CONVERIUM HOLDING AG
Form 20-F
June 29, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 20-F

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2005.

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

o **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**

Date of current requiring this shell company report ___________

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.

Title of each class	**Name of each Exchange on which registered**
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

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

None

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.

146,473,231 registered shares, nominal value CHF 5 per share, including 10,894,430 American Depositary Shares (as evidenced by American Depositary Receipts), each representing one-half (1/2) of one registered share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes þ No o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes o No þ

Note checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those sections.

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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer **þ** Accelerated filer **o** Non-accelerated filer **o**

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

Item 17 o Item 18 þ

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

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PRESENTATION OF INFORMATION

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

The Company s consolidated financial statements included in this Form 20-F are prepared in accordance with accounting principles generally accepted in the United States (US GAAP).

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 US$, USD or $ and cents are to US currency, references to Swiss francs or CHF are to Swiss currency, references to yen JPY or Japanese yen are to Japanese currency, references to British pounds , GBP or £ are to British currency and references to euro , EUR o to the single European currency of the member states of the European Monetary Union at the relevant time.

In February 2006, Converium restated its consolidated financial statements (the Restatement) as of and for the years ended December 31, 2004, 2003, 2002, 2001, 2000, 1999 and 1998 and for each of the quarters ended March 31, 2003 through June 30, 2005, and the Notes related thereto as discussed further in Note 3 to our 2005 consolidated financial statements. All amounts in this Form 20-F document reflect the restated numbers.

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 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;

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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

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.

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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, 2005, 2004, 2003, 2002 and 2001.

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 for 2001 are presented as if we had been a separate legal entity 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.

The 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 .

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 Converium Reinsurance (North America) Inc. (CRNA) into orderly run-off and management s desire to monitor this business on a stand-alone basis. Therefore, Converium s business is now 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 non-life and life, originating from CRNA and Converium Insurance (North America) Inc. (CINA), excluding the US originated aviation business written through CINA. 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 as well as expenses not allocated to the operating segments. In addition to reporting segment results individually, management also aggregates results for Standard Property & Casualty Reinsurance and Specialty Lines into ongoing non-life business, as management considers this aggregation meaningful in understanding the performance of Converium. This measure excludes the non-life business contained within the Run-Off segment in line with management s desire to monitor this segment on a stand-alone basis. The aggregation of the Life & Health Reinsurance segment with the ongoing non-life business is referred to as total ongoing business. Segment data for all years is presented in line with the new reporting segments.

	For the year ended December 31,				
US$ millions (except per share data)	**2005**	**2004**	**2003**	**2002**	**2001**
Income statement data:					
Revenues:					
Gross premiums written	1,994.3	3,978.7	4,300.4	3,372.4	2,846.8
Less ceded premiums written	-178.6	-252.6	-377.7	-137.2	-194.1
Net premiums written	1,815.7	3,726.1	3,922.7	3,235.2	2,652.7
Net change in unearned premiums	567.5	156.1	-154.9	-157.7	-204.2
Net premiums earned	2,383.2	3,882.2	3,767.8	3,077.5	2,448.5
Net investment income	324.9	312.7	234.4	251.8	234.9
Net realized capital gains (losses)	25.5	46.5	18.4	-10.3	-18.4

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US$ millions (except per share data)	For the year ended December 31, 2005	2004	2003	2002	2001
Other (loss) income	-13.4	-8.2	17.5	31.6	2.9
Total revenues	2,720.2	4,233.2	4,038.1	3,350.6	2,667.9
Benefits, losses and expenses:					
Losses, loss expenses and life benefits	-1,775.9	-3,342.5	-2,760.1	-2,491.1	-2,460.6
Total costs and expenses	-818.0	-1,165.3	-1,065.5	-841.6	-687.5
Impairment and amortization of goodwill (1)		-94.0			-7.8
Amortization of intangible assets	-21.5	-9.9	-1.8		
Restructuring costs	-20.5	-2.7			-50.0
Total benefits, losses and expenses	-2,635.9	-4,614.4	-3,827.4	-3,332.7	-3,205.9
Income (loss) before taxes	84.3	-381.2	210.7	17.9	-538.0
Income tax (expense) benefit	-15.6	-201.3	-32.8	17.9	182.4
Net income (loss)	68.7	-582.5	177.9	35.8	-355.6
(Loss) earnings per share:					
Average number of shares (millions)	146.4	63.4	39.8	39.9	40.0
Basic earnings (loss) per share (2)	0.47	-9.19	2.24	0.45	-4.46
Diluted earnings (loss) per share (2)	0.46	-9.19	2.23	0.45	-4.46

	Year ended December 31, 2005	2004	2003	2002	2001
Balance sheet data:					
Total invested assets	6,634.3	7,786.2	7,502.0	6,117.3	4,892.1
Total assets	11,825.9	14,187.3	13,280.4	10,757.5	8,862.1
Reinsurance liabilities	8,200.8	9,898.9	8,428.6	6,986.7	5,871.3
Debt	391.2	391.1	393.1	392.9	206.1
Total liabilities	10,172.5	12,452.5	11,352.4	9,162.3	7,361.3
Total shareholders equity	1,653.4	1,734.8	1,928.0	1,595.2	1,500.8
Book value per share	11.29	11.86	48.47	39.97	37.52

	For the year ended December 31, 2005	2004	2003	2002	2001
Other data:					
Net premiums written by segment:					
Standard Property & Casualty Reinsurance	739.0	1,377.5	1,299.9	974.2	1,015.0
Specialty Lines	737.7	1,565.3	1,119.0	962.4	443.3
Life & Health Reinsurance	306.4	313.2	254.5	230.0	196.0
Run-Off	32.6	470.1	1,249.3	1,068.7	998.4
Total net premiums written	1,815.7	3,726.1	3,922.7	3,235.2	2,652.7
Ongoing non-life combined ratio	107.2	106.1	91.9	101.3	116.4(3)
Ratio of earnings to fixed charges (4)	3.3	(5)	6.8	1.8	(6)

(1) For a discussion of goodwill and other intangible assets and Converium s

compliance with SFAS No. 142, *Goodwill and Other Intangible Assets* , see Notes 2 (n) and 9 to our 2005 consolidated financial statements. In 2004, the amount represents impairment of goodwill, whereas in 2001 the amount represent amortization of goodwill.

(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 2005 consolidated financial statements).

(3) The impact on the ongoing non-life combined ratio of the September 11th terrorist attacks was 13.3%.

(4) The ratio of earnings to fixed charges is calculated by dividing income (loss) before taxes plus fixed charges by fixed charges. Fixed charges consist of interest

expense and the interest portion of rental expense.

(5) Due to Converium s loss in 2004 the ratio coverage was less than 1:1. Converium would have needed to generate additional earnings of US$ 381.2 million to achieve coverage of 1:1.

(6) Due to Converium s loss in 2001 the ratio coverage was less than 1:1. Converium would have needed to generate additional earnings of US$ 538.0 million to achieve coverage of 1:1.

The table below shows the components that comprise the ongoing non-life ratios, of which the later are Non-GAAP measures. As discussed above, management aggregates the results for the Standard Property & Casualty Reinsurance and Specialty Lines segments into ongoing non-life business, as they consider this aggregation a key indicator in understanding the performance of Converium.

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Combined Ratio Analysis	Net premiums written	Net premiums earned	Losses and loss expenses	Acquisition costs	Other operating and administration expenses	Loss ratio (1)	Acquisition costs ratio (2)	Administration expense ratio (3)	Combined ratio (4)
			(US$ millions)				(%)		
2005									
Standard Property & Casualty Reinsurance	739.0	880.8	-729.6	-181.3	-45.2	82.8	20.6	6.1	109.5
Specialty lines	737.7	1,059.2	-772.5	-263.8	56.3	72.9	24.9	7.6	105.4
Total Ongoing Non-life consolidated	1,476.7	1,940.0	-1,502.1	-445.1	-101.5	77.4	22.9	6.9	107.2
2004									
Standard Property & Casualty Reinsurance	1,377.5	1,392.3	-1,002.9	-353.3	-58.5	72.0	25.4	4.2	101.6
Specialty lines	1,565.3	1,387.6	-1,154.7	-328.1	-59.6	83.2	23.6	3.8	110.6
Total Ongoing Non-life consolidated	2,942.8	2,779.9	-2,157.6	-681.4	-118.1	77.6	24.5	4.0	106.1
2003									
Standard Property & Casualty Reinsurance	1,299.9	1,285.2	-838.8	-266.4	-50.3	65.3	20.7	3.9	89.9
Specialty lines	1,119.0	1,038.1	-713.0	-227.9	-41.4	68.7	22.0	3.7	94.4
Total Ongoing Non-life consolidated	2,418.9	2,323.3	-1,551.8	-494.3	-91.7	66.8	21.3	3.8	91.9
2002									
Standard Property & Casualty Reinsurance	974.2	942.1	-668.4	-234.2	-45.7	70.9	24.9	4.7	100.5
Specialty lines	962.4	885.5	-709.8	-157.3	-40.5	80.2	17.8	4.2	102.2
Total Ongoing Non-life consolidated	1936.6	1827.6	-1378.2	-391.5	-86.2	75.4	21.4	4.5	101.3
2001									
Standard Property & Casualty Reinsurance	1015.0	938.9	-780.0	-155.2	-36.0	83.1	16.5	3.5	103.1

Specialty lines	443.3	366.6	-426.1	-109.4	-19.2	116.2	29.8	4.3	150.3
Total Ongoing Non-life consolidated	1458.3	1305.5	-1206.1	-264.6	-55.2	92.4	20.2	3.8	116.4

(1) Losses divided by net premiums earned

(2) Acquisition costs divided by net premiums earned

(3) Other operating and administration expenses divided by net premiums written

(4) Sum of the loss, acquisition costs and administration expense ratios

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 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

In June 2006, the Board of Directors confirmed Converium s current business model, with a clear line-of-business and geographical focus,

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an emphasis on expertise and service and a rigorous technical approach. The success of the January 1, 2006 renewal season underlines market appetite for a mid-sized, independent and financially strong reinsurer, especially in view of accelerating industry consolidation and supports the decision to continue as a stand-alone entity delivering consistency and continuity under its existing business model, i.e. as an international multi-line reinsurer with geographic emphasis on Europe, Asia-Pacific, and the Middle East, and a focus on global specialty lines. See Item 4. Business Overview Overview and Our Strategy .

