CONVERIUM HOLDING AG
Form 6-K
March 04, 2005

Form 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16

of the Securities Exchange Act of 1934

For the period ending December 31, 2004

CONVERIUM HOLDING AG
(Translation of registrant s name into English)

Baarerstrasse 8
CH-6300 Zug
Switzerland
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F þ Form 40-F o

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No þ

If Yes is marked, indicate the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-
Not Applicable

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CONVERIUM HOLDING AG

By/s/ Terry G. Clarke
Name: Terry G. Clarke
Title: Chief Executive Officer, Converium Holding AG

By/s/ Andreas Zdrenyk
Name: Andreas Zdrenyk
Title: Chief Financial Officer, Converium Holding AG

Date: March 4, 2005

Annual Report 2004

Shareholders Meeting

The Annual General Meeting 2005 is to be held at 10:30 a.m. local time on Tuesday, April 12, 2005 at the Casino in Zug, Switzerland.

Key share data for 2004

Shares registered as at December 31, 2004	146,689,462

SWX Swiss Exchange

Share price as at December 31, 2004 in CHF	10.15
Year High in CHF	37.03
Year Low in CHF	7.42
Average price in 2004 in CHF	22.57
Average daily trading volume	1,063,672
Market capitalization as at December 31, 2004 in CHF	1,488,898,039
Loss per share in CHF	14.89
Book value per share as at December 31, 2004 in CHF	13.37

New York Stock Exchange

ADS price as at December 31, 2004 in US$	4.64
Year High in US$	29.57
Year Low in US$	3.15

Performance versus benchmarks since the IPO

Converium Ordinary Shares*	75.4%
Bloomberg European Insurance Index*	39.4%
Swiss Market Index*	10.0%

Converium ADSs**	67.6%
Bloomberg US Insurance Index**	8.1%
Dow Jones Industrial Index**	9.0%

Performance versus benchmarks in 2004

Converium Ordinary Shares*	69.6%
Bloomberg European Insurance Index*	5.8%
Swiss Market Index*	3.7%
Converium ADSs**	70.2%
Bloomberg US Insurance Index**	10.0%
Dow Jones Industrial Index**	3.2%

* underlying figures in CHF

** underlying figures in US$

First listed December 11, 2001 on the SWX Swiss Exchange and on the New York Stock Exchange.

Converium publishes quarterly, half-year and annual reports. Shareholders and others can gain access to reporting and other information about Converium at www.converium.com, or by contacting:

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Business profile

Financial highlights

(US$ million)	**2004**	**2003**	**2002**	**2001**
Gross premiums written	3,840.9	4,223.9	3,535.8	2,881.2
Net premiums written	3,553.0	3,827.0	3,322.2	2,482.6
Net premiums earned	3,685.1	3,676.5	3,165.5	2,295.2
Total investment results	358.1	251.4	241.5	210.3
(Loss) income before taxes	422.6	224.4	57.4	537.3
Net (loss) income	760.8	185.1	106.8	367.4
Basic (loss) earnings per share (US$) [1]	12.00	2.33	1.34	4.61
Total equity	1,720.2	2,083.3	1,738.0	1,570.8
Total underwriting reserves, net of reinsurance	9,297.2	8,075.1	6,736.0	5,263.1
Total invested assets	7,804.4	7,528.7	6,117.3	4,915.9
Pre-tax return on equity (%)	20.3	12.9	3.7	49.4
Loss ratio non-life (%)	90.3	71.5	78.2	99.9
Expense ratio non-life (%)	27.9	26.4	25.5	29.4
Non-life combined ratio (%)	118.2	97.9	103.7	129.3
Book value per share (US$)	11.76	52.38	43.55	39.27
Dividend per share (CHF)		1.50	1.00	

1 For periods 2001 through 2004, the information is based on the rights offering that occurred in October 2004.

Actual non-life combined ratio

Contents

Letter from the Chairman

Dear shareholders,

When I wrote to you in Converium s 2003 Annual Report, I had every reason to believe that 2004 would be another successful year for our Company. Today I write with the clear realization that this was not the case. I share your unhappiness and disappointment in the results we report in the pages that follow.

Last year I wrote that even the best-made plans can be shaken, especially for companies in the risk business. At that time my colleagues on the Board and I had no indications that Converium s reserve position would be challenged by the unexpected. The assessments during the course of 2003 gave us reason to believe that our reserves were adequate overall.

As you know, a material deficiency in the casualty provisions of Converium s US subsidiary developed during the second quarter of 2004. The shortfall was mainly the result of a higher than modeled US casualty loss emergence, primarily related to the underwriting years 1997 to 2001.

Concerted and comprehensive reaction

Your Board responded swiftly and decisively. We chose to cease underwriting business in our US subsidiaries, to place our reinsurance operations there into run-off, and in future to write selective US business in Zurich. Although the US generates the largest premium volume of any country in the world, underwriting results there have generally been unsatisfactory from our perspective. In contrast, much of our business outside the United States and especially that written in recent years has proven both profitable and resilient. Your Board has decided to focus Converium s capital and talent on reinsurance acceptances in more rewarding areas of business.

I have always indicated that, as a Board, we would be closely involved in the activities of your Company. We increased our oversight in 2004, as well as our interaction with Converium s management. To strengthen day-to-day cooperation and communication between your Board and senior executives, Terry G. Clarke was appointed Managing Director with a view to working actively with management in order to enhance the effectiveness of strategic and operational decision-making and to ensure that the Board and management are working in concert. Following Dirk Lohmann s departure on February 23, 2005, Terry G. Clarke stepped back as Managing Director and has since assumed the position of Chief Executive Officer.

While I am sincerely dissatisfied and disappointed by the blows inflicted on Converium by its past, I am not disillusioned about its present, or disheartened over its future. You have expressed trust in your Company by approving a US$ 420 million rights issue at the Extraordinary General Meeting that was held on September 28, 2004, and we will do the utmost to meet your trust. Converium has many strengths on which to trade forward. Not least of these is the operational and underwriting strategy developed since 2001. Having taken the decision to withdraw from underwriting through US subsidiaries and adjust the local corporate governance structure, I believe that our existing strategy remains sound in the current environment.

Many clients have expressed their confidence in Converium by continuing to do business with us. This gives me personal confidence in the inherent value of our organization. These clients have cleared up a great uncertainty which loomed over Converium in 2004: we have indeed been able to maintain our franchise. Our performance during the important renewal season of January 1, 2005 was in line with our expectations and targets. From the financial standpoint, as per the end of 2004, Converium s tangible equity was US$ 1.6 billion, about the same as it was in early 2003. We now have a very strong capital base on which to rebuild, especially in view of our reduced premium volume.

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That said, I do not wish to deny the seriousness of the events of 2004, nor to refute the challenges which lie ahead. Without doubt, some clients confidence in your Company has been eroded, especially in intermediated markets. We must now set aside our aspiration to rank among the largest reinsurers and focus instead on our new goals as a profitable medium-sized company.

Securing the future

In a business where capital entry is easy and much of the product is undifferentiated, we possess a proven resource to provide value-added services. Our current strategy has proven robust: Specialty Lines underwriting, long-term joint ventures, and our relationships with specialist syndicates at Lloyd s have insulated Converium from some of the pressures arising from the fall in our financial strength ratings.

Ratings are critical in aviation, but Converium has drawn upon the support of its partners in the Global Aerospace Underwriting Managers Ltd. (GAUM) pool, to sustain our access to this preferred portfolio of aviation risk. Repositioning our life reinsurance segment to focus on new business in Continental Europe has provided a steady revenue stream. In total these strategic business undertakings, implemented since the Initial Public Offering (IPO) in 2001, yield approximately US$ 800 million in annual premium income. They provide a foundation on which to restore Converium s market position.

Similarly, the strength of the direct business relationships built by our Client Relationship Managers has proven to be enormously beneficial in preserving our franchise. Although we have suffered certain business losses as a direct result of rating actions, Converium continues to receive strong support from many client segments. This is due in part to the value placed upon our technical skills, and on our expertise in specialist areas such as credit and surety, asset liability management, and natural catastrophe hazard modeling. This strong client support is also a clear benefit of increased client contact, whether initiated by Converium or facilitated by intermediaries.

Reputational damage cannot instantly be reversed. However, I believe that Converium s excellent standing can be restored. The process has begun with your Board s effort to regain your confidence in Converium. It is mirrored by the ongoing work of everyone within your organization to bolster the support of our current, former and future clients. Critically, it includes our ongoing efforts to retain the trust of Converium employees. Although, painful as it may be, our repositioning entails staff reductions worldwide, in order to decrease our cost base. These regrettable necessities are already underway.

I am personally confident that we have the resources and the will to continue to strengthen Converium s franchise and to garner the renewed faith of rating agencies. As always, creation of shareholder value is the fundamental driver of your Board s decision-making. We have always worked to build a modern, sophisticated reinsurance company engineered to create value. Clearly 2004 did not accomplish this, but following the successful rights issue and strategic repositioning, I believe that Converium is leaner and more focussed today.

Some thanks

I am very pleased to welcome Paul Dassenko as President and CEO of Converium Reinsurance (North America) Inc. His extensive run-off experience and strong leadership skills will prove invaluable to Converium s shareholders and clients alike. Dirk Lohmann and Martin Kauer have left their posts as Chief Executive Officer and Chief Financial Officer, respectively. They were great contributors to the Company, and their commitment was critical for its establishment and for the successful IPO. The Board of Directors wishes both of them all the best for the future.

I would like to express my thanks to all shareholders, both new and long-term, for continuing to share my confidence in Converium. I would also like to thank our clients for their ongoing trust. Lastly, I wish to thank management and staff for standing by us through the crisis of 2004. I am thoroughly aware that the past year has been a very dramatic and trying one, but the Board and I look forward to cooperating with you to return Converium to a successful track.

Sincerely,

Peter C. Colombo
Chairman of the Board of Directors

Review 2004 and outlook 2005

Reinsurance industry overview

Reinsurers continued to benefit from a positive trading environment in 2004. Although the industry s pricing cycle turned downwards in many lines of business, discipline was maintained overall. Despite some relaxation, premium rates and reinsurance terms and conditions were mainly adequate to yield economic profits in expectation. Global investment markets remained stable, but at relatively low levels of return, forcing underwriters to keep focussed on technical profits.

Trends established in 2003 continued in most lines and markets during the course of 2004, with further slight reductions in prices for standard property reinsurance, for example, and more significant easing of rates and conditions for underlying property cover, especially for large and prominent risks. Motor quota share pricing and conditions were mostly flat, but eased slightly in the UK. In contrast, market prices increased somewhat for European motor excess of loss treaties, in response to developing claims trends, especially in France.

Although the aviation reinsurance market remained steady, price declines continued for many insurance products, with rates slipping up to 10 15% for airline policies. In contrast, pricing of product liability for aviation risks increased while general aviation insurance stabilized after a period of rising prices. Terms and conditions for most specialty and liability reinsurances were maintained, even as underlying insurance prices eased further in some areas. Competition over specialty lines primary insurance risks, especially long-tail risks such as directors & officers , increased during the year despite the frequency and severity of claims activity in the first five years of the decade. Meanwhile, US federal asbestos- and tort-reform initiatives were interrupted by presidential politics.

Despite generally flat pricing, the loss environment for both insurers and reinsurers changed dramatically in 2004. Although the commercial aviation sector saw one of the lowest loss years on record, continuing a trend, a number of dramatic natural catastrophes struck around the world in the third and fourth quarters. These included a series of landfalling hurricanes in the southern part of the United States and the Caribbean, an unusually high number of storms affecting Japan, and the tragic and devastating tsunami wave which developed following an earthquake in the Indian Ocean on December 26, 2004.

Assumptions about event frequency and multinational exposure have been challenged by these events, which in combination made 2004 the most costly ever in terms of natural catastrophes. However, the cost to the reinsurance market fell well within most companies expectations. The year s high level of natural catastrophe losses halted or eased the declining trend in catastrophe reinsurance pricing. Although affected contracts typically saw large increases, prices declined in territories which were catastrophe-free, or which have a limited demand for catastrophe reinsurance. The offshore energy market suffered a multi-billion dollar loss arising from damage to offshore facilities caused by hurricane *Ivan,* halting price declines in that specialist market.

Despite unprecedented natural catastrophes, the year s loss experience was generally benign. Outside of the energy market which suffered significant risk losses early in the year and again through hurricane *Ivan,* most lines of business experienced few, if any large shock losses. However, the emergence of prior year losses continued to affect a number of reinsurers current income, much of which was related to underwriting during the soft market years of 1997 to 2001. Financial security ratings remained generally stable, following the industry-wide downgrading in 2002 and 2003. In the second half of 2004 Converium dominated industry news on both subjects.

In terms of external influences, 2004 was marked by an investigation into broker remuneration practices, led by New York Attorney General Eliot Spitzer. Increased scrutiny of the manner in which brokerage services are compensated, as well as of finite reinsurance structures and captive insurance, placed the industry in an unfavourable public spotlight. The remuneration practices under question are concentrated in primary insurance, and impact the reinsurance market only to a very limited extent. Finite reinsurance is internationally a widely accepted and used tool to manage underwriting and balance sheet risk at affordable cost. In general, transactions are governed by strict accounting and disclosure rules.

Converium will continue to provide finite reinsurance products, and, as in the past, will work closely with auditors and clients to ensure compliant structures from a regulatory and accounting perspective. Demand for finite products may be diminished, however, due to their somewhat esoteric nature and the perceived negative associations with the use of finite from a publicity and disclosure point of view.

Converium s 2004 performance

Converium began 2004 with a very strong renewal in an attractive pricing environment, but the unexpected reserve development emerging mid year had an obvious negative impact. Gross written premiums of the Standard Property & Casualty Reinsurance segment decreased by 9.9%, despite strong growth in Continental European markets early in the year. These early gains were offset by the run-off of Converium s US reinsurance operations in the second half, by cancellations following rating downgrades, and by Converium s selective reduction of exposures such as UK motor quota share and Japanese windstorm excess of loss due to falling prices.

A similar combination of growth and limitation factors affected premium income for Converium s Specialty Lines segment, which recorded an overall decrease in gross written premium of 12.1%. Converium maintained its participation in the Global Aerospace Underwriting Managers Ltd. (GAUM) pool through fronting arrangements, although in the face of declining market rates GAUM chose not to renew the insurance programs of several high-profile international airlines, continuing the strict underwriting approach it adopted in the fourth quarter of 2003, when prices began to decline.

Following a restructuring in 2003, the Life & Health Reinsurance segment achieved strong growth in Europe, a result of intensive investment in customer servicing capabilities in Germany, France and Italy. Growth continued into 2005, as the segment increased its underwriting with existing clients and managed to attract new clients. Overall, Converium achieved strong underwriting results from business underwritten in 2004, as its technical approach to pricing and risk diversification continued to deliver profitable returns on risk-adjusted capital.

Solvency and capitalization

Converium is very well capitalized. Despite the events that rocked the Company in 2004, it finished the year with tangible equity* of US$ 1.6 billion, after the October rights issue re-established shareholders funds. Although Converium s rights issue restored the Company s tangible equity, the rating we were awarded by both major rating agencies was somewhat lower than our models would suggest. This is the consequence of reserving volatility in recent years and uncertainty with respect to Converium s ability to maintain its franchise in the targeted markets. Converium has targeted the achievement of improved financial strength ratings within a reasonable timeframe, to reflect its true capital position.

Converium s discussions with both major rating agencies will stress the progress and efforts to reinforce the financial strength of the various legal entities going forward. Given the concerns by customers and intermediaries regarding reinsurance security they are looking much more closely at the fundamentals of Converium s balance sheet, in order to make their own assessment of the true financial strength of their counterparty. In many cases Converium was judged to be financially secure despite its current rating, as demonstrated by the achievement of the Company s January 2005 renewal targets.

Outlook 2005

Converium succeeded in meeting its targets for the January 1, 2005 renewal, which represents a significant proportion of its total business. A large share of clients showed strong support, particularly those in Continental Europe and the Middle East. Nonetheless, the Company has begun the year significantly changed. Only small volumes of US business are expected to be underwritten from Converium s Zurich headquarters, and rating-sensitive buyers and intermediaries in markets such as the UK and Australia (where the insurance supervisor mandates a minimum acceptable security rating) are unlikely to return to Converium until a rating upgrade has been achieved. In other markets Converium was able to maintain most relationships, albeit in many instances with reduced shares. While the initial impact is a reduction in premium written, it is encouraging to see that many clients left the door open to Converium and clearly signalled that a return to our former position in their reinsurance panel was a real possibility following an eventual upgrade in our rating.

Although ratings are an important selection criteria for all clients, Converium achieved a satisfactory renewal in markets where Client Relationship Managers have unrestricted access to customers. In many instances the level of service clients have received from Converium was an important factor in their decision to renew, as was their desire to continue to have a medium-sized, independent reinsurer such as Converium as part of their overall panel of reinsurers. As for the renewed business itself, terms and conditions were relatively stable. Underwriting standards were not relaxed, with the exception of the pricing formula which was modified to reflect our changed tax situation. Overall our target returns, although somewhat lower than in the peak of the hard cycle, remain in excess of our long-term return objectives as

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* Tangible equity = total equity less net deferred tax assets, goodwill, and other intangibles

Converium s focus remains on improved risk diversification and reduced economic risk.

