.

In late 2003, the Company entered into a Guaranteed Minimum Death Benefit ( GMDB ) Stop Loss Reinsurance Agreement ( the GMDB Contract ) with a third party which provided coverage of \$75,000,000 in excess of reserves for losses arising out of GMDB reinsurance contracts bound or issued by the Company prior to January 1, 2003. The GMDB Contract was accounted for as if it had transferred sufficient risk to qualify for reinsurance accounting treatment. However, as a result of a related ceded property catastrophe contract with the same party, and a master profit sharing agreement with the same party linking both of the foregoing contracts, and certain other related transactions, the Company has now determined that the initial risk transfer analysis did not include evaluation of the entire arrangement between the parties and that there are transactions that involved other parties and payments to the third parties. The Company has now determined that at inception there was insufficient risk transfer such that the conditions for reinsurance accounting under SFAS 113 had not been met. Accordingly, the Company has corrected the accounting treatment of the GMDB Contract and the property catastrophe agreement from reinsurance to deposit accounting. Reinsurance accounting has been retained for that portion of the risk that was transferred to a separate third party.

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The Company entered into a Combined Excess of Loss Reinsurance Agreement (the *CEL Agreement*) with another third party, effective October 1, 2001 for a three-month period and subsequently renewed the *CEL Agreement* for calendar years 2002, 2003 and 2004, respectively. In 2003, coverage for *GMDB* liability was added to the *CEL Agreement*. Based upon evidence from the internal review, the Company determined that the initial risk transfer analysis did not include evaluation of the entire arrangement between the parties and that there is a likelihood that a side agreement was consummated. The Company has now determined that at inception there was insufficient risk transfer such that the conditions for reinsurance accounting under *SFAS 113* had not been met. Accordingly, the Company has corrected the accounting treatment for these transactions from reinsurance to deposit accounting. For the year ended December 31, 2003, this resulted in a charge to income (loss) before taxes of approximately \$35.0 million.

The increase was offset by a reduction in premium volume due to clients exercising their rights of special termination under various reinsurance contracts, which resulted in a reduction of estimated ultimate premium of \$6.4 million in the second half of 2004.

*Life & Health Reinsurance Premiums*

For the year ended December 31, 2004, gross premiums written increased 9.7% to \$446.0 million, net premiums written increased 13.4% to \$431.3 million and net premiums earned increased 13.3% to \$435.0 million.

For the year ended December 31, 2004, net premiums written growth in the *Life & Health Reinsurance* segment by line of business included:

Life and Disability reinsurance, which increased by 35.8% or \$61.9 million to \$234.8 million, which grew due to the expansion of existing financing reinsurance transactions in Continental Europe and increased shares of current business.

This increase was offset by a decrease of 5.3% or \$10.9 million in net premiums written to \$196.5 million in the *Accident and Health* line of business due to commutations.

*Life & Health Reinsurance Net Investment Income and Net Realized Capital Gains (Losses)*

*Life & Health Reinsurance* reported net investment income and net realized capital gains of \$30.0 million for the year ended December 31, 2004, which was higher by \$12.5 million, or 71.4%, compared to net investment income and net realized capital losses of \$17.5 million for the same period of 2003. The increase was largely due to the continued recovery of the global capital markets as well as capital gains realized from the sale of equity securities to adjust our asset allocation to reduce investment portfolio risks during 2004.

*Life & Health Reinsurance Losses, Loss Expenses and Life Benefits*

*Life & Health Reinsurance* had losses, loss expenses and life benefits incurred of \$328.8 million, a decrease of \$25.6 million, or 7.2% for the year ended December 31, 2004.

For the year ended December 31, 2004 there were no additional reserving actions required for the *GMDB* book of business. In 2003, the *Life & Health Reinsurance* segment strengthened reserves for this closed block of variable annuity business by \$55.5 million (to net \$91.0 million). As a result of the positive performance of the US stock markets, *GMDB*'s net amount at risk further decreased to \$635.5 million at December 31, 2004 from \$809.7 million at December 31, 2003.

In the latter half of 2004, the *Life & Health Reinsurance* segment agreed upon commutations with primarily North American cedents regarding gross loss reserves of \$18.6 million.

*Life & Health Reinsurance Acquisition costs*

Acquisition costs increased \$19.4 million or 24.3% to \$99.4 million in 2004. This increase was primarily attributable to the expansion of existing financing reinsurance transactions in Continental Europe. The underwriting expense ratio was 22.9% in 2004 as compared to 20.8% in 2003.

*Life & Health Reinsurance Operating and Administration Expenses*

Operating and administration expenses increased \$1.5 million or 8.2% to \$19.9 million in 2004. The administration expense ratio was 4.6% in 2004.

***Year Ended December 31, 2003 Compared to Year Ended December 31, 2002***





**Table of Contents***Life & Health Reinsurance Segment Loss*

Life & Health Reinsurance reported segment loss of \$51.2 million in 2003 compared to a segment loss of \$10.3 million in 2002. The increase in segment loss in 2003 was primarily attributable to the development on a closed block of GMDB business.

The Life & Health Reinsurance segment strengthened reserves on a closed block of variable annuity business by \$55.5 million (to net \$91.0 million) in 2003 and \$15.6 million in 2002. As a result of the strong performance of the US stock markets, the GMDB's net amount at risk further decreased to \$809.7 million and \$1,243.0 million at December 31, 2003 and 2002, respectively

*Life & Health Reinsurance Premiums*

For the year ended December 31, 2003, gross premiums written increased 18.4% to \$406.5 million, net premiums written increased 20.8% to \$380.3 million and net premiums earned increased 23.6% to \$384.1 million.

For the year ended December 31, 2003, net premium written growth in the Life & Health Reinsurance segment by line of business included:

Accident and Health, which increased by 29.6% or \$47.4 million to \$207.4 million. This growth primarily resulted from the further development of this line of business, which Converium began to underwrite in North America in 2001, as well as growth of business written in Continental Europe.

*Life & Health Reinsurance Net Investment Income and Net Realized Capital Gains (Losses)*

Life & Health Reinsurance reported net investment income and net realized capital gains of \$17.5 million for the year ended December 31, 2003, which was lower by \$0.6 million, or 3.3%, compared to net investment income and net realized capital losses of \$18.1 million for the same period of 2002.

*Life & Health Reinsurance Losses, Loss Expenses and Life Benefits*

Life & Health Reinsurance had losses, loss expenses and life benefits incurred of \$354.4 million, an increase of \$94.4 million, or 36.3%, in 2003. This increase mainly reflects the growth in the underlying business and the strengthening of reserves on a closed block of variable annuity business by \$55.5 million (to \$91.0 million) and \$15.6 million in 2003 and 2002, respectively.

*Life & Health Reinsurance Acquisition costs*

Acquisition costs increased \$16.0 million, or 25.0%, in 2003. This increase is mainly related to the increase in net premiums earned. The underwriting expense ratio was 20.8% in 2003 as compared to 20.6% in 2002.

*Life & Health Reinsurance Operating and Administration Expenses*

Operating and administration expenses increased \$3.2 million, or 21.1%, in 2003. The increase primarily arose from expenditures to support the growth in operations. Operating and administration expenses were also impacted in 2003 and 2002 by the decrease of the US dollar against the strengthening European currencies. Despite the increase in operating and administration expenses, the life administration expense ratio was 4.8% in 2003 and in 2002. This was due to continued strong premium growth going along with the growth in expenses.

**Corporate Center**

The table below presents information regarding results of operations of our Corporate Center for the years ended December 31, 2004, 2003 and 2002. The Corporate Center carries certain administration expenses, such as costs of the Board of Directors, the Global Executive Committee, and other global functions.

	<b>Year Ended December 31,</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
		(\$ millions)	
Other operating and administration expenses	\$ (38.2)	\$ (34.3)	\$ (30.3)
Segment loss	\$ (38.2)	\$ (34.3)	\$ (30.3)

***Year Ended December 31, 2004 Compared to Year Ended December 31, 2003***

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### *Corporate Center Operating and Administration Expenses*

The Corporate Center reported operating and administration expenses of \$38.2 million in 2004, compared to \$34.3 million in 2003. The increases primarily arose from consulting costs relating to the 2004 rights offering, expenditures to support the growth in operations and the continued weakening of the US dollar.

### ***Year Ended December 31, 2003 Compared to Year Ended December 31, 2002***

### *Corporate Center Operating and Administration Expenses*

The Corporate Center reported operating and administration expenses of \$34.3 million in 2003, compared to \$30.3 million in 2002. The increases primarily arose from expenditures to support the growth in operations, and the weakening of the US dollar.

## **B. LIQUIDITY AND CAPITAL RESOURCES**

We operate a treasury function responsible for managing our banking relationships, capital raising activities, including equity and debt issues, our overall cash, cash pooling and liquidity positions and the payment of internal and external dividends. Individual subsidiaries are responsible for managing local cash and liquidity positions, including the repayment of debt.

In the event of local short-term cash requirements, internal loans are available, subject to certain required approvals based on amount.

### **Liquidity requirements**

Our principal cash requirements are for paying reinsurance and insurance claims, which could periodically include significant cash requirements related to catastrophic events, for servicing debt, investment in businesses, capital expenditures, servicing retrocessional arrangements and payment of dividends to shareholders.

As of December 31, 2004, we reported total investments including cash and cash equivalents, excluding the Funds Withheld Asset, of \$7,162.0 million, of which (i) \$1,060.8 million were pledged as collateral relating to outstanding letters of credit of \$955.7 million of the \$1.6 billion Syndicated Letter of Credit Facility, (ii) \$704.7 million were pledged as collateral relating to other irrevocable letters of credit, (iii) \$109.3 million were pledged primarily as deposits with French cedents, and (iv) \$562.1 million were pledged to support Converium-internal reinsurance transactions.

Interest on debt and short-term borrowings was \$33.1 million for 2004, \$31.0 million in 2003 and \$16.4 million in 2002. We had no scheduled debt repayments in 2004, 2003 or 2002. The carrying value of our outstanding debt was \$391.1 million at December 31, 2004, \$393.1 million at December 31, 2003 and \$392.9 million at December 31, 2002.

### **Liquidity sources**

Our principal liquidity sources consist of premiums, fees, investment income, proceeds from the sale and maturity of investment securities and borrowings. Our business units pay reinsurance and insurance claims and benefits and operating expenses predominantly from their own cash resources. Most of our debt is funded by our businesses from their own cash resources. We have generated combined net cash inflows from operating activities over the last three years. As a reinsurer, our future cash flows are inherently difficult to predict. We do not expect the Funds Withheld Asset to have a material impact on our liquidity, as we will not be required to access our own liquidity sources for claims under the Quota Share Retrocession Agreement. Under the Quota Share Retrocession Agreement, Zurich Insurance Company ( ZIC ) and Zurich International Bermuda Ltd. ( ZIB ) have the right to prepay to us, in whole or in part, the balance of the Funds Withheld Asset. For more detail on cash flows see Capital requirements .

### **Asset/Liability Management**

The use of asset/liability management, or ALM, is a key tool in managing the liquidity of our business. Through the use of ALM, we manage our long-term market risks and we seek to understand and manage the dynamic interactions between our assets and liabilities. We utilize and continually develop firm-wide ALM processes and models to manage our aggregate financial risks and the correlation between financial risks and underwriting risks. The primary goal of our ALM procedures is to match, in terms of timing and currency, anticipated claims payments to our cedents with investment income and repayments generated by our investment assets and to improve our understanding of the correlation between financial risks and underwriting risks. Because fixed income securities generally provide more stable investment income than equity securities, the preponderance of our investments are in fixed income

instruments. Although our ALM techniques are based on theoretical and empirical models and can lead to incorrect assumptions, we believe that the careful use of these ALM techniques leads to a better understanding of the risks inherent in our assets and liabilities and is therefore an important element of our risk and investment management process. Our principal ALM techniques include cash flow analysis, scenario testing and stochastic modeling. See

Item 4. Information on the Company B. Business Overview - Investments for additional information on our invested asset base.

**Table of Contents****Dividends from Subsidiaries**

As a holding company, Converium Holding AG relies in large part on cash dividends and other permitted payments from its subsidiaries to make principal and interest payments on debt, to pay other outstanding obligations and to pay dividends to shareholders. Converium is subject to legal restrictions on the amount of dividends it may pay to its shareholders. Similarly, the company laws of countries in which our entities operate may restrict the amount of dividends payable by such entities to their parent companies. In addition, the ability of our entities to pay dividends may be restricted or influenced by minimum capital and solvency requirements that are imposed by regulators in the countries in which the entities operate. Dividend payments from Converium AG to Converium Holding AG may be subject to regulatory review, but for 2005 this is not considered a relevant issue as no payment is expected to be made; any dividend payments from CRNA to CHNA requires approval of the regulator of the state of Connecticut (see Note 23 to our 2004 consolidated financial statements).

**Debt Outstanding**

As of December 31, 2004, we had total debt outstanding with a principal amount of \$400.0 million and a carrying amount of \$391.1 million. We had no scheduled debt repayments in 2004, 2003, or 2002.

In December 2002, Converium Finance S.A. issued \$200.0 million principal amount of non-convertible, unsecured, guaranteed subordinated notes, which are irrevocably and unconditionally guaranteed on a subordinated basis by each of Converium Holding AG and Converium AG. These notes mature in full on December 23, 2032 and bear interest at the rate of 8.25%. In 2001, in connection with the Transactions, for more information see Item 4. Information on the Company A. History and Development of Company , Converium Holdings (North America) Inc. assumed \$200.0 million principal amount of non-convertible, unsecured, unsubordinated senior notes issued originally during October 1993. These notes mature in full on October 15, 2023 and bear interest at the rate of 7.125%. In 2004, the interest payments regarding the 7.125% non-convertible, unsecured, unsubordinated senior notes of CRNA were funded (i) by corresponding dividends of CRNA with regards to the coupon payment of April 15, 2004; and (ii) by Converium AG with regards to the coupon payment of October 15, 2004, due to the dividend restrictions of CRNA (see Note 23 to our 2004 consolidated financial statements).