There can be no assurance, however, that we will be able to successfully implement our 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 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 and implemented.

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

We have ceased the underwriting of substantially all new business in North America, however Converium will offer reinsurance for US-originated business to select US based clients. This business will be underwritten and managed through Converium AG, Zurich. In addition we have taken the following additional steps with respect to our North American business:

- CRNA has been placed into orderly run-off and will seek to commute its liabilities wherever appropriate. In addition, CRNA hired an experienced run-off professional as its President and CEO and has restructured its organization and senior level staffing to function as an entity in run-off;
- Converium implemented a fronting arrangement to enable it to continue to participate in the Global Aerospace Underwriting Managers Ltd. (GAUM) pool; GAUM pool business is recognized in ongoing business operations in the Specialty Lines segment and does not form part of the Run-Off segment;
- CINA is now a limited writer, offering continuing coverage for only one primary program, which is mandated by state law. The plan is for CINA to maintain this status until such time as it becomes a wider accepted carrier for its clients.

By placing CRNA into orderly 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. CRNA 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, 2007, 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.

The ratings downgrades as well as our decision to place CRNA into orderly 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 such collateral. If the Department withholds its approval, Converium would be in default under contracts that have special funding clauses unless the other party to the contract has waived the requirement. In addition, state insurance regulators that requested special deposits or collateral 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 their 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 current ratings or any further downgrade of our ratings, could have a material adverse effect on our business, financial condition, result of operations or cash flows

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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. At the end of 2005, Standard & Poor s and A.M. Best confirmed Converium s financial strength ratings of BBB+ and B++, respectively, with a stable outlook.

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.

In the light of changing business circumstances associated with Converium s S & P ratings downgrade in 2004, Converium entered into fronting agreements with Munich Re and National Indemnity Company in order to support and sustain the aviation business from GAUM. These fronting agreements initially extended to September 30, 2005 with no contractual guarantee that they would be extended beyond that date. In the third quarter of 2005, Converium entered into a new aviation fronting arrangement with National Indemnity Company and Munich Re, effective October 1, 2005. The new agreement ensures Converium s continued participation in the pool of GAUM until September 30, 2006.

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 expects that continuation of its membership at its current rating is likely to be conditional upon its entering fronting arrangements acceptable to other pool members in a timely fashion and thereafter maintaining such 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 pool membership were terminated, it may also be required to sell its 30.1% stake in GAUM. In 2005, this business generated US$ 233.1 million of gross premiums written. See Notes 4, 9 and 19 to our 2005 consolidated financial statements for additional information on GAUM.

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, 2005 we had US$ 7,568.9 million of gross reserves and US$ 6,807.9 million of net reserves for losses and loss expenses. If we underestimated these net reserves by 5%, this would have resulted in an additional US$ 340.4 million of incurred losses and loss expenses, before income taxes, for the year ended December 31, 2005.

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. If the underlying assumptions used do not hold true over time, actual losses could vary, possibly materially, from the estimates.

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 volatility in its loss reserve development over the past several years, predominantly in its US casualty reinsurance lines of business. Since 2001, Converium has recorded US$ 712.3 million of additional net provisions on prior year s non-life business (2001: US$ 123.6 million; 2002: US$ 148.5 million; 2003: US$ (63.5) million; 2004: US$ 579.2 million; and 2005 US$ (75.5) million).

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

Due to our current ratings and because of regulatory requirements, 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.

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In November 2004, Converium AG obtained a US$ 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 US$ 1.5 billion capacity for issuing letters of credit and a US$ 100.0 million liquidity reserve. As of December 31, 2005, Converium had outstanding letters of credit of US$ 1,160.2 million under the facility. Investments of US$ 2,238.1 million were pledged as collateral related to the Syndicated Letter of Credit Facility and other irrevocable letters of credit of US$ 852.9 million (to secure certain assumed reinsurance contracts). 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.

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 2005 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 cyclicality 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 cyclicality, which could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Securitization trend could disadvantage medium-sized players

The reinsurance market is undergoing rapid changes in the nature of its core business practices. One of the trends in the insurance industry has been the development of instruments designed to allow for the trading of insurance risks in the capital markets. Examples of insurance securitization tools that have been developed include catastrophe bonds and catastrophe equity puts. Trading insurance risks in the capital markets will spread the risks across alternative risk carriers which could lead to a reduced demand for reinsurance products.

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

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 certain 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, which occurred during late 2005. As part of this process, the Audit Committee involved its independent group auditors, PricewaterhouseCoopers Ltd.

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 man-made catastrophic events, for example, acts of terrorism, are inherently unpredictable in terms of both their occurrence and severity. For example, in 2005, the reinsurance industry suffered extensive losses from the hurricanes that occurred in the United States and the floods in Continental Europe. These events adversely affected our results.

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 frequency and severity of events, the number of our clients affected, and the total catastrophe losses incurred by our clients and our participation in the reinsurance policies affected. In addition, depending on the nature of the loss, the speed with which claims are made and settled, and the terms and conditions 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, purchasing reinsurance (or retrocessional reinsurance, when bought by a reinsurer such as Converium) and monitoring risk accumulation may not prevent such occurrences from adversely affecting our profitability or financial condition.

The majority of the natural catastrophe reinsurance we write relates to exposures within Europe, Japan and the United States. Accordingly, we are exposed to natural catastrophic events, which affect these regions, such as European windstorm, Japanese earthquake and US hurricane or earthquake events. For 2005, our maximum catastrophe loss exposure on a basis gross of retrocession and on a probable maximum loss basis, was managed to a self- imposed maximum gross event limit of US$ 400 million for a 250-year return period loss. See Item 10. Additional Information C. 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 US$ 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 2005 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

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material adverse effect on our financial condition, results of operations or cash flows. For the years ended December 31, 2005 and 2004, net investment income and net realized capital gains accounted for 12.9% and 8.5% 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 in our available-for-sale portfolio, as well as the market values of, and corresponding levels of unrealized and realized capital gains or losses on the available-for-sale 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 and shareholders equity

We had a cash and investments portfolio of US$ 7,281.6 million as of December 31, 2005. 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 for the securities we account for as available-for-sale.

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 2005, approximately:

- 78% of our net premiums written
- 49% of our net investment income
- 59% of our losses, loss expenses and life benefits, and
- 64% of our operating expenses

were denominated in currencies other than the US dollar. As we will only be writing limited 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. Due to our current ratings 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 (including GE Insurance Solutions);

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

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Hannover Re Group;

SCOR;

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

Everest Reinsurance Company;

Transatlantic Reinsurance Company; and

Lloyd s syndicates active in the London market.

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. If some of these 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 .

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

As a foreign private issuer we are not currently subject to Section 404 of the Sarbanes-Oxley Act (SOX 404). However, during the later part of 2004 and in conjunction with 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 as of December 19, 2005. 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 has successfully addressed the first material weakness identified above and is in the process of addressing the remaining 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 unremediated 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 issue an adverse opinion. Any of these possible outcomes could result in a negative 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.

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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.

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.

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.

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 in our target markets in substantial part through reinsurance brokers. In some markets we principally write through reinsurance brokers. In 2005, two reinsurance intermediaries produced approximately 7.0% and 5.0% 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

Although the percentage of our gross premiums written produced through brokers decreased to 33% in 2005 (from 52% in 2004), we are still subject to risks associated with business produced 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 in Item 4. Information on the Company A. History and Development of the Company and in Item 10. Additional Information C. Material Contracts , 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 US$ 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 .

We are also restricted from disposing of certain assets under the terms of our indenture relating to the US$ 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. See Item 4. Information on the Company B. Business Overview Regulation European Union Directives .

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 and our telephone number is +41 44 639 9335.

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 Form 20-F 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 US$ 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 US$ 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 US$ 140 million was used by 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, management, 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 and reinsurance policies in conjunction with selected cases, currently comprising of our business relating to 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 Underwriting Ltd is a Lloyd s corporate capital vehicle that was incorporated for unlimited duration in the United Kingdom on October 1, 2001. It was acquired by Converium AG on October 10, 2002 and sold to Converium Holdings (UK) Ltd on December 31, 2002. Converium Underwriting Limited participates as a corporate capital provider to syndicates underwriting at Lloyd s of London, ceding 100% of the business written under a quota share arrangement to Converium AG. It has authorized share capital of GBP 2 divided into 2 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

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Bermuda on December 17, 2004. As part of the formation process, Converium Holding AG contributed the rights to commercially exploit the Converium brand to Converium Finance (Bermuda) Ltd, which in turn sold the rights to commercially exploit the Converium brand in exchange for a loan to Converium IP Management Ltd. Converium IP Management AG, Bermuda, entered into a license agreement allowing it 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. During 2005, we subsequently transferred the domicile of Converium IP Management Ltd to Zug, Switzerland.