In the wider market, competition is increasing in most lines, and the trend towards price reductions continues. So far the market has remained disciplined in the main, but capital increases continued throughout 2004, as the reinsurance industry completed its recapitalization and grew stronger in terms of its capital base than it was before the losses of September 11, 2001 (source: Benfield). Insurance prices for some large property, specialty liability, and airline exposures are likely to continue to decline, and catastrophe reinsurance prices have resumed a slight downward course where no losses have occurred, as capacity remains abundant for most exposures.

In other lines, including European motor, small enterprise property, and many liability exposures, rates remained stable or increased upon renewal and are likely to remain satisfactory over the course of the year. As a result, in the absence of major catastrophic events the market as a whole is on track to achieve satisfactory profitability in 2005. Converium expects to deliver another profitable underwriting year, as its technical and disciplined approach is steadfastly enforced. In the autumn of 2004 we expected our non-US premium volume for the underwriting year 2005 to be reduced by up to 40% compared to 2004. All indications to date suggest that the Company will achieve those revenue goals, without sacrificing underwriting integrity and the maxim of profit over top-line performance.

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Strategy

Early in 2004 Converium adopted a comprehensive corporate strategy intended to build on its accomplishments since the Company was formed in 2001. Later in the year the Global Executive Committee was forced to adjust the business model in response to developments which led to the decision to cease underwriting in North America, and to the downgrading by Standard & Poor s and A.M. Best Company of Converium AG s insurer financial strength rating to BBB+ and B++, respectively.

In contrast, key elements of Converium s post-IPO strategy have proven both profitable and tactically sound. Business underwritten outside the United States since the IPO has met or exceeded financial targets based on current estimates. Converium s strategic decisions since its independence have reinforced its ability to withstand the legacy-related challenges of the year in review.

Converium continued to attract business in targeted lines and regions during the January 1, 2005 renewals. This success underlines market appetite for a mid-sized, independent reinsurer, and justifies shareholders decision at the Extraordinary General Meeting in late September 2004 to support Converium as a stand-alone entity delivering consistency and continuity under its existing business model.

Current strengths arising from recent strategic positioning and development include the decision to continue to build direct client relationships in Continental Europe and elsewhere. In general, such relationships have proven more enduring than broker channels in the current business environment. In the specific case of Converium s contract renewals for January 1, 2005, the greatest business continuity achievements were made among clients with which Converium has direct personal relationships at all levels, with or without the involvement of intermediaries.

In addition, the strategic diversification of Converium s income streams has created a more robust organization by gaining access to business at its source. These steps include the development of joint ventures such as that with the Medical Defence Union in the United Kingdom, participation in Global Aerospace Underwriting Managers Ltd., and the formation of Converium s Corporate Name at Lloyd s to support clients operating in that market by providing capital to them directly.

Other successful strategic initiatives include expansion in the Asia-Pacific region, and refocusing and expanding of Converium s Life & Health Reinsurance segment in Europe. Strategic decisions to increase activity supported by knowledge-based underwriting in certain specialty lines markets and to maintain a thoroughly technical and profitability-focused approach to all aspects of Converium s business have also contributed to the Company s resilience.

Looking ahead

Despite the strength of Converium s strategic business model, changes lie ahead. The Company will continue to adjust its client base to concentrate on partnership-focussed professional reinsurance buyers within client segments dependent on reinsurance. This move is supported by Converium s value proposition, built around comprehensive client services such as underwriting support and financial and natural hazard modeling.

Geographically, Converium now focuses its local presence and underwriting on clients located in Europe, Asia-Pacific, and Latin America. The Company will continue to serve North American customers selectively from Zurich, following the decision to place Converium Reinsurance (North America) Inc. into an orderly run-off, which will be accompanied by an active commutation strategy. A restructuring process is now underway to ensure that Converium s physical presence matches its strategic outlook.

Converium will continue to serve and develop clients that will benefit from its strong capitalization following the 2004 rights issue. Converium s existing targeting of strategic alliances and joint ventures will continue, especially for rating-sensitive specialty lines underwriting. Although 2004 was a challenging year for Converium, the validity of its incumbent strategic path outside the United States has been clearly endorsed. Converium s business model will be further enhanced in 2005, with a clear line-of-business and geographical focus, an emphasis on expertise and service, and a rigorous technical approach.

Risk Management

Risk management practice in the global financial sector has increased in breadth and intensity since Converium was launched in 2001. The subject of risk management has been elevated to a board-level concern for listed companies around the world as corporate governance standards are overhauled, and scrutiny from regulators, supervisors, analysts and shareholders multiplies. The range of risks addressed by financial institutions has become considerably more comprehensive, and their analysis significantly more complex. Procedures now commonly include investigation of the potential interdependence of risk factors and determination of the risk-weighted capital required to support them.

During this time most reinsurance companies have developed comprehensive risk identification, analysis and control procedures, and are in the process of implementing these measures. Converium has been actively developing or extending a comprehensive Enterprise Risk Management (ERM) approach, rather than looking at risks separately and individually.

Risk Management further intensified

Converium advanced its ability to manage risk on an enterprise basis through its October 2003 reorganization into three global business segments based on the types of underwriting risk Converium assumes: Standard Property & Casualty Reinsurance, Specialty Lines, and Life & Health Reinsurance. The new structure replaced the historical geographical division, and allowed Converium to enhance and optimize its Enterprise Risk Management environment by introducing a universal risk management approach which regards the business as a uniform whole.

The reorganization included the creation of the position of the Chief Risk Officer at the Global Executive Committee level. Risk management functions were henceforth carried out according to this new organizational structure. This allowed management to assess and evaluate risks arising from the main annual reinsurance renewal season according to lines of business, rather than geographically.

While no risk management process can be 100% foolproof, Converium believes that its current procedures, incorporating principle-based risk analysis and enhanced in 2004 through the implementation of a dedicated risk reporting function, will create a safety net intended to prevent adverse situations from occuring and will ensure that such situations are identified in a timely manner.

Converium s reserving policy

To ensure reserving throughout our business departments is consistent and adequate, Converium s reserving policy has been further enhanced and codified. It comprises the reserving principles which spell out the approach and governance under which the company sets reserves. This comprises guidance as to best practice for developing best estimate indications and reserve ranges reflecting the inherent uncertainty in predicting future loss cost settlements, considerations as to reserve adequacy as well as to the reserving process and feedback loops between various parties to ensure a reliable, transparent and sustainable analysis of reserve levels in a timely manner.

Enterprise Risk Management approach

Converium s Enterprise Risk Management approach is an integrated, rolling process which is reviewed on a regular basis. Constant risk identification leads on to a formalized risk assessment and prioritization process, including annual risk assessment procedures. Appropriate risk mitigation responses are developed and implemented. Control and monitoring functions lead into a communication process, supported by the dedicated risk reporting function. This communication is fed into Converium s overall strategy development activities.

This principle-based risk management approach considers each risk in the light of all other risks, ensuring consistency and transparency of standards for risk measurement, control and reporting. The goal of this work, led by the Chief Risk Officer, is to recognize, understand, measure, hedge and mitigate all aspects of risk, actual and potential, that touch the organization.

Remaining risks may be significant, since Converium is in the business of accepting and retaining insurance risk from its clients. Retained risk is effectively balanced by blocks of allocated capital sufficient to ensure the sustainability of the organization while striving to maximize return to shareholders. Investment returns play a role, but they are anticipated and priced into Converium s products on a risk-free basis and reflect the current low-margin return environment for the long term. Aggregate risks are measured across the Company, and incorporated into both performance analysis and strategic planning.

Reinsurers, including Converium, also face many of the conventional risks common to all enterprises. These include health and safety risks to the workforce, external risks such as theft and litigation, IT systems risks, and operational risks related to failed processes. In addition, however, reinsurers face a number of unique risks. Dominant among these are *liability risks,* including *underwriting risk* (the risk that inadequate reinsurance prices, terms and/or conditions result in premium income that is insufficient on average to offset claims payable to client insurers) and *reserving risk* (the risk that insufficient funds have been set aside to make future payments for claims incurred from the business underwritten in the past).

Managing and mitigating liability risks

Converium s practical approach to liability risk management is intended both to ensure that the quantitative characteristics of each liability risk assumed are monitored through setting and controlling of the adherence to pricing and policies and guidelines, and to make certain that the unique aggregate risks which reinsurers can amass are within pre-defined tolerance levels.

Risk mitigation measures include monitoring the industry-wide pricing cycle to help shape an underwriting policy which reflects industry conditions; the implementation of risk diversification strategies and aggregation and accumulation controls; the exercise of strict underwriting policies, guidelines and authorization levels; and retrocession activities including group pooling and the issue of catastrophe bonds. Converium has now implemented the codification of its reserving policy, as described on page 8. The Chief Risk Officer oversees quarterly actuarial assessments of reserve adequacy across all lines of business, and the Chief Financial Officer employs an asset /liability matching strategy which considers duration, interest rates and currencies.

Applying a consistent strategic approach

Converium uses advanced techniques to calculate risk-adjusted capital allocation and return on risk-adjusted capital (RORAC) when pricing risks. The intent is to quantify the uncertainty related to each risk in the context of Converium s existing portfolio, considering Converium s overall risk tolerance. In order to measure risk, the frequency and severity of the potential loss event are defined based on stochastic event scenarios and their implications.

Once the basic model for any given contract is determined, the contract is assessed in the context of Converium s portfolio. Contracts which improve portfolio diversification are allocated less capital than those that increase risk accumulation, thereby using price setting to improve risk diversification and steer the portfolio. Changes to Converium s business platform in 2004 will, of course, significantly affect the geographical and asset class diversification previously achieved in the portfolio. However, as the structure of the portfolio for future underwriting years develops, the same diversification strategies and tools will be considered.

Converium s capital modeling approach also factors in extreme events, often described as the conditional worst case or tail value at risk . Capital is allocated to support the expected shortfall of assets required to cover these extreme events. Meanwhile, the portfolio approach ensures that accumulation of risk from diverse sources does not lead to a greater risk to capital than the amount of capital allocated allows.

Effective catastrophe risk management protection

To protect against a series of large catastrophes, Converium successfully completed a five-year catastrophe bond transaction in June 2004. The facility, Helix 04, takes advantage of capital markets appetite for fixed-price catastrophe risk to provide the Company with US$ 100 million in fully collateralized second and subsequent event reinsurance for North Atlantic hurricane, US earthquake, Japanese earthquake and European windstorm property catastrophe exposures.

The implementation of these risk management measures to ensure risk-adequate pricing, portfolio diversification and risk-adjusted capital adequacy have contributed to the current-year underwriting profits achieved across Converium s reinsurance portfolio since 2002. Our effective approach and comprehensive catastrophe exposure management limited our net losses for the 2004 Atlantic hurricanes, typhoons in Japan and the tsunami in the Indian Ocean to a manageable size. Total natural catastrophe losses in 2004 amounted to US$ 154.5 million, adding 4.8 percentage points to the year s combined ratio.

Managing and monitoring asset risks

In common with any organization managing a large investment portfolio, Converium also faces *asset risks.* These include *market risks* (the potential for losses arising from decreased asset values), *credit risks* (the potential for losses to arise from third parties failing to fulfill their obligations to Converium) and *liquidity risks* (the possible inability to fund obligations because assets cannot be used to meet liabilities when they fall due, because of the asset class). Converium employs several strategies to mitigate these risks, including the use of investment and treasury policies and guidelines incorporating a strategic and tactical asset allocation, retrocession security assessment and monitoring measures, and Converium s sophisticated Asset and Liability Management (ALM) approach.

This ALM process, underpinned by a dynamic financial analysis system designed by in-house experts, drives regular analyses of both the investment and underwriting portfolios. The process identifies potential correlations between entries on either side of Converium s balance sheet. ALM determines the optimal risk-based capital requirement for asset risks, as well as for underwriting. The Group s prudent capital allocation model requires that capital, once allocated to liability or asset risk, cannot be used for any other purpose. Thus capital assigned to asset risk cannot be deployed to support assumed underwriting risk. ALM is also used to understand and evaluate changes in capital markets. For example, it is used to calculate the potential impact on Converium s profit and loss account and balance sheet of specific changes in interest rates.

Dynamic asset management is another critical risk management approach for asset risks. In 2004 Converium has further reduced its exposure to equity investments, and has actively managed its bond portfolio to shorten the duration in anticipation of rising interest rates, which could lead to impairment of bonds.

Converium became more disciplined in 2004, a development which was also supported by the implications of the Sarbanes-Oxley Act, placing higher priorities on processes, controls and governance. Beyond cycle management, Converium intends to develop its risk and ALM models even further, and to enhance the ERM approach constantly.

Corporate Governance

Organizational structure

Converium is organized into three global business segments: Standard Property & Casualty Reinsurance, Specialty Lines and Life & Health Reinsurance. The lines of business by segment include the following:

Standard Property & Casualty Reinsurance
General Third Party Liability
Motor
Personal Accident (assumed from non-life insurers)
Property

Specialty Lines
Agribusiness
Aviation & Space
Credit & Surety
Engineering
Marine & Energy
Professional Liability and other Special Liability
Workers Compensation

Life & Health Reinsurance
Life and Disability
Accident and Health

The three business segments include all lines of business and markets. In addition, Converium has several business support functions which assist the three segments in the underwriting process. They comprise: Actuarial and Risk Modeling Services, Claims, Risk Pooling, Transactional Legal Services, Underwriting Technical Services and Risk Management. Converium also has certain departments, which provide services to all segments and functions globally. These include Finance, Information Technology, Human Resources, Internal Services, Corporate Legal Services, the Strategic Project Office and Corporate Communications and Development. Converium is reorganizing Converium Reinsurance (North America) Inc. (CRNA) in order to ensure an effective and orderly run-off of business under a new management. As at December 31, 2004 Converium had 771 employees worldwide.

Legal structure

Converium Holding AG, a company organized under Swiss law with its domicile in Zug, Switzerland, directly or indirectly owns all Converium companies. Converium Holding AG, with a share capital of CHF 733,447,310, is the only listed company within Converium. Its shares are traded on the SWX Swiss Exchange (ISIN: CH0012997711) and its American Depository Shares (ADSs, ISIN: US21248N1072) are traded on the New York Stock Exchange. The market capitalization as of December 31, 2004 was CHF 1,488,898,039.

Significant non-listed companies

Company name	Country of incorporation	% of equity share held	Currency	Share capital

Converium Rückversicherung (Deutschland) AG	Germany/Cologne	100	EUR	4,601,627
Converium Finance S.A.	Luxembourg /Luxembourg	100	EUR	31,000
Converium AG	Switzerland/Zurich	100	CHF	400,000,000
Converium Holdings (North America) Inc.	United States/State of Delaware	100	US$	1
Converium Reinsurance (North America) Inc.	United States/State of Connecticut	100	US$	3,500,000
Converium Insurance (North America) Inc.	United States/State of New Jersey	100	US$	5,000,000
Converium Holding (UK) Ltd	United Kingdom/London	100	GBP	101
Converium Insurance (UK) Ltd	United Kingdom/London	100	GBP	60,000,000
Converium London Management Ltd	United Kingdom/London	100	GBP	1,000
Converium Underwriting Ltd	United Kingdom/London	100	GBP	2
Converium IP Management Ltd	Bermuda	100	US$	12,000
Converium Finance (Bermuda) Ltd	Bermuda	100	US$	12,000

In December 2002, Converium Finance S.A., a Luxembourg company, issued non-convertible, unsecured, guaranteed subordinated notes with a principal amount of US$ 200 million. The notes, which are listed on the New York Stock Exchange, are irrevocably and unconditionally guaranteed on a subordinated basis by Converium Holding AG and Converium AG.

Significant shareholders

No shareholder is registered in Converium s share register with an individual shareholding exceeding the 5% threshold as specified in article 663c of the *Swiss Code of Obligations*. The following notices have been given to Converium in 2004 in accordance with Art. 20 of the Federal Act on Stock Exchange and Securities Trading:

Company	Date of notification	% of shareholding
Wellington Management Company	September 30, 2004	From 7.68%
Boston, Massachusetts, United States (acting on behalf of various funds)		to below 5%
Fidelity International Ltd	April 22, 2004	6.60%
Hamilton, Bermuda	July 29, 2004	3.51%
Capital Group Companies Ltd	August 5, 2004	5.34%
Los Angeles, California, United States (acting on behalf of various funds)		
Odey Asset Management	October 18, 2004	5.84%
London, United Kingdom (acting as investment manager for various funds)		

Cross-shareholdings

Converium has no cross-shareholdings with any other joint-stock companies.