In November 2004, Converium AG signed a \$1.6 billion, three-year syndicated letter of credit facility from various banks. The facility provides Converium's non-US operating companies with a \$1.5 billion capacity for issuing letters of credit and a \$100.0 million liquidity reserve. It replaces the existing \$900.0 million letter of credit facility, which was signed in July 2003. As of December 31, 2004, Converium had outstanding letters of credit of \$955.7 million under the facility. Investments of \$1,060.8 million were pledged as collateral related to the Syndicated Letter of Credit Facility. Converium must maintain the following financial covenants in order to avoid default under the agreement: (i) consolidated total borrowings do not at any time exceed 35% of consolidated tangible net worth, which is defined as total shareholders' equity less goodwill; and (ii) consolidated tangible net worth must remain greater than \$1,237.5 million at all times. Converium pays commission fees on outstanding letters of credit, which are distributed to the facility banks and can only be impacted by a change in the company's credit rating. The maximum amount of this fee is .50%.

In addition to the syndicated letter of credit facility, other irrevocable letters of credit of \$639.1 million were outstanding at December 31, 2004 to secure certain assumed reinsurance contracts. Investments of \$704.7 million were pledged as collateral related to certain of these letters of credit.

**Capital Requirements**

As of December 31, 2004, we had total shareholders' equity of \$1,734.8 million (\$11.86 per share) compared to \$1,928.0 million (\$48.47 per share) as of December 31, 2003. This decrease is mainly comprised of the 2004 net loss of \$582.5 million, a reduction in net unrealized gains on investments, net of taxes of \$40.4 million, and \$47.8 million of dividends to shareholders paid in 2004. This decrease was offset by the 2004 rights offering whereby an additional 106,683,245 shares of Converium Holding AG were issued, generating additional shareholders' equity of \$399.1 million, net of underwriting issuance costs of \$29.7 million.

<b>Year Ended December 31,</b>		
<b>2004</b>	<b>2003</b>	<b>2002</b>

	(Restated)	(Restated) (\$ millions)	(Restated)
<b>Cash Flows</b>			
<b>Cash flow data:</b>			
Cash provided by operating activities	\$ 358.7	\$ 917.2	\$ 868.6
Net cash used in investing activities	(315.4)	(1,314.2)	(1,110.2)
Net cash provided by financing activities	347.8	252.9	189.5
Effect of exchange rate changes on cash and cash equivalents	9.0	23.7	(16.9)
Change in cash and cash equivalents	400.1	120.4	69.0
Cash and cash equivalents, beginning of period	280.8	401.2	470.2
Cash and cash equivalents, end of period	\$ 680.9	\$ 280.8	\$ 401.2

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Cash and cash equivalents increased by \$400.1 million to \$680.9 million as of December 31, 2004 from \$280.8 million as of December 31, 2003. Our cash position increased due to the sale of equity securities and was offset by commutations executed in 2004 that resulted in a cash outflow of \$526.8 million. The cash balance was maintained in anticipation of pending cash outflows in connection with commutations.

Our cash flows from operating activities result principally from premiums, collections on losses recoverable and investment income, net of paid losses, acquisition costs. Our cash provided by operating activities was \$358.7 million for the year ended December 31, 2004 compared to \$917.2 million and \$868.6 million for the years ended December 31, 2003 and 2002, respectively. This represented a decrease of \$558.5 million, or 60.9% in 2004 versus an increase of \$48.6 million, or 5.6% in 2003. This decrease was due to increased claims payment activity, particularly related to the cash outflows for commutations that have taken place during the latter part of 2004, as well as amounts paid related to the retroactive stop-loss retrocession cover from National Indemnity Company. In addition there was a reduction of new business growth as a result of active cycle management. The increase in 2003 was driven by improved operating performance, including strong premium growth. The 2002 cash flow reflects a \$136.7 million reimbursement of reinsurance recoverables in dispute received during 2002.

Cash provided by financing activities in 2004 was primarily due to the proceeds, net of related expenses, received from the 2004 rights offering, offset by the payment of dividends. In 2003, cash used in financing activities was primarily driven by the payment of dividends to shareholders. Cash provided by financing activities in 2002 was due to the issuance of our guaranteed subordinated notes.

The charges in 2004 for reserve strengthening, deferred income taxes, and impairment of goodwill do not have a current impact on cash provided by operating activities. However, future periods may be affected by higher claim payments on those reserves and the run-off of the North American operations, offset by lower tax payments (due to net operating loss carry forwards).

As a reinsurer, our future cash flows are inherently difficult to predict. This uncertainty is particularly pronounced with respect to some coverage we provide, such as long-tail lines, where claims information emerges over a relatively long period of time, and property catastrophe coverage, which generally produces losses of low frequency but high severity. Accordingly, it is not possible to predict our future cash flows from operating activities with precision. As a consequence, our cash flows from operating activities may fluctuate, perhaps significantly, from quarter to quarter and from year to year. For example, our cash flows were adversely affected by the events of September 11th. We expect that a significant portion of the cash outflows relating to these events will occur over a period of several years, mainly because of the time involved to determine with accuracy the losses of the primary insurance companies and reporting these losses to reinsurers. Accordingly, our cash flow and investment income will be impacted gradually over the next few years.

We believe that our capital, liquidity and borrowing ability are sufficient to support our business and meet our present liquidity requirements.

**New Accounting Standards**

We have or will be required to adopt the following new standards in the future:

*SFAS 123 (revised 2004), Share-Based Payment*

In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment*. This Statement is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation* and supersedes APB Opinion No. 25,

*Accounting for Stock Issued to Employees*. This Statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. For public entities, this Statement is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. As Converium has already adopted the standards of SFAS No.123, this statement is not expected to have a material impact on the financial condition or results of operations.

*SFAS 132 (revised 2003), Employers Disclosures about Pensions and Other Postretirement Benefits - an amendment of FASB Statements No. 87, 88, and 106*

In December 2003, the FASB issued SFAS No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits* an amendment of FASB Statements No. 87, 88 and 106 . This Statement retains the disclosures required by SFAS No. 132, *Employers' Disclosures about Pensions and Other Post-retirement Benefits* an amendment of FASB Statements No. 87, 88, and 106 , which standardized the disclosure requirements for pensions and other post-retirement benefits to the extent practicable and requires additional information on changes in the benefit obligations and fair values of plan assets.



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Additional disclosures have been added in response to concerns expressed by users of financial statements; those disclosures include information describing the types of plan assets, investment strategy, measurement date(s), plan obligations, cash flows, and components of net periodic benefit cost recognized during interim periods. This statement is effective for financial statements with fiscal years ending after December 15, 2003, with interim-period disclosures effective for interim periods beginning after December 15, 2003. This statement has been adopted for all of Converium's plans. See Note 15 to our 2004 consolidated financial statements for additional information.

In December 2003, *the Medicare Prescription Drug, Improvements and Modernization Act of 2003 (The Medicare Act)* was approved in the United States. The Medicare Act expands prescription drug coverage under Medicare. As CRNA's retiree medical coverage is very limited, the Medicare Act did not have a material impact on the financial condition or results of operations.

*FASB Interpretation 46, Consolidation of Variable Interest Entities – an interpretation of ARB No. 51*

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities – an interpretation of ARB No. 51 (FIN 46)*, which requires an enterprise to assess whether consolidation of an entity is appropriate based upon its interests in a variable interest entity (the VIE). A VIE is an entity in which the equity investors do not have the characteristics of a controlling financial interest, or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 was effective immediately for new VIEs established or purchased subsequent to January 31, 2003. The adoption of FIN 46 did not have a material impact on Converium's consolidated financial condition or results of operations, as there were no VIEs identified which required consolidation.

In December 2003, the FASB issued a revised version of FIN 46 (*FIN 46(R)*), which incorporates a number of modifications and changes made to the original version. FIN 46(R) replaces the previously issued FIN 46 and, subject to certain special provisions, became effective no later than the end of the first reporting period that ends after December 15, 2003 for entities considered to be special-purpose entities and no later than the end of the first reporting period that ends after March 15, 2004 for all other VIEs. Early adoption was permitted. Converium adopted FIN 46(R) at December 31, 2003. The adoption of FIN 46(R) did not result in the consolidation of any VIEs.

We have performed an evaluation of the catastrophic protection counter-party agreement with Helix 04 Limited, issued in 2004, to establish whether we are the primary beneficiary of the VIE which issued the securities.

Management has concluded that we are not the primary beneficiary of the VIE (see Note 12 to our 2004 consolidated financial statements).

*EITF Issue 03-1, The Meaning of Other-than-temporary Impairment and Its Application to Certain Investments (EITF 03-1)*

On September 30, 2004, the FASB delayed the effective date for the measurement and recognition guidance included in paragraphs 10 through 20 of EITF Issue 03-1. The adoption of EITF 03-1 did not have a material impact on the financial condition or results of operations.

**C. RESEARCH AND DEVELOPMENT, PATENTS, LICENSES**

Not Applicable

**D. TREND INFORMATION**

See A. Operating Results

**E. OFF-BALANCE SHEET ARRANGEMENTS**

Not Applicable

**F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS**

Contractual Obligations	Total	Payment due by period			More than 5 years
		Less than 1 year	1-3 years	3-5 years	
(\$ thousands)					
Long-Term Debt Obligations - Principal	\$ 400,000				\$ 400,000
Long-Term Debt Obligations - Interest	732,750	30,750	61,500	61,500	579,000

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Operating Lease Obligations	85,600	13,300	26,500	24,900	20,900
Losses and loss expenses, gross (1)	8,908,300	2,077,814	2,666,051	1,435,101	2,729,333
Total	\$10,126,650	\$2,121,864	\$2,754,051	\$1,521,501	\$3,729,233

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- (1) The Company's unpaid losses and loss expenses represent management's best estimate of the cost to settle the ultimate liabilities based on information available as of December 31, 2004 and are not fixed amounts payable pursuant to contractual commitments. The timing and amounts of actual claims payments related to these reserves might vary significantly based on many factors including large individual losses as well as general market conditions.

For further detail on our long-term debt principal and interest payments, see Note 13 to our 2004 consolidated financial statements. For further detail on our operating lease payments, see Note 22 to our 2004 consolidated financial statements.

**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****A. DIRECTORS AND SENIOR MANAGEMENT****Board of Directors**

Converium's global strategy is set by its Board of Directors, the body with ultimate responsibility for Converium's policies and management, including investment, treasury, solvency and liquidity policies. The Board of Directors consists of no less than four and no more than nine members. Currently it comprises eight. With wide-ranging experience in the reinsurance sector, this group represents an appropriate mix of skills for the effective governance of a major international reinsurance organization. The Board of Directors oversees Converium's affairs and offers regular directives to the Global Executive Committee. All Board members are non-executive, independent of management, and, other than Terry G. Clarke, have never held an executive position within Converium or any of its subsidiaries. No interlocking directorships exist between the Board members of Converium and Board members of any other company. The composition of the Board of Directors includes a cross section by geography and professional experience, as well as a reasonable age distribution. The members of the Board of Directors are elected for a term of office of not more than three years, after which they become eligible for re-election. In the case of an election of a substitute, the new Board member finishes the term of office of the predecessor. The Board of Directors is headed by the Chairman or, following him, the Vice-Chairman. It meets as often as circumstances require, but at least four times per year. In 2004 the Board of Directors met six times physically and held 17 further meetings by way of conference calls. Meetings generally last one day, with Committee meetings preceding Board meetings. Board agendas are set by the Chairman. At each of its meetings the Board of Directors must be informed, through formal reports of the Chief Executive Officer ( CEO ) and the members of the Global Executive Committee, about the course of the business and the activity of the business segments and the Global Executive Committee. In case of important business incidents, the Board of Directors must be informed without delay. Furthermore, each Board member receives appropriate information with respect to any matter to be considered by the Board of Directors. For financial reporting purposes, this includes an appropriate quarterly reporting package comprising financial and investment information including consolidated financial accounts of the Company and its business segments.

The CEO, the Chief Financial Officer ( CFO ) and the General Legal Counsel attend Board meetings on a regular basis. Members of the Global Executive Committee and other executives attend meetings at the Chairman's invitation. In addition, Board members meet at regularly scheduled sessions without management. Furthermore, teleconferences and meetings between Board members and members of the Global Executive Committee are held to resolve formal matters or to exchange information. The Board of Directors performs an annual self-evaluation and sets its objectives based upon this evaluation. Annually it reviews the performance of the CEO and approves his objectives. The Head of Internal Audit reports directly to the Audit Committee, and the Board meets regularly with Converium's independent group auditors and as may be necessary with outside consultants to review the business, better understand all laws and policies, and support the management in meeting requirements and expectations.