B. BUSINESS OVERVIEW

Overview

We are an international reinsurer whose business operations are recognized for innovation, professionalism and service. In terms of geographical markets we focus on Europe, Asia-Pacific and the Middle East. We pursue this strategy as a multi-line writer offering all major lines of business, with a focus on global specialty lines. In addition, we underwrite and manage US originated business through Converium AG, Zurich, with a focus on shorter-tail lines. We actively seek to develop efficient and effective 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 maintain and develop multiple distribution channels, including strategic partnerships and joint ventures.

We offer a broad range of non-life and life reinsurance products. In non-life reinsurance, our lines of business 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. In Life & Health Reinsurance, our lines of business include Life & Disability reinsurance and Accident & 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 addition, we generate business through strategic partnerships and joint ventures such as GAUM and MDU. In 2005, 33% of our gross premiums written were written through intermediaries and 67% were written on a direct basis.

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 written through CINA. 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.

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 responsive organization.

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; and
- a fulfilling work environment for our employees.

Our Strategy

Converium s franchise proved stable and resilient during the January 1, 2006 renewal period. This success underlines market appetite for a mid-sized, independent and financially strong reinsurer, especially in view of accelerating industry consolidation and supports the decision to continue as a stand-alone entity delivering consistency and continuity under its existing business model, i.e. as an international multi-line reinsurer with geographic emphasis on Europe, Asia-Pacific, and the Middle East, and a focus on global specialty lines. Current strengths arising from recent strategic positioning and development include the successful establishment and fostering of direct client relationships in Continental Europe and elsewhere. In addition, in the January 2006 renewals Converium was successful in increasing the number of client relationships generated through brokers. Further, 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 as demonstrated during two year-end renewals as a BBB+/B++ rated reinsurer.

Looking ahead

Despite the strength of Converium s strategic business model, changes lie ahead. Whilst the Company focuses on profitable organic growth as an international multi-line reinsurer, Converium will make investments in specialty lines where we believe to have a comparative advantage. The Company will continue to broaden and adjust its client base to concentrate on partnership-focused professional reinsurance buyers within client segments dependent on reinsurance. Notwithstanding this focus Converium will also pursue business opportunities with multinational ceding companies at attractive terms and conditions. Converium s client marketing and targeting approach is supported by our knowledge-based value proposition, built around comprehensive client services such as underwriting support and financial and natural-hazard modeling. Geographically, Converium will maintain its underwriting focus on clients located in Europe, Asia-Pacific and the Middle East. The Company will continue to serve North American customers selectively from Zurich, following the decision to place CRNA into orderly run-off, which will continue to be accompanied by an active and so far successful commutation strategy. Converium will continue to serve and develop clients that will benefit from its strong capitalization following the 2004 rights offering and the operating stabilization achieved during 2005. As part of the Company s commitment to develop multiple distribution channels, Converium s existing targeting of strategic partnerships and joint ventures will continue, especially for rating-sensitive specialty lines underwriting. Although 2005 was another challenging year for Converium, the validity of its strategic path outside the United States has been endorsed. Against this backdrop, in June 2006, the Board of Directors has confirmed Converium s current business model, with a clear line-of-business and geographical focus, an emphasis on expertise and service and a rigorous technical approach. On this basis, we aim to complete our turn-around and to achieve a sustainable rebound.

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 segment strategy focuses on partnership-oriented professional reinsurance buyers in the markets Europe, Latin America and Asia. 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 modeling. 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. and our participation in GAUM, as well as many strong relationships with specialized mono-line insurers.

Also, Converium Underwriting Ltd, a Lloyd s Corporate Member, has successfully provided and continues to provide 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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Life & Health Reinsurance

The Life & Health Reinsurance segment comprises the Life & Disability and Accident & 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 Denmark and the Netherlands.

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

Run-Off

The Run-Off segment was established in the first quarter of 2005 to handle all business, both life and non-life, originating from CRNA and CINA, excluding the US originated aviation business written through CINA. Although it is not part of our core business, the success of the Run-Off segment is vital to the implementation of Converium s overall strategy.

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 pre-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.
- 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 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 group-wide basis, through global risk pooling and the use of retrocession on specific line of business exposures.

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. In Life & Health Reinsurance, our lines of business include Life & Disability reinsurance and Accident & Health.

In addition to our offices in Cologne, New York, Zug and Zurich, we have branch offices in Bermuda, Labuan, Milan, Paris, Singapore, Sydney and Toronto, as well as marketing offices in Buenos Aires, Kuala Lumpur, 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 Zug, Switzerland and a licensed reinsurance company, Guernsey, facilitating intra-group reinsurance within Converium.

During 2005 our business was 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 written through CINA. The business segments are supported by global business support functions such as Actuarial & Risk Management 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.

The table below presents, by segment, the distribution of our premiums written and segment income (loss) for the years ended December 31, 2005, 2004 and 2003. 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 pages F-7 and F-8 of the financial statements.

	Gross premiums written (US$ millions)			**Net premiums written (US$ millions)**			**Segment income (loss) (US$ millions)**		
For the year ended December 31	2005	2004	2003	2005	2004	2003	2005	2004	2003
Business Segment:									
Standard Property & Casualty									
Reinsurance	803.1	1,509.1	1,438.6	739.0	1,377.5	1,299.9	46.7	91.5	209.8
Specialty Lines	833.1	1,655.3	1,325.0	737.7	1,565.3	1,119.0	109.5	-7.3	159.6
Life & Health Reinsurance	318.8	327.9	280.7	306.4	313.2	254.5	17.6	16.7	-69.1
Run-Off	39.3	486.4	1,256.1	32.6	470.1	1,249.3	47.6	-296.0	-40.0
Corporate Center							-50.1	-38.2	-34.3
Total	1,994.3	3,978.7	4,300.4	1,815.7	3,726.1	3,922.7	171.3	-233.3	226.0
Other (loss) income							-13.4	-8.2	17.5
Interest expense							-31.6	-33.1	-31.0
Impairment of goodwill								-94.0	
Amortization of intangible assets							-21.5	-9.9	-1.8
Restructuring costs							-20.5	-2.7	
Income tax expense							-15.6	-201.3	-32.8
Net income (loss)							68.7	-582.5	177.9

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.

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The table below presents the composition of our gross premiums written by line of business for the ongoing non-life business segments and the Life & Health Reinsurance segment and in total for the Run-Off segment, separated between reported and change in accrual for the years ended December 31, 2005, 2004 and 2003:

	For the year ended December 31,								
	2005			2004			2003		
	Reported	Change in Accrual (US$ millions)	Total	Reported	Change in Accrual (US$ millions)	Total	Reported	Change in Accrual (US$ millions)	Total
	Gross Premiums Written								
Standard Property & Casualty Reinsurance									
General Third Party Liability	260.1	-75.9	184.2	376.2	28.5	404.7	466.3	-104.8	361.5
Motor	254.3	-65.4	188.9	479.0	-7.0	472.0	429.0	-42.3	386.7
Personal Accident (assumed from non-life insurers)	23.2	-9.9	13.3	51.7	-17.9	33.8	37.1	1.0	38.1
Property	444.5	-27.8	416.7	631.1	-32.5	598.6	685.6	-33.3	652.3
Total Standard Property & Casualty Reinsurance	**982.1**	**-179.0**	**803.1**	**1538.0**	**-28.9**	**1,509.1**	**1618.0**	**-179.4**	**1,438.6**
Specialty Lines									
Agribusiness	16.0	20.7	36.7	10.7	0.7	11.4	5.8	2.0	7.8
Aviation & Space	336.7	-82.1	254.6	486.7	-10.2	476.5	460.9	37.2	498.1
Credit & Surety	161.8	-103.4	58.4	175.9	33.2	209.1	182.4	18.1	200.5
Engineering	112.5	-41.9	70.6	126.1	-7.6	118.5	138.2	6.7	144.9
Marine & Energy	77.9	-13.0	64.9	86.4	-0.7	85.7	95.9	-7.1	88.8
Professional Liability and other Special Liability	346.4	13.0	359.4	421.9	18.3	440.2	368.4	-19.4	349.0
Workers Compensation	84.7	-96.2	-11.5	225.2	88.7	313.9	26.5	9.4	35.9
Total Specialty Lines	**1,136.0**	**-302.9**	**833.1**	**1,532.9**	**122.4**	**1,655.3**	**1,278.1**	**46.9**	**1,325.0**
Life & Health Reinsurance									
Life & Disability	233.5	14.1	247.6	231.0	16.8	247.8	186.1	12.8	198.9
Accident & Health	67.0	4.2	71.2	90.6	-10.5	80.1	85.4	-3.6	81.8

Total Life & Health Reinsurance	**300.5**	**18.3**	**318.8**	**321.6**	**6.3**	**327.9**	**271.5**	**9.2**	**280.7**
Run-Off	230.0	-190.7	39.3	703.9	-217.5	486.4	1,103.9	152.2	1,256.1
Total	**2,648.6**	**-654.3**	**1,994.3**	**4,096.4**	**-117.7**	**3,978.7**	**4,271.5**	**28.9**	**4,300.4**

As discussed further in the segment discussions contained within Item 5. Operating and Financial Review and Prospects A. Operating Results Results of Operations by Operating Segment **,** our 2005 gross premiums written and associated changes in premium accruals have been impacted by a number of factors including cancellations following our ratings downgrade in 2004, resulting reduced shares in 2005 on existing business, together with the impact of placing CRNA into orderly run off.

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The table below presents the geographic distribution of our gross premiums written for the years ended December 31, 2005, 2004 and 2003, based on the location of the ceding companies.