Capital structure

Ordinary share capital

At the Extraordinary General Meeting held on September 28, 2004, the shareholders approved the reduction of the nominal value from CHF 10 per share by CHF 5 to CHF 5 per share and the increase of the share capital by CHF 533,416,225 through the issuance of 106,683,245 fully paid-up registered shares with a nominal value of CHF 5 each at an issue price of CHF 5 per share. As at December 31, 2004 Converium Holding AG had an ordinary share capital of CHF 733,447,310 divided into 146,689,462 fully paid-up registered shares with a nominal value of CHF 5 each.

Conditional and authorized share capital

At the Annual General Meeting held on April 27, 2004, it was resolved to replace the conditional share capital for the participation of employees by a conditional share capital for options and/or conversion rights. Pursuant to Article 3a of Converium s Articles of Incorporation, Converium s share capital can be increased by the issuance of a maximum of 4,000,000 fully paid-up registered shares of CHF 5 nominal value each, amounting to a maximum of CHF 20,000,000 through the exercise of option or conversion rights which will be granted on a stand-alone basis or in connection with bond issuances or other debt financing by Converium or one of its subsidiaries. The subscription right of the shareholders with respect to these shares is excluded. The advance subscription rights of the shareholders may be excluded by the Board if the options or conversion rights are used in connection with the financing of a take-over of a business, parts of a business or participations. In this case, the structure, term and amount of the bond issue or other debt financing, if any, as well as the terms and conditions of the option and/or conversion rights, are to be determined by the Board on the basis of the market conditions prevailing at the time of the issue of the rights. Option and/or conversion rights shall be exercisable for the maximum period of ten years.

In addition, the Annual General Meeting resolved to create authorized share capital. Pursuant to Article 3b of the Articles of Incorporation, the Board is authorized, on or before April 27, 2006, to increase the share capital by the issue of up to a maximum of 4,000,000 fully paid-up registered shares of CHF 5 nominal value each, amounting to a maximum of CHF 20,000,000. The subscription rights of the shareholders may be excluded by the Board if the new shares are used for a take-over of a business, parts of a business, or participations, or for the financing of such transactions, or for the enlargement of the shareholder base in connection with the listing of shares on a stock exchange.

Changes in capital

The decrease in additional paid-in capital primarily results from the Rights Offering that occurred in October 2004. The Annual General Meeting further approved the dividend payment of CHF 1.50 per share, or CHF 59,796,602 reducing retained earnings. (See pages 47 and 87 of the notes to the financial statements for further information on shareholders equity.)

Shares, other certificates and limitations on transferability

Converium has issued 146,689,462 fully paid-up registered shares with a nominal value of CHF 5 each. Each share carries one vote. There are no preferential rights for individual shareholders. The Articles of Incorporation of Converium Holding AG do not provide for limitations on transferability of shares.

For more details on ownership rights and nominee registration please see page 20 under shareholder participation rights. Converium has neither issued participation, profit sharing nor dividend-right certificates nor has it issued convertible bonds or options/warrants to third parties. Information about Converium s share options granted to members of the Board of Directors (BoD), the Global Executive Committee (GEC) and employees is contained in the *Remuneration* section of this document on page 19, and page 85 of the notes to the financial statements.

Some interests in Converium shares are held by investors in the form of ADSs issued by the Bank of New York. One ADS represents the right to receive one half of one Converium share. ADSs are traded on the New York Stock Exchange.

Converium s Board of Directors

Converium s global strategy is set by its Board of Directors (BoD), the body with ultimate responsibility for Converium s policies and management, including investment, treasury, solvency and liquidity policies. The BoD consists of no less than four and no more than nine members. Currently it comprises six. With wide-ranging experience in the reinsurance sector, this group represents an appropriate mix of skills for the effective governance of a major international reinsurance organization. The BoD oversees Converium s affairs and offers regular directives to the Global Executive Committee. All Board members, except Terry G. Clarke[1] who holds the position of Managing Director and Derrell J. Hendrix who acts for us as a consultant through the RISConsulting Group LLC, are non-executive and independent of management. None of the Board members have ever held an executive position within Converium or any of its subsidiaries. No interlocking directorships exist between the Board members of Converium and board members of any other company.

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1 Effective February 23, 2005, with the appointment of Terry G. Clarke as Chief Executive Officer, the position of Managing Director was removed based upon a Board resolution of the same day.

Members of the Board of Directors

The composition of the BoD includes a cross section by geography and professional experience, as well as a reasonable age distribution. The members of the BoD are elected for a term of office of not more than three years, after which they become eligible for reelection. In case of the election of a substitute, the new Board member finishes the term of office of the predecessor.

The members of the Board, their dates of birth, nationality and terms of office as at December 31, 2004 were as follows:

Members of the Board of Directors

Name	Date of birth	Nationality	Date of first election	Term expires in
Peter C. Colombo (Chairman) [1 2 4]	June 15, 1934	Swiss	Nov 16, 2001	2007

Georg Mehl (Vice Chairman) [1 2 4]	Aug 11, 1939	German	Nov 16, 2001	2006
Terry G. Clarke [1 2 3 5]	Oct 31, 1941	British	Jan 1, 2002	2007
Derrell J. Hendrix [3]	Aug 9, 1953	American	Nov 16, 2001	2007
George G. C. Parker [3 4]	March 29, 1939	American	Nov 16, 2001	2006
Anton K. Schnyder [1 2]	Nov 29, 1952	Swiss	Nov 16, 2001	2006

1 Member of the Nomination Committee

2 Member of the Remuneration Committee

3 Member of the Finance Committee

4 Member of the Audit Committee

5 In connection with his appointment to the position of Managing Director, Mr Clarke resigned from the Audit Committee. Mr Clarke will attend meetings of the Audit Committee as a standing invitee. Mr Clarke also resigned as the Chairman of the Nomination Committee.

Curricula Vitae of the Board members

Peter C. Colombo started his professional career with Gerling Group in Cologne in 1959 and was Principal Officer of Gerling Global Reinsurance Company in London from 1963 to 1965. From 1965 through 1998 he worked for Union Reinsurance Company in Zurich with various responsibilities. Mr Colombo served as President and CEO of Union Reinsurance Company from 1989, with appointments as Managing Director in 1996 and as Deputy Chairman of the Board of Directors in 1997. He serves as Deputy Chairman of the Board of Directors of Generali (Schweiz) Holding AG, Zurich, Switzerland, and as a member of the Advisory Board of the Barmenia Group in Wuppertal, Germany. Mr Colombo holds a Bachelor of Social Sciences degree (economics and politics) from the University of Birmingham, England.

Georg Mehl served as a consultant for the Wüstenrot & Württembergische Group, Stuttgart, Germany, since 2001 and in addition as a member of the Executive Management Board of Hanse-Marine-Versicherung-AG, Hamburg, Germany, until the end of 2003. Previously, he served in a series of positions with the Württembergische Group, most recently as CEO of Wüstenrot & Württembergische AG. Georg Mehl had worked for almost 30 years for the Allianz Group, Hamburg and Munich, Germany. He is Chairman of the Board of Directors of Sektkellerei Schloss Wachenheim AG, Trier, Germany. Mr Mehl also serves as a member of the supervisory or advisory boards of several German financial services and commercial institutions. He graduated from the German Insurance Academy in Cologne, Germany, in 1961.

Terry G. Clarke was a consulting actuary with the Tillinghast Business of Towers Perrin and a Principal of Towers Perrin. He joined their London office in 1986 and was Managing Principal of Tillinghast s North America practice prior to retiring at the end of 2001. From 1978 until 1986 Mr Clarke was a member of the Norwich Winterthur Group senior management team. Prior to 1978, he held various positions in the Norwich Union Group. Mr Clarke qualified as a Fellow of the Institute of Actuaries in 1967, and is co-author of several papers on non-life insurance subjects as well as a tutor and examiner. He has been a member of a number of professional committees both in the United Kingdom and in Continental Europe. Mr Clarke served as Converium s Managing Director, and, since February 24, 2005 serves as Chief Executive Officer of the Company.

Derrell J. Hendrix is the Manager and Chief Executive Officer of The RISConsulting Group LLC, a Boston-based risk management consulting company which he founded in 1996 together with Hannover Rückversicherungs AG (through its US subsidiary, Insurance Corporation of Hannover). Mr Hendrix served from 1995 to 1996 as Managing Director and Head of Derivatives at the Bank of Boston. He began his career at Citibank in 1977, and from 1980 through 1995 he held various department head positions in Citicorp s banking and investment banking operations in Toronto, Hong Kong and London. Mr Hendrix holds a Master of Arts from the Fletcher School of Law and Diplomacy, Medford, Massachusetts, and a Bachelor of Arts from Amherst College, Amherst, Massachusetts.

George G. C. Parker is the Dean Witter Distinguished Professor of Finance and Management, Graduate School of Business, Stanford University, Stanford, California. From 1993 to 2001, Professor Parker was Senior Associate Dean for Academic Affairs and Director of the MBA Program at Stanford. Professor Parker served as Director for Executive Education, Stanford Business School, between 1979 and 1988, and from 1973 to 1979 he was Director of the Stanford Sloan Program for Executives. He is currently a board member of California Casualty Group of Insurance Companies, San Mateo, California; Continental Airlines Inc., Houston, Texas, and various other US-based companies. He graduated from Haverford College, Pennsylvania, with a degree in economics in 1960, and received an MBA in finance in 1962 and a doctorate in finance in 1967, both from Stanford.

Anton K. Schnyder served as a full professor for private law at the University of Basel, Switzerland, from 1993 to 2003. As of summer term 2003 he has been appointed to Zurich University as a full professor for private and international as well as comparative law. In 1994 he was appointed Vice President and in 2004 President of the Federal Appeal Commission supervising private insurance. From 1987 to 1993, Professor Schnyder served as a corporate legal adviser to the Zurich Insurance Group, and from 1992 as a member of the executive staff. He graduated from Zurich University, Switzerland, in 1978 and received his doctorate degree in 1981, being awarded the Professor-Walther-Hug-Prize for his doctoral thesis. Additionally, he holds a Master of Laws from the University of California, Berkeley. For many years he has been a special adviser to the governments of Switzerland and Liechtenstein for insurance legislation. Currently Professor Schnyder is Chairman of the working party for a revision of the Swiss Insurance Contract Law.

Internal organizational structure of the BoD

The BoD is headed by the Chairman or, in his absence, by the Vice Chairman. It meets as often as circumstances require, but at least four times per year. In 2004 the BoD met six times physically and held 17 further meetings by way of conference calls. The increased number of conference calls was required after the announcement of the reserve strengthening on July 20, 2004, in order to take the necessary measures. Furthermore an ad-hoc committee consisting of Peter C. Colombo as Chairman, Georg Mehl, Terry G. Clarke and Derrell J. Hendrix was formed to prepare decisions by the BoD with respect to the Extraordinary General Meeting in particular. The ad-hoc committee held a total of four conference calls and meetings.

Meetings generally last one day, with Committee meetings preceding Board meetings. Agendas are set by the Chairman or the Chairman of the respective Committee. At each of its meetings the BoD must be informed, through formal reports by the Chief Executive Officer (CEO) and the members of the Global Executive Committee (GEC), about the course of the business and the activity of the business segments and the GEC. In case of important business incidents, the BoD must be informed without delay. Furthermore, each Board member receives appropriate information with respect to any matter to be considered by the BoD. For financial reporting purposes, this includes an appropriate quarterly reporting package comprising financial and investment information including consolidated financial accounts of Converium and its business segments.

The Chief Executive Officer (CEO), the Chief Financial Officer (CFO) and the General Legal Counsel attend Board meetings on a regular basis. Members of the GEC and other executives attend meetings at the Chairman s invitation. In addition, Board members meet at regularly scheduled sessions without management. Furthermore, conference calls and meetings between Board members and members of the GEC are held to resolve formal matters or to exchange information.

The BoD performs an annual self-evaluation and sets its objectives based upon this evaluation. Annually it reviews the performance of the CEO and approves his objectives. The Head of Internal Audit reports directly to the Audit Committee, and the Board meets regularly with Converium s external auditors, and as may be necessary, with outside consultants to review the business, better understand all laws and policies, and support the management in meeting requirements and expectations.

Board Committees

The BoD has four Committees, which meet in conjunction with or prior to Board meetings, as necessary, and regularly report and submit proposals to the BoD. Each Committee has a Chairman who directs the meetings according to a set agenda, and a secretary, currently the General Legal Counsel.

The Nomination Committee comprises at least three Board members and currently comprises four. It appoints and dismisses the Head of Internal Audit and outside directors of Converium companies, unless such appointment or dismissal is required by regulatory law or order, in which case such appointment or dismissal lies in the responsibility of the CEO. The Committee proposes to the BoD the appointment of Board members and the members of its Committees and their Chairmen, the Chairman and Vice Chairman of the BoD and the members of the GEC. It defines and implements procedures for the annual self-evaluation of the BoD s and the Committees performance; for the annual statement of independence of the BoD and disclosure of any conflict of interests and any agreements concluded with Converium or any of its subsidiaries; and for the orientation program for new Board members. Standing invitees are the CEO and the Chief Human Resources Officer. In 2004 the Nomination Committee held four meetings.

The Remuneration Committee comprises at least three Board members and currently comprises four. It sets the compensation levels for the GEC (except the CEO) and the Head of Internal Audit, and proposes to the BoD the overall remuneration for the CEO, for each of the members of the BoD and the Managing Director, as well as the principles of compensation, of incentive schemes, and bonus payments to employees. Standing invitees are the CEO and the Chief Human Resources Officer. In 2004 the Remuneration Committee held five meetings.

The Finance Committee comprises at least three Board members and currently comprises three. It approves external providers of asset management services and capital increases in subsidiaries between US$ 5 million and US$ 20 million. It submits to the Board for its approval the accounting standards framework for Converium, the annual budget and financial plans, investment and treasury policy, solvency and liquidity planning, strategic asset allocation, tax planning, the allocation of expenses to be charged to the Corporate Center, capital increases and the use of contingent or authorized capital, year-end results and dividend policy, as well as exchange listings and de-listings. Standing invitees are the CEO and the CFO. In 2004 the Finance Committee held three meetings.

The Audit Committee comprises the Chairman of the BoD and the Chairmen of the Finance, Nomination and Remuneration Committees. In connection with his appointment to the position of Managing Director, Terry G. Clarke resigned from the Audit Committee and also resigned as the Chairman of the Nomination Committee. The Audit Committee currently only comprises three members because the Chairman of the Remuneration and Nomination Committee is the same person. Only independent and financial literate directors are eligible to serve on the Audit Committee. In order to qualify as independent, a member may not accept any consulting, advisory or compensatory fee from the company. In addition, an Audit Committee member may not be a person affiliated with the company or any of its subsidiaries. The Audit Committee reviews and approves the quarterly financial statements, except year-end results; approves and supervises the implementation of Converium s Audit Charter, including the review of internal control systems and Converium s risk management and auditing processes; reviews and assesses significant accounting and reporting issues; oversees external and internal auditors and the external and internal audit process; assesses the accuracy of the annual financial statements and determines that appropriate accounting principles have been applied; and liaises with Converium s Risk Management functions to identify Converium s areas of greatest risk and to assess management s role in mitigating the risks. Standing invitees are the CEO, the Managing Director, the Head of Internal Audit and the external auditor. In 2004 the Audit Committee held six meetings.

The Audit Committee is supported in its supervisory task by Internal Audit, which reports directly to the Audit Committee.

Internal Audit is committed to the Standards for Professional Practice of Internal Auditing set out by the Institute of Internal Auditors. The strategic goals of the Internal Audit department, which were formally approved by the Audit Committee, are as follows:

To evaluate the reliability and controls of the financial and risk reporting systems processes and to provide reasonable assurance that material errors and irregularities will be detected on a timely basis.

To evaluate the integrity of financial information.

To evaluate compliance with policies, plans, procedures, regulations, laws and contracts.

To safeguard Converium s assets.

To evaluate and promote efficient use of resources.

To coordinate and manage, on behalf of the Audit Committee, the relationships with the public accounting firms working for Converium.

The Internal Audit department currently consists of ten persons and covers all operations of Converium worldwide. Internal Audit has unrestricted access to all relevant information and documents.

The areas of responsibility between the BoD, the Managing Director and the Global Executive Committee are defined in the Organizational By-laws of Converium Holding AG, which are available on the internet at www.converium.com.

Managing Director

In order to enhance the effectiveness of strategic and operational decision-making and ensure greater collaboration between the BoD and Converium s management team, the BoD decided to establish the position of a Managing Director. On September 10, 2004 Terry G. Clarke[1] was appointed Managing Director. The Managing Director serves on the BoD and has oversight over Converium s day-to-day management. The Managing Director attends all meetings of the Global Executive Committee and has veto power over decisions taken by the GEC.

Converium s Global Executive Committee

The BoD has delegated the management of Converium to the Global Executive Committee (GEC). The GEC comprises an executive management team currently with seven members. It is responsible for implementing Converium s global strategy, ensuring effective collaboration between each subsidiary, and business segment, and reviewing progress against financial and operating plans as approved by the BoD.