The members of our Board of Directors, their dates of birth, nationality, terms of office and committee memberships as of December 31, 2004 are as follows:

<b>Name</b>	<b>Date of Birth</b>	<b>Nationality</b>	<b>Term Expires in</b>
Peter C. Colombo (Chairman)(1)(2)(4)	June 15, 1934	Swiss	2007

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Georg Mehl (Vice-Chairman)(1)(2)(4)	August 11, 1939	German	2006
Terry G. Clarke (1)(2)(3)(5)	October 31, 1941	British	2007
Derrell J. Hendrix (3)	August 9, 1953	American	2007
George G. C. Parker (3)(4)	March 29, 1939	American	2006
Anton K. Schnyder (1)(2)	November 29, 1952	Swiss	2006
Markus Dennler (6)	January 24, 1956	Swiss	2008
Rudolf Kellenberger (6)	April 30, 1945	Swiss	2008

(1) Member of the Nomination Committee

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- (2) Member of the Remuneration Committee
- (3) Member of the Finance Committee
- (4) Member of the Audit Committee
- (5) In connection with his appointment as Chief Executive Officer in February 2005, Mr. Clarke has resigned from all committees of the Board.
- (6) Member elected to the Board of Directors at the Company's Annual General Meeting on April 12, 2005 in Zug, Switzerland, for a three-year term of office.

Jürgen Förterer resigned from the Board of Directors on September 21, 2004.

**Curricula Vitae of the Board members**

**Peter C. Colombo** started his professional career with Gerling Group in Cologne in 1959 and was Principal Officer of Gerling Global Reinsurance Company in London from 1963 to 1965. From 1965 through 1998 he worked for Union Reinsurance Company in Zurich with various responsibilities. Mr Colombo served as President and CEO of Union Reinsurance Company from 1989, with appointments as Managing Director in 1996 and as Deputy Chairman of the Board of Directors in 1997. He serves as Deputy Chairman of the Board of Directors of Generali (Schweiz) Holding AG, Zurich, Switzerland, and as a member of the Advisory Board of the Barmenia Group in Wuppertal, Germany. Mr Colombo holds a Bachelor of Social Sciences degree (economics and politics) from the University of Birmingham, England.

**Georg Mehl** served as a consultant for the Wüstenrot & Württembergische Group, Stuttgart, Germany, since 2001 and in addition as a member of the Executive Management Board of Hanse-Marine-Versicherung-AG, Hamburg, Germany, until the end of 2003. Previously, he served in a series of positions with the Württembergische Group, most recently as CEO of Wüstenrot & Württembergische AG. Georg Mehl had worked for almost 30 years for the Allianz Group, Hamburg and Munich, Germany. He is Chairman of the Board of Directors of Sektkellerei Schloss Wachenheim AG, Trier, Germany. Mr Mehl also serves as a member of the supervisory or advisory boards of several German financial services and commercial institutions. He graduated from the German Insurance Academy in Cologne, Germany, in 1961.

**Terry G. Clarke** was a consulting actuary with the Tillinghast Business of Towers Perrin and a Principal of Towers Perrin. He joined their London office in 1986 and was Managing Principal of Tillinghast's North America practice prior to retiring at the end of 2001. From 1978 until 1986 Mr Clarke was a member of the Norwich Winterthur Group senior management team. Prior to 1978, he held various positions in the Norwich Union Group. Mr Clarke qualified as a Fellow of the Institute of Actuaries in 1967, and is co-author of several papers on non-life insurance subjects as well as a tutor and examiner. He has been a member of a number of professional committees both in the United Kingdom and in Continental Europe. Mr Clarke was appointed as Managing Director on September 10, 2004 and since February 23, 2005 has served as Chief Executive Officer of the Company at which point he resigned from all committees of the Board. Mr Clarke served as Chief Executive Officer from February 23, 2005 through January 31, 2006.

**Derrell J. Hendrix** is the Manager and Chief Executive Officer of The RISConsulting Group LLC, a Boston-based risk management consulting company which he founded in 1996 together with Hannover Rückversicherungs AG (through its US subsidiary, Insurance Corporation of Hannover). Mr Hendrix served from 1995 to 1996 as Managing Director and Head of Derivatives at the Bank of Boston. He began his career at Citibank in 1977, and from 1980 through 1995 he held various department head positions in Citicorp's banking and investment banking operations in Toronto, Hong Kong and London. Mr Hendrix holds a Master of Arts from the Fletcher School of Law and Diplomacy, Medford, Massachusetts, and a Bachelor of Arts from Amherst College, Amherst, Massachusetts.

**George G. C. Parker** is the Dean Witter Distinguished Professor of Finance and Management, Graduate School of Business, Stanford University, Stanford, California. From 1993 to 2001, Professor Parker was Senior Associate Dean for Academic Affairs and Director of the MBA Program at Stanford. Professor Parker served as Director for

Executive Education, Stanford Business School, between 1979 and 1988, and from 1973 to 1979 he was Director of the Stanford Sloan Program for Executives. He is currently a board member of California Casualty Group of Insurance Companies, San Mateo, California; Continental Airlines Inc., Houston, Texas, and various other US-based companies. He graduated from Haverford College, Pennsylvania, with a degree in economics in 1960, and received an MBA in finance in 1962 and a doctorate in finance in 1967, both from Stanford.

**Anton K. Schnyder** served as a full professor for private law at the University of Basel, Switzerland, from 1993 to 2003. As of summer term 2003 he has been appointed to Zurich University as a full professor for private and international as well as comparative law. In 1994 he was appointed Vice President and in 2004 President of the Federal Appeal Commission supervising private insurance. From 1987 to 1993, Professor Schnyder served as a corporate legal adviser to the Zurich Insurance Group, and from 1992 as a member of the executive staff. He graduated from Zurich University, Switzerland, in 1978 and received his doctorate degree in 1981, being awarded the Professor-Walther-Hug-Prize for his doctoral thesis. Additionally, he holds a Master of Laws from the University of California, Berkeley. For many years he has been a special adviser to the governments of Switzerland and Liechtenstein for insurance legislation. Currently Professor Schnyder is Chairman of the working party for a revision of the Swiss Insurance Contract Law.

**Markus Dennler** served in a series of positions within the Credit Suisse Group, most recently as a member of the Executive Board of

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Credit Suisse Financial Services and as Chief Executive Officer responsible for the global operational Life & Pensions business. Prior, he was a member of the Corporate Executive Board of Winterthur Insurance (subsidiary of Credit Suisse Group). Mr Dennler studied law at the University of Zurich and graduated in 1982. He received his doctorate degree in 1984 and was admitted to the Bar of Zurich in 1986. Further he attended the International Bankers School in New York and the Harvard Business School (AMP) in Boston. Currently he is a member of the Board of Directors of Swissquote Group and a councilor of the British-Swiss Chamber of Commerce.

**Rudolf Kellenberger** served as Deputy Chief Executive Officer of Swiss Re from April 1, 2000 until the end of 2004. In this function he dedicated much of his time to tasks within the Corporate Center, in particular in the field of Management Development and E-Business Development. Previously, he served in a series of positions within Swiss Re's Executive Board assuming responsibilities for the Northern European reinsurance sector and Special Lines and, as of July 1998, taking on the leadership of Swiss Re's then newly founded Europe division. Mr Kellenberger studied civil engineering at the Federal Institute of Technology (ETH), Zurich, graduating in 1970. He is a member of the Board of Directors of Swiss Life.

The business address for each member of our Board of Directors is Converium Holding AG, Dammstrasse 19, CH-6301 Zug, Switzerland.

**Global Executive Committee**

The Board of Directors has delegated the management of Converium to the Global Executive Committee. The Global Executive Committee comprises an executive management team currently with seven members. It is responsible for implementing Converium's global strategy, ensuring effective collaboration between each subsidiary, and business segment, and reviewing progress against financial and operating plans as approved by the Board of Directors.

At December 31, 2004 the members of our Global Executive Committee, their dates of birth, nationality and positions held are as follows:

<b>Name</b>	<b>Date of Birth</b>	<b>Nationality</b>	<b>Position Held</b>
Inga K. Beale (1)	May 15, 1963	British	Chief Executive Officer
Terry G. Clarke (2)	October 31, 1941	British	Chief Executive Officer
Dirk Lohmann (2)	November 8, 1958	German	Chief Executive Officer
Frank Schaar	April 16, 1960	German	Executive Vice President for Standard Property & Casualty Reinsurance
Benjamin Gentsch	April 21, 1960	Swiss	Executive Vice President for Specialty Lines
Christoph Ludemann	January 12, 1956	German	Executive Vice President for Life & Health Reinsurance
Hans Peter Boller	October 25, 1962	German	Chief Risk Officer
Andreas Zdrenyk (3)	June 5, 1959	Swiss	Interim Chief Financial Officer
Martin Kauer	January 20, 1959	Swiss	Chief Financial Officer
Christian Felderer	January 5, 1954	Swiss	General Legal Counsel

(1) Appointed Chief Executive Officer of the Company as of February 1, 2006.

(2) On February 23, 2005, the Board of Directors appointed Terry G. Clarke as Chief Executive Officer and replaced Dirk Lohmann with immediate effect.

(3) Appointed interim Chief Financial Officer of the Company as of February 28, 2005.

Gary Prestia resigned as Chief Technical Officer effective September 10, 2004. Dirk Lohmann took over the responsibilities of the Chief Technical Officer in the interim. On November 4, 2004 Martin Kauer announced his resignation as Chief Financial Officer. The Board appointed Andreas Zdrenyk as interim Chief Financial Officer of Converium following Martin Kauer's agreed departure on February 28, 2005. Andreas Zdrenyk serves as Converium's Global Chief Information Officer. A search and recruitment process for Mr Kauer's replacement is under way. On

February 23, 2005 the Board of Directors appointed Terry G. Clarke as Chief Executive Officer and replaced Dirk Lohmann with immediate effect. On February 1, 2006 Inga K. Beale assumed the position of Chief Executive Officer. Mr Clarke continues to be a member of the Board of Directors.

**Dirk Lohmann** was the Chief Executive Officer of Converium until leaving the Company on February 23, 2005. He joined Zurich Financial Services in September 1997 as Chief Executive Officer of its reinsurance operations in Zurich and of its German operating subsidiary, Zürich Rückversicherung (Köln) AG. In July 1998, Mr Lohmann was appointed as a member of the Group Executive Board of Zurich Financial Services, serving as the Chief Executive Officer of its global reinsurance operations. Before joining Zurich Financial Services, he held various management positions at Hannover Re between 1980 and 1997, most recently as a member of the Executive Board of Management. He is a non-executive director of GAUM and a director and chairman of MDU, both located in London, United Kingdom. Mr Lohmann received a Bachelor of Arts degree in economics and political science from the University of Michigan, Ann Arbor.

**Frank Schaar** is the Executive Vice President for Standard Property & Casualty Reinsurance. He joined Zürich Rückversicherung (Köln) AG as Chief Executive Officer in 2000. Previously he was employed by Hannover Re for 17 years through 1999, most recently



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serving as a Managing Director and a member of the extended board in charge of Asia, Australia and Africa. From 1982 until 1997, Mr Schaar served in various capacities, most recently as Senior Vice President with responsibility for Germany. Mr Schaar holds a degree in insurance economics and worked as a lecturer in reinsurance at the Institute for Professional Development of the Insurance Association in Hannover for ten years.

**Benjamin Gentsch** is the Executive Vice President for Specialty Lines. In 1998, he joined Zurich Re as the Chief Underwriting Officer Overseas where he was given the task of strengthening the company's position in the Asian, Australian, African and Latin American markets. In addition, he took charge of the Global Aviation reinsurance department and built up the Professional Risk and Global Marine reinsurance departments. In September 2002, Mr Gentsch was appointed Chief Executive Officer of Converium Zurich. Between 1986 and 1998, he held various positions at Union Reinsurance Company, Zurich, where from 1990 he was responsible for treaty reinsurance business in Asia and Australia. He is an alternate director of GAUM. Mr Gentsch holds a degree in business administration of the University of St. Gallen, with a focus on risk management and insurance.

**Christoph Ludemann** is the Executive Vice President for Life & Health Reinsurance. He joined Converium in September 2002, bringing to the company 20 years' experience in the reinsurance market. From 1990 until 2002 Mr Ludemann was responsible for General Cologne Re's European and Latin American life and health markets, and from 1995 until 2002 he was also a member of the Executive Board of Management of General Cologne Re of Vienna. Between 1983 and 1990, he worked as General Cologne Re's Marketing Manager for the Netherlands, Scandinavia and Austria. Mr Ludemann has a degree in mathematics and insurance economics from the University of Cologne.

**Hans Peter Boller** is the Chief Risk Officer and an Executive Vice President of Converium. He is responsible for risk management, corporate compliance, pricing, reserving, Asset and Liability Management (ALM) and natural hazard modeling. In the first quarter of 2005, he additionally assumed responsibility for group retrocession and corporate compliance. He joined the company in 1999 as the Chief Actuary for Zurich Re, Zurich. Prior to 1999, he was a consultant with Tillinghast-Towers Perrin. Mr Boller is a fellow of the German Actuarial Society (DAV) and the Swiss Actuarial Society (SAV) as well as a member of the International Actuarial Association (IAA). He serves as Chairman of the Reinsurance Subcommittee of the IAA and was a member of the Risk-Based Capital Solvency Structure Working Party of the IAA, advising the supranational regulatory bodies on actuarial matters. He also serves on the Swiss Solvency Board advising the Swiss Federal Office of Private Insurance. Mr Boller holds a Master's degree in economics and engineering and a doctorate in actuarial science from the University of Karlsruhe.

**Martin Kauer** was the Chief Financial Officer and an Executive Vice President of Converium until leaving the Company on February 28, 2005. He served as Chief Financial Officer of Zurich Financial Services' global reinsurance operations from July 1998. From 1996 to 1998 Mr Kauer managed the demutualization of Rentenanstalt/Swiss Life, where he was also responsible for Strategic Planning and Controlling. Previously, he worked for Union Bank of Switzerland as an investment banker. Mr Kauer holds a degree in economics from the University of Zurich.