	For the year ended December 31,					
	2005		2004		2003	
	(US$ millions)	% of total	(US$ millions)	% of total	(US$ millions)	% of total
United Kingdom*	481.0	24.1	1,160.8	29.2	1,188.0	27.6
Germany	395.0	19.8	389.6	9.8	286.9	6.7
France	86.1	4.3	158.2	4.0	160.4	3.7
Italy	107.1	5.4	162.3	4.1	131.2	3.1
Rest of Europe	251.4	12.6	379.8	9.5	338.9	7.9
Far East	132.1	6.6	238.5	6.0	266.4	6.2
Near and Middle East	103.1	5.2	124.3	3.1	134.3	3.1
North America	346.0	17.4	1,235.2	31.0	1,642.6	38.2
Latin America	92.5	4.6	130.0	3.3	151.7	3.5
Total	**1,994.3**	**100.0**	**3,978.7**	**100.0**	**4,300.4**	**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.

During 2005 additional information became available as to the geographic location of the ceding company of certain business written through the London market which is reflected in the 2005 numbers above. Comparable data for 2004 and 2003 is not available. This London Market business generated gross premiums written of US$ 141.4 million and US$ 176.5 million in 2004 and 2003 respectively, which is entirely categorized as United Kingdom business for those years.

The table below presents the distribution of our net premiums written and net premiums earned by line of business for the ongoing non-life business segments and the Life & Health Reinsurance segment and in total for the Run-Off segment for the years ended December 31, 2005, 2004 and 2003.

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	For the year ended December 31,					
	2005		2004		2003	
(US$ millions)	Net premiums written	Net premiums earned	Net premiums written	Net premiums earned	Net premiums written	Net premiums earned
Standard Property & Casualty Reinsurance						
General Third Party Liability	146.7	204.1	379.1	348.1	323.5	336.9
Motor	188.4	256.8	437.4	450.8	356.1	352.5
Personal Accident (assumed from non-life insurers)	13.3	14.3	34.5	43.8	35.3	34.4
Property	390.6	405.6	526.5	549.6	585.0	561.4
Total Standard Property & Casualty Reinsurance	**739.0**	**880.8**	**1377.5**	**1,392.3**	**1,299.9**	**1,285.2**
Specialty Lines						
Agribusiness	36.7	28.9	11.4	15.5	7.8	3.9
Aviation & Space	241.8	352.4	404.5	327.3	354.7	325.2
Credit & Surety	58.4	168.2	204.3	177.9	195.6	174.3
Engineering	65.5	88.7	112.2	117.3	139.9	133.8
Marine & Energy	64.0	71.7	82.5	85.1	83.2	81.6
Professional Liability and other Special Liability	282.8	295.6	436.5	410.6	301.9	286.7
Workers Compensation	-11.5	53.7	313.9	253.9	35.9	32.6
Total Specialty Lines	**737.7**	**1,059.2**	**1,565.3**	**1,387.6**	**1,119.0**	**1,038.1**
Total ongoing non-life reinsurance	**1,476.7**	**1,940.0**	**2,942.8**	**2,779.9**	**2,418.9**	**2,323.3**
Life & Health Reinsurance						
Life & Disability	235.2	240.7	234.9	239.7	172.8	178.2
Accident & Health	71.2	74.1	78.3	79.0	81.7	82.6
Total Life & Health Reinsurance	**306.4**	**314.8**	**313.2**	**318.7**	**254.5**	**260.8**
Run-Off	32.6	128.4	470.1	783.6	1,249.3	1,183.7
Total	**1,815.7**	**2,383.2**	**3,726.1**	**3,882.2**	**3,922.7**	**3,767.8**

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.

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. 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.

The table below presents the distribution of our gross premiums written by type of reinsurance for the years ended December 31, 2005, 2004 and 2003.

	For the year ended December 31,					
	2005		2004		2003	
	(US$ millions)	% of total	(US$ millions)	% of total	(US$ millions)	% of total
Proportional	1,374.7	68.9	3,388.5	85.2	3,125.4	72.7
Non-proportional	619.6	31.1	590.2	14.8	1,175.0	27.3
Total	**1,994.3**	**100.0**	**3,978.7**	**100.0**	**4,300.4**	**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

Structured/finite reinsurance business is contained within our Standard Property & Casualty Reinsurance, Specialty Lines and Life & Health Reinsurance segments. Whether working directly with the client or through a broker , our structured/finite business focuses on developing 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. Structured/finite business is classified as proportional or non-proportional, depending on its characteristics.

Structured/finite reinsurance markets are generally ratings-sensitive. Since our ratings downgrades in 2004, we have seen written premium volume reduce significantly in this area of business.

Non-Life Operations

Overview

We operate our ongoing non-life reinsurance business through our two ongoing non-life segments: Standard Property & Casualty Reinsurance and Specialty Lines. Our ongoing non-life operations had gross premiums written of US$ 1,636.2 million for the year ended December 31, 2005, representing 82.1% of our total gross premiums written.

The following table sets forth our ongoing non-life reinsurance gross premiums written, net premiums written and net premiums earned by type of business for the years ended December 31, 2005, 2004 and 2003:

	For the year ended December 31,								
	2005			**2004**			**2003**		
(US$ millions)	**Gross premiums written**	**Net premiums written**	**Net premiums earned**	**Gross premiums written**	**Net premiums written**	**Net premiums earned**	**Gross premiums written**	**Net premiums written**	**Net premiums earned**
Proportional	1,017.8	927.0	1,362.3	2,749.1	2,601.1	2,451.0	2,106.9	1,898.4	1,802.9
Non-Proportional	618.4	549.7	577.7	415.3	341.7	328.9	656.7	520.5	520.4
Total ongoing non-life	**1,636.2**	**1,476.7**	**1,940.0**	**3,164.4**	**2,942.8**	**2,779.9**	**2,763.6**	**2,418.9**	**2,323.3**

The table below presents the loss, acquisition costs and combined ratios of our ongoing non-life reinsurance business both by line of business and type of reinsurance for the years ended December 31, 2005, 2004 and 2003. This table represents an aggregation of line of business ratios for our two ongoing non-life segments. Subsequent tables present ratios for each ongoing 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 For the year ended December 31,								
	2005			**2004**			**2003**		
	Loss ratio	**Acq costs ratio**	**Combined ratio (1)**	**Loss ratio**	**Acq costs ratio**	**Combined ratio (1)**	**Loss ratio**	**Acq costs ratio**	**Combined ratio (1)**
General Third Party Liability	91.4%	13.7%	105.1%	67.1%	30.0%	97.1%	64.1%	22.4%	86.5%
Motor	96.4%	16.1%	112.5%	103.7%	17.9%	121.6%	89.0%	15.4%	104.5%
Personal Accident (assumed from non-life insurers)	27.3%	25.9%	53.1%	54.1%	38.4%	92.5%	68.4%	21.2%	89.6%
Property	71.8%	26.7%	98.5%	50.6%	27.6%	78.2%	50.8%	23.0%	73.9%
Agribusiness	78.9%	17.3%	96.2%	94.8%	21.9%	116.8%	61.5%	12.8%	74.4%
Aviation & Space	60.9%	26.5%	87.3%	53.7%	24.5%	78.2%	45.4%	14.9%	60.4%
Credit & Surety	59.2%	34.3%	93.5%	50.2%	30.0%	80.1%	73.1%	32.0%	105.1%
Engineering	71.4%	31.3%	102.7%	76.6%	25.5%	102.1%	64.8%	29.7%	94.5%
Marine & Energy	81.3%	25.8%	107.1%	92.0%	20.7%	112.7%	76.0%	12.5%	88.5%

Professional Liability and other Special Liability	89.5%	17.3%	106.8%	112.3%	19.8%	132.1%	77.4%	30.6%	108.0%
Workers Compensation	91.8%	20.1%	111.9%	96.8%	24.5%	121.3%	199.4%	-45.1%	154.3%
Total ongoing non-life	**77.4%**	**22.9%**	**100.4%**	**77.6%**	**24.5%**	**102.1%**	**66.8%**	**21.3%**	**88.1%**
Proportional	67.3%	26.6%	93.9%	74.6%	25.9%	100.5%	68.1%	23.4%	91.5%
Non-Proportional	101.2%	14.4%	115.7%	100.3%	14.1%	114.4%	62.4%	13.9%	76.3%
Total ongoing non-life	**77.4%**	**22.9%**	**100.4%**	**77.6%**	**24.5%**	**102.1%**	**66.8%**	**21.3%**	**88.1%**

(1) The combined ratios presented in this table exclude administration expenses. Loss ratio and acquisition costs ratio are based on net premiums earned.

For an explanation of ratio calculations, please refer to the Schedule of Segment Data on pages F-7 and F-8 of our 2005 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 was redefined following the rating agencies downgrading in the second half of 2004 and now focuses on partnership-oriented professional reinsurance buyers in the markets Europe, Latin America and Asia. 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.

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 gross and net premiums written and net premium earned by our Standard Property & Casualty Reinsurance segment for the years ended December 31, 2005, 2004 and 2003.