At December 31, 2004 the GEC consisted of:

Members of the Global Executive Committee

	Nationality	Year born	Position held
Dirk Lohmann	German	1958	Chief Executive Officer
Frank Schaar	German	1960	Executive Vice President for Standard Property & Casualty Reinsurance
Benjamin Gentsch	Swiss	1960	Executive Vice President for Specialty Lines
Christoph Ludemann	German	1956	Executive Vice President for Life & Health Reinsurance
Hans Peter Boller	German	1962	Chief Risk Officer
Martin Kauer	Swiss	1959	Chief Financial Officer
Christian Felderer	Swiss	1954	General Legal Counsel

Gary Prestia resigned as Chief Technical Officer effective September 10, 2004. Dirk Lohmann took over the responsibilities of the Chief Technical Officer ad interim. On November 4, 2004 Martin Kauer announced his resignation as Chief Financial Officer. The Board appointed Andreas Zdrenyk as interim Chief Financial Officer of Converium following Martin Kauer s agreed departure on February 28, 2005. Andreas Zdrenyk serves as Converium s Global Chief Information Officer. A search and recruitment process for Mr Kauer s replacement is under way. On February 23, 2005 the Board of Directors appointed Terry G. Clarke as Chief Executive Officer and replaced Dirk Lohmann with immediate effect. Mr Clarke continues to be a member of the Board of Directors.

1 Effective February 23, 2005, with the appointment of Terry G. Clarke as Chief Executive Officer, the position of Managing Director was removed based upon a Board resolution of the same day.

Curricula Vitae of the GEC members

Dirk Lohmann was the Chief Executive Officer of Converium until leaving the Company on February 23, 2005. He joined Zurich Financial Services in September 1997 as Chief Executive Officer of its reinsurance operations in Zurich and of its German operating subsidiary, Zürich Rückversicherung (Köln) AG. In July 1998, Mr Lohmann was appointed as a member of the Group Executive Board of Zurich Financial Services, serving as the Chief Executive Officer of its global reinsurance operations. Before joining Zurich Financial Services, he held various management positions at Hannover Re between 1980 and 1997, most recently as a member of the Executive Board of Management. He is a non-executive director of Global Aerospace Underwriting Managers Ltd. (GAUM) and a director and chairman of the Medical Defence Union Services Ltd. (MDU), both located in London, United Kingdom. Mr Lohmann received a Bachelor of Arts degree in economics and political science from the University of Michigan, Ann Arbor.

Frank Schaar is the Executive Vice President for Standard Property & Casualty Reinsurance. He joined Zürich Rückversicherung (Köln) AG as Chief Executive Officer in 2000. Previously he was employed by Hannover Re for 17 years through 1999, most recently serving as a Managing Director and a member of the extended board in charge of Asia, Australia and Africa. From 1982 until 1997, Mr Schaar served in various capacities, most recently as Senior Vice President with responsibility for Germany. Mr Schaar holds a degree in insurance economics and worked as a lecturer in reinsurance at the Institute for Professional Development of the Insurance Association in Hannover for ten years.

Benjamin Gentsch is the Executive Vice President for Specialty Lines. In 1998, he joined Zurich Re as the Chief Underwriting Officer Overseas where he was given the task of strengthening the company s position in the Asian, Australian, African and Latin American markets. In addition, he took charge of the Global Aviation reinsurance department and built up the Professional Risk and Global Marine reinsurance departments. In September 2002, Mr Gentsch was appointed Chief Executive Officer of Converium Zurich. Between 1986 and 1998, he held various positions at Union Reinsurance Company, Zurich, where from 1990 he was responsible for treaty reinsurance business in Asia and Australia. He is an alternate director of Global Aerospace Underwriting Managers Ltd. (GAUM). Mr Gentsch holds a degree in business administration of the University of St. Gallen, with a focus on risk management and insurance.

Christoph Ludemann is the Executive Vice President for Life & Health Reinsurance. He joined Converium in September 2002, bringing to the company 20 years experience in the reinsurance market. From 1990 until 2002 Mr Ludemann was responsible for General Cologne Re s European and Latin American life and health markets, and from 1995 until 2002 he was also a member of the Executive Board of Management of General Cologne Re of Vienna. Between 1983 and 1990, he worked as General Cologne Re s Marketing Manager for the Netherlands, Scandinavia and Austria. Mr Ludemann has a degree in mathematics and insurance economics from the University of Cologne.

Hans Peter Boller is the Chief Risk Officer and an Executive Vice President of Converium. He is responsible for risk management, corporate compliance, pricing, reserving, Asset and Liability Management (ALM) and natural hazard modeling. He joined the company in 1999 as the Chief Actuary for Zurich Re, Zurich. Prior to 1999, he was a consultant with Tillinghast-Towers Perrin. Mr Boller is a fellow of the German Actuarial Society (DAV) and the Swiss Actuarial Society (SAV), and a member of the International Actuarial Association (IAA). He serves as Chairman of the Reinsurance Subcommittee of the IAA and was a member of the Risk-Based Capital Solvency Structure Working Party of the IAA, advising the supranational regulatory bodies on actuarial matters. He also serves on the Swiss Solvency Board advising the Swiss Regulatory Authority. Mr Boller holds a Master s degree in economics and engineering and a doctorate in actuarial science from the University of Karlsruhe.

Martin Kauer was the Chief Financial Officer and an Executive Vice President of Converium until leaving the Company on February 28, 2005. He served as Chief Financial Officer of Zurich Financial Services global reinsurance operations from July 1998. From 1996 to 1998 Mr Kauer managed the demutualization of Rentenanstalt/Swiss Life, where he was also responsible for Strategic Planning and Controlling. Previously, he worked for Union Bank of Switzerland as an investment banker. Mr Kauer holds a degree in economics from the University of Zurich.

Christian Felderer is the General Legal Counsel and an Executive Vice President of Converium. He joined Zurich Re in 1997 and has 20 years experience in the insurance and reinsurance industry, most recently as Senior Legal Counsel for Zurich Re and General Counsel for Converium. Between 1990 and 1997 Mr Felderer had various management responsibilities within the Zurich Group s International Division, including the establishment and management of the Captives and Financial Risk Management department and management of the Claims organization of the International Division. From 1986 to 1990 he was Corporate Legal Counsel in the General Counsel s Office of the Zurich Insurance Group, and from 1983 to 1986 he was an underwriter in the Casualty department of the International Division. Mr Felderer has a law degree from the University of Zurich and is admitted to the Bar of the Canton of Zurich.

Andreas Zdrenyk is Chief Information Officer of Converium and has been appointed interim Chief Financial Officer of the Company as of February 28, 2005. He joined Zurich Re in 1998 and has gained in-depth insight into the Company s operations in various functions such as Chief Financial Officer of Converium Zurich and Zurich Re Zurich, respectively, and Head of Internal Audit & Consulting. Prior to joining Zurich Re Andreas Zdrenyk spent a total of 16 years with the Winterthur Swiss Insurance Group, six years of which as regional Head of Internal Audit North America based in the United States. Andreas Zdrenyk, a Swiss citizen, holds a Master s of Business Administration degree from Cox School of Business (Dallas, USA) and a Master s of Information Systems/Information Technology degree from the Swiss Association of Commerce (Zurich, Switzerland).

Management contracts

Converium has not entered into management contracts with other companies which transfer key management functions.

Compensation, shareholdings and loans

Board remuneration

In 2003 the BoD reviewed its overall compensation structure in consideration of its increased workload and emphasis on enlarged Committee work and more complex corporate governance rules. Since then the level of compensation remained unchanged. For the office term 2004/2005, basic cash compensation for an ordinary Board member, set at CHF 100,000 (US$ 80,593), includes compensation for membership of one Committee. Board members are entitled to receive equity compensation granted at the end of the respective period for which it is due, which shall comprise Converium shares equal to a value of CHF 25,000 (US$ 20,148) with a restriction period of three years, and share options equal to a value of CHF 25,000 (US$ 20,148) calculated on the Black-Scholes formula on the basis of Converium s share price at the beginning of the period. The Chairman is entitled to an increase of 50% and the Vice Chairman to one of 25% of the individual elements of the compensation package. The following compensation was agreed for membership of a second and third Committee:

CHF 4,000 (US$ 3,224) for membership of a second Committee
CHF 3,000 (US$ 2,418) for membership of a third and any subsequent Committee and additionally,
CHF 5,000 (US$ 4,030) if the member holds one or more chairmanships in the Committees.

The remuneration of the BoD is not performance-related.

The following table illustrates the compensation paid to each Board member in 2004. Cash compensation paid at the date of each Ordinary General Meeting comprises 50% of the cash compensation due for the ending annual period and 50% for the commencing annual period.

Total cash compensation
(without expenses)
paid to members of the Board in 2004

Peter C. Colombo	CHF 162,000 (US$ 130,556)
Georg Mehl	CHF 137,000 (US$ 110,408)
Terry G. Clarke [1]	CHF 160,000 (US$ 128,944)
Jürgen Förterer [2]	CHF 93,930 (US$ 75,698)
Derrell J. Hendrix	CHF 100,000 (US$ 80,590)
George G.C. Parker	CHF 109,000 (US$ 87,843)
Anton K. Schnyder	CHF 104,000 (US$ 83,814)

[1] Includes CHF 48,000 (US$ 38,683) for additional professional services as a Board member and does not include Mr Clarke s compensation as Managing Director of CHF 113,684 (GBP 50,000) per month plus reimbursement for customary expenses.

[2] Resigned as Board member as of September 29, 2004.

Jürgen Förterer, who resigned from the BoD on September 29, 2004, received pro rata compensation for his services rendered in the office term 2004/2005 (see table above). Converium has no other former Board members.

Converium has retained The RISConsulting Group LLC, of which Mr Hendrix is co-owner and chief executive officer, for certain consulting services. For 2004 Converium paid total fees of US$ 250,000 (CHF 310,212) to RISConsulting

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Group LLC. Mr Hendrix is also a manager and owner of approximately 57% of the outstanding share capital of RISC Ventures LLC, a Delaware-based limited liability company created to manage and operate companies engaged in commercializing technologies and intellectual properties developed by The RISConsulting Group LLC and its affiliates. In April 2004, Converium AG invested US$ 2.0 million in RISC Ventures LLC for an approximate 17.5% ownership interest in that entity.

In 2004 neither Converium nor any of its subsidiaries granted loans, advance payments or credit lines to Board members, senior management or parties closely related to them. As of the end of December 2004 no such loans, advance payments or credit lines are outstanding. No shares and options are held by closely linked parties of the members of the Board.

Shareholdings of Board members in Converium as of December 31, 2004

	Shares allocated in 2004	Shares held at Dec 31, 2004
Peter C. Colombo	641	3,495
Georg Mehl	534	2,158
Terry G. Clarke	427	1,563
Jürgen Förterer [3]	1,698	2,834
Derrell J. Hendrix	427	427
George G.C. Parker	427	727[4]
Anton K. Schnyder	427	427

[3] Resigned as Board member as of September 29, 2004 and includes pro rata equity compensation for the office term 2004/2005.

[4] 427 shares and 600 ADSs.

Options held by the members of the Board as of December 31, 2004

	Number of options [5]								
Year of grant	**Peter C. Colombo**	**Georg Mehl**	**Derrell J. Hendrix**	**George G.C. Parker**	**Anton K. Schnyder**	**Terry G. Clarke**	**Expiry date**	**Subscription ratio**	**Strike [6] price**
2002	1,406	1,125	937	937	937	681	Oct 30, 12	1:1	CHF 89.10
2003	2,797	2,237	1,864	1,864	1,864	1,864	Nov 27, 13	1:1	CHF 89.10

2004	2,172	1,810	1,448	1,448	1,448	1,448	Oct 27, 14	1:1	CHF 58.50
Total	**6,375**	**5,172**	**4,249**	**4,249**	**4,249**	**3,993**			

[5] Options vest immediately. Options held by Mr Förterer expired on December 29, 2004 due to his resignation.

[6] An adjustment to the exercise price of all options outstanding prior to the Rights Offering will be made in early 2005 in order to account for the dilution of the value of the options as a result of the Rights Offering. The reduction in exercise price maintains the same Black-Scholes value of the option before and after the Rights Offering and does not reflect any other decrease in the share price.

Managing Director remuneration

Terry G. Clarke receives for his services as Managing Director a remuneration of GBP 50,000 (CHF 113,684) per month plus reimbursement for customary expenses.

GEC remuneration

The Remuneration Committee sets compensation levels for members of the GEC and proposes to the Board the remuneration of the Chief Executive Officer.

Compensation for each member of the GEC consists of a base salary and an incentive component based on Converium s and the individual s performance. The incentive component may vary highly from year to year depending on the achievement of the incentive award targets set annually by the Board of Directors.

The Remuneration Committee determines the awards paid out to the GEC.

The performance-based incentive component consists of the annual incentive plan (AIP) and the long-term incentive plan (LTIP). A minimum of 25% of the performance-based compensation paid under the AIP is paid in the form of Converium shares. The LTIP is part of Converium s executive share ownership program and designed to align the interests of management closely with those of shareholders as well as to encourage stock ownership. 50% of the award paid out under the LTIP is delivered in Converium shares and the other 50% of the award is paid out in non-qualified options.

Total aggregate compensation of all officers of the GEC in 2004 was US$ 6.7 million (CHF 8.3 million). This total includes base salary and cash awards made under short- and long-term incentive plans paid during 2004, and the estimated value of other compensation-related items. This sum also includes the compensation of Gary Prestia who resigned on September 10, 2004. No severance payment other than the contractual salary and bonus entitlements were made to Gary Prestia.

Richard E. Smith, a former member of the GEC, was available as consultant to Converium until December 31, 2004 in exchange for additional compensation of US$ 1.5 million (CHF 1.9 million) paid in early 2004. Converium has no other former members of the GEC.

GEC members held shares and options at the end of December 2004. Some were awarded under Converium s AIP and LTIP, some converted to Converium shares and options from employee participation plans of Converium s former parent, Zurich Financial Services, and others bought in conjunction with the Initial Public Offering or otherwise. No options are held by closely linked parties. GEC members participate in local pension plans. More information about Converium s employee participation and pension plans is contained on pages 82 and 85 of the notes to the financial statements.

Shareholders participation rights

Converium s registered shareholders are granted rights to participate at Ordinary and Extraordinary General Meetings (General Meeting). The procedure for convocation is set out in Article 9 of the Articles of Incorporation. Agenda items are set by the BoD. According to Article 10 of the Articles of Incorporation, shareholders representing a nominal amount of at least CHF 1 million may request agenda items at least 45 days prior to the General Meeting.

Shareholdings [1] of GEC members in Converium as of December 31, 2004

	Shares [2] granted in 2004	Shares held [3] at Dec 31, 2004
Dirk Lohmann	96,566	105,994
Martin Kauer	25,104	
Frank Schaar	27,176	10,049
Benjamin Gentsch	28,610	36,006
Gary Prestia [4]	3,903	
Hans Peter Boller	21,361	14,051
Christian Felderer	16,014	4,024
Christoph Ludemann	19,086	2,683

1 As a result of the Rights Offering this table is not comparable to the similar table issued for 2003 and does not allow any conclusion in respect of potential share sales by GEC members.
2 Shares granted in 2004 include shares awarded under the AIP and LTIP, which are subjected to various vesting schedules, and shares purchased through the employee stock purchase plan.
3 Only vested shares (includes shares held by closely linked parties). A majority of shares granted in 2004 vest ratably over three years. This explains the difference between the number of shares granted in 2004 and the number of vested shares held by GEC members.
4 Resigned on September 10, 2004.

Options held by the members of the GEC as of December 31, 2004

	Number of options [5]									
Year of grant	**Dirk Lohmann**	**Martin Kauer**	**Hans Peter Boller**	**Benjamin Gentsch**	**Christian Felderer**	**Frank Schaar**	**Christoph Ludemann**	**Expiry date**	**Subscription ratio**	**Strike price [6]**
2001	162,852	53,119	22,375	22,965	957	53,030		Jun 11, 12	1:1	CHF 82.00
2001	1,041	211		211				Jan 31, 06	1:1	CHF 82.00
2001	3,175	605		605				Jan 13, 07	1:1	CHF 82.00
2002	16,425	4,977	2,314	2,613	1,791	4,123		Oct 01, 12	1:1	CHF 86.00
2002	16,426	4,977	2,315	3,857	1,792	4,123		Apr 01, 13	1:1	CHF 62.50
2003	37,431	11,343	5,444	10,208	4,423	9,456	3,012	Oct 01, 13	1:1	CHF 56.05
2003	18,717	6,427	4,311	5,974	3,385	5,649	2,037	Apr 01, 14	1:1	CHF 60.40
2004	32,461	10,387	7,790	9,781	6,059	9,852	8,958	Oct 01, 14	1:1	CHF 62.50
2004	32,461	10,388	7,790	9,781	6,059	9,852	7,423	May 01, 15	1:1	CHF 8.64

2004	111,766	35,762	26,822	33,677	20,862	33,913	25,551	Jun 22, 15	1:1	CHF 8.64
Total	**432,755**	**138,196**	**79,161**	**99,672**	**45,328**	**129,998**	**46,981**			

5 25% of the options vest on the grant day and 25% each year thereafter.