**Christian Felderer** is the General Legal Counsel and an Executive Vice President of Converium. He joined Zurich Re in 1997 and has 20 years' experience in the insurance and reinsurance industry, most recently as Senior Legal Counsel for Zurich Re and General Counsel for Converium. Between 1990 and 1997 Mr Felderer had various management responsibilities within the Zurich Group's International Division, including the establishment and management of the Captives and Financial Risk Management department and management of the Claims organization of the International Division. From 1986 to 1990 he was Corporate Legal Counsel in the General Counsel's Office of the Zurich Insurance Group, and from 1983 to 1986 he was an underwriter in the Casualty department of the International Division. Mr Felderer has a law degree from the University of Zurich and is admitted to the Bar of the Canton of Zurich.

**Andreas Zdrenyk** is Chief Information Officer of Converium and has been appointed interim Chief Financial Officer of the Company as of February 28, 2005. He joined Zurich Re in 1998 and has gained in-depth insight into the Company's operations in various functions such as Chief Financial Officer of Converium Zurich and Zurich Re Zurich, respectively, and Head of Internal Audit & Consulting. Prior to joining Zurich Re Mr Zdrenyk spent a total of 16 years with the Winterthur Swiss Insurance Group, six years of which as regional Head of Internal Audit North America based in the United States. Mr Zdrenyk, a Swiss citizen, holds a Master's of Business Administration degree from Cox School of Business (Dallas, USA) and a Master's of Information Systems/Information Technology degree

from the Swiss Association of Commerce (Zurich, Switzerland).

**Inga K. Beale** assumed the position of Chief Executive Office of Converium as of February 1, 2006. She joined the Prudential Assurance Company in London in 1982 as an underwriter specializing in reinsurance. In 1992 she joined GE Insurance Solutions where she headed up the UK underwriting team. In 2001, Inga took on the role of Global Underwriting Audit Leader in Kansas City. She became Global Underwriting CoE Leader in 2002 and in 2003 assumed responsibility for Property & Casualty business throughout Continental Europe, Middle East and Africa. In 2004 she was appointed President and Chairman of the Board of Management of GE Frankona Re in Munich. In 1987 she became an Associate of the Chartered Insurance Institute. She attended Newbury College UK, where in 1981 she qualified in business studies, majoring in economics, mathematics and accountancy.

The standard notice period for termination of members of the Global Executive Committee is six months, with the exception of the Chief Executive Officer who has a notice period of twelve months, reflecting the traditional practice of Swiss-based companies. However,

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there are certain exceptions to this standard, reflecting prevailing local practices in the jurisdictions where the executives are currently employed.

The business address for each current member of our Global Executive Committee is Dammstrasse 19, CH-6301 Zug, Switzerland.

**B. COMPENSATION****Compensation of Directors**

Directors' fees have been determined to ensure that we can attract and retain high caliber individuals appropriate to serve a global reinsurance organization. We also grant equity-based compensation to our directors.

**Board remuneration**

In 2003 the Board of Directors reviewed its overall compensation structure in consideration of its increased workload and emphasis on enlarged Committee work and more complex corporate governance rules. Since then the level of compensation remained unchanged. For the office term 2004/2005, basic cash compensation for an ordinary Board member, set at \$80,593, includes compensation for membership of one Committee. Board members are entitled to receive equity compensation granted at the end of the respective period for which it is due, which shall comprise Converium shares equal to a value of \$20,148 with a restriction period of three years, and share options equal to a value of \$20,148 calculated on the Black-Scholes formula on the basis of Converium's share price at the beginning of the period. The Chairman is entitled to an increase of 50% and the Vice Chairman to one of 25% of the individual elements of the compensation package. The following compensation was agreed for membership of a second and third Committee:

\$3,224 for membership of a second Committee

\$2,418 for membership of a third and any subsequent Committee and additionally,

\$4,030 if the member holds one or more chairmanships in the Committees.

The remuneration of the Board of Directors is not performance-related.

The table below illustrates the compensation paid to each Board member in 2004. Cash compensation paid at the date of each Ordinary General Meeting comprises 50% of the cash compensation due for the ending annual period and 50% for the commencing annual period.

<b>Board Member</b>	<b>Cash Compensation</b>	<b>Shares allocated in 2004</b>	<b>Shares held at December 31, 2004 (1)</b>	<b>Options allocated in 2004 (2)</b>	<b>Options held at December 31, 2004 (3)</b>
Peter C. Colombo	\$ 130,556	641	3,495	2,172	6,375
Georg Mehl	110,408	534	2,158	1,810	5,172
Terry G. Clarke(4)	128,944	427	1,563	1,448	3,993
Jürgen Förterer(5)	75,698	1,698	2,834	1,448	
Derrell J. Hendrix	80,590	427	427	1,448	4,249
George G.C. Parker	87,843	427	727(6)	1,448	4,249
Anton K. Schnyder	83,814	427	427	1,448	4,249

(1) Includes shares personally bought.

(2) Options vest immediately, have a term of 10.5 years and an exercise price to equal fair market value at the beginning of the period for which they were granted.

(3)

An adjustment to the exercise price of all options outstanding prior to the 2004 rights offering will be made in early 2005 in order to account for the dilution of the value of the options as a result of the 2004 rights offering. The reduction in exercise price maintains the same Black-Scholes value of the option before and after the 2004 rights offering and does not reflect any other decrease in the share price.

- (4) Includes \$38,683 for additional professional services as a Board member and does not include Mr Clarke's compensation as Managing Director of £50,000 per month plus reimbursement of customary expenses.
- (5) Resigned as Board member as of September 21, 2004 and includes pro rata equity compensation for the office term 2004/2005. Options held by Mr Förterer expired on December 29, 2004 due to this resignation.
- (6) 427 shares and 600 ADSs.

Until the end of 2004 Converium had retained The RISConsulting Group LLC, of which Mr Hendrix is co-owner and chief executive officer, for certain consulting services. For 2004 Converium paid total fees of \$250,000 to RISConsulting Group LLC. Mr Hendrix is also a manager and owner of approximately 57% of the outstanding share capital of RISC Ventures LLC, a Delaware-based limited liability company created to manage and operate companies engaged in commercializing technologies and intellectual properties developed by The RISConsulting Group LLC and its affiliates. In April 2004, Converium AG invested \$2.0 million in RISC Ventures LLC for an approximate 17.5% ownership interest in that entity.

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In 2004 neither Converium nor any of its subsidiaries granted loans, advance payments or credit lines to Board members, senior management or parties closely related to them. As of the end of December 2004 no such loans, advance payments or credit lines are outstanding. No shares and options are held by closely linked parties of the members of the Board.

### **Compensation of Senior Management**

#### *Managing Director remuneration*

Terry G. Clarke received for his services as Managing Director a remuneration of £50,000 per month plus reimbursement for customary expenses. For 2004, Converium paid Terry G. Clarke GBP 190,909 (\$349,822) related to this role. In February 2005, Terry G. Clarke assumed the role of Chief Executive Officer of Converium and at the same time the function of Managing Director was cancelled.

#### *Global Executive Committee remuneration*

The Remuneration Committee sets compensation levels for members of the Global Executive Committee and proposes to the Board the remuneration of the Chief Executive Officer.

Compensation for each member of the Global Executive Committee consists of a base salary and an incentive component based on Converium's and the individual's performance. The incentive component may vary highly from year to year depending on the achievement of the incentive award targets set annually by the Board of Directors. The Remuneration Committee determines the awards paid out to the Global Executive Committee.

The performance-based incentive component consists of the annual incentive plan (AIP) and the long-term incentive plan (LTIP). A minimum of 25% of the performance-based compensation paid under the AIP is paid in the Form of Converium shares. The LTIP is part of Converium's executive share ownership program and designed to align the interests of management closely with those of shareholders as well as to encourage stock ownership. 50% of the award paid out under the LTIP is delivered in Converium shares and the other 50% of the award is paid out in non-qualified options.

Total aggregate compensation of all officers of the Global Executive Committee in 2004 was \$6.7 million. This total includes base salary and cash awards made under short- and long-term incentive plans paid during 2004, and the estimated value of other compensation-related items. This sum also includes the compensation of Gary Prestia who resigned on September 16, 2004. No severance payment other than the contractual salary and bonus entitlements were made to Gary Prestia.

Richard E. Smith, a former member of the Global Executive Committee, was available as consultant to Converium until December 31, 2004 in exchange for additional compensation of \$1.5 million paid in early 2004. As of December 31, 2004, Converium has no other former members of the Global Executive Committee available as consultants to Converium.

Global Executive Committee members held shares and options at the end of December 2004. Some were awarded under Converium's AIP and LTIP, some converted to Converium shares and options from employee participation plans of Converium's former parent, Zurich Financial Services, and others bought in conjunction with the Initial Public Offering or otherwise. No options are held by closely linked parties. Global Executive Committee members participate in local pension plans. More information about Converium's employee participation and pension plans is contained in Notes 14 and 15 to our 2004 consolidated financial statements.

### **Employee Incentive and Benefit Plans**

An important component of our compensation program is the provision of additional employee benefits designed to encourage our employees to pursue our annual and longer-term objectives. These incentive plans are designed to attract, retain and motivate executives and staff to achieve performance-related targets and align the interests of our employees with those of our shareholders.

Accordingly, we have established incentive programs where benefits are linked to both corporate, financial and business as well as individual performance targets. Additionally, our long-term incentive plans include equity participation and stock option plans or their equivalent. These plans took effect at the time of the Formation Transactions. Their terms are summarized below.

#### *Share Plan*

Converium has adopted a standard stock option plan for our non-US employees, a standard stock purchase plan for our non-US employees, and an omnibus share plan for our US employees. These arrangements, which we refer to collectively as the Share Plan, establish the framework by which we grant awards to selected executives, employees and consultants of Converium and its subsidiaries. In addition, our subsidiaries are able to establish so-called sub-plans under the Share Plan in order to address local law and competitive practice concerns. However, we intend that the terms of these sub-plans will be substantially the same as the Share Plan.

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The shares required under the plans are purchased in the open market.

Awards are granted at the discretion of our Remuneration Committee. Generally, the size of a participant's award is based on the level of responsibility and position, market conditions and the extent of the executive or employee's prior participation in the Converium plans described above.

New options granted have an exercise price equal to the market value of the shares or ADSs on date of grant, vest 25% immediately on the grant date and 25% each year thereafter and will have a 10.5 year term. For 2001 and 2002, most restricted shares granted vest in their entirety after six years, subject to acceleration after year three based on the achievement of certain performance objectives. Beginning in 2003, most restricted shares granted vest ratably over three years. Shares also vest upon retirement.

In connection with these plans, we incurred approximately \$9.6 million of incentive compensation expense in 2004. An adjustment to the exercise price of all options outstanding prior to the 2004 rights offering will be made in early 2005 in order to account for the dilution of the value of the options as a result of the 2004 rights offering. The reduction in exercise price maintains the same Black-Scholes value of the option before and after the 2004 rights offering and does not reflect any other decrease in the share price. The re-pricing of options will not have a material impact on the financial condition or results of operations.

*Grants to Global Executive Committee*

Global Executive Committee members held shares and options at the end of December 2004. Some were awarded under Converium's AIP and LTIP, some converted to Converium shares and options from employee participation plans of Converium's former parent, Zurich Financial Services, and others bought in conjunction with the Initial Public Offering or otherwise. No options are held by closely linked parties.

	<b>Shares held at December 31, 2004 (2)</b>	<b>Options granted in 2004 (3)</b>	<b>Options held at December 31, 2004</b>	<b>Options vested of options held at December 31, 2004</b>
<b>Global Executive Committee member</b>	<b>Shares granted in 2004 (1)</b>			
Dirk Lohmann	96,566	105,994	176,688	432,755
Frank Schaar	27,176	10,049	53,617	129,998
Benjamin Gentsch	28,610	36,006	53,239	99,672
Martin Kauer	25,104		56,537	138,196
Gary Prestia(4)	3,903		9,103	
Hans Peter Boller	21,361	14,051	42,402	79,161
Christian Felderer	16,014	4,024	32,980	45,328
Christoph Ludemann	19,086	2,683	41,932	46,981

As a result of the 2004 rights offering this table is not comparable to the similar table issued for 2003 and does not allow any conclusion in respect of potential share sales by Global Executive Committee members.

- (1) Shares granted in 2004 include shares awarded under the AIP and LTIP, which are subjected to various vesting schedules, and shares purchased through the employee stock purchase plan.
- (2) Includes only vested shares (includes shares held by closely linked parties). A majority of shares granted in 2004 vest ratably over three years. Thus certain shares granted in 2004 or prior are not indicated to be held by Global Executive Committee members at December 31, 2004.
- (3) Options have an exercise price equal to the market value of the shares or ADSs on date of grant, vest 25% immediately on the grant date and 25% each year thereafter, and have a 10.5-year term.

(4) Resigned on September 16, 2004.

As of the date of the original 20-F filing, none of the members of Global Executive Committee beneficially owns more than 1% of our shares.

*Annual Incentive Plan*

We have also established annual incentive plans, whose primary purpose is to provide direct annual financial incentive to employees who achieve corporate performance goals established under our annual operating plan. Our subsidiaries are able to establish separate



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plans to address local law and competitive practice concerns, but we intend that the terms will be substantially the same and refer to these plans collectively as the Annual Incentive Plan. Employees are eligible for target awards under the Annual Incentive Plan ranging from 5% to 100% of base salary. The size of the target award is determined by the employee's position and competitive data for similar positions at peer companies. We set performance goals for participating employees and, in keeping with our performance-based philosophy, the resulting awards decrease or increase substantially if our actual corporate performance fails to meet or exceeds target levels. The awards may range from below or above the target amounts. The performance goals include both financial and non-financial measures. Participants in our Annual Incentive Plan are permitted to defer a portion of their bonus into restricted shares or units under our Annual Incentive Deferral Plan. Unless otherwise determined by Converium, employees who determine to do so will receive a 25% premium, paid in restricted shares or bookkeeping units representing shares, on the amount deferred that will vest in their entirety in three years. We have reserved 400,000 shares for issuance of restricted shares under this plan.