	For the year ended December 31,								
		2005			2004			2003	
(US$ millions)	**Gross premiums written**	**Net premiums written**	**Net premiums earned**	**Gross premiums written**	**Net premiums written**	**Net premiums earned**	**Gross premiums written**	**Net premiums written**	**Net premiums earned**

Standard Property & Casualty Reinsurance:									
General Third Party Liability	184.2	146.7	204.1	404.7	379.1	348.1	361.5	323.5	336.9
Motor	188.9	188.4	256.8	472.0	437.4	450.8	386.7	356.1	352.5
Personal Accident (assumed from non-life insurers)	13.3	13.3	14.3	33.8	34.5	43.8	38.1	35.3	34.4
Property	416.7	390.6	405.6	598.6	526.5	549.6	652.3	585.0	561.4
Total Standard Property & Casualty Reinsurance	**803.1**	**739.0**	**880.8**	**1,509.1**	**1,377.5**	**1,392.3**	**1,438.6**	**1,299.9**	**1,285.2**
Proportional	427.2	390.8	524.3	1,186.6	1,102.5	1,133.7	939.3	879.9	864.8
Non-Proportional	375.9	348.2	356.5	322.5	275.0	258.6	499.3	420.0	420.4
Total Standard Property & Casualty Reinsurance	**803.1**	**739.0**	**880.8**	**1,509.1**	**1,377.5**	**1,392.3**	**1,438.6**	**1,299.9**	**1,285.2**

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The following table presents the loss, acquisition costs and combined ratios of our Standard Property & Casualty Reinsurance segment by line of business and type of reinsurance for the years ended December 31, 2005, 2004 and 2003.

	Loss, Expense and Combined Ratios For the year ended December 31,								
	2005			**2004**			**2003**		
	Loss ratio	**Acq costs ratio**	**Combined ratio (1)**	**Loss ratio**	**Acq costs ratio**	**Combined ratio (1)**	**Loss ratio**	**Acq costs ratio**	**Combined ratio (1)**
General Third Party Liability	91.4%	13.7%	105.0%	67.1%	30.0%	97.1%	64.1%	22.4%	86.5%
Motor	96.4%	16.1%	112.5%	103.7%	17.9%	121.6%	89.0%	15.4%	104.5%
Personal Accident (assumed from non-life insurers)	27.3%	25.9%	53.1%	54.1%	38.4%	92.5%	68.6%	21.2%	89.8%
Property	71.9%	26.7%	98.6%	50.6%	27.6%	78.2%	50.8%	23.0%	73.9%
Total Standard Property & Casualty Reinsurance	**82.8%**	**20.6%**	**103.4%**	**72.0%**	**25.4%**	**97.4%**	**65.3%**	**20.7%**	**86.0%**
Proportional	75.8%	26.8%	102.6%	69.6%	27.7%	97.4%	57.8%	24.9%	82.7%
Non-Proportional	93.2%	11.4%	104.6%	82.5%	15.1%	97.6%	80.7%	12.2%	92.8%
Total Standard Property & Casualty Reinsurance	**82.8%**	**20.6%**	**103.4%**	**72.0%**	**25.4%**	**97.4%**	**65.3%**	**20.7%**	**86.0%**

(1) The combined ratios presented in this table exclude administration expenses. Loss ratio and acquisition costs ratio are based on net premiums earned.

For an explanation of ratio calculations, please refer to the Schedule of Segment Data on pages F-7 and F-8 of our 2005 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 modeling. 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 and our participation in GAUM and our shares in its pools, 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.
Due to the long-tail nature of many of the specialty lines of business, the emergence of accounting profit 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:

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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 gross and net premiums written and net premiums earned by our Specialty Lines segment for the years ended December 31, 2005, 2004 and 2003.

	For the year ended December 31,								
	2005			2004			2003		
(US$ millions)	**Gross premiums written**	**Net premiums written**	**Net premiums earned**	**Gross premiums written**	**Net premiums written**	**Net premiums earned**	**Gross premiums written**	**Net premiums written**	**Net premiums earned**
Specialty Lines:									
Agribusiness	36.7	36.7	28.9	11.4	11.4	15.5	7.8	7.8	3.9
Aviation & Space	254.6	241.8	352.4	476.5	404.5	327.3	498.1	354.7	325.2
Credit & Surety	58.4	58.4	168.2	209.1	204.3	177.9	200.5	195.6	174.3
Engineering	70.6	65.5	88.7	118.5	112.2	117.3	144.9	139.9	133.8
Marine & Energy	64.9	64.0	71.7	85.7	82.5	85.1	88.8	83.2	81.6
Professional Liability and other Special Liability	359.4	282.8	295.6	440.2	436.5	410.6	349.0	301.9	286.7
Workers Compensation	-11.5	-11.5	53.7	313.9	313.9	253.9	35.9	35.9	32.6
Total Specialty Lines	**833.1**	**737.7**	**1,059.2**	**1,655.3**	**1,565.3**	**1,387.6**	**1,325.0**	**1,119.0**	**1,038.1**
Proportional	590.5	536.0	837.8	1,562.3	1,498.5	1,317.3	1,167.4	1,018.4	938.1
Non-Proportional	242.6	201.7	221.4	93.0	66.8	70.3	157.6	100.6	100.0

Total Specialty Lines	**833.1**	**737.7**	**1,059.2**	**1,655.3**	**1,565.3**	**1,387.6**	**1,325.0**	**1,119.0**	**1,038.1**

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The following table presents the loss, acquisition costs and combined ratios of our Specialty Lines segment by line of business and type of reinsurance for the years ended December 31, 2005, 2004 and 2003.

	Loss, Expense and Combined Ratios For the year ended December 31,								
	2005			2004			2003		
	Loss ratio	Acq costs ratio	Combined ratio (1)	Loss ratio	Acq costs ratio	Combined ratio (1)	Loss ratio	Acq costs ratio	Combined ratio (1)
Specialty Lines:									
Agribusiness	78.9%	17.3%	96.2%	94.8%	21.9%	116.8%	61.5%	12.8%	74.4%
Aviation & Space	60.9%	26.4%	87.3%	53.7%	24.5%	78.2%	45.4%	14.9%	60.4%
Credit & Surety	59.2%	34.3%	93.5%	50.1%	30.0%	80.1%	73.0%	32.0%	105.0%
Engineering	71.4%	31.2%	102.6%	76.6%	25.5%	102.1%	64.8%	29.7%	94.5%
Marine & Energy	81.2%	25.8%	107.0%	92.0%	20.7%	112.7%	76.0%	12.5%	88.5%
Professional Liability and other Special Liability	89.5%	17.3%	106.8%	112.3%	19.8%	132.1%	77.4%	30.6%	108.0%
Workers Compensation	91.8%	20.1%	111.9%	96.8%	24.5%	121.3%	199.4%	-45.1%	154.3%
Total Specialty Lines	**72.9%**	**24.9%**	**97.8%**	**83.2%**	**23.6%**	**106.9%**	**68.7%**	**22.0%**	**90.6%**
Proportional	62.0%	26.4%	88.5%	78.8%	24.3%	103.2%	77.5%	22.1%	99.6%
Non-Proportional	114.1%	19.2%	133.3%	165.4%	10.5%	176.0%	-14.1%	21.0%	6.9%
Total Specialty Lines	**72.9%**	**24.9%**	**97.8%**	**83.2%**	**23.6%**	**106.9%**	**68.7%**	**22.0%**	**90.6%**

(1) The combined ratios presented in this table exclude administration expenses. Loss ratio and acquisition costs ratio are based on net premiums earned.

For an explanation of ratio calculations, please refer to the Schedule of Segment Data on pages F-7 and F-8 of our 2005 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 & Disability; and

Accident & Health.

We offer these lines of business on an international scale. We primarily conduct our Life & Disability reinsurance business from Cologne, Germany. We have implemented a strategy to effectively 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 & Disability and Accident & Health lines of business written from our European offices have grown significantly in recent years, with our net premiums written increasing from US$ 196.0 million in 2001 to US$ 306.4 million at the end of 2005.

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;
- 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 considerably while not compromising our underwriting standards. We believe that Life & Health Reinsurance will represent an increasing percentage of our business going forward.

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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;
- 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 (including GE Insurance Solutions);
- General Reinsurance Company, a subsidiary of Berkshire Hathaway, Inc.;
- Hannover Re Group;

SCOR;

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

Everest Reinsurance Company;

Transatlantic Reinsurance Company; and

Lloyd s syndicates active in the London market.

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 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 to access 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 that reflects the conditions in the investment markets and the riskiness of the portfolio. 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 losses, 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 expected 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 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.

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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 will, as requested by underwriters, 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 value-added service, share this expertise in order to build client loyalty and better understand their risks.

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

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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 line-of-business function that together with members of senior management with underwriting, actuarial, risk management and other specialized expertise, review relevant aspects of our catastrophe underwriting and risk management.

An integral part of our Global Catastrophe Risk Management 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.

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 Europe, Japan and the United States. Accordingly, we are exposed to natural catastrophic events which affect these regions, such as European windstorm, Japanese earthquake and US hurricane and 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 US$ 400 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 peak risks such as 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 2005, we had the benefit of traditional reinsurance protections for our non-US property portfolio in excess of US$ 50 million and up to US$ 150 million for any natural catastrophe affecting our property portfolio. In addition, we purchased cover for natural catastrophes affecting our non-US property portfolio in excess of US$ 20 million with cover up to US$ 50 million, whereby first-event coverage was limited to certain perils. The majority of this coverage was placed with companies with AAA financial strength ratings.

In addition, in 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 2005 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 US$ 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 US$ 175 million. The amount of coverage is US$ 100 million.

We estimate our gross loss for each of the recent hurricanes to be less than the Helix 04 activation threshold of US$ 150 million for each such event and therefore we will not file a trigger event request in respect of these losses.