6 An adjustment to the exercise price of all options outstanding prior to the Rights Offering will be made in early 2005 in order to account for the dilution of the value of the options as a result of the Rights Offering. The reduction in exercise price maintains the same Black-Scholes value of the option before and after the Rights Offering and does not reflect any other decrease in the share price.

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The General Meeting is convened by the BoD or, if necessary, by the auditors, at least twenty days before the date of the meeting in accordance with the Articles of Incorporation. A notice of the meeting states the place and time of the meeting, the items on the agenda, and the motions of the BoD and of the shareholders who requested the meeting. In case of elections, the names of the nominated candidates are specified. If these conditions have not been met, no resolutions are passed, except resolutions to convene an Extraordinary General Meeting or to initiate a special audit. Motions within the limits of the items on the agenda and negotiations that do not require the passing of a resolution do not require such an announcement. The business report and the report of the auditors are made available for inspection by the shareholders at the registered office of the company no later than twenty days before the Ordinary General Meeting. Each share grants the holder the right to one vote. Only shareholders listed in the share register on a cut-off day prior to the General Meeting and fixed by the BoD are authorized to take part. In view of the Ordinary General Meeting 2005, all shareholders noted at April 8, 2005 in Converium s share register as shareholders with voting rights are eligible to vote. Registered shareholders may exercise all further membership rights, including the right to receive dividends, appoint a proxy, convene an Extraordinary General Meeting, place items on the agenda of a General Meeting, and other rights defined in the *Swiss Code of Obligations*. A shareholder may be represented by his legal representative, another person who does not need to be a shareholder of the company, by independent proxies or by depositaries, authorized in writing.

The General Meeting passes resolutions and holds elections with the majority of votes cast, excluding abstentions and void and blank votes. As an exception, the following matters, which are set in Converium s Articles of Incorporation, require the approval of at least two-thirds of votes represented, and an absolute majority of the nominal values of the shares represented is required.

1. An alteration of the purpose of Converium.
2. The creation of super-voting shares.
3. Restrictions on the transfer of registered shares and the removal of such restrictions as well as restrictions to vote and the removal of such restrictions.
4. An authorized or contingent increase of share capital.
5. An increase of share capital by conversion of capital surplus, by contribution in kind or for the purpose of an acquisition of assets and the grant of special rights.
6. A restriction or exclusion of the subscription right or advance subscription right.
7. A change of Converium s registered office.
8. The dissolution of Converium without liquidation.

Converium maintains a share register showing the name, residence, address and nationality (in case of legal entities the registered office) of the holders and usufructuaries of the shares. It will recognize shareholders and usufructuaries of shares only if they are listed in the share register, and accepts only one representative per share. Upon request, acquirers of shares are listed in the register as shareholders with the right to vote, provided they explicitly declare that they acquired the shares in their own name and for their own account. The BoD is authorized to grant exemptions from this provision in connection with the trading of shares on foreign markets, for example nominees in connection with the American Depository Receipts (ADR) program. The BoD is authorized to register such nominees as shareholders with voting rights up to a maximum of 5% of the nominal share capital of Converium. Over this limit, the BoD is authorized to register nominees as shareholders with voting rights only if the nominee discloses the name, address and the shareholding of the persons on whose behalf they act and whose shareholding is 0.5% or more of the nominal share capital of the company. The BoD enters into agreements with such nominees with regard to disclosure requirements, representation of the shares and exercising voting rights. After having heard the party concerned, Converium may cancel entries in the share register if they result from incorrect information of the acquirer. He or she must be informed immediately. Converium s Articles of Incorporation are available on the internet at www.converium.com.

Changes of control

The Articles of Incorporation do not provide for an opting out or opting up in the meaning of articles 22 and 23 of the *Federal Act on Stock Exchanges and Securities Trading*. Therefore mandatory offers have to be submitted when a shareholder or a group of shareholders acting in concert exceeds 33% of issued and outstanding share capital. Neither the employment agreements with the members of the GEC or other staff nor the mandate letters agreed with the members of the BoD do provide for additional benefits in the case of a change of control.

Auditors

PricewaterhouseCoopers Ltd, Zurich, Switzerland assumed their initial mandate as Converium s external auditors on June 19, 2001, the date of Converium s incorporation. The duration of the mandate is one year, from Ordinary General Meeting to Ordinary General Meeting. At the Annual General

Meeting on April 27, 2004 PricewaterhouseCoopers Ltd was re-appointed for another one-year term as Converium s auditors. The current lead audit partner assumed the mandate on May 27, 2003. The fees for services rendered, excluding expenses, related to the year 2004 are:

Audit fees	CHF 5,883,000 (US$ 4,741,110)
Audit-related fees of which in respect of capital increase CHF 750,000 (US$604,425)	CHF 1,315,000 (US$ 1,059,759)
Tax advisory services	CHF 235,000 (US$ 189,386)
Non-audit services	CHF 180,000 (US$ 145,062)
Total fees	CHF 7,613,000 (US$ 6,135,317)

The Audit Committee reviews the scope and general extent of the internal and external audit, including its cost effectiveness, the independence and objectivity of the external auditors, and the nature and extent of non-audit services provided by the external auditors. In 2004 the Audit Committee held six meetings with the external auditors.

Sarbanes-Oxley Act

As a foreign registrant listed on the New York Stock Exchange, Converium is subject to all relevant United States securities laws and regulations including the US Sarbanes-Oxley Act (the Act) of 2002. The US Congress enacted this law as a response to several large insolvencies of registered entities involving fraudulent accounting and financial reporting practices. Converium is legally required to comply with Section 404, a critical section regarding internal controls and procedures for financial reporting for the year ending December 31, 2005. Converium is using the Act as an opportunity to further streamline and document its business and control processes, thus making them more effective and efficient. Converium has dedicated a qualified project team to focus on the implementation of the compliance process required by the Act.

Compliance with corporate governance rules of the New York Stock Exchange (NYSE)

As a foreign issuer listed on the New York Stock Exchange (NYSE) Converium is also in compliance with the corporate governance rules of the NYSE with the following exceptions, where Converium continues to apply Swiss practices:

Responsibility of the Audit Committee for the appointment of external auditors

Swiss company law requires that the Annual General Meeting (AGM) is responsible for the appointment of the external auditors, not the Audit Committee. Converium s Audit Committee prepares a proposal to the Board of Directors with respect to the appointment and dismissal of the external auditors. The Board of Directors then nominates the external auditor for election by the shareholders meeting.

Shareholders votes on equity compensation plans

Under Swiss practice equity compensation plans are not voted at the AGM. The reason for this approach is that the capital of a Swiss company is determined in its Articles of Incorporation, and therefore each change of share capital, including increases, requires AGM approval. Shareholders do not have the authority to vote on the open market purchase of shares by Converium for its equity compensation plans.

Nominating/corporate governance and compensation committees composed entirely of independent directors

Due to the small size of the BoD, Converium cannot comply with this requirement. Terry G. Clarke[1], Board member and Managing Director of Converium, is also a member of the Nomination and Remuneration Committee. He does not qualify as an independent director.

Nominating/corporate governance and compensation committee must have a written charter

The main duties and responsibilities of the Nomination and Remuneration Committees are defined in the Organizational By-laws. Converium s Nomination and Remuneration Committees do not have separate written charters.

Separate reports of the audit and compensation committees to be included in the annual report

Under Swiss company law all reports addressed to the shareholders are provided and signed by the BoD. The committees prepare and submit their reports to the BoD.

1 Effective February 23, 2005, with the appointment of Terry G. Clarke as Chief Executive Officer, the position of Managing Director was removed based upon a Board resolution of the same day.

Information policy

Converium publishes quarterly, half-year and annual reports. Shareholders and others can gain access to reporting and other information about Converium at www.converium.com, or by contacting:

Investor Relations
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Corporate Trust Office
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New York, NY 10286, USA
Phone +1 646 885 3300

Auditors
PricewaterhouseCoopers Ltd
Stampfenbachstrasse 73
P.O. Box 634
8035 Zurich, Switzerland
Phone +41 1 630 1111

Financial Statements

The Converium share

The Converium share in 2004

Stock markets around the world saw modest gains in 2004, typically rising by about half the level of gains achieved in 2003. The SWX Swiss Exchange, on which Converium s shares are traded, rose 10.1% during the year. The United Kingdom s FTSE 100 rose 7.5%, France s CAC 7.4%, and Germany s DAX 7.3%. In the United States, the S & P 500 ended the year with an 8.9% gain, the Dow Jones Industrial Average was up 3.2%, and the Nasdaq Composite increased 8.6%. Insurance stocks followed a similar growth pattern, with the Bloomberg European and US Insurance Indices rising 5.8% and 10.0%, respectively, during the course of the year.

Against the backdrop of a major net reserve strengthening and the subsequent developments, Converium s share performed disappointingly. After reaching the year s high of CHF 37.03 (adjusted) on February 16, 2004, shares fell sharply in value on July 20, 2004. Share values continued to decline, reaching a low of CHF 7.42 on October 15, 2004.

Thereafter Converium s share price began to slowly recover, following the closing and settlement of its US$ 420 million Rights Offering, and the announcement by Standard & Poor s that Converium s Insurer Financial Strength Rating had been upgraded to BBB+. The Company s rating by A.M. Best is B++. A steady increase in share price has continued, with Converium shares closing 2004 at a price of CHF 10.15 on the SWX Swiss Exchange, marking an increase of 36.8% since October 15, 2004. Converium American Depository Shares listed on the New York Stock Exchange followed a broadly similar pattern during the year, reaching a high of US$ 29.57 on February 13, 2004 and finishing the year at US$ 4.64.

Converium Ordinary Shares*	75.4%
Bloomberg European Insurance Index*	39.4%
Swiss Market Index*	10.0%
Converium ADSs**	67.6%
Bloomberg US Insurance Index**	8.1%
Dow Jones Industrial Index**	9.0%

* underlying figures in CHF
** underlying figures in US$

Converium Ordinary Shares*	69.6%
Bloomberg European Insurance Index*	5.8%
Swiss Market Index*	3.7%
Converium ADSs**	70.2%
Bloomberg US Insurance Index**	10.0%
Dow Jones Industrial Index**	3.2%

* underlying figures in CHF

** underlying figures in US$

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Key share data for 2004

Shares registered as at December 31, 2004	146,689,462
SWX Swiss Exchange	
Share price as at December 31, 2004 in CHF	10.15
Year High in CHF	37.03
Year Low in CHF	7.42
Average price in 2004 in CHF	22.57
Average daily trading volume	1,063,672
Market capitalization as at December 31, 2004 in CHF	1,488,898,039
Loss per share in CHF	14.89
Book value per share as at December 31, 2004 in CHF	13.37
New York Stock Exchange	
ADS price as at December 31, 2004 in US$	4.64
Year High in US$	29.57
Year Low in US$	3.15

Major shareholders

Capital Group Companies Inc., (Capital Group), Los Angeles, California, United States: 5.34% (date of notification August 5, 2004), (acting on behalf of various funds)

Odey Asset Management LLP, London, United Kingdom: 5.84% (date of notification October 18, 2004), (acting as investment manager for various funds)

Find more information on major shareholders in the Corporate Governance section on page 12.

Financial calendar

April 12, 2005	Annual General Meeting
May 10, 2005	First quarter results

August 9, 2005	Half-year results
November 8, 2005	Third quarter results

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 of America (US GAAP). The following selected financial data highlights selected information that is derived from our financial statements found later in this annual report, which have been audited by Pricewaterhouse Coopers Ltd, independent auditors.

Income statement data
(US$ million, except per share information)

Year ended December 31	2004	2003	2002	2001	2000
Revenues					
Gross premiums written	3,840.9	4,223.9	3,535.8	2,881.2	2,565.8
Less ceded premiums written	287.9	396.9	213.6	398.6	569.8
Net premiums written	3,553.0	3,827.0	3,322.2	2,482.6	1,996.0
Net change in unearned premiums	132.1	150.5	156.7	187.4	134.5
Net premiums earned	3,685.1	3,676.5	3,165.5	2,295.2	1,861.5
Net investment income	311.6	233.0	251.8	228.7	176.0
Net realized capital gains (losses)	46.5	18.4	10.3	18.4	83.7
Other (loss) income	2.6	2.7	1.2	5.8	29.3
Total revenues	4,040.6	3,930.6	3,405.8	2,499.7	2,150.5
Benefits, losses and expenses					
Losses, loss adjustment expenses and life benefits	3,263.1	2,674.2	2,492.0	2,300.5	1,604.5
Total costs and expenses	1,093.5	1,032.0	856.4	678.7	587.5
Amortization of goodwill				7.8	7.3
Impairment of goodwill	94.0				
Amortization of intangible assets	9.9				
Restructuring costs	2.7			50.0	
Total benefits, losses and expenses	4,463.2	3,706.2	3,348.4	3,037.0	2,199.3

(Loss) income before taxes	422.6	224.4	57.4	537.3	48.8
Income tax (expense) benefit	338.2	39.3	49.4	169.9	19.5
Net (loss) income	760.8	185.1	106.8	367.4	29.3
(Loss) earnings per share					
Average number of shares (millions)	63.4	39.8	39.9	40.0	40.0
Basic (loss) earnings per share [1]	12.00	2.33	1.34	4.61	0.73
Diluted (loss) earnings per share [1]	12.00	2.32	1.33	4.61	0.73

Balance sheet data (US$ million) Year ended December 31	2004	2003	2002	2001	2000
Total invested assets	7,804.4	7,528.7	6,117.3	4,915.9	4,349.7
Total assets	14,942.6	14,354.6	12,051.0	9,706.5	8,321.3
Insurance liabilities	12,389.6	11,410.8	9,454.8	7,677.9	6,486.6
Debt	390.9	390.6	390.4	197.0	196.9
Total liabilities	13,222.4	12,271.3	10,313.0	8,135.7	7,232.9
Total equity	1,720.2	2,083.3	1,738.0	1,570.8	1,088.4
Book value per share					
Book value per share [1]	11.76	52.38	43.55	39.27	27.21

Other data (US$ million) Year ended December 31	2004	2003	2002	2001	2000
Net premiums written by segment:					
Standard Property & Casualty Reinsurance	1,455.0	1,645.6	1,452.2	1,280.0	993.4
Specialty Lines	1,658.1	1,811.9	1,555.3	968.4	818.2
Life & Health Reinsurance	439.9	369.5	314.7	234.2	184.4
Total net premiums written	3,553.0	3,827.0	3,322.2	2,482.6	1,996.0
Non-life combined ratio	118.2%	97.9%	103.7%	129.3% [2]	116.5%

1 For the periods 2001 through 2004, the figures have been restated to reflect the facts of the Rights Offering that occurred in October 2004 (see Note 24). For the year 2000, the information is based on the 40,000,000 registered shares sold in the global offering in December 2001, as no other information is available for this time period. These 40,000,000 shares are considered outstanding for all periods prior to December 11, 2001.

2 The impact on the non-life combined ratio of the September 11th terrorist attacks was 13.3%.

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Management s discussion and analysis
of financial condition and results of operations

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

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

Overview

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

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

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

Due to the reserving actions and subsequent lowering of Converium s ratings during 2004, we placed our US reinsurance operations into run-off, which resulted in the discontinuation of writing reinsurance from offices located in North America. We will, however, offer reinsurance for attractive US-originated business to a limited number of select accounts. This business will be underwritten and managed through Converium AG, Zurich. Converium Reinsurance (North America) Inc. (CRNA) was placed into orderly run-off and we are seeking to commute CRNA s liabilities wherever appropriate (see Note 3).

As a result of ratings downgrades, it was necessary to re-evaluate our global strategy to optimize shareholder value. The decision to place CRNA into run-off and to transfer the underwriting of North American non-life business to Zurich will result in a reduction of gross premiums written of North American originated business of approximately US$ 1.0 billion for underwriting year 2005, predominantly in Standard Property & Casualty Reinsurance and Specialty Lines. We also expect additional reductions in other parts of our business. Based on the January 1 renewal period, Converium s renewable non-life premium income was reduced by approximately US$ 727.4 million, or 37% as compared to 2004. Based on this development, Converium s gross premiums written in 2005 are expected to reach approximately US$ 2.0 billion.

Results of operations

During 2004, there were several items that resulted in measurable effects on our financial results. These items primarily include (i) the strengthening of prior years reserves with an impact on the financial result of US$ 578.1 million, (ii) the reduction of ultimate premium estimates after reflecting associated loss and underwriting expenses, with a positive impact on the financial results of US$ 3.0 million, (iii) a reduction of retrocessional recoveries of US$ 12.0 million, and commutation gains, which resulted in a net impact on the technical result of US$ 581.3 million. In addition, we established a full valuation allowance against the net deferred tax balances previously recorded at CRNA of US$ 269.8 million and a valuation allowance on the net operating losses carried forward at Converium AG of US$ 19.9 million, and recorded an impairment of goodwill of US$ 94.0 million.