*Employee Stock Purchase Plan*

Converium adopted an Employee Stock Purchase Plan (the ESPP) on January 1, 2002. The ESPP has two offering periods beginning January 1 and July 1 of each year. Substantially all employees meeting specified service requirements are eligible to participate in the ESPP. Participants may contribute between 1% and 15% of base salary towards the purchase of Converium Holding AG shares, up to certain limits. Employees who enroll in the ESPP purchase Converium Holding AG shares at 85% of the lower of the stock's fair market value on the first or last day of the offering period.

*Employee retention plan*

In September 2004, Converium adopted a retention plan for certain of its key employees in order to ensure the successful continuation of business operations at Converium AG and Converium Rückversicherung (Deutschland) AG and the orderly run-off of its North American operations. The retention bonus is paid to the eligible employees in cash in two or three equal installments in amounts up to the equivalent of such employees' base salary. The last installment becomes due on January 31, 2006. The estimated cost of the program is approximately \$31.5 million, which will be expensed over the period October 1, 2004 through January 31, 2006. For the year ended December 31, 2004, \$15.7 million has been expensed based on the terms of this plan. In addition, severance amounts of \$6.0 million will be required to be paid to certain CRNA employees in the event of a change of control or certain other events.

*Long Term Incentive Plan ( LTIP )*

The LTIP is designed to align the interests of management closely with those of shareholders, and to encourage share ownership. LTIP awards are made to senior employees, and are awarded in a combination of 50% Converium shares and 50% options to purchase Converium shares. Shares vest ratably over three years. Options are issued with an exercise price equal to the market value of the shares or ADSs on the grant date. 25% of the options vest immediately on the grant date, and 25% vest each year thereafter or upon retirement. The options expire 10.5 years after the date of grant.

Effective in 2005, CRNA has established a long-term incentive plan for its senior employees needed for the run-off. The CRNA LTIP is based on CRNA's performance against target plan statutory surplus levels over a 5-year period, 2005 through 2009. Awards are payable to participants in cash, in early 2010, after performance can be determined.

*Executive IPO Option Plan*

In connection with the Transactions, Converium granted certain executives options to purchase shares in Converium Holding AG (the Executive IPO Option Plan). Under the Executive IPO Option Plan, 420,000 options to purchase shares in Converium Holding AG were awarded. The exercise prices were equal to the market value of the shares or ADSs on the grant date. Executive IPO Options are now fully vested and expire 10.5 years after the date of grant. For further information on our share-based incentive plans, see Note 16 to our 2004 consolidated financial statements.

**C. BOARD PRACTICES****Board Committees**

The Board of Directors has four Committees, which meet in conjunction with or prior to Board meetings, as necessary, and regularly report and submit proposals to the Board of Directors. Each Committee has a Chairman who directs the meetings according to a set agenda, and a secretary, currently the General Legal Counsel.



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The Nomination Committee comprises at least three Board members and currently comprises four. It appoints and dismisses the Head of Internal Audit and outside directors of Converium companies, unless such appointment or dismissal is required by regulatory law or order, in which case such appointment or dismissal lies in the responsibility of the CEO. The Committee proposes to the Board of Directors the appointment of Board members and the members of its Committees and their Chairmen, the Chairman and Vice Chairman of the Board of Directors and the members of the Global Executive Committee. It defines and implements procedures for the annual self-evaluation of the Board of Directors and the Committees' performance; for the annual statement of independence of the Board of Directors and disclosure of any conflict of interests and any agreements concluded with Converium or any of its subsidiaries; and for the orientation program for new Board members. Standing invitees are the CEO and the Chief Human Resources Officer. In 2004 the Nomination Committee held four meetings.

***The Remuneration Committee***

The Remuneration Committee comprises at least three Board members and currently comprises four. It sets the compensation levels for the Global Executive Committee (except the CEO) and the Head of Internal Audit, and proposes to the Board of Directors the overall remuneration for the CEO, for each of the members of the Board of Directors and the Managing Director, as well as the principles of compensation, of incentive schemes, and bonus payments to employees. Standing invitees are the CEO and the Chief Human Resources Officer. In 2004 the Remuneration Committee held five meetings.

***The Finance Committee***

The Finance Committee comprises at least three Board members and currently comprises three. It approves external providers of asset management services and capital increases in subsidiaries between \$5 million and \$20 million. It submits to the Board for its approval the accounting standards framework for Converium, the annual budget and financial plans, investment and treasury policy, solvency and liquidity planning, strategic asset allocation, tax planning, the allocation of expenses to be charged to the Corporate Center, capital increases and the use of contingent or authorized capital, year-end results and dividend policy, as well as exchange listings and de-listings. Standing invitees are the CEO, the CFO and the Chief Investment Officer. In 2004 the Finance Committee held four meetings.

***The Audit Committee***

The Audit Committee comprises the Chairman of the Board of Directors and the Chairmen of the Finance, Nomination and Remuneration Committees. In connection with his appointment to the position of Managing Director, Terry G. Clarke resigned from the Audit Committee and also resigned as the Chairman of the Nomination Committee. The Audit Committee currently only comprises three members because the Chairman of the Remuneration and Nomination Committee is the same person. Only independent and financial literate directors are eligible to serve on the Audit Committee. In order to qualify as independent, a member may not accept any consulting, advisory or compensatory fee from the Company. In addition, an Audit Committee member may not be a person affiliated with the Company or any of its subsidiaries. The Audit Committee reviews and approves the quarterly financial statements, except year-end results; approves and supervises the implementation of Converium's Audit Charter, including the review of internal control systems and Converium's risk management and auditing processes; reviews and assesses significant accounting and reporting issues; oversees external and internal auditors and the external and internal audit process; assesses the accuracy of the annual financial statements and determines that appropriate accounting principles have been applied; and liaises with Converium's Risk Management functions to identify Converium's areas of greatest risk and to assess management's role in mitigating the risks. Standing invitees are the CEO, the Managing Director, the Head of Internal Audit and the external auditor. In 2004 the Audit Committee held six meetings.

The Audit Committee is supported in its supervisory task by Internal Audit, which reports directly to the Audit Committee.

Internal Audit is committed to the Standards for Professional Practice of Internal Auditing set out by the Institute of Internal Auditors. The goals of the Internal Audit department, which were formally approved by the Audit Committee, are as follows:

- to evaluate the reliability and controls of the financial and risk reporting systems processes and to provide reasonable assurance that material errors and irregularities will be detected on a timely basis;

to evaluate the integrity of financial information;

to evaluate compliance with policies, plans, procedures, regulations, laws and contracts;

to safeguard Converium's assets;

to evaluate and promote efficient use of resources; and

to coordinate and manage, on behalf of the Audit Committee, the relationships with the public accounting firms working for Converium.

The Internal Audit department currently consists of nine persons and covers all operations of Converium worldwide. Internal Audit has unrestricted access to all relevant information and documents.

The areas of responsibility between the Board of Directors, the Managing Director and the Global Executive Committee are defined in

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the Organizational By-laws of Converium Holding AG, which are available on the internet at [www.converium.com](http://www.converium.com). The Board of Directors has determined that a member of our Audit Committee, George G.C. Parker, is an audit committee financial expert and is independent under the rules of the New York Stock Exchange.

**Indemnification of Officers and Directors**

We maintain customary directors and officers insurance for our directors and officers.

In addition, we have entered into agreements with each of our directors pursuant to which we have agreed to indemnify each such director for legal expenses incurred in conjunction with his or her professional liability to shareholders, bondholders, creditors or others caused by actions or omissions by such person in his or her capacity as a director, except where such professional liability was caused by the intent or negligence of such director and provided that (i) such indemnification is in our best interest considering the facts and circumstances and (ii) such legal expenses are not covered by our existing Directors and Officers Liability Insurance or are otherwise reimbursable to such director by the plaintiff.

**D. EMPLOYEES**

As of December 31, 2004, Converium employed 771 people globally, including 369 at our offices in Switzerland, 138 at our offices in the United States, 169 at our offices in Germany, 21 in other European countries, 33 in the Asia-Pacific region and 41 in other regions.

A relatively small number of our employees are represented by unions. We have not experienced any material work stoppages in recent years and we believe that our relations with our employees are excellent.

The following is the distribution of the persons employed.

	<b>As of May 31, 2005*</b>	<b>2004</b>	<b>As of December 31, 2003</b>	<b>2002</b>
Number of employees	676	771	847	813
Breakdown by geographic location				
Switzerland	331	369	332	274
United States	105	138	231	237
Germany	165	169	160	148
Asia-Pacific region	29	33	31	29
Other regions	46	62	59	52
Breakdown by main category of activity				
Underwriting	215	257	290	274
Finance	180	212	200	176
Actuarial	64	67	77	69
Other	217	235	246	221

\* As a result of ratings downgrades and the placement of CRNA into orderly run-off, during 2005 we are in the process of downsizing our organization to adjust our cost base to the reduced volume of business. The reduction in headcount is reflected above.

**E. SHARE OWNERSHIP**

As of the date of this annual report, none of the members of our Board of Directors or Global Executive Committee beneficially owns more than 1% of our shares. In addition, none of the members of our Board of Directors or Global Executive Committee have an ownership interest in a company that is a major client or broker of Converium. For an explanation of shares and options, see Item 6. Directors, Senior Management and Employees B. Compensation .

**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****A. MAJOR SHAREHOLDERS**

As of May 31, 2005, 75,642,207 shares were registered in our share register. These shares were owned by 8,104 shareholders, of which 7,429 were private individuals holding 11.27% of total outstanding shares, 207 were foundations and pension funds holding 5.52% of total outstanding shares and 468 were other legal entities holding

34.78% of total outstanding shares.

As of May 31, 2005, 26 holders with registered addresses in the United States, including nominees with registered addresses in the

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United States, held 15,153,604 of our registered shares and 3,907 holders with registered addresses in the United States, including nominees with registered addresses in the United States, held 10,856,842 ADSs. These holdings represented 13.70% of the total number of shares outstanding as of May 31, 2005. Brokers and other nominees hold certain of our registered shares and ADSs. In addition, some holders of our registered shares have not or may not register their holdings. Consequently, the above figures may not state the actual number of US beneficial holders or the number of registered shares or ADSs beneficially held by persons in the United States.

As of the date of this annual report, and in accordance with the notification requirements as set by the SWX Swiss Stock Exchange, the following are direct or indirect owners of 5% or more of our outstanding shares:

Odey Asset Management LLP, London, United Kingdom: 11.2% (date of notification March 4, 2005). Odey Asset Management LLP acts as the investment manager for several funds.

Dodge & Cox, San Francisco, California, United States: 5.04% (date of notification June 22, 2005). Dodge & Cox provides investment management to institutions and individuals through separately managed portfolios and mutual funds.

Our major shareholders hold the same voting rights as all other shareholders.

**B. RELATED PARTY TRANSACTIONS**

There were no unpaid loans, including guarantee commitments, granted to the Converium directors and members of the Converium Global Executive Committee as of December 31, 2004.

*GAUM*

In 2003, Converium finalized an agreement to acquire a 25% stake in GAUM, a leading international commercial and general aviation underwriting agency, as a part of its strategy to strengthen its long-term position in the Aviation & Space line of business. At that same time, Converium as a shareholder provided a loan to GAUM in the amount of £12.6 million (\$19.8 million). In addition, Converium entered into a pool members agreement under which it became a member of the aviation and aerospace pools run by GAUM and its subsidiary, Associated Aviation Underwriters Inc.

In February 2004, Converium AG finalized a Sale and Purchase Agreement with Royal and Sun Alliance ( RSA ) to acquire a further 5.1% stake in GAUM, which increased its overall stake to 30.1%. Included within the Sale and Purchase Agreement is a requirement for Converium AG to replace an existing loan from RSA in the amount of £2.5 million (\$4.5 million). For the 2004 underwriting year, Converium has committed 27.25% of the overall pool s capacity of the aviation risks managed by GAUM, compared to 25% for the 2003 underwriting year. Gross premiums assumed through the pools managed by GAUM were \$289.0 million, \$266.4 million and \$64.4 million for 2004, 2003 and 2002, respectively.

See Item 3. Key information D. Risk factors Ratings changes and Notes 8 and 18 to our 2004 consolidated financial statements for additional information on GAUM.

*MDU*

Converium entered into a strategic alliance with the MDU that resulted in a 49.9% participation in the Medical Defence Union Services Ltd ( MDUSL ). MDUSL distributes medical malpractice insurance policies to the members of the MDU. As a result of the initial FSA approval in respect of general liability business, insurance policies underwritten by Converium Insurance (UK) Ltd were issued to members of MDU beginning July 1, 2003. These insurance policies replaced policies formerly issued in the United Kingdom by Zurich Financial Service s entities, the majority of which were reinsured by Converium. Gross premiums written from MDU were \$170.9 million, \$137.3 million and \$140.0 million for 2004, 2003 and 2002, respectively.

The MDU Shareholders Agreement provides that if Converium s credit rating is lowered by more than seven points, from its initial A+ rating, by a recognized credit ratings agency, MDU may serve it with a Termination Notice. Within sixty days after service of such termination notice, MDU has the right to purchase Converium s 49.9% shareholding in MDU Services Ltd. at a price to be mutually agreed upon by the parties, or to be determined by a valuation expert.