The annual cost of Helix 04 to Converium is US$ 5.6 million. The annual charge to Converium is not impacted by the occurrence of a loss event that is protected by Helix 04, unlike the prior contract in respect of Trinom, where Converium was required to pay higher amounts for the remainder of the term of the contract. The Helix 04 counter-party contract is a risk mitigation non-exchange traded derivative which is not treated as reinsurance. The annual charge for Helix is reflected through other (loss) income. The cost of the counter-party contract is amortized over the term of the contract in a manner similar to reinsurance.

Converium has exercised its rights to reset the notional portfolio on April 19, 2006. The reset effective date is June 30, 2006. Under this model-based reset, the five-year cumulative contribution of each of the notional portfolios to expected loss will not exceed 50% and for the North Atlantic Hurricane and US Earthquake Notional portfolios, the combined five cumulative contribution to expected loss will not exceed 66.6%. The activation of the reset option and the selection of the revised notional portfolio within the expected loss limitation parameters may change the current accounting of the counterparty contract depending on the correlation of Converium s actual portfolio compared to the selected notional portfolio under the reset option.

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 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).

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The following table illustrates our catastrophe protections in place in 2005:

Catastrophic Event(1)	Gross Loss	Traditional Reinsurance Recovery(2)	Helix Recovery(4)	Status
1st Catastrophic Event	$150 million to $250 million	$61 million to $91 million	N/A	Cover triggered
2nd Catastrophic Event	$175 million to $275 million	$61 million to $91 million (3)	$0 to $100 million (4)	Cover in effect

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

(2) On a non-US basis in excess of US$ 20 million (for some perils first event coverage in excess of US$ 50 million).

(3) Subject to a total recovery of US$ 147 million over the term of the contracts.

(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, 2005 and 2004, Converium held US$ 470.6 million and US$ 300.9 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 US$ 28.1 million and US$ 30.6 million have been recorded for estimated uncollectible receivables and reinsurance recoverables at December 31, 2005 and 2004, respectively.

The following table sets forth Converium s ten largest retrocessionaires as of December 31, 2005, based on non-life underwriting reserves and future life benefits, and their respective Standard & Poor s or A.M. Best financial strength rating.

Retrocessionaire	Retrocessionaire Group	Underwriting reserves and future life benefits (US$ million)	% of total	S & P/A.M. Best Rating
Lloyd s Syndicates	Lloyd s	212.6	26.4	A/A
Continental Casualty Company	CNA	57.7	7.2	A /A
Zurich Financial Services	Zurich Financial Services	48.1	6.0	A+/A
ICM Re S.A.	ICM Re	35.7	4.4	NR
AIOI Insurance Co., Ltd.	AIOI Insurance Co., Ltd.	35.7	4.4	A
Transamerica Reinsurance	AEGON Group	35.1	4.4	AA /A+
Hannover Ruckversicherung	Hannover Re	33.6	4.2	AA /A
AXA Group	AXA Group	30.3	3.8	AA
PartnerRe Global	PartnerRe Group	27.3	3.4	AA /A+
GE Frankona	Swiss Re	22.0	2.7	A/A
Total underwriting reserves and future life benefits of top ten retrocessionaires		**538.2**	**66.8**	
All other retrocessionaires		266.9	33.2	
Total underwriting reserves and future life benefits		**805.1**	**100.0**	

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 US$ 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 US$ 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 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 2005 consolidated financial statements for additional information on this cover and for further information on retrocessional 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.

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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.

CORE is our proprietary global loss reserve estimation system. 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. 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

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 retroceded basis; net loss and allocated loss adjustment expense reserve indications are typically derived by netting gross and retroceded 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.

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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, 2005) 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, 2005). 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 base ultimate premium in order to calculate a reserve provision (IBNR) only to the exposed / expired portion of the reinsurance contract as of the reserving date. The base premium excludes loss sensitive premium adjustments.

For each REC and underwriting year we select best estimate of ultimate losses within a reasonable range. The range estimates 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 deviate from 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 has experienced volatility in its loss reserve development over the past several years, predominantly in its US casualty reinsurance lines of business. Since 2001, Converium has recorded US$ 712.3 million of additional net provisions on prior year s non-life business (2001: US$ 123.6 million; 2002: US$ 148.5 million, 2003: US$ (63.5) million, 2004: US$ 579.2 million; and 2005 US$ (75.5) million.

For the year ended December 31, 2005, we recorded net favorable development of prior years loss reserves in the amount of US$ 75.5 million. The development of prior years loss reserves for 2005 consisted of net favorable development of prior years loss reserves in the amount of US$ 30.7 million in the Standard Property & Casualty Reinsurance segment, comprised of net favorable development of prior years loss reserves in the Property line of business in the amount of US$ 73.3 million. Partially offsetting this was net adverse development of prior years loss reserves within the Motor and General Third Party Liability lines of business in the amount of US$ 25.0 million and US$ 23.4 million, respectively. The net favorable development of prior years loss reserves of US$ 55.3 million in the Specialty Lines segment primarily consisted of US$ 57.5 million of net favorable development of prior years loss reserves in the Aviation & Space line of business. The Run-Off segment experienced net adverse development of prior years loss reserves in the amount of US$ 10.5 million primarily within the Workers Compensation and Professional Liability and other Special Liability lines of business in the amounts of US$ 15.9 million and US$ 10.2 million, respectively. These adverse developments were partially offset by net favorable development of prior years loss reserves of US$ 20.8 million and US$ 11.6 million in the Property and Motor lines of business, respectively.

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 US$ 579.2 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 net adverse development of prior years loss reserves of US$ 11.3 million primarily related to adverse development within the Motor line of business in the amount of US$ 78.7 million, which was partially offset by net favorable development of prior years loss reserves related to the Property line of business in the amount of US$ 77.8 million. In the Specialty Lines segment, the net adverse development of prior years loss reserves of US$ 61.5 million primarily related to adverse developments of the Professional Liability and other Special Liability and Engineering lines of business in the amounts of US$ 116.1 million and US$ 13.7 million, respectively. These adverse developments in the Specialty lines were partially offset by net favorable development of prior years loss reserves related to the Credit & Surety, Aviation & Space and Workers Compensation lines of business in the amounts US$ 30.2 million, US$ 24.6 million and US$ 16.4 million, respectively. In the Run-Off segment, the net adverse development of prior years loss reserves of US$ 506.4 million primarily related to adverse developments of the Professional Liability and other Special Liability, General Third Party Liability, Workers Compensation, Credit & Surety and Motor lines of business in the amounts of US$ 314.6 million, US$ 74.7 million, US$ 71.8 million, US$ 26.5 million and US$ 13.0 million, respectively.

Commutations: In conjunction with the placement of CRNA into orderly run-off and the execution of its related commutation strategy, we commuted gross (net) loss reserves, primarily with North American cedents, in the amount of US$ 651.1 million (US$ 521.6 million) for the year ended December 31, 2005, resulting in a net commutation gain on the segment s technical result of US$ 93.7 million. 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. The total reduction of gross (net) loss reserves in the Run-off segment, after commutations and loss and loss expenses paid, was US$ 1,096.7 million (US$ 854.9 million) from US$ 2,560.8 million (US$

2,176.1 million) in 2004 to US$ 1,464.1 million (US$ 1,321.2 million) in 2005.

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(d) to our 2005 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, 2005, approximately 49.1% 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

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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 1995 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, 2005.

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.

The table below presents our loss and loss adjustment expense reserve development as of the dates indicated.

	As of December 31,									
except percentages)	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**20**
for losses and loss										
	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	8,90
coverable	102.9	106.9	290.1	457.3	640.9	892.3	1,099.2	1,085.7	1,041.3	91
ves for losses and loss										
	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	7,99
d as of:										
	443.9	466.0	514.5	610.0	850.6	890.6	1,171.0	1,504.4	1,938.9	1,99
	669.4	721.2	843.0	968.8	1,339.2	1,575.8	2,119.4	2,760.8	3,321.3	
er	803.1	921.7	1,064.4	1,250.7	1,670.1	2,180.9	3,027.2	3,755.0		
	927.0	1,062.2	1,261.7	1,438.6	2,029.2	2,749.6	3,726.4			
	1,007.7	1,178.3	1,336.5	1,622.3	2,312.8	3,210.1				
	1,093.8	1,197.5	1,436.7	1,772.9	2,594.4					
er	1,087.1	1,249.3	1,545.8	1,930.5						
r	1,115.7	1,319.4	1,638.1							
	1,157.8	1,374.0								
	1,194.4									
estimated as of:										
	1,763.3	1,901.5	2,145.6	2,292.6	2,915.7	3,727.5	4,722.5	5,995.3	7,432.3	7,40
	1,642.6	1,853.5	2,051.3	2,276.7	3,039.3	3,932.6	4,951.0	6,490.6	7,054.2	
er	1,617.7	1,736.4	1,970.4	2,303.4	3,039.2	4,200.1	5,441.2	6,270.1		
	1,541.1	1,677.3	1,989.1	2,337.8	3,189.2	4,576.2	5,323.5			
	1,468.9	1,661.2	1,990.7	2,414.7	3,400.6	4,519.8				
	1,452.9	1,645.9	2,013.0	2,504.1	3,385.9					
er	1,446.1	1,649.3	2,069.5	2,493.1						
r	1,448.7	1,684.6	2,049.1							
	1,476.8	1,666.6								
	1,448.8									

coverable of December 31,	246.7	336.7	420.8	695.3	1,211.0	1,206.2	1,119.1	1,021.8	805.6	87
re-estimated as of 005	1,695.5	2,003.3	2,469.9	3,188.4	4,596.9	5,726.0	6,442.6	7,291.9	7,859.8	8,28
ficiency)	339.7	471.8	297.2	37.2	-544.5	-908.0	-780.4	-478.9	-215.8	58
undancy/(deficiency) of initial net reserves	19.0%	22.1%	12.7%	1.5%	-19.2%	-25.1%	-17.2%	-8.3%	-3.2%	
ss ficiency)	195.9	242.0	166.5	-200.8	-1,114.6	-1,221.9	-800.3	-415.0	19.9	62
undancy/(deficiency) of initial gross	10.4%	10.8%	6.3%	-6.7%	-32.0%	-27.1%	-14.2%	-6.0%	0.3%	

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 US$ 2,530.3 million as of December 31, 1998 to US$ 2.493.1 million as of December 31, 2005, reflecting a redundancy of US$ 37.2 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, 2005 would result in re-estimated reserves of US$ 2,609.8 million, or a deficiency of US$ 79.5 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

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considerably higher/(lower) as of December 31, 2005 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.