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(US$ million) Year ended December 31	2004	2003	2002
(Loss) income before taxes	422.6	224.4	57.4
Net realized capital gains (losses)	46.5	18.4	10.3
Impairment of goodwill	94.0		
Amortization of intangible assets	9.9		
Restructuring costs	2.7		
Pre-tax operating (loss) income	362.5	206.0	67.7
Net (loss) income	760.8	185.1	106.8

For the year ended December 31, 2004 we reported a net loss of US$ 760.8 million versus net income of US$ 185.1 million for the same period in 2003. The decline is primarily due to the impact of those items described above, in addition to losses related to the natural catastrophes that occurred in 2004.

We reported a pre-tax operating loss (defined as pre-tax income or loss excluding pre-tax net realized capital gains or losses, impairment of goodwill, amortization of intangible assets and restructuring costs) of US$ 362.5 million for the year ended December 31, 2004, a decrease of US$ 568.5 million as compared to the same period in 2003. We use pre-tax operating results to measure performance, as this measure focuses on the underlying fundamentals of our operations without the influence of realized gains and losses from the sale of investments, or other non-operating items such as goodwill impairment and restructuring costs.

For the year ended December 31, 2004, gross premiums written decreased 9.1%, net premiums written decreased 7.2% and net premiums earned increased 0.2%. The reduction in gross and net premiums written primarily resulted from clients exercising their rights of special termination under various reinsurance contracts and adjustments of ultimate premium estimates, as described below. Despite the decrease in premiums, there still remained some growth across lines of business within the Specialty Lines segment as well as in the Life & Health Reinsurance segment resulting from overall market conditions and new client relationships.

Adjustments of ultimate premium estimates: During the course of 2004 Converium implemented enhanced procedures for establishing written premium estimates. Our processes require underwriters and others to assess the realization of premium estimates on a quarterly basis. This was supplemented at year-end by a detailed review using actuarial techniques, primarily for European non-life business, which compare estimates with actuarially derived amounts using ceding companies actual reported premium information. These analyses resulted in a decrease in net premiums written and earned in the Standard Property & Casualty Reinsurance and Specialty Lines segments in the amount of US$ 219.8 million; after reflecting the impact on accrued underwriting expenses of US$ 16.5 million and losses of US$ 206.4 million, the impact of these adjustments on the technical result was US$ 3.0 million.

Our non-life combined ratio was 118.2% for the year ended December 31, 2004 as compared to 97.9% for the same period in 2003. Reserve actions and natural catastrophes in 2004 increased the combined ratio by 17.3 points and 4.8 points, respectively for the year ended December 31, 2004.

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

We reported pre-tax operating income of US$ 206.0 million for the year ended December 31, 2003, an improvement of US$ 138.3 million as compared to pre-tax operating income of US$ 67.7 million for 2002. The improvement in pre-tax operating income in 2003 was due to the significant premium growth and an overall improved non-life combined ratio.

Our effective tax rate was 80.0% for the year ended December 31, 2004 as compared to 17.5% and (86.1)% for 2003 and 2002, respectively. The 2004 consolidated income tax expense reflects an additional expense of US$ 289.7 million related to the establishment of a full valuation allowance against the net deferred tax balances previously carried at CRNA (US$ 269.8 million) and a valuation allowance on the net operating losses carried forward at Converium AG (US$ 19.9 million). The 2002 consolidated tax benefit reflects a one-time benefit of US$ 21.3 million as the result of a ruling received from the Swiss tax authorities regarding a tax loss carryforward.

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Ratings and regulatory issues

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

Standard & Poor s

On September 10, 2004, Standard & Poor s lowered both the long-term counterparty credit and insurer financial strength ratings of Converium AG to BBB from A and Converium Rückversicherung (Deutschland) AG and Converium Insurance (UK) Ltd to BBB from A , and the CreditWatch status was revised to developing from negati In addition, Standard & Poor s lowered the long-term counterparty credit and senior unsecured debt ratings on Converium Holdings (North America) Inc. to BB from BBB and its junior subordinated debt rating on Converium Finance S.A. to BB+ from BBB . At the same time, Standard & Poor s lowered its long-term counterparty credit and insurer financial strength ratings of CRNA to R from BB+ .

On September 27, 2004, Standard & Poor s revised to positive from developing its CreditWatch implications on the long-term counterparty credit and insurer financial strength ratings on Converium AG. All other ratings remained on CreditWatch with developing implications. In addition, Standard & Poor s noted that if the Rights Offering was completed barring any material unforeseen event, it expected to raise its long-term ratings on Converium AG to BBB+ and its long-term junior subordinated debt rating on Converium Finance S.A. to BBB . Standard & Poor s also noted that an acceptabley worded guarantee would allow it to rate Converium Rückversicherung (Deutschland) AG and Converium Insurance (UK) Ltd in line with Converium AG.

On October 15, 2004, Standard & Poor s revised both the long-term counterparty credit and insurer financial strength ratings of Converium AG to BBB+ from BBB . In addition, Standard & Poor s raised its long-term counterparty credit and senior unsecured debt ratings on Converium Holdings (North America) Inc. to BB+ from BB , and its junior subordinated debt rating on Converium Finance S.A. to BBB from BB+ . All ratings were removed from CreditWatch and assigned a stable outlook. This decision reflects Converium s successful closing of its share issue and Standard & Poor s expectation that Converium will maintain significant support from key clients and intermediaries.

On October 22, 2004, following the successful completion of the Converium Holding AG Rights Offering, Standard & Poor s raised its long-term insurer financial strength ratings on Converium Rückversicherung (Deutschland) AG and Converium Insurance (UK) Ltd to BBB+ from BBB . At the same time, Standard & Poor s withdrew its BBB long- counterparty credit ratings on both entities at the request of Converium. All ratings were removed from CreditWatch , and the outlook on both entities is stable. The raising of the insurer financial strength ratings reflects that policyholder obligations of Converium Rückversicherung (Deutschland) AG and Converium Insurance (UK) Ltd are now guaranteed by Converium AG and therefore reflect the ratings of Converium AG.

A.M. Best

On September 1, 2004, A.M. Best downgraded the financial strength ratings to B++ from A and the issuer credit ratings to bbb from a for Converium AG and its core subsidiaries Converium Rückversicherung (Deutschland) AG, Converium Insurance (UK) Ltd and Converium Insurance (North America) Inc. All ratings remained under review with negative implications. At the same time A.M. Best downgraded the financial strength rating to B from A and the issuer credit rating to bb from a of Converium Reinsurance (North America) Inc. following our announcement of our intention to place the company into run-off. This rating had been assigned a negative outlook by A.M. Best. The issuer credit rating of Converium Finance S.A. was downgraded to bb+ from bbb , and the junior subordinated debt rating of the same company was lowered to bb+ from bbb . For Converium Holdings (North America) Inc. the issuer credit as well as the senior unsecured debt ratings were lowered to bb from bb+ .

On September 29, 2004, A.M. Best affirmed the financial strength ratings of B++ and upgraded the issuer credit rating to bbb+ from bbb of Converium AG, Converium Rückversicherung (Deutschland) AG and Converium Insurance (UK) Ltd. These ratings were removed from under review and assigned a stable outlook. At the same time, A.M. Best downgraded the financial strength rating to B from B++ and the issuer credit rating to bb from bbb of Converium Insurance (North America) Inc. For Converium Finance S.A. the issuer credit rating of bb+ was affirmed whereas the junior subordinated debt rating was raised to bbb from bb+ .

On October 14, 2004, following the successful completion of the Converium Holding AG Rights Offering, A.M Best confirmed that the B++ financial strength rating and bbb+ issuer credit rating of Converium AG and all debt ratings remain unchanged.

We have reviewed the contracts with our cedents for implications of a potential ratings downgrade or a decrease in statutory surplus levels. The contracts that contain a ratings or statutory surplus level provision represent approximately one-third and one-fifth of our total ultimate treaty premium, respectively. This review has indicated that the significant majority of those contracts that contain termination provisions relating to either ratings or statutory surplus declines have been triggered and

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therefore the counterparties have the right to terminate such contracts. This resulted in an estimated impact on gross premiums written of US$ (114.5) million in the second half of 2004.

The components of net (loss) income are described below.

Reinsurance results

(US$ million) Year ended December 31	2004	2003	% change 2004 over 2003	2002	% change 2003 over 2002
Gross premiums written	3,840.9	4,223.9	9.1%	3,535.8	19.5%
Net premiums written	3,553.0	3,827.0	7.2%	3,322.2	15.2%
Net premiums earned	3,685.1	3,676.5	0.2%	3,165.5	16.1%

Net premiums written decreased for the year ended December 31, 2004 over the same period in 2003 largely due to premium reductions resulting from clients exercising their rights of special termination under various reinsurance contracts, as described below, adjustments of ultimate premium estimates, and a reduction of reinsurance recoverables of US$ 12.0 million. For the year ended December 31, 2004, Standard Property & Casualty Reinsurance decreased by US$ 190.6 million or 11.6% and Specialty Lines decreased by US$ 153.8 million or 8.5%. Despite this, net premiums written in the Life & Health Reinsurance segment grew by US$ 70.4 million or 19.1%. We retained 92.5% and 90.6% of our gross premiums written for the year ended December 31, 2004 and 2003, respectively.

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

As of December 31, 2004, Converium s reserves for unearned premiums, gross were US$ 1,312.3 million, which relates to business primarily written in 2003 and 2004, and is expected to materially earn out in 2005. The earn out of these reserves for unearned premiums and the reduced non-life premium income of the January 1, 2005 renewal period, are expected to result in a reduction of reserves for unearned premiums in future periods. See Overview for future prospects regarding our premiums.

For the year ended December 31, 2004, based on stable exchange rates, gross premiums written decreased by 13.1%, net premiums written decreased by 11.5%, and net premiums earned decreased by 4.3%.

See Business development for further information by line of business.

(US$ million) Year ended December 31	2004	2003	% change 2004 over 2003	2002	% change 2003 over 2002
Losses, loss adjustment expenses and life benefits	3,263.1	2,674.2	22.0%	2,492.0	7.3%
Non-life loss ratio (to premiums earned)	90.3%	71.5%	18.8pts	78.2%	6.7pts
Impact of prior years reserves in 2004	17.3%				
Impact of 2004 hurricanes, typhoons and tsunami	4.8%				

Our losses, loss adjustment expenses and life benefits incurred and non-life loss ratio increased for the year ended December 31, 2004 as compared to the same period in 2003, mainly due to the development of prior years loss reserves, as described below. In addition, the impact of the hurricanes, typhoons and the tsunami in 2004 added US$ 154.5 million of incurred losses, or 4.8 points to the 2004 loss ratio.

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

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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$ 562.0 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. While we believe that we have fully addressed this issue through our reserving actions, volatility is expected to persist for some time.

In the Standard Property & Casualty Reinsurance segment, the development of prior years reserves of US$ 73.5 million primarily related to adverse developments of General Third Party Liability (US$ 116.3 million), motor liability outside the United States (US$ 91.7 million) and Personal Accident (non-life) (US$ 8.1 million), which was partially offset by positive developments related to Property (US$ 82.1 million) and miscellaneous liability (US$ 60.5 million) that also included the impact of whole account retrocessions. In the Specialty Lines segment, the development of prior years reserves of US$ 488.5 million primarily related to adverse developments of the Professional Liability and other Special Liability lines (US$ 449.3 million), particularly excess & surplus lines and umbrella, Workers Compensation (US$ 55.3 million), and Engineering (US$ 12.9 million). These adverse developments in the Specialty Lines were partially offset by positive developments related to Aviation & Space (US$ 24.5 million), Agribusiness (US$ 0.7 million), and Credit & Surety (US$ 3.8 million).

In 2003, the positive development of US$ 31.3 million consisted of positive development on Property lines (US$ 113.5 million) and Aviation & Space (US$ 102.2 million), offset by adverse development on Workers Compensation and Professional Liability and other Special Liability lines (US$ 120.3 million) and the Motor and General Third Party Liability lines (US$ 64.1 million). The reserve releases in 2003 were primarily from the 2002 underwriting year, while the US business written in 1997 to 2001 mostly saw continued strengthening.

In 2002, Converium strengthened reserves for prior years by US$ 148.5 million. Throughout the year, increased loss experience related to prior years continued to emerge, which resulted in an in-depth actuarial reserve analysis of certain lines of business. This resulted in an additional US$ 148.5 million provision for losses, primarily related to underwriting years 1997 through 2000. In the Standard Property & Casualty Reinsurance segment, there were additional provisions of US$ 62.2 million for the liability, Motor and Property lines. In the Specialty Lines segment, there were additional provisions of US$ 86.3 million, primarily related to the Professional Liability and other Special Liability Lines of business.

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

Guaranteed Minimum Death Benefit (GMDB) business: For the year ended December 31, 2004 there were no additional reserving actions required for the GMDB book of business. In 2003 and 2002, the Life & Health Reinsurance segment strengthened reserves for this closed block of variable annuity business by US$ 20.5 million (to net US$ 56.0 million) and US$ 15.6 million, respectively. As a result of the positive performance of the US stock markets, GMDB s net amount at risk further decreased to US$ 635.5 million at December 31, 2004 from US$ 809.7 million at December 31, 2003.

Impact of aviation and space business: Our aviation and space business contributes substantially to the profitability of the Specialty Lines segment. Related to this business, we had net premiums written of US$ 404.5 million, US$ 341.8 million, and US$ 365.3 million and a net non-life technical result (defined as net premiums earned minus losses and loss adjustment expenses and underwriting acquisition costs) of US$ 73.2 million, US$ 126.0 million, and US$ 64.3 million in 2004, 2003, and 2002, respectively.

Impact of property catastrophe losses: We reported the following large natural catastrophe losses, defined as those in excess of US$ 10.0 million or more of net incurred losses to us for our proportional and non-proportional property catastrophe business: hurricanes in the US and the Caribbean, the Japanese typhoons and the tsunami in the Indian Ocean (US$ 154.5 million) in 2004, Typhoon Maemi (US$ 15.4 million) and the Algerian earthquake (US$ 10.6 million) in 2003 and the European floods in 2002 (US$ 51.1 million).

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

In December 2004, a federal jury in New York concluded that the two planes that crashed into the World Trade Center during the attacks of September 11th, for insurance purposes, represented two separate attacks. This ruling increased our gross losses and loss adjustment expenses by US$ 8.7 million, but as our losses are capped at US$ 289.2 million by Zurich Financial Services, as described above, this ruling did not have an effect on our net loss position. In 2004, 2003 and 2002, there was no additional development in net reserves for the September 11th terrorist attacks.

Asbestos and environmental exposures: As of December 31, 2004 and 2003, we had reserves for environmental impairment liability and asbestos-related claims of US$ 49.2 million and US$ 45.8 million, respectively. Our survival ratio (calculated as the ratio of reserves held, including IBNR, over claims paid over the average of the last three years) for asbestos and environmental reserves was 13.6 years at December 31, 2004 and 2003.

(US$ million) Year ended December 31	2004	2003	% change 2004 over 2003	2002	% change 2003 over 2002
Underwriting acquisition costs	842.5	803.2	4.9%	666.7	20.5%
Operating and administration expenses	217.9	197.8	10.2%	173.3	14.1%
Non-life underwriting expense ratio (to premiums earned)	22.9%	22.0%	0.9pts	21.1%	0.9pts
Non-life administration expense ratio (to premiums written)	5.0%	4.4%	0.6pts	4.4%	

Underwriting acquisition costs primarily relate to commissions on treaty and individual risk business. Our underwriting acquisition costs increased for the year ended December 31, 2004 as compared to the same period in 2003. The underwriting expense ratio was relatively stable in 2004 as compared to 2003.

Operating and administration expenses increased for the year ended December 31, 2004 over the same period in 2003 due to increased expenditures to support the growth in operations, additional costs of US$ 15.7 million related to the retention plans that were rolled out in late 2004 (see Note 15), and the continued weakening of the US dollar. In addition approximately US$ 7.0 million of advisory fees were recorded in conjunction with various corporate strategic initiatives during 2004. The non-life administration expense ratio remained relatively stable for the year ended December 31, 2004 as compared to the same period in 2003.

We fully charge the cost of options to operating expense under the fair value approach of SFAS No.123, Accounting for Stock Based Compensation , and recorded compensation expense of US$ 10.7 million, US$ 6.1 million and US$ 5.8 million in 2004, 2003, and 2002, respectively, in connection with our stock option plans.