The recent ratings downgrades have not triggered the termination provisions of the MDU Shareholders Agreement. See Notes 9 and 19 to our 2004 consolidated financial statements for additional information on MDU.

*SATEC*

Converium has a 48% participation in SATEC, a leading global space-underwriting agency based in Venice, Italy. Additionally, in 2002 Converium entered into a usufruct agreement with each of the two other owners of SATEC regarding some of their participation rights. Gross premiums assumed through the pool managed by SATEC were \$10.2 million, \$5.9 million and \$5.0 million for 2004, 2003 and 2002, respectively. Profit distributions paid from SATEC to Converium with regards to the participation and the usufruct were \$0.9 million, \$0.8 million and nil for 2004, 2003 and 2002, respectively. In 2004, we have recorded an impairment charge with regard to the usufruct agreement in the amount of \$2.4 million.



**Table of Contents***RISC Ventures*

Until the end of 2004 Converium has retained The RISConsulting Group LLC for certain consulting services, of which Derrell J. Hendrix, a member of the Converium AG Board of Directors, is Manager and Chief Executive Officer. In addition, Derrell J. Hendrix is a manager and owner of approximately 57% of the outstanding share capital of RISC Ventures LLC, a Delaware-based limited liability company created to manage and operate companies engaged in commercializing technologies and intellectual properties developed by The RISConsulting Group LLC and its affiliates. In April 2004, Converium AG invested \$2.0 million in RISC Ventures LLC for an approximate 17.5% ownership interest in the entity. For 2004, Converium paid total fees of \$250,000 to The RISConsulting Group LLC.

*Managing Director*

In order to enhance the effectiveness of strategic and operational decision-making and greater collaboration between the Board of Directors and the Global Executive Committee, Converium established the position of Managing Director. On September 10, 2004, Terry G. Clarke was appointed as Converium's new Managing Director. The Managing Director serves on the Board and has oversight over the day-to-day management of Converium's business. The Managing Director attends all meetings of the Global Executive Committee and has veto power over decisions taken by the Global Executive Committee. In addition to the Managing Director's regular compensation as a member of the Board of Directors, Terry G. Clarke received a remuneration of GBP50,000 (\$91,620) per month plus reimbursement for customary expenses. For 2004, Converium paid Terry G. Clarke GBP190,909 (\$349,822) related to this role. In February 2005, Terry G. Clarke assumed the role of Chief Executive Officer of Converium and at the same time the role of Managing Director was cancelled.

**C. INTERESTS OF EXPERTS AND COUNSEL**

Not applicable.

**ITEM 8. FINANCIAL INFORMATION****A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION****Financial Statements**

See our 2004 consolidated financial statements beginning on page F-1.

**Legal Proceedings**

Converium Holding AG and its subsidiaries are continuously involved in legal proceedings, claims and litigation arising, for the most part, in the ordinary course of its business operations as a reinsurer. The outcome of such current legal proceedings, claims and litigation could have a material effect on operating results or cash flows when resolved in a future period. However, in the opinion of management, these matters are not material to Converium's financial position, with the exception of the matters described below:

***Superior National Matters***

On January 6 and January 7, 2005, CRNA and CINA, respectively, entered into a Settlement Agreement and Mutual Release (the "Settlement Agreement") with the California Insurance Commissioner (the "Commissioner") relating to the January 16, 2002 complaint that the Commissioner filed against a subsidiary of ZFS, Centre Insurance Company ("CIC") and affiliates, as well as CRNA and CINA (see Note 27 to our 2004 consolidated financial statements). The Commissioner had initiated this action in Superior Court of the State of California, County of Los Angeles, on behalf of the Superior National Insurance Companies in Liquidation ("SNICL").

The complaint alleged several counts, including voidable preferences and fraudulent transfers, the recovery of transfers totaling \$202.9 million, damages for breach of contract in the amount of \$59.8 million, additional damages in an amount to be proved at trial, and punitive damages. The overwhelming bulk of the damages sought appeared to arise out of CIC transactions, not CRNA or CINA transactions. As part of the transactions which effectively spun-off CRNA and CINA from ZFS, ZFS agreed to indemnify CRNA and CINA for liabilities arising out of or related to the assets not assumed by or transferred to CRNA and CINA in the separation from ZFS. The principal claim brought against CRNA appeared to arise from CRNA's commutation of certain reinsurance obligations. In that connection, however, while the complaint did in fact reference the commutation, the payment involved was a commutation payment made by CRNA, not to CRNA. As best as could be discerned, the liquidator was apparently claiming that the amount paid by CRNA was inadequate consideration for the reinsurance obligations commuted and thus this commutation constituted a fraudulent transfer. All the claims, though, were never well defined and no discovery was

ever undertaken to better elucidate them.

Neither CRNA nor CINA shall pay any amounts whatsoever in exchange for the full and final discharge of liabilities, as set forth in the Settlement Agreement, that the Commissioner has granted to both companies. Instead, CIC shall be making the full payment that will provide the complete release to CRNA and CINA, as well as all other parties in the complaint. At a hearing on February 17, 2005, the

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Settlement Agreement was approved by the court presiding over the liquidation of the estates of SNICL. On April 18, 2005 the settlement was deemed final and on or about May 18, 2005 payments required of parties under the Settlement Agreement (which did not include CRNA or CINA), were made. A dismissal of the case was entered by the court on June 1, 2005.

***U.S. Life Insurance Company arbitration***

The arbitration initiated on November 29, 1999 by U.S. Life Insurance Company ( U.S. Life ) against Superior National Insurance Company in Liquidation ( SNICIL ), CINA and CIC, which was previously reported, has been settled as between U.S. Life and CINA. The settlement in January 2005 followed a December 2004 decision of the arbitration panel to reject U.S. Life's claim for rescission and to instead reform the reinsurance treaty provided by U.S. Life to a 90% quota share as opposed to a 100% quota share. Life and CINA agreed to settle the matter with a full and final commutation of the treaty in exchange for a commutation payment by U.S. Life (see Note 27 to our 2004 consolidated financial statements).

***All American Life Insurance Company arbitration***

The arbitration initiated on December 23, 2002 by CRNA and CINA against All American Life Insurance Company ( All American ), which was previously reported, has been settled. In May 2004, the parties to the dispute, which concerned a reinsurance treaty provided by All American, agreed to settle the matter with a full and final commutation of the treaty in exchange for a commutation payment by All American. Incurred losses of \$9.2 million were recorded in 2004 to reflect this commutation.

***Continental Casualty Company arbitration***

In December 2002, Continental Casualty Company ( Continental ) and CRNA each demanded arbitration from the other to resolve a dispute arising from a retrocessional contract pursuant to which Continental reinsured CRNA for 50% of certain accident and health exposures CRNA assumed from a third-party insurer. The dispute arose in October 2002 when Continental asserted that the third-party insurer had violated the reinsurance agreement with CRNA in such a way that might give rise to defenses under the reinsurance agreement.

Effective June 2004, Continental and CRNA entered into an Assignment of Rights, Limited Indemnity and Cooperation Agreement (the Assignment Agreement ) pursuant to which the parties agreed to withdraw their respective demands for arbitration with prejudice. The Assignment Agreement enables Continental, with the cooperation of CRNA, to assert its defenses directly against the insurer and indemnifies CRNA for monetary liability or expenses it incurs resulting from CRNA's cooperation or Continental's assertion of its defenses. Following the signing of the Assignment Agreement, Continental, CRNA and the third-party insurer have entered into a series of commutation agreements related to the exposures. These commutations became effective in April 2005 following the approval of the liquidation court governing the insurer.

***Great American Insurance Company arbitration***

The arbitration initiated on July 30, 2004 by Great American Insurance Company ( GAIC ) against CRNA, challenging CRNA's right to invoke a special termination or settlement clause under certain Automobile Residual Value Proportional Reinsurance Agreements (the Reinsurance Agreements ) with GAIC and seeking resolution of a billing dispute related to the Reinsurance Agreements, which was previously reported, has been settled. In December 2004, the parties to the dispute agreed to settle the matter with a full and final commutation of the Reinsurance Agreements in exchange for a commutation payment by CRNA.

***Canada Life***

On December 21, 2001, The Canada Life Assurance Company ( Canada Life ), brought an action against Converium Rückversicherung (Deutschland) AG ( Converium Germany ) in the United States District Court of the Southern District of New York. Canada Life alleged that Converium Germany breached certain quota share retrocession agreements with Canada Life by failing to indemnify its full percentage of Canada Life's September 11th losses and by failing to post an \$82.4 million letter of credit for its alleged liability pursuant to the ISA facilities underlying agreements. Converium Germany is disputing this claim on the grounds that its liability under the pertinent contracts is limited and is also raising other contract defenses. After litigation in the federal courts concerning jurisdictional issues, which Canada Life lost, Canada Life agreed to arbitration. The organizational meeting of the arbitrators took place on October 8, 2003. Since then, pursuant to an order by the arbitration panel, Converium Germany has obtained

a letter of credit in the amount of \$66.0 million to be drawn down upon, if at all, should two of the three arbitrators issue an award in favor of Canada Life. A two-week hearing was conducted in July 2005. A decision is pending. Due to the uncertainties inherent in any proceeding of this nature, we are unable to evaluate the likelihood of an unfavorable outcome or to estimate the amount or range of any potential loss resulting from this lawsuit. Converium Germany has fully reserved this claim. However, arrangements entered into with Zurich Financial Services provide for the claim to be covered by the agreed-to cap for September 11th related losses provided to us by Zurich Financial Services in conjunction with Converium's Initial Public Offering.

**Table of Contents*****Review of Certain of our Reinsurance Transactions***

Ongoing investigations of the insurance and reinsurance industry and non-traditional insurance and reinsurance products are being conducted by U.S. and international regulators and governmental authorities, including the U.S. Securities and Exchange Commission and the New York Attorney General.

On March 8, 2005, MBIA issued a press release stating that MBIA's audit committee undertook an investigation to determine whether there was an oral agreement with MBIA under which MBIA would replace Axa Re Finance as a reinsurer to CRNA by no later than October 2005. The press release stated that it appeared likely that MBIA made such an agreement or understanding with Axa Re Finance in 1998. Thereafter, on April 19, 2005, CRNA received subpoenas from the U.S. Securities and Exchange Commission and the Office of the New York Attorney General seeking documents related to certain transactions between CRNA and MBIA. Converium has also received additional inquiries from the Securities and Exchange Commission and other governmental authorities in Europe regarding non-traditional insurance and reinsurance products and/or the restatement of its financial statements. The inquiries are ongoing and Converium is fully cooperating with the governmental authorities.

In view of the industry investigations and the events relating to MBIA described above, Converium engaged independent outside counsel to assist it in a review and analysis of certain of its reinsurance transactions, including the MBIA transactions. The internal review, which was overseen by the Audit Committee, addressed issues arising from the ongoing governmental inquiries and Converium's own decision to review certain additional items. The internal review involved the assessment of numerous assumed and ceded transactions including structured/finite risk and other reinsurance transactions and encompassed all business units of Converium, a review of hundreds of thousands of e-mails, attachments to e-mails and other documents and interviews of all current members of the Global Executive Committee and the Board of Directors, as well as certain former members of senior management and other employees of Converium. The Audit Committee believes that the scope and process of the internal review has been sufficient to determine whether Converium's assumed and ceded transactions were improperly accounted for as reinsurance, rather than as deposits. After discussing the findings of Converium's extensive internal review with independent outside counsel, the Audit Committee determined that certain accounting corrections were appropriate and authorized the Restatement of Converium's financial statements as of and for the years ended December 31, 2004 through 1998. As part of this process, the Audit Committee has involved its independent group auditors, PricewaterhouseCoopers Ltd. For further information regarding these accounting adjustments, see Note 3 to our 2004 consolidated financial statements included in Item 8. Financial Information A. Consolidated Statements and Other Financial Information, and Item 5. Operating and Financial Review and Prospects A. Operating Results. Financial information for each of the quarters ended March 31, 2003 through June 30, 2005 has also been restated. All amounts included herein have been adjusted to reflect the Restatement. Previously published financial statements regarding any of the above periods should no longer be relied upon.

As noted above, Converium is fully cooperating with the governmental authorities, and is in the process of sharing the results of its internal review with the relevant authorities. Although the internal review was extensive, the ongoing governmental inquiries, or other developments, could result in further restatements of Converium's financial results in the future and could have a material adverse effect on Converium.

***Class action lawsuits***

Following the Company's announcement on July 20, 2004 that second quarter 2004 results would fall short of expectations due to higher than modeled U.S. casualty loss emergence primarily related to the underwriting years 1997 to 2001, six securities law class action lawsuits, one of which was subsequently dismissed voluntarily without prejudice, were brought against the Company and several of its officers and directors in the United States District Court for the Southern District of New York between October 4, 2004 and December 2, 2004 (collectively, the Federal Actions).

On December 9, 2004, another securities law class action lawsuit, *Rubin v. Converium Holding AG, et al.*, Index No. 04-117332, was brought against the Company and certain of its officers and directors in the Supreme Court of the State of New York for the County of New York. The *Rubin* action was removed to the United States District Court for the Southern District of New York. Plaintiff Rubin's request that the Court allow him to renew his motion to remand the action to state court (which Rubin had previously withdrawn) is still pending.