The table above also shows that our net loss reserves have developed more frequent redundancies/(lower deficiencies) than our gross loss reserves. Changes in estimates of our net losses directly impact our reported results. Accordingly, our estimates of reinsurance recoveries on incurred losses and our collections of those recoveries from our retrocessionaires also directly impact our reported results. See Retrocessional reinsurance above for a discussion of the types of retrocessional reinsurance coverage that we purchase.

At December 31, 2005, we recorded US$ 761.0 million of reinsurance recoverables on loss and loss adjustment expense reserves. Approximately 35.6% of this amount relates to recoverables in connection with the September 11th terrorist attacks.

The following table shows the development of our initial reserves net of reinsurance using the same exchange rates in effect when each of the initial reserves was set to re-estimate the reserves in subsequent years.

					As of December 31,					
except percentages)	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**20**
rves for losses and loss	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
-estimated as of:										
	1,805.6	2,004.9	2,108.6	2,394.7	3,008.1	3,779.5	4,698.3	5,735.4	7,185.8	7,808
r	1,758.2	1,925.4	2,078.8	2,414.4	3,152.5	3,935.5	4,836.4	6,103.4	7,079.0	
er	1,707.3	1,865.4	2,016.6	2,465.6	3,130.1	4,132.7	5,211.6	6,051.5		
r	1,674.5	1,819.3	2,035.0	2,474.0	3,230.8	4,442.4	5,205.1			
r	1,612.4	1,799.4	2,023.7	2,511.6	3,415.0	4,455.0				
	1,589.9	1,775.9	2,017.9	2,588.8	3,441.4					
ter	1,588.4	1,755.5	2,065.5	2,609.8						
er	1,574.4	1,782.5	2,069.3							
r	1,595.9	1,782.0								
	1,597.4									
dundancy/(deficiency)	191.1	356.4	277.0	-79.5	-600.0	-843.2	-662.0	-260.3	-240.6	185
dundancy/(deficiency) e of initial net reserves	10.7%	16.7%	11.8%	-3.1%	-21.1%	-23.3%	-14.6%	-4.5%	-3.5%	2

The payment pattern of our loss and loss expense reserves varies from year to year. Based on historical payment patterns and other relevant data, we estimate that the mean time to payment, on an undiscounted basis, of our loss and loss expense provisions, including future life benefits, as of December 31, 2005, was 4.2 years. We expect this average payment period to change as our mix of business changes, as well as due to changes of payment patterns and fluctuations in currency exchange rates.

Reconciliation of Beginning and Ending Loss and Loss Expense Reserves

The table below is a summary reconciliation of the beginning and ending reserves for losses and loss expenses, net of reinsurance, for the years ended December 31, 2005, 2004 and 2003.

(US$ millions)	**2005**	**2004**	**2003**
As of January 1,			
Gross reserves for losses and loss expenses	8,908.3	7,879.7	6,876.9
Less reinsurance recoverable	-914.5	-1,041.3	-1,085.7
Net reserves for losses and loss expenses	7,993.8	6,838.4	5,791.2
Losses and loss expenses incurred (1)			

Current year	1,922.3	2,881.9	2,736.1
Prior years	-186.1	350.2	-63.5
Total	1,736.2	3,232.1	2,672.6
Losses and loss expenses paid			
Current year	451.0	541.4	437.1
Prior years	1,995.3	1,938.9	1,504.4
Total	2,446.3	2,480.3	1,941.5
Foreign currency translation effects	-475.8	403.6	316.1
As of December 31,			

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(US$ millions)	2005	2004	2003
Net reserves for losses and loss expenses	6,807.9	7,993.8	6,838.4
Reinsurance recoverable	761.0	914.5	1,041.3
Gross reserves for losses and loss expenses	7,568.9	8,908.3	7,879.7

(1) The totals above include non-life accident and health reserves for losses and loss expenses that are reflected in the Life & Health Reinsurance segment. The loss and loss expenses incurred includes US$ 178.3 million, US$ 128.0 million and US$ 192.7 million of loss and loss expenses included in the Life & Health Reinsurance segment for the years ended December 31, 2005, 2004 and 2003, respectively.

In 2005, Converium recorded US$ 186.1 million of favorable development at the 2005 average exchange rate and US$ (350.2) million of adverse development at the 2004 average exchange rate. See Adequacy of Reserves .

Net favorable development of prior years loss reserves in 2005 in the amount of US$ 186.1 million were primarily driven by net favorable development of prior years loss reserves of US$ 75.5 million (See Adequacy of reserves), the net commutation gains on the segment s technical result in 2005 amounting to US$ 93.7 million and the reversal of reserves relating to adjustments of prior years premium accruals.

Prior years adverse net loss expenses incurred in 2004 in the amount of US$ 350.2 million were primarily driven by net adverse development of prior years loss reserves of US$ 579.2 million, the net commutation gains on the segment s technical result in 2004 amounting to US$ 54.6 million, the reduction of reinsurance recoverables of US$ 12.0 million, which was partially offset by reversal of reserves relating to prior years premium accruals in the amount of US$ 186.4 million.

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, 2005 and 2004, our total loss and adjustment expense reserves, including additional reserves and IBNR reserves, for US-originated asbestos and environmental losses were approximately US$ 49.2 million, respectively for each year or 0.7% and 0.6%, respectively 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, was 14.1 years at December 31, 2005 and 13.6 years as of December 31, 2004. Survival 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 12.9%, 8.5% and 6.3% of our revenues for the years ended December 31, 2005, 2004 and 2003, 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, 2005, total invested assets (excluding cash and cash equivalents) were US$ 7,281.6 million compared to US$ 8,467.1 million as of December 31, 2004. During 2005, commutations as well as negative operating cash flows have resulted in a decrease of total invested assets including cash and cash equivalents of US$ 1,185.5 million of which US$ 700.0 million is attributable to CRNA and US$ 389.2 million is related to Converium AG.

The table below presents the carrying value of our consolidated investment portfolios as of December 31, 2005, 2004 and 2003.

	For the year ended December 31,					
	2005		2004		2003	
	US$ millions	**% of total**	**US$ millions**	**% of total**	**US$ millions**	**% of total**
Fixed maturities securities	4,963.4	74.8	5,685.2	73.0	4,928.6	65.7
Equity securities	362.6	5.5	399.4	5.1	834.9	11.1
Funds Withheld Asset	1,020.1	15.4	1,305.1	16.8	1,530.6	20.4
Short-term investments	253.1	3.8	117.3	1.5	55.7	0.7
Other investments	35.1	0.5	279.2	3.6	152.2	2.1
Total investments	**6,634.3**	**100.0**	**7,786.2**	**100.0**	**7,502.0**	**100.0**

Fixed Maturities

As of December 31, 2005, our fixed maturities portfolio, excluding the Funds Withheld Asset (described more fully below), had a carrying value of US$ 4,963.4 million and represented 68.2% of our total investment portfolio including cash and cash equivalents (82.2% including the Funds Withheld Asset). This represents a decrease in carrying value of US$ 721.8 million, or 12.7%, from December 31, 2004. This decrease was driven by the liquidation of primarily fixed maturity securities to support our 2005 commutation efforts.

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.

(US$ millions, except percentages)	**Estimated fair value**	**% of total**	**Carrying value**	**% of total**
As of December 31, 2005	**Available-for-sale (AFS)**	**AFS**	**Held-to-maturity (HTM)**	**HTM**

Less than one year	336.5	8.1	39.7	5.0
One year through five years	2,216.2	53.1	513.9	64.8
Five years through ten years	776.3	18.6	219.2	27.6
Over ten years	110.9	2.7	20.8	2.6
Subtotal	3,439.9	82.5	793.6	100.0
Mortgage and asset-backed securities	561.4	13.5		
Unit trust bonds	168.5	4.0		
Total as of December 31, 2005	**4,169.8**	**100.0**	**793.6**	**100.0**

Most of our fixed income securities are rated by Standard & Poor s, Moody s or similar rating agencies. As of December 31, 2005,

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approximately 92.0% of our fixed maturities securities portfolio was invested in securities rated A or better by these agencies and approximately 80.5% 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.

(US$ millions, except percentages)	Estimated fair value	% of total	Carrying value	% of total
As of December 31, 2005	Available-for-sale (AFS)	AFS	Held-to-maturity (HTM)	HTM
AAA/Aaa	3,224.7	77.3	769.5	97.0
AA/Aa2	292.7	7.0	13.8	1.7
A/A2	255.1	6.1	10.3	1.3
BBB/Baa2	266.3	6.4		
BB	29.3	0.8		
Not rated [1]	101.7	2.4		
Total as of December 31, 2005	**4,169.8**	**100.0**	**793.6**	**100.0**

(1) Includes US$ 77.1 million private collateralized loans issued by German banks with a credit rating equivalent to S&P AAA

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, 2005 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, 2005, our equity securities portfolio had a carrying value of US$ 362.6 million (including PSP Swiss Property AG). This represents a decrease in carrying value of US$ 36.8 million, or 9.2%, from December 31, 2004, which was generally driven by the strategic investment decision to reduce our holdings in equity securities. Equity securities were 3.9% and 3.5% of our total investment portfolio as of December 31, 2005 and December 31, 2004, respectively, including cash and cash equivalents and excluding PSP Swiss Property AG.