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Investment results
(US$ million)

Year ended December 31	2004	2003	2002
Investment income:			
Fixed maturities	201.3	121.0	132.7
Equity securities	11.5	11.4	14.5
Funds Withheld Asset	75.1	85.6	81.1
Other, net of expenses	23.7	15.0	23.5
Net investment income	311.6	233.0	251.8
Average annualized net investment income yield (pre-tax)	3.8%	3.3%	4.3%
Net realized capital gains (losses)	46.5	18.4	10.3
Total investment results	358.1	251.4	241.5
Average annualized total investment income yield (pre-tax)	4.4%	3.5%	4.1%
Change in net unrealized gains (losses) (pre-tax)	25.1	154.2	109.0
Total investment return (pre-tax)	333.0	405.6	132.5
Average annualized total investment return (pre-tax)	4.1%	5.7%	2.2%
Average total invested assets (including cash and cash equivalents)	8,139.4	7,144.2	5,907.6

Investment results are an important part of our overall profitability. Our net investment income increased US$ 78.6 million, or 33.7% for the year ended December 31, 2004 as compared to the same period in 2003. The increase largely resulted from growth in invested assets during 2004, particularly in our fixed maturities portfolio, as well as income received from the transition of a fixed income bond fund to a direct fixed income investment portfolio. The decline in income from the Funds Withheld Asset is due to the declining asset balance. See Funds Withheld Asset . Our net investment income decreased US$ 18.8 million, or 7.5% for 2003 as compared to 2002. The decrease reflects lower investment income yields offset by an increase in invested assets from operating cash flows. Our average annualized net investment income yield (pre-tax) was 3.8% for the year ended December 31, 2004 as compared to 3.3% and 4.3% for the same periods in 2003 and 2002, respectively.

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

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

We recorded US$ 6.2 million, US$ 27.4 million and US$ 48.3 million of impairment charges during 2004, 2003 and 2002, respectively. See Critical accounting policies for details on our fixed maturities and equity securities impairment policy.

Other

(US$ million) Year ended December 31	2004	2003	2002
Other (loss) income	2.6	2.7	1.2
Interest expense	33.1	31.0	16.4
Impairment of goodwill	94.0		
Amortization of intangible assets	9.9		
Restructuring costs	2.7		
Income tax (expense) benefit	338.2	39.3	49.4

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Other (loss) income: Other loss for the year ended December 31, 2004 was US$ 2.6 million as compared to other income of US$ 2.7 million and other loss of US$ 1.2 million for the same periods of 2003 and 2002, respectively. Other loss for 2004 includes an amount of US$ 20.0 million for a retroactive stop-loss retrocession cover from National Indemnity Company, offset by a reduction of US$ 9.6 million in the bad debt provision related to the U.S. Life Insurance Company settlement (see Notes 21 and 26). Other (loss) income components also include interest income on reinsurance deposits, interest expense on funds held under reinsurance contracts, fee income, write-off of uncollectible balances and results from private equity funds.

Interest expense: Interest expense remained relatively stable for the year ended December 31, 2004 as compared to the same period in 2003. The increase in 2003 over 2002 was mainly due to US$ 16.5 million in interest expense on our US$ 200.0 million 8.25% guaranteed subordinated notes issued in December 2002.

Goodwill and other intangible assets: Impairment of goodwill was US$ 94.0 million for the year ended December 31, 2004. Amortization of intangible assets was US$ 9.9 million for the year ended December 31, 2004.

SFAS 142, Goodwill and Other Intangible Assets , requires impairment testing of goodwill annually or more regularly if any event or change in business circumstances occurs which would indicate that the carrying value of goodwill may be impaired. An impairment charge of US$ 94.0 million was recorded due to the reserving actions taken during 2004 in respect of prior year development in the Specialty Lines segment s business written in North America, and the subsequent decision to take a full valuation allowance against the net deferred tax asset at CRNA. The goodwill impairment charge represents all the goodwill relating to CRNA.

SFAS 142 also requires that useful lives for intangible assets other than goodwill be reassessed and the remaining amortization periods be adjusted accordingly. On October 1, 2004, the useful life of our intangible asset related to Global Aerospace Underwriting Managers Limited (GAUM) was reduced to less than one year resulting in an amortization charge of US$ 9.9 million. See Note 8 for additional information regarding the reassessment of the useful life related to GAUM.

Restructuring charges: In September 2004, as a result of the announced run-off of our CRNA operations, we notified certain of our employees that their employment would be terminated between two to six months after such notification. For the year ended December 31, 2004, US$ 2.7 million has been expensed primarily due to the costs associated with these severance plans. CRNA is currently evaluating certain of its office leases, and a plan for reduced office space is expected to be approved in 2005 resulting in additional restructuring costs (see Note 26). Additionally, we are currently evaluating the cost base of our non-US operations, and a plan for cost reductions is expected to be approved in early 2005, resulting in additional restructuring costs.

Income tax expense: Converium s consolidated income tax expense for the year ended December 31, 2004 reflects an additional expense of US$ 289.7 million related to the establishment of a full valuation allowance against the net deferred income tax balances previously carried at CRNA and a valuation allowance against the net operating losses carried forward at Converium AG. The 2003 consolidated tax expense reflects an increase in the tax loss carryforward due to the retrocession of certain contracts from Germany to Switzerland. The 2002 consolidated tax benefit reflects a one-time benefit of US$ 21.3 million as a result of a ruling Converium AG received from the Swiss tax authorities regarding a tax loss carried forward.

As required under SFAS 109, Accounting for Income Taxes , Converium is required to assess if it is more likely than not that some or all of the net deferred tax assets will not be realized. In making this assessment, reference is made to, among other things, historical losses. Therefore, a full valuation allowance was established against CRNA s net deferred tax assets to reflect the continued net loss position of CRNA. CRNA may offset future taxable income against the existing net operating losses carried forward, resulting in no US federal tax expense on such income until such time as the net operating losses are utilized or expire. In addition, Converium AG presents deferred taxes for timing differences only. Future positive income will offset against net operating losses carried forward and will not cause any income taxes except changes in timing differences.

As of December 31, 2004, Converium s valuation allowance on deferred tax assets was US$ 711.9 million, comprising net operating losses carried forward (US$ 571.7 million), loss reserve discount (US$ 110.2 million) and other temporary differences, net (US$ 30.0 million). As of December 31, 2003, the valuation allowance was US$ 47.9 million, all of which related to net operating losses carried forward.

As of December 31, 2004, Converium has total net operating losses carried forward of US$ 2,512.5 million available to offset future taxable income of certain branches and subsidiaries. The majority of these net operating losses carried forward relate to CRNA and Converium AG and expire in the years 2020 through 2024 and 2010 through 2011, respectively.

Converium will continue to monitor its tax position and reassess the need for a full valuation allowance on its net deferred tax assets on a periodic basis. Realization of the deferred tax asset related to net operating losses carried forward is dependent upon generating sufficient taxable income within specified future periods. The decision to place CRNA into run-off may limit the ability to generate taxable income to fully utilize its net operating loss carryforwards.

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Business development

Converium s business is organized around three operating segments: Standard Property & Casualty Reinsurance, Specialty Lines and Life & Health Reinsurance, which are based principally on global lines of business. In addition to the three segments financial results, the Corporate Center carries certain administration expenses, such as costs of the Board of Directors, the Global Executive Committee, and other global functions.

Converium s financial results for the year ended December 31, 2004 have been considerably affected by the recording of additional net strengthening of prior years loss reserves (US$ 562.0 million) and the resulting impairment of goodwill (US$ 94.0 million). The following table compares Converium s segment results for the year ended December 31, 2004, 2003, and 2002 and reconciles segment results to (loss) income before taxes:

(US$ million) Year ended December 31	2004	2003	2002
Segment (loss) income:			
Standard Property & Casualty Reinsurance	12.5	183.7	55.8
Specialty Lines	245.2	115.2	56.0
Life & Health Reinsurance	15.4	11.9	6.5
Corporate Center	38.0	34.3	30.3
Total segment (loss) income	280.3	252.7	75.0
Other (loss) income	2.6	2.7	1.2
Interest expense	33.1	31.0	16.4
Impairment of goodwill	94.0		
Amortization of intangible assets	9.9		
Restructuring costs	2.7		
Net (loss) income before taxes	422.6	224.4	57.4

Standard Property & Casualty Reinsurance

(US$ million) Year ended December 31	2004	2003	% change 2004 over 2003	2002	% change 2003 over 2002
Gross premiums written	1,617.6	1,795.4	9.9%	1,542.3	16.4%
Net premiums written	1,455.0	1,645.6	11.6%	1,452.2	13.3%
Net premiums earned	1,552.0	1,629.9	4.8%	1,396.7	16.7%
Total investment results	142.3	101.5		98.1	
Segment (loss) income	12.5	183.7		55.8	
Loss ratio non-life	80.3%	68.3%		76.3%	
Underwriting expense ratio non-life	24.3%	22.3%		22.2%	
Administration expense ratio non-life	5.8%	4.3%		4.4%	
Combined ratio non-life	110.4%	94.9%		102.9%	
Retention ratio (net premiums written divided by gross premiums written)	89.9%	91.7%		94.2%	

Standard Property & Casualty Reinsurance reported segment (loss) income of US$ (12.5) million, US$ 183.7 million and US$ 55.8 million in 2004, 2003 and 2002, respectively. The decrease in 2004 was primarily attributable to the following:

Premium volume was impacted by clients exercising their rights of special termination under various reinsurance contracts, which resulted in a reduction of estimated ultimate premium of US$ 57.6 million in the second half of 2004. In addition to the reductions triggered by special termination clauses, the decrease of the Standard Property & Casualty Reinsurance segment s net premiums written was further affected by adjustments of ultimate premium estimates in the amount of US$ 119.3 million resulting from a change in estimate due to the implementation of enhanced procedures for establishing written premium estimates throughout 2004, as well as additional expenses of US$ 18.8 million for catastrophe protection. See Reinsurance results section for additional information regarding adjustments of ultimate premium estimates.

Hurricanes in the US and the Caribbean, the Japanese typhoons and the tsunami in the Indian Ocean impacted results negatively by US$ 154.5 million and added 4.8 points to the loss ratio.

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The development of prior years reserves of US$ 73.5 million primarily related to adverse developments of General Third Party Liability (US$ 116.3 million), Motor Liability outside the United States (US$ 91.7 million) and Personal Accident (non-life) (US$ 8.1 million), which was partially offset by positive developments related to Property (US$ 82.1 million) and miscellaneous liability (US$ 60.5 million) that also included the impact of whole account retrocessions.

Slightly offsetting the results for 2004 was the increase in investment results due to the continued recovery of the global capital markets as well as capital gains realized from the sale of equity securities to adjust our asset allocation to reduce investment portfolio risk during 2004.

For the year ended December 31, 2004, gross premiums written decreased 9.9% to US$ 1,617.6 million, net premiums written decreased 11.6% to US$ 1,455.0 million and net premiums earned decreased 4.8% to US$ 1,552.0 million. Adjustments of ultimate premium estimates resulted in a decrease in net premiums written and earned in the amount of US$ 119.3 million; after reflecting for accrued underwriting expenses (US$ 18.1 million) and losses (US$ 101.1 million), the impact of these adjustments of ultimate premium estimates on the technical result was US$ (0.1) million.

For the year ended December 31, 2004, the reduction in net premiums written in the Standard Property & Casualty Reinsurance segment by line of business included:

Motor (decreased by 0.8% or US$ 3.7 million to US$ 484.8 million), which decreased due to cedents in North America exercising special termination clauses, as well as a decrease in net premiums written in North America due to the ratings agencies actions. These decreases were mostly offset by growth in Western Europe;

Property (decreased by 26.1% or US$ 205.3 million to US$ 581.7 million), which decreased due to cedents in North America exercising special termination clauses as well as a restructuring of a specific treaty; and

Personal accident (non-life) (decreased by 22.8% or US$ 8.0 million to US$ 27.1 million), which decreased due to the cancellation of a major contract.

These decreases were offset by an increase in net premiums written within the General Third Party Liability line of business, which increased by 7.9% or US$ 26.4 million to US$ 361.4 million as a result of continuing rate increases and new business.

In the latter half of 2004, the Standard Property & Casualty Reinsurance segment agreed upon commutations with primarily North American cedents regarding gross loss reserves of US$ 125.9 million.

Specialty Lines

(US$ million) Year ended December 31	2004	2003	% change 2004 over 2003	2002	% change 2003 over 2002
Gross premiums written	1,777.3	2,022.0	12.1%	1,650.3	22.5%

Net premiums written	1,658.1	1,811.9	8.5%	1,555.3	16.5%
Net premiums earned	1,699.2	1,663.6	2.1%	1,458.0	14.1%
Total investment results	186.1	132.4		125.3	
Segment (loss) income	245.2	115.2		56.0	
Loss ratio non-life	99.4%	74.6%		80.0%	
Underwriting expense ratio non-life	21.7%	21.6%		20.0%	
Administration expense ratio non-life	4.4%	4.4%		4.4%	
Combined ratio non-life	125.5%	100.6%		104.4%	
Retention ratio (net premiums written divided by gross premiums written)	93.3%	89.6%		94.2%	

Specialty Lines reported segment (loss) income of US$ (245.2) million, US$ 115.2 million and US$ 56.0 million in 2004, 2003 and 2002, respectively. The decrease in 2004 was primarily attributable to the following:

Premium volume was impacted by clients exercising their rights of special termination under various reinsurance contracts, which resulted in a reduction of estimated ultimate premium of US$ 50.5 million in the second half of 2004. In addition to the reductions triggered by special termination clauses, the decrease of the Specialty Lines segment s net premiums written was further affected by adjustments of ultimate premium estimates in the amount of US$ 100.5 million resulting from a change in estimate due to the implementation of enhanced procedures for establishing written premium estimates throughout 2004. See Reinsurance results section for additional information regarding adjustments of ultimate premium estimates.

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In late 2004, we commuted the stop-loss protection regarding underwriting year 2001 of the professional liability business generated through our joint venture with the MDU that resulted in a US$ 10.5 million charge.

The development of prior years reserves of US$ 488.5 million primarily related to adverse developments of the Professional Liability and other Special Liability lines (US$ 449.3 million), particularly excess & surplus lines and umbrella, Workers Compensation (US$ 55.3 million), and Engineering (US$ 12.9 million) These adverse developments in the Specialty Lines were partially offset by positive developments related to Aviation & Space (US$ 24.5 million), Agribusiness (US$ 0.7 million), and Credit & Surety (US$ 3.8 million).

Slightly offsetting the results for 2004 was the increase in investment results due to the continued recovery of the global capital markets as well as capital gains realized from the sale of equity securities to adjust our asset allocation to reduce investment portfolio risks during 2004.

For the year ended December 31, 2004, gross premiums written decreased 12.1% to US$ 1,777.3 million, net premiums written decreased 8.5% to US$ 1,658.1 million and net premiums earned increased 2.1% to US$ 1,699.2 million. Adjustments of ultimate premium estimates resulted in a decrease in net premiums written and earned in the amount of US$ 100.5 million; after reflecting for accrued underwriting expenses (US$ (1.7) million) and losses (US$ 105.3 million), the impact of these adjustments of ultimate premium estimates on the technical result was US$ 3.1 million. Included in these amounts were adjustments of ultimate premium estimates of the business relationship with a Lloyd s syndicate, a major client of ours, which resulted in a decrease in net premiums written and earned in the amount of US$ 25.5 million. After reflecting for accrued underwriting expenses (US$ 0.4 million) and losses (US$ 19.0 million), the impact of this specific premium accrual adjustment on the technical result was US$ (6.1) million.

For the year ended December 31, 2004, the reduction in net premiums written in the Specialty Line segment by line of business included:

Workers Compensation (decreased by 27.4% or US$ 85.1 million to US$ 225.8 million), which decreased due to the result of lower premium accruals in 2004 related to the 2003 underwriting year based on revised estimated premiums received from a large cedent who reports on a lag, as well as a decrease in run-off premiums from older underwriting years. In addition, there was a reduction of participation on premiums written through the involuntary market with one of our ceding companies;

Credit & Surety (decreased by 27.5% or US$ 64.9 million to US$ 171.1 million), which decreased due to cedents in North America exercising special termination clauses, as well as a decrease in net premiums written due to the ratings agencies actions; and

Professional Liability and other Special Liability (decreased by 11.1% or US$ 66.3 million to US$ 531.7 million), which decreased due to cedents in North America exercising special termination clauses, as well as a decrease in net premiums written due to the ratings agencies actions.

These decreases were offset by an increase in net premiums written in the agribusiness line of business, which increased by 41.0% or US$ 36.9 million to US$ 126.9 million. This was mainly the result of new business written, as well as return premium received on a specific contract due to favorable technical results. In addition, the aviation and space line of business increased by 18.3% or US$ 62.7 million to US$ 404.5 million, which grew as a result of an increased retention in the business underwritten by GAUM.

In the latter half of 2004, the Specialty Lines segment agreed upon commutations with primarily North American cedents regarding gross loss reserves of US$ 401.3 million.