On July 14, 2005, the Court signed an order in the Federal Actions appointing Public Employees Retirement System of Mississippi and Avalon Holdings Inc. lead plaintiffs. On September 23, 2005, the lead plaintiffs filed a consolidated amended class action complaint (the Complaint ) setting forth their claims. The Complaint includes the Louisiana State Employees Retirement System as an additional named plaintiff. Lead plaintiffs have asked the Court to consolidate the *Rubin* action with the other Federal Actions for all purposes. That request is still pending. The Complaint names as defendants the Company; directors Terry G. Clarke, Peter C. Colombo, Georg F. Mehl, George G.C. Parker, Derrell J. Hendrix, and Anton K. Schnyder; former officers Dirk Lohmann, Martin Kauer and Richard Smith; former director Jürgen Förterer; Zurich Financial Services; UBS AG; and Merrill Lynch International. The Complaint asserts claims for violations of Section 10(b) and Section 20(a) of the Securities Exchange Act of 1934, and Sections 11, 12, and 15 of the Securities Act of 1933 and alleges, among other things, that the Company misrepresented and omitted material information in various public disclosures during the period

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from December 11, 2000 through September 2, 2004 because we did not establish adequate loss reserves to cover claims by policyholders; that our announced reserve increases prior to July 20, 2004 were insufficient; and that, as a result of the foregoing, our earnings and assets were materially overstated. The putative class of plaintiffs on whose behalf these lawsuits have been asserted consists of all buyers of the Company's stock from December 11, 2001 through and including September 2, 2004. Plaintiffs are seeking unspecified compensatory damages, attorney's fees, witness fees, and expert fees.

On December 23, 2005, the defendants moved to dismiss the Complaint and the plaintiffs filed their opposition to that motion of February 17, 2006. The actions are in the preliminary phases; thus, the timing and outcome of these matters are not currently predictable. An unfavorable outcome could have a material effect on our financial condition, results of operations and cash flows.

***US Securities and Exchange Commission Trading Investigation***

In August 2004, CRNA received a request for voluntary production of documents and information from the enforcement staff of the US Securities and Exchange Commission (the "Commission"). As a result of that request, CRNA understands that the Commission is conducting an informal inquiry to determine whether there have been violations of the US federal securities laws in connection with transactions in Converium's securities by certain persons prior to Converium's announcement on July 20, 2004 that its second quarter 2004 earnings would fall short of expectations due to higher than modeled US casualty loss emergence primarily related to the underwriting years 1997 to 2001.

CRNA voluntarily responded to the Commission's request, and will continue to cooperate with the Commission in the event of any follow-up requests for information. CRNA voluntarily responded to the SEC's requests and was advised in December 2005 that the SEC's investigation had been terminated and no enforcement action was recommended to the Commission.

***Investigation by the Swiss Federal Banking Commission***

In November 2004, the Federal Banking Commission requested certain information in conjunction with the sequence of events in conjunction with Converium's announcement on July 20, 2004 that its second quarter 2004 earnings would fall short of expectations due to higher than modeled US casualty loss emergence primarily related to the underwriting years 1997 to 2001. Converium is fully complying with the respective requests by providing all relevant information to the Commission. The Swiss Federal Banking Commission closed this investigation on November 5, 2005.

***Dividends and Dividend Policy***

The Ordinary General Meeting of shareholders held in Zug on April 12, 2005 approved the proposal of the Board of Directors to allocate the net loss for the 2004 fiscal year in the amount of CHF 1,518,291,374 to the free reserves and not to pay out a dividend.

Our dividend policy in future periods will depend on a number of factors including our results of operations, our financial condition, our capital and cash requirements, general business conditions, legal, contractual and regulatory restrictions regarding the payment of dividends by us and other factors. Holders of shares and ADSs with respect to the underlying shares are entitled to receive payment in full of any dividends declared.

As a holding company, we are dependent on dividends, and interests from our subsidiaries to pay cash dividends. The payment of dividends by our subsidiaries to their parent companies is restricted by applicable laws and regulations. To the extent our subsidiaries are restricted from paying dividends to Converium Holding AG, we may be unable to pay dividends to our shareholders. For further information on the restrictions on our ability to pay dividends, see Note 17 to our 2004 consolidated financial statements. In addition to the dividend restrictions stated in Note 16 to our 2004 consolidated financial statements, CRNA is required to obtain approval from the Connecticut Department of Insurance prior to making any dividend payments.

Under Swiss law, we may only pay dividends if we have either sufficient profits available for distribution or if we have sufficient free reserves pursuant to our statutory (non-consolidated) balance sheet and the provisions of Swiss law to allow for distributions from that reserve.

As long as the general reserves amount to less than 20% of our nominal share capital, Swiss law requires at least 5% of our annual net profits to be retained as general reserves. Any net profits remaining after this retention are eligible to be distributed as dividends, subject to approval by our shareholders at a shareholders' meeting, and our independent

group auditors must confirm that a dividend proposal by our Board of Directors complies with our Articles of Incorporation and Swiss law.

**B. SIGNIFICANT CHANGES**

Except as otherwise disclosed in this annual report, there has been no significant change in our financial position since December 31, 2004.



**Table of Contents****ITEM 9. THE OFFER AND LISTING****A. OFFER AND LISTING DETAILS****Market Price Information*****Trading on the SWX Swiss Exchange***

The table below presents the highest and lowest reported sale price for our registered shares on the SWX Swiss Exchange for the periods indicated, expressed in Swiss francs. On June 24, 2005, the latest practicable day before the printing of this annual report, the last reported sale price of our registered shares on the SWX Swiss Exchange was CHF 10.35 per registered share.

	<b>High</b>	<b>Low</b>
	<b>CHF</b>	<b>CHF</b>
Calendar Year 2001 (from December 11, 2001)	82.10	79.00
Calendar Year 2002	89.75	54.85
Calendar Year 2003	74.50	49.60
First Quarter	69.85	49.60
Second Quarter	74.50	55.45
Third Quarter	67.00	59.10
Fourth Quarter	69.10	60.05
Calendar Year 2004 (1)	73.75	7.42
First Quarter	73.75	60.25
Second Quarter	68.95	60.50
Third Quarter	65.05	16.25
Fourth Quarter (1)	17.05	7.42
Calendar Year 2005 (until May 31, 2005)	12.50	9.00
First Quarter	12.20	10.05
Last 6 Months		
December 2004	10.90	9.77
January 2005	11.50	10.05
February 2005	12.20	10.60
March 2005	12.00	10.20
April 2005	12.50	10.30
May 2005	10.90	9.00

(1) Includes the effect of the 2004 rights offering.

***Trading on the New York Stock Exchange***

The table below presents the highest and lowest reported sale price for our ADSs on the New York Stock Exchange. On June 24, 2005, the latest practicable day before the printing of this annual report, the last reported sale price of our ADSs on the New York Stock Exchange was \$4.09 per ADS.

	<b>High</b>	<b>Low</b>
	<b>\$</b>	<b>\$</b>
Calendar Year 2001 (from December 11, 2001)	27.40	23.02
Calendar Year 2002	28.52	18.30
First Quarter	26.50	21.77
Second Quarter	28.52	24.25
Third Quarter	26.05	18.96
Fourth Quarter	24.10	18.30
Calendar Year 2003	26.63	19.15
First Quarter	25.15	19.15

Second Quarter	26.42	20.52
Third Quarter	24.20	21.55
Fourth Quarter	26.63	22.77
Calendar Year 2004	29.57	3.15
First Quarter	29.57	23.55

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	High	Low
	\$	\$
Second Quarter	26.80	23.70
Third Quarter	26.04	6.76
Fourth Quarter	6.85	3.15
Calendar Year 2005 (until May 31, 2005)	5.20	3.59
First Quarter	5.18	4.44
Last 6 Months		
December 2004	4.87	4.29
January 2005	5.06	4.44
February 2005	5.08	4.50
March 2005	5.18	4.50
April 2005	5.20	4.37
May 2005	4.59	3.59

**B. PLAN OF DISTRIBUTION**

Not applicable.

**C. MARKETS**

Converium registered shares have a listing on the SWX Swiss Exchange under the symbol **CHRN**. Converium ADSs are listed in the United States on the New York Stock Exchange, or NYSE under the symbol **CHR**. The NYSE is the only trading market for our ADSs in the United States. Each of our ADSs represents one-half of one of our registered shares. We expect that the SWX Swiss Exchange will remain the principal trading market for our registered shares. The 8.25% Guaranteed Subordinated Notes due 2032 are securities of Converium Finance S.A., a société anonyme incorporated under the laws of Luxembourg, and a wholly-owned subsidiary of Converium AG, and have a listing under the symbol **CHF** on the New York Stock Exchange.

**D. SELLING SHAREHOLDERS**

Not applicable.

**E. DILUTION**

Not applicable.

**F. EXPENSES OF THE ISSUE**

Not applicable.

**ITEM 10. ADDITIONAL INFORMATION****A. SHARE CAPITAL**

Not applicable.

**B. MEMORANDUM AND ARTICLES OF INCORPORATION**

See Description of Shares and Share Capital in the Registration Statement on Form F-1, file number 333-14106, filed with the SEC under the Securities Act of 1933 on December 10, 2001. The Articles of Incorporation were amended in 2004 to reflect the following changes to our issued, authorized and conditional share capital.

*Issued Share Capital*

At the Extraordinary General Meeting on September 28, 2004 the shareholders resolved to reduce the share capital of the Company from CHF 400,062,170 by 200,031,085 to CHF 200,031,085 by reducing the nominal value of CHF 10 per share by CHF 5 to CHF 5 per share and to increase the share capital by CHF 533,416,225 through the issuance of 106,683,245 fully paid registered shares with a nominal value of CHF 5 each at an issue price of CHF 5 per share

*Authorized Share Capital*

At the Annual General Meeting on April 27, 2004, the shareholders resolved to create authorized share capital and amended the Articles

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of Incorporation, which provides that the Board of Directors is authorized, on or before April 27, 2006, to increase the share capital by the issuance of up to a maximum of four million fully paid-up registered shares each of CHF 10 nominal value amounting to a maximum of CHF 40 million.

Subsequent to the reduction of the nominal value of each of Converium's shares from CHF 10 to CHF 5 as a result of the resolution by the shareholders at the EGM of September 28, 2004, Converium's authorized capital is now CHF 20,000,000 with the Board being authorized to issue up to four million shares.

### *Conditional Share Capital*

At the Annual General Meeting on April 27, 2004, Converium Holding AG amended its Articles of Incorporation to state that the previously available conditional share capital for use in conjunction with the employee participation plans has been replaced by a conditional share capital for option rights and/or conversion rights for four million shares or CHF 40,000,000 in nominal share capital.

Subsequent to the reduction of the nominal value of each of Converium's shares as a result of the resolution by the shareholders at the EGM of September 28, 2004, its conditional capital is now four million shares of CHF 5 nominal value each, amounting to a maximum of CHF 20,000,000 pursuant to which up to four million shares can be issued upon exercise of conversion or option rights allotted in connection with bonds and other financial market instruments.

### **Information Policy**

In conjunction with the invitation for the Annual General Meeting, all registered shareholders are provided with an invitation and a summary report on Converium's financial results for the current financial year. Upon request, a full annual report with the financial statements can be ordered. Additionally, all ADS holders, upon request, receive a copy of the current annual report including financial statements, through their brokers. Furthermore, all financial and other information released by Converium is accessible on Converium's web page at [www.converium.com](http://www.converium.com) as well as through the SEC.

### **Statutory Quorums**

According to Article 13 of Converium's Articles of Incorporation, resolutions at the General Meetings of Shareholders are taken with the majority of votes cast.

In accordance with the provisions of Swiss law (Article 704 Swiss Code of Obligations) Converium's Articles of Incorporation require two thirds of votes to be represented and the absolute majority of the nominal values of the shares represented is required for resolution on the following:

an alteration of the purpose of Converium

the creation of super-voting shares

restrictions on the transfer of registered shares and the removal of such restrictions as well as restrictions to vote and the removal of such restrictions

an authorized or contingent increase of share capital

an increase of share capital by conversion of capital surplus, by contribution in kind or for the purpose of an acquisition of assets and the grant of special rights

a restriction or exclusion of the subscription right or advance subscription right

a change of Converium's registered office

the dissolution of Converium without liquidation

### **Convocation of the General Meeting of the Shareholders**

According to Article 9 of Converium's Articles of Incorporation, the General Meetings are convened at least 20 days prior to the meetings. This is in accordance with the provision of Swiss company law (Article 700 Code of Obligations).

Article 10 of the Articles of Incorporation provides for shareholders whose combined share holdings represent an aggregate nominal amount of at least CHF one million to be able to demand an item to be included on the agenda of a General Meeting. Such demand must be made at least 45 days prior to the meeting. This is in accordance with the provision of Swiss company law (Article 699 paragraph 2 Code of Obligations).

**Registration in the Share Register**

The date by which holders of registered shares can be registered in Converium's share register in connection with attending the General Meeting of shareholders is set by the Board of Directors in its preparatory Board Meeting prior to the General Meeting.

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For 2004, the date by which a shareholder had to be registered in the share register was April 4, 2005 in order to be invited to the Annual General Meeting of April 12, 2005, at the Casino in Zug.

### **Shareholder Votes on Equity-Based Compensation plans**

The NYSE rules require that shareholders must vote on all equity based compensation plans and any material revisions to the terms of such plans. Converium does not comply with this requirement, as under Swiss Company Law, the approval of compensation plans is not an authority of the General Meeting, but of the Board of Directors. The reason for not providing for approval of equity based compensation plans is the fact that the capital of a Swiss company is determined in the Articles of Incorporation and, therefore, each increase of capital has to be submitted for shareholders approval. If equity based compensation plans result in a need for a capital increase, the shareholders approval is mandatory. If, however, shares for such plans are purchased in the open market, shareholders do not have the authority to vote.