Substantially 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, 2005 was approximately US$ 46.9 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 US$ 1.7 million as of December 31, 2005.

At December 31, 2005 and 2004, gross unrealized gains on our equity portfolio were US$ 76.0 million and US$ 73.0 million and gross unrealized losses were US$ 1.1 million and US$ 2.5 million, respectively. We have reviewed the securities that have declined in value and have recorded impairments accordingly. See Item 5. Operating and financial review and prospects A. Operating results Critical accounting policies for additional information on our impairment policy.

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, 2005, 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 effected 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, 2005, the Funds Withheld Asset was US$ 1,020.1 million. The decrease of US$ 285.0 million over December 31, 2004 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.

See Note 18 to our 2005 consolidated financial statements for additional information on the Funds Withheld Asset, including a change to the underlying agreement. In December 2005, the agreement was amended to provide, that Converium has the right, by giving 60-days prior written notice to ZFS, to ask for payment in cash on January 1 and July 1 of each calendar year, for the first time on July 1, 2006, of up to 25% of the total funds withheld sub-account balances, as per the most recent quarterly statements, under the respective agreements with ZFS. Furthermore, Converium has the right, at any time upon giving 60-days prior written notice, to ask for the residual balance of the funds withheld account falling below US$ 100.0 million, to be paid in cash and in case Converium s insurers financial strength rating as assigned by Standard & Poor s is A or higher the latter amount is increased to US$ 200.0 million.

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, 2005, we had short-term investments with a carrying value of US$ 35.1 million, representing 0.5% of our total investment portfolio, including cash and cash equivalents. Short-term investments at December 31, 2004 were US$ 117.3 million or 1.4% of our total investment portfolio, including cash and cash equivalents.

Real Estate

At December 31, 2005, we had real estate held for investment of US$ 144.6 million, consisting primarily of investments in residential and commercial rental properties located in Switzerland and indirect real estate in the Eurozone. Our real estate portfolio represented 2.0% of our total investment portfolio, including cash and cash equivalents. The balance of our real estate held for investment at December 31, 2004 was US$ 138.8 million.

In addition to these properties, Converium owns a 3.8% participation in PSP Swiss Property AG (an indirect real estate investment, included in equity securities) with a market value of US$ 76.8 million as of December 31, 2005 and US$ 98.9 million as of December 31, 2004. During the fourth quarter of 2005, Converium reduced its investment in PSP Swiss Property AG by US$ 21.7 million to US$ 76.8 million.

Other Investments

As of December 31, 2005 and December 31, 2004, we had US$ 107.4 million and US$ 102.5 million, respectively in funds of hedge funds. This investment is included under the caption Other investments in the balance sheet.

Premiums Receivable

We had premiums receivable of US$ 1,059.3 million at December 31, 2005 compared to US$ 1,832.2 million at December 31, 2004, a decrease of US$ 772.9 million, or 42.2%. This decrease is primarily due to the reduction in business volume. 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. Current premiums receivable represented 18.3% and 20.1% of total premiums receivable at December 31, 2005 and December 31, 2004, respectively and accrued premiums receivable represented 81.7% and 79.9%, respectively. Bad debt provisions of US$ 28.1 million have been recorded for estimated uncollectible premiums receivable and reinsurance recoverables at December 31, 2005, compared to US$ 30.6 million at December 31, 2004.

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, 2005 and 2004, Converium held US$ 470.6 million and US$ 300.9 million, respectively, in collateral as security under related retrocessional agreements in the form of deposits, securities and/or letters of credit. Converium is able to access outside capacity for both traditional and non-traditional coverage and therefore is not dependent upon any single retrocessional market.

As of December 31, 2005, we had reserves for unpaid losses, loss expenses and future life benefits from retrocessionaires of US$ 805.1 million compared to US$ 937.9 million at December 31, 2004.

Capital Expenditures

For the three years ended December 31, 2005, we invested a total of US$ 11.3 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

During the course of 2005, Converium interacted frequently with Standard & Poor s and A.M. Best. Based on meetings and information provided by Converium, both rating agencies confirmed their financial strength ratings of BBB+ and B++, respectively, with a stable outlook.

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 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 Finanzdepartment) and is subject to the continued supervision by the FOPI pursuant to the Swiss Insurance Supervisory Act of December 17, 2004 (Versicherungsaufsichtsgesetz) (ISA). 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. On January 1, 2006 a completely revised ISA together with an Implementing Ordinance entered into force. The main changes are an amended definition of solvency (Art. 9) which includes consideration of financial and operational risks, an emphasis on risk management aspects, the control of corporate governance elements by the FOPI and an increased transparency and consumer protection. The most important new feature is the introduction of the Swiss Solvency Test (SST), a risk-based capital model which preempts the forthcoming changes in the EU based upon the proposed EU Solvency II Directive. Insurance undertakings are allowed to use their internal risk models if they comply with certain conditions of a qualitative, quantitative and organizational nature defined and accepted by the FOPI. Furthermore, as a result of the revised ISA, FOPI may decide to establish a Group Supervision over Converium, in accordance with Art. 65 of the ISA. By virtue of the relevant provisions on Group Supervision as defined in the revised ISA, Converium companies outside of Switzerland could become the subject of certain supervisory powers of FOPI.

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.

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 US$ 100.0 million; guarantees exceeding US$ 10.0 million; transfer of portfolios or novations involving changes in reserves exceeding US$ 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 net adverse development of prior years loss reserve Converium recorded in 2004 and the subsequent placement of its North American business into orderly run-off, the Connecticut Insurance Department (the Department) has implemented additional financial monitoring of CRNA. CRNA has entered into a 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:

- Making any payments pursuant to commutation agreements that result in decreasing CRNA s surplus;
- 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; 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 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, 2007, at which time the Department will reassess the financial condition of CRNA.

The ratings downgrades as well as Converium s decision to place CRNA into orderly run-off 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 Converium provides such collateral. If the Department withholds its approval, Converium would be in default under contracts that have special funding clauses unless the other party to the contract has waived the requirement. In addition, state insurance regulators that requested special deposits or collateral 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 their 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 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 has amended 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 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

Based on the developments of 2004, CRNA was placed into orderly run-off, which resulted in the discontinuation of writing reinsurance from all of CRNA s offices and commutation of liabilities wherever appropriate. As a result of the run-off, the Connecticut Insurance Department has implemented additional financial monitoring of CRNA. CRNA has entered into a 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. In addition, CRNA is required to provide the Department with written reports on a monthly basis containing detailed information on all commutations of reinsurance treaties and related activities.

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 four-year period ending December 31, 2004 and the final report has been issued. No adjustments were made to CINA s financial information on this report.

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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 US$ 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 (IRIS) 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 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. For 2005, two IRIS loss reserve ratios were out of range as of December 31, 2004 and an outside loss reserve specialist was engaged. For 2006, only one IRIS loss reserve ratio was out of range as of December 31, 2005 and a regulatory request for an outside opinion is not anticipated.

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. As of December 31, 2005, the RBC level placed the Company above all action levels. Our US insurance subsidiary, CINA, exceeded amounts requiring company or regulatory action at any of the four levels.

The Gramm-Leach-Bliley Act

The Gramm-Leach-Bliley Act of 1999 ("GLBA) permits mergers that combine commercial banks, insurers and securities firms under one holding company, a "financial holding company. Until 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. As a result of GLBA, the ability of banks to affiliate with insurers may affect our U.S. subsidiaries product lines by substantially increasing the number, size and financial strength of potential competitors. Privacy provisions of GLBA became fully effective in 2001. These provisions established consumer protections regarding the security and confidentiality of nonpublic personal information and require full disclosure of the privacy policies of financial institutions, including U.S. insurers, to their consumer customers.

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.

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, provides for the federal government to share with the insurance industry the risk of loss from certain future terrorist attacks. Each participating insurance company must pay covered losses equal to a deductible based on a percentage of direct earned premiums for specified commercial insurance lines from the previous calendar year. TRIA was originally scheduled to expire at the end of 2005, but was extended in December 2005 for an additional two years. As extended, the insurer deductible will be increased from 15% in 2005 to 17.5% in 2006 and 20% in 2007. For losses in excess of a company s deductible, the federal government will cover 90.0% of the excess losses in 2006, while companies retain the remaining 10.0%, with the government s share decreasing to 85.0% in 2007. Losses covered by the program remain capped annually at US$ 100.0 billion. The extended TRIA will establish a new program trigger under which federal compensation will become available only if aggregate insured losses sustained by all insurers exceed US$ 50.0 million from a certified act of terrorism occurring after March 31, 2006 and US$ 100.0 million for losses resulting from a certified act which occurs on or after January 1, 2007. This new trigger will be in addition to the US$ 5.0 million certification threshold for an event to be certified.

Proposed US legislation regarding US asbestos liability

Congress is 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 keep 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. Medical criteria would be established to attempt to ensure that only people who showed signs of asbestos-related illnesses would be entitled to payments from the trust. It is difficult 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.

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.

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 or being bound by contract, Switzerland reviews and largely conforms its financial services regulations to EU directives.

The new EU Reinsurance Directive adopted on November 16, 2005 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 rei