## **C. MATERIAL CONTRACTS**

### **The Master Agreement**

The Master Agreement set out the overall principles and the rights and obligations of the parties in connection with the Formation Transactions. It also addressed the relationship between Zurich Financial Services and Converium following the Formation Transactions. In particular, the Master Agreement provides for:

- the separation of substantially all of the third party reinsurance business from the businesses of Zurich Financial Services; and

- the consolidation of this business under Converium Holding AG.

The third party reinsurance business that has been retained by Zurich Financial Services includes the Zurich Centre Group business as described below and the reinsurance business written by ZIC with inception or renewal dates prior to January 1, 1987.

In the Master Agreement, Zurich Financial Services and Converium made certain representations and warranties with respect to matters including the assets of and titles to the assumed business. In addition, each of Zurich Financial Services and Converium made certain covenants, principally intended to effect our separation from the other businesses of Zurich Financial Services.

Further, each of Zurich Financial Services and Converium agreed, following the completion of the Formation Transactions:

- to execute the agreements, and to cooperate and act in accordance with the arrangements described below; and

- not to, except for certain specified exceptions, disclose confidential information of the other party or an entity of such party's group which is not known to third parties but which is known by the parties due to the fact that the parties were previously part of the same group of companies or as a result of the Formation Transactions contemplated by the Master Agreement.

In addition, the Master Agreement provided that we bear up to a maximum of \$50 million of the costs and expenses related to the consummation of the Formation Transactions, including advisors' fees, retention costs and stamp duty taxes. Zurich Financial Services reimbursed us for costs and expenses in excess of this amount.

### **September 11th Coverage**

Zurich Financial Services, through its subsidiaries, agreed to arrangements that cap our net exposure for losses and loss expenses arising out of the September 11th terrorist attacks at \$289.2 million, the amount of net loss and loss expenses we recorded as of September 30, 2001. As part of these arrangements, these subsidiaries of Zurich Financial Services agreed to take responsibility for non-payment by the retrocessionaires of Converium AG and Converium Rückversicherung (Deutschland) AG with regard to losses arising out of the September 11th attacks in excess of the \$289.2 million cap. While the cap does not cover non-payment by the retrocessionaires of CRNA, our only retrocessionaire for this business is a unit of Zurich Financial Services. Therefore, we are not exposed to potential non-payments by retrocessionaires for these events in excess of the \$289.2 million cap, although we are exposed to the risk of non-payment of Zurich Financial Services units and we are exposed to credit risk from these subsidiaries of Zurich Financial Services. See Note 8 to our 2004 consolidated financial statements, and Item 4. Information on the

Company B. Business Overview Retrocessional Reinsurance .

**Acquisition of the Converium AG Business**

Historically, Converium AG was not a separate legal entity and underwrote substantially all of its business pursuant to reinsurance policies issued by ZIC and ZIB, both subsidiaries of Zurich Financial Services, and was operated as the Zurich Re Zurich business unit of Zurich Financial Services. These subsidiaries were retained by Zurich Financial Services. In June 2001, we incorporated Converium AG, based in Zurich, which is a wholly owned subsidiary of Converium Holding AG. Since October 1, 2001, Converium AG has written its new and renewal business on the balance sheet of the new legal entity.

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Certain Converium AG reinsurance business was acquired from ZIC and ZIB via the Quota Share Retrocession Agreement, described in more detail below, and the Asset Purchase and Assumption of Liability Agreement between ZIC and Converium AG, dated September 28, 2001. Under this Agreement, ZIC transferred to Converium AG tangible assets, marketable securities and liabilities relating to the business written by the Zurich operations.

### **Quota Share Retrocession Agreement**

In connection with the Formation Transactions, the transfer of certain business to Converium AG by ZIC and ZIB was effected by means of the Quota Share Retrocession Agreement effective July 1, 2001. The covered business consists of the business historically managed by Converium AG which has an inception or renewal date on or after January 1, 1987, and consists of substantially all of the third party reinsurance assumed business written by ZIC and ZIB under the Zurich Re brand name. The liabilities we assumed include all net unearned premiums, net losses and loss expenses and experience account balances relating to this business.

The Quota Share Retrocession Agreement provides for the payment of premiums to us by ZIC as consideration for assuming the covered liabilities. The Quota Share Retrocession Agreement provides that these premiums are on a funds withheld basis, whereby the premium is not immediately paid, but is rather retained by ZIC and credited to a funds withheld account. We receive interest on the Funds Withheld Asset based on fixed interest rates.

Because the business subject to the Quota Share Retrocession Agreement consists of business that was historically managed by Converium, this business is already reflected in our financial statements. Any reinsurance business written by ZIC or ZIB that is not part of the historically managed and operated third party reinsurance business of Converium AG is not covered by the Quota Share Retrocession Agreement, and all related legal rights and obligations of this business have been retained by ZIC and ZIB. Accordingly, this business is excluded from our financial statements. Therefore, execution of this Quota Share Retrocession Agreement has no impact on results of operations as reported.

We will receive the surplus remaining with respect to the Funds Withheld Asset, if any, after all liabilities have been discharged. Any surplus will be recorded in the financial statements in the period when it occurs. Additionally, Zurich Financial Services has the right to prepay to us the full amount or a portion thereof of the Funds Withheld Asset prior to termination of the agreement.

We will continue to administer the transferred business on behalf of ZIC and ZIB, which remain liable to the original cedents of the business. Additionally, we will manage third party retrocessions related to the business transferred. Converium AG has financial risks relating to the gross loss and loss expense reserves and related third party reinsurance recoverables arising out of the business reinsured under the Quota Share Retrocession Agreement. We will bear the credit risk for uncollectible reinsurance balances excluding those related to the September 11th terrorist attacks. We will have a broad right of offset under the Quota Share Retrocession Agreement so that reinsurance balances owed to ZIC and ZIB may be offset against the Funds Withheld Asset account directly. The Quota Share Retrocession Agreement provides that ZIC and ZIB may not, during its term, cancel these existing third party retrocessions for the benefit of the reinsurance policies covered under the agreement without our consent.

The Quota Share Retrocession Agreement provides for commutation and termination for special reasons, such as insolvency of a party or loss of its authorization to do business or a change of control of Converium. Each of the parties agrees to indemnify the other against liability or expense incurred by reason of its conduct or failure to act in appropriate circumstances. The Quota Share Retrocession Agreement contains other provisions that are customary for an agreement of this nature.

### **Acquisition of the Converium Reinsurance (North America) Inc. Business**

The CRNA reinsurance business was acquired through the transfer by a subsidiary of Zurich Financial Services of all of the voting securities of CRNA to CHNA, pursuant to a Stock Purchase Agreement between ZRCH and us, dated November 20, 2001.

### ***Assumption of \$200 Million Public Notes***

On October 20, 1993, ZRCH issued \$200 million principal amount of 7.125% Senior Notes due October 15, 2023, (the Notes). In connection with the issuance of the Notes, ZRCH executed an Indenture. As partial consideration for the transfer to CHNA of CRNA, CHNA has executed a First Supplemental Indenture, dated November 20, 2001, assuming all of the rights and obligations of ZRCH under the Indenture. The Bank of New York acts as Trustee under



the Supplemental Indenture. Accordingly, this indebtedness is reflected in our financial statements for all periods presented. The Notes are general unsecured obligations of CHNA and rank on a parity with all other unsecured and unsubordinated indebtedness of CHNA.

***CENY Arrangements***

Prior to the Formation Transactions, the CRNA balance sheet reflected business originally written by Centre Reinsurance Company of New York, or CENY. CENY was originally part of the Zurich Centre Group of companies, a business unit of Zurich Financial Services.

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Zurich Financial Services historically operated and managed CENY separately from Converium. In 1997, the CENY legal entity was merged into Zurich Reinsurance Centre, Inc., a predecessor of CRNA. As a result of this merger, certain liabilities of CENY, referred to below as CENY Business, became direct obligations of CRNA, but continued to be managed by Zurich Centre management and were not part of the independently managed and operated third party reinsurance business of Converium. Nevertheless, prior to our separation from Zurich Financial Services, we had primary legal responsibility for the CENY Business.

In connection with the Formation Transactions, we extinguished our legal responsibility for substantially all of the CENY Business pursuant to the Master Novation and Indemnity Reinsurance Agreement with certain insurance subsidiaries of Zurich Financial Services including Converium, dated as of October 21, 2001. Under this agreement, CRNA has assigned and transferred to insurance subsidiaries of Zurich Financial Services, and these insurance subsidiaries have assumed, pursuant to a novation, substantially all of the insurance contracts related to the CENY Business. Accordingly, the novated contracts are excluded from our financial statements. However, a portion of the CENY Business was not novated because necessary consents could not be obtained from the reinsureds by the effective date of the agreement. This portion of the CENY Business has been 100% retroceded to Centre Insurance Company and Centre Solutions (U.S.) Limited on an indemnity reinsurance basis and is reflected in our financial statements as 100% retroceded business for all periods presented.

CRNA historically obtained stop-loss reinsurance coverage on the CENY Business from members of the Zurich Centre Group. In connection with the Formation Transactions, CRNA has commuted these policies pursuant to various commutation agreements dated October 1, 2001. Because we no longer have any legal rights of coverage under these policies, they have been excluded from our financial statements for all periods presented.

**Supplementary Agreements and Arrangements**

CRNA and its wholly owned subsidiary, CINA, terminated certain existing affiliated tax group allocation arrangements and settled balances due under certain such arrangements in preparation for the transfer of CRNA to Converium pursuant to an agreement dated October 1, 2001.

CRNA entered into a sublease with ZC Resource LLC, a subsidiary of Zurich Financial Services, in July 2001. See Lease arrangements .

All of the above supplementary transactions were recorded in our financial statements on the date they occurred.

**Acquisition of the Converium Rückversicherung (Deutschland) AG Business**

Converium Rückversicherung (Deutschland) AG was historically known as Agrippina Rückversicherung and subsequently known as ZRK. Historically, Zurich Re Zürich, ZIC and GRI all wrote reinsurance business through policies issued by ZRK. As part of the Formation Transactions, business not managed by us but written on contracts issued by ZRK was novated, commuted or retroceded to affiliates of Zürich Financial Services or third parties. Our financial statements reflect the business that remains the financial responsibility of Converium Rückversicherung (Deutschland) AG and exclude novated and commuted business from all periods presented.

The Converium Rückversicherung (Deutschland) AG reinsurance businesses were acquired through the transfer by Zurich Financial Services to Converium AG of its 98.63% interest in ZRK pursuant to the Agreement for the Sale and Transfer of Shares in Zürich Rückversicherung (Köln) Aktiengesellschaft, dated September 28, 2001. Converium's interest in Converium Rückversicherung (Deutschland) AG increased to 100% in January 2003.

**GRI Retained Business**

GRI is an internal operating unit of Zurich Financial Services whose principal role is to accumulate risks underwritten by primary and direct providers of insurance in a manner which allows GRI to access the third party reinsurance market. GRI's internal operations were wholly autonomous from the third party reinsurance business conducted by us. Moreover, Converium never used GRI to access external reinsurance markets.

Prior to the Formation Transactions, the GRI operation was partially conducted through policies issued by CRNA and ZRK. However, the GRI operation was managed exclusively by GRI's management team. Additionally, Zurich Financial Services did not alter the capital ascribed to support our business as a result of the GRI business formerly written on our balance sheets. As a consequence of the Formation Transactions, all GRI business previously written on our balance sheets has been novated, commuted or retroceded to affiliates of Zurich Financial Services or third parties. Any related rights and obligations of ours have been extinguished. Accordingly, all of this business is

excluded from our financial statements.

**Other Indemnity Matters**

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Pursuant to the Master Agreement, we and Zurich Financial Services have indemnified each other for certain matters, such as liabilities arising out of our respective businesses, and for breaches of our respective representations and warranties and other customary matters.

In particular, we agreed to indemnify Zurich Financial Services and its affiliates for:

liabilities assumed by or transferred to us in the separation;

liabilities incurred by Zurich Financial Services or its affiliates (other than us) while carrying on business on our behalf pursuant to the terms of agreements entered into in connection with the Formation Transactions before and after the dates of the separation of US and non-US business from Zurich Financial Services;

liabilities incurred by us on our own behalf at any time, which are deemed to be or become a liability of Zurich Financial Services or any of its affiliates (other than us); and

losses suffered by Zurich Financial Services or any of its affiliates (other than us) that relate to any reasonable action to avoid, resist or defend against liabilities assumed by or indemnified against by us.

Zurich Financial Services correspondingly agreed to indemnify us for:

liabilities retained by Zurich Financial Services and its affiliates and not assumed by or transferred to us in the separation;

liabilities arising out of or relating to the assets not assumed by or transferred to us in the separation;

liabilities arising out of specified contracts we have not assumed pursuant to the terms of the Quota Share Retrocession Agreement; and

losses suffered by us or any of our affiliates that relate to any reasonable action to avoid, resist or defend against liabilities not relating to our business.

Moreover, we agreed with Zurich Financial Services to allocate amongst ourselves liabilities that may arise under relevant securities laws as a result of any misstatements or omissions contained in the various annual report documentation to be distributed to our shareholders or as a result of the Formation Transactions themselves.

In addition, pursuant to the tax sharing and indemnity agreements described below, we and Zurich Financial Services have indemnified each other for certain tax liabilities arising out of the Formation Transactions and certain other potential liabilities that arose while we were affiliated with Zurich Financial Services.

Also, we agreed to indemnify Zurich Financial Services and its subsidiaries for losses arising from Zurich Financial Services involvement in the MDU strategic partnership to the extent such indemnifiable losses had been caused by the misconduct or negligence of our employees or arising ou