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Life & Health Reinsurance

(US$ million) Year ended December 31	2004	2003	% change 2004 over 2003	2002	% change 2003 over 2002
Gross premiums written	446.0	406.5	9.7%	343.2	18.4%
Net premiums written	439.9	369.5	19.1%	314.7	17.4%
Net premiums earned	433.9	383.0	13.3%	310.8	23.2%
Total investment results	29.7	17.5		18.1	
Segment income (loss)	15.4	11.9		6.5	
Underwriting expense ratio	22.5%	20.9%		20.6%	
Administration expense ratio	5.2%	3.5%		3.6%	
Retention ratio (net premiums written divided by gross premiums written)	98.6%	90.9%		91.7%	

Life & Health Reinsurance reported segment income (loss) of US$ 15.4 million, US$ (11.9) million and US$ (6.5) million in 2004, 2003 and 2002, respectively. The technical result for the year ended December 31, 2004 was US$ 14.7 million as compared to US$ (8.0) million and US$ (6.5) million for the same periods in 2003 and 2002, respectively. Technical result is defined as net premiums earned minus losses, loss adjustment expenses and life benefits minus underwriting acquisition costs plus technical interest. The increase in 2004 was primarily attributable to the following:

Strong growth in premium volume driven by the expansion of existing financing reinsurance transactions in Continental Europe and increased shares of current business, which was slightly offset by a decline in premiums due to commutations in the accident & health line of business.

The termination of the Life & Health Reinsurance segment s Master Retrocession Agreement for its financing contracts, resulting in a repayment of the non-amortized financing of US$ 36.9 million. The provisions for this termination led to a realization of a profit of US$ 3.4 million in 2004.

The development of our Guaranteed Minimum Death Benefit (GMDB) book during 2004 as compared to 2003 and 2002. In 2003 and 2002 net reserves were strengthened by US$ 20.5 million and US$ 15.6 million, respectively, while no actions were required in 2004. As a result of the strong performance of the US stock markets, the GMDB s net amount at risk further decreased to US$ 635.5 million at December 31, 2004 from US$ 809.7 million at December 31, 2003.

In late 2004, Converium entered into an agreement to terminate its US$ 75.0 million GMDB reinsurance protection purchased in 2003, for an amount of US$ 9.7 million, giving rise to a net cost of the cover for 2004 of US$ 0.1 million. The purpose of this cover was to address the volatility in the United States equity markets and potential adverse deviations to other key assumptions such as mortality risks, lapse rate risks and surrenders.

The increase was offset by a reduction in premium volume due to clients exercising their rights of special termination under various reinsurance contracts, which resulted in a reduction of estimated ultimate premium of US$ 6.4 million in the second half of 2004.

For the year ended December 31, 2004, gross premiums written increased 9.7% to US$ 446.0 million, net premiums written increased 19.1% to US$ 439.9 million and net premiums earned increased 13.3% to US$ 433.9 million.

For the year ended December 31, 2004, net premiums written growth in the Life & Health Reinsurance segment by line of business included:

Life & disability reinsurance (increased by 50.2% or US$ 81.3 million to US$ 243.4 million), which grew due to the expansion of existing financing reinsurance transactions in Continental Europe and increased shares of current business.

This increase was offset by a decrease of 5.3% or US$ 10.9 million in net premiums written to US$ 196.5 million in the accident & health line of business due to commutations.

In the latter half of 2004, the Life & Health Reinsurance segment agreed upon commutations with primarily North American cedents regarding gross loss reserves of US$ 18.6 million.

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Corporate Center

(US$ million) Year ended December 31	2004	2003	% change 2004 over 2003	2002	% change 2003 over 2002
Operating and administration expenses	38.0	34.3	10.8%	30.3	13.2%

The Corporate Center carries certain administration expenses, such as costs of the Board of Directors, the Global Executive Committee, and other global functions.

Financial condition and liquidity

Invested assets

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 pay out patterns 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. In order to reduce the interest rate risk exposure of our fixed income portfolio, we transferred approximately US$ 300.0 million from the available-for-sale portfolio to the held-to-maturity portfolio during 2004.

As of December 31, 2004, total invested assets (excluding cash and cash equivalents) were US$ 7.8 billion compared to US$ 7.5 billion as of December 31, 2003, an increase of US$ 275.7 million, or 3.7%. This increase is mainly due to the investment of the net proceeds from the Rights Offering that occurred in October 2004, positive operating cash flow and the weakening of the US dollar against European currencies. The increase was offset by commutations of certain of our North American treaties as well as amounts paid related to the retroactive stop-loss retrocession cover from National Indemnity Company.

Our asset mix, including cash and cash equivalents, consisted of the following at December 31, 2004 and 2003:

Asset class

	2004	2003

Fixed maturity securities (including the Funds Withheld Asset)	82.5%	82.7%
Equity securities [1]	3.7%	9.7%
Cash and short-term investments	9.4%	4.3%
Real estate and other [1, 2]	4.4%	3.3%
Total	100.0%	100.0%

1 Our participation in PSP Swiss Property AG is included in real estate and other with a market value of US$ 98.9 million as of December 31, 2004 and US$ 80.0 million as of December 31, 2003.

2 Included in the caption real estate and other are investments in funds of hedge funds, which had a carrying value of US$ 102.5 million as of December 31, 2004.

During 2004, we adjusted our asset allocation and lowered our exposure to investments in equity securities by approximately US$ 500.0 million. This reduced our equity exposure (excluding our participation in PSP Swiss Property AG) to below 4% of total invested assets versus approximately 10% as of December 31, 2003. These sales generated net realized capital gains of US$ 22.0 million (pre-tax). The proceeds of this divestiture were invested in highly rated fixed income instruments.

In addition, in order to protect shareholders equity from potential future increases of the yield curves, we lowered the modified duration of our fixed income portfolio to 3.5 as of December 31, 2004 versus 3.6 as of December 31, 2003. Sales relating to this reduction in duration generated net realized capital losses of less than US$ 2.0 million. Furthermore, during 2004, we increased our held-to-maturity portfolio by US$ 350.0 million.

Our investments are managed mainly by external investment managers and their performance is measured against benchmarks. The table below presents our investments in the major managed portfolios, as well as the applicable benchmark and benchmark return for 2004. The balances at December 31, 2004 are shown in original currencies.

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(in millions of original currencies unless noted)	Market value	Performance [1] Benchmark	Portfolio	Delta
Largest portfolios in US$				
Fixed maturities	1,942.6	2.49% [2]	2.46%	0.03%
Mortgage-backed securities	616.6	4.69% [3]	4.46%	0.23%
Equity securities	126.2	10.71% [4]	10.46%	0.25%
Largest portfolios in EUR				
Fixed maturities	277.1	6.11% [5]	6.12%	0.01%
Equity securities	56.8	13.11% [6]	12.62%	0.49%
Largest portfolios in UK pounds				
Fixed maturities	256.4	4.58% [7]	4.61%	0.03%
Equity securities	14.8	9.94% [8]	9.59%	0.35%
Largest portfolio in Swiss francs				
Real estate (direct and indirect)	265.3	n.a.	8.89%	n.a.
Largest portfolio in Australian $				
Fixed maturities	199.3	7.44% [9]	7.16%	0.28%

1 Performance is defined as annual time-weighted return
2 Citigroup USD WGBI 3 5 years Index/Citigroup World BIG Index ex MBS ex BBB 1 10
3 Lehman Mortgage Index
4 MSCI USA Index, S & P 500
5 Citigroup Euro World BIG Index ex BBB/Citigroup Euro Government Bond Index 1 10 years
6 MSCI Euro ex UK
7 Citigroup UK Government Bond Index 1 10 years
8 MSCI UK
9 Citigroup Australian AAA /AA /A

Fixed maturities

As of December 31, 2004, our fixed maturities portfolio, excluding the Funds Withheld Asset (described more fully below), had a carrying value of US$ 5.7 billion and represented 67.1% of our total investment portfolio including cash and cash equivalents (82.5% including the Funds Withheld Asset). This represents an increase in carrying value of US$ 756.6 million, or 15.3%, from December 31, 2003. This increase is mainly due to the sale of approximately US$ 500.0 million in equity securities, which were subsequently reinvested into fixed maturities, in order to reduce our exposure to equity securities, as well as the continued weakening of the US dollar against European currencies. In addition, the increase was due to the deployment of operating cash flow into fixed maturity securities during 2004. The US$ 400.0 million proceeds of the capital increase were mainly invested in treasury securities or remained in cash at the end of 2004.

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

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

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

Most of our fixed income securities are rated by Standard & Poor s, Moody s or similar rating agencies. As of December 31, 2004, approximately 97.7% of our fixed maturities securities portfolio was invested in securities rated A or better by these agencies and approximately 85.2% was invested in AAA/Aaa-rated securities.

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

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

Our guidelines also restrict our maximum investment in bonds issued by any group or industry sector by reference to local benchmarks and applicable insurance regulations. As of December 31, 2004 no aggregated amount of bonds issued by a single group (excluding governments and funds) represented more than 5% of our fixed maturities securities portfolio. Our ten biggest direct investments in corporate obligations (excluding commercial mortgage and asset-backed securities) were:

(US$ million) As of December 31, 2004	Estimated fair value Available-for-sale (AFS)	% of total AFS
New South Wales Treasury Corporation	20.1	0.4
General Electric Capital Corporation	15.5	0.3
Westfälische Landschaft Bodenkreditbank AG	13.8	0.3

HVB Group	13.8	0.3
HSBC Financial Corporation	12.2	0.3
KFW International Finance Inc.	12.1	0.3
Citigroup Inc.	10.6	0.2
Bank One Corporation	9.5	0.2
NV Bank Nederlandse Gemeenten	9.1	0.2
Morgan Stanley	9.0	0.2

Our four largest investments in funds investing in fixed maturities as of December 31, 2004, were:

(US$ million) As of December 31, 2004	Estimated fair value Available-for-sale (AFS)	% of total AFS
HSBC AM French Government Bond Fund	122.4	2.5
DWS Zurich Invest Renten Euroland	16.9	0.3
CCR Gestion Centrale	7.3	0.2
ING (L) Liquid SICVA, Luxembourg	2.2	0.1

As of December 31, 2004 our investments in mortgage and asset-backed securities were US$ 616.6 million. These investments are summarized as follows:

(US$ million) As of December 31, 2004	Estimated fair value Mortgage and asset-backed securities	% of total Mortgage and asset-backed securities
Federal National Mortgage Association	402.7	65.3
Federal Home Loan Mortgage Corporation	94.6	15.3
Government National Mortgage Association	69.6	11.3
Other mortgage and asset-backed securities	49.7	8.1

Total	616.6	100.0

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Equity securities

As of December 31, 2004, our equity securities portfolio had a carrying value of US$ 408.5 million (including our participation in PSP Swiss Property AG). This represents a decrease in carrying value of US$ 431.7 million, or 51.4%, from December 31, 2003. The decrease was primarily the result of the sale of a substantial portion of our equity securities portfolio in order to lower our equity exposure and related capital charges. Equity securities were approximately 3.7% and 9.7% of our total investment portfolio as of December 31, 2004 and 2003, respectively, including cash and cash equivalents and excluding our participation in PSP Swiss Property AG.

Substantially 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 ten largest direct equity investments as of December 31, 2004 were:

(US$ million) As of December 31, 2004	Estimated fair value Available-for-sale (AFS)	% of total Equity securities
PSP Swiss Property AG	98.9	24.2
International Financial Group	6.0	1.5
General Electric Company	4.9	1.2
Exxon Mobil Corp.	4.2	1.0
Microsoft Corp.	3.3	0.8
Citigroup Inc.	3.2	0.8
Pfizer Inc.	2.6	0.6
Total SA	2.5	0.6
Novartis Inc.	2.4	0.6
Bank of America Corp.	2.4	0.6

Our two largest investments in funds investing in equities as of December 31, 2004 were:

(US$ million)	Estimated fair value	% of total

As of December 31, 2004	Available-for-sale (AFS)	Equity securities
Barclay s Global Investors Index Selection UK Fund	31.8	7.8
Vanguard Institutional Index Fund	12.1	3.0

Our exposure to private equity fund investments as of December 31, 2004 was approximately US$ 61.5 million. This represents the sum of the fair value of invested capital (as determined by the fund managers) and remaining unpaid commitments. Of this total, the value of remaining unpaid commitments was approximately US$ 15.7 million as of December 31, 2004.

Our investments in private equity funds as of December 31, 2004 were:

(US$ million)	Estimated fair value	% of total
As of December 31, 2004	Available-for-sale (AFS)	Equity securities
Capital Z Financial Services Fund II	23.5	5.8
Oak Hill Securities Fund LP II	16.4	4.0
Clayton Dubilier & Rice Fund	3.5	0.9
Insurance Partners LP	1.7	0.4
Oak Hill Securities Fund	0.7	0.2

At December 31, 2004 and 2003, gross unrealized gains on our equity portfolio were US$ 73.0 million and US$ 96.2 million and gross unrealized losses were US$ 2.5 million and US$ 1.7 million, respectively. We have reviewed the securities that have declined in value and have recorded impairments accordingly.

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

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

Funds Withheld Asset

The transfer of certain historical reinsurance business to Converium was 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, 2004, the Funds Withheld Asset was US$ 1,305.1 million. The decrease of US$ 225.5 million over December 31, 2003 was primarily due to paid claims.

The table below shows the distribution of the Funds Withheld Asset by currency as of December 31, 2004 and 2003.

Funds Withheld Asset

As of December 31	2004	2003
US dollar	41%	47%
UK pound	29%	26%
Euro	25%	23%
Swiss franc	3%	2%
Japanese yen	2%	2%
Total	100%	100%
Weighted average interest rate	5.4%	5.4%

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

Short-term investments

Our short-term investment portfolio includes investments in fixed-term deposits and fiduciary investments. These investments generally have maturities of between three months and one year. As of December 31, 2004, we had short-term investments with a carrying value of US$ 133.3 million, representing 1.6% of our total investment portfolio, including cash and cash equivalents. Short-term investments at December 31, 2003 were US$ 55.8 million or 0.7% of our total investment portfolio, including cash and cash equivalents.

Real estate and other investments

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

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

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

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Real estate

Our five largest real estate investments as of December 31, 2004 were:

(US$ million) As of December 31, 2004	Carrying value	% of total Other investments
Dietikon residential/commercial building	25.1	9.2
Effretikon residential building	16.4	6.0
Zurich residential/commercial building	16.3	6.0
Basel residential/commercial building	14.1	5.2
Bern residential/commercial building	10.8	4.0

Premiums receivable

We had premiums receivable of US$ 2.2 billion at December 31, 2004 compared to US$ 2.0 billion at December 31, 2003, an increase of US$ 169.7 million, or 8.4%. This increase is due to premiums written in 2004 and the weakening of the US dollar against European currencies. Premiums receivable include those currently due, as well as deferred premiums receivable, which is comprised primarily of accruals on premium balances which have not yet been reported and which are not contractually due to be paid until some time in the future. See Reinsurance results section for additional information regarding adjustments of ultimate premium estimates. Current premiums receivable represented 14.6% and 9.1% of total premiums receivable at December 31, 2004 and 2003, respectively, and accrued premiums receivable represented 85.4% and 90.9%, respectively.

Reinsurance assets

Retrocessional reinsurance arrangements generally do not relieve Converium from its direct obligations to its reinsureds. Thus, a credit exposure exists with respect to reinsurance ceded to the extent that any retrocessionaire is unable or unwilling to meet the obligations assumed under the retrocessional agreements. At December 31, 2004, Converium held US$ 559.4 million in collateral as security under related retrocessional agreements in the form of deposits, securities and/or letters of credit.

As of December 31, 2004, we had reinsurance recoverables from retrocessionaires of approximately US$ 1.3 billion on paid and unpaid losses and loss adjustment expenses, unearned premium reserves and future life benefits balances, compared to US$ 1.7 billion at December 31, 2003. Allowances of US$ 40.6 million have been recorded for estimated uncollectible receivables and reinsurance recoverables at December 31, 2004, compared to US$ 35.4 million at December 31, 2003.

Liabilities

Loss and loss adjustment expense reserves

We had gross loss and loss adjustment expense (LAE) reserves of US$ 8.8 billion at December 31, 2004, compared to US$ 7.8 billion at December 31, 2003, an increase of US$ 934.1 million, or 11.9%. The increase in our reserve position is mainly attributable to 2004 incurred losses, including US$ 562.0 million of net strengthening of prior years loss reserves during 2004, offset by US$ 545.8 million in reserves commuted during the latter part of 2004. Loss and loss adjustment expense reserves, net of reinsurance recoverables for paid and unpaid losses, were US$ 7.6 billion at December 31, 2004, compared to US$ 6.5 billion at December 31, 2003, an increase of US$ 1.1 billion, or 18.3%. Gross reserves for future life benefits were US$ 545.8 million at December 31, 2004 compared to US$ 483.5 million at December 31, 2003.

Loss and loss adjustment reserves are based on estimates of future payments to settle claims, including legal and other expenses. We estimate our loss and loss adjustment reserves on the basis of the facts available at the time the loss and loss adjustment expense reserves are established and use actuarial methodologies that are commonly used in our industry. Our estimates of losses and loss adjustment expenses are subject to assumptions reflecting economic and other factors such as inflation rates, changes in legislation, court rulings, case law and prevailing concepts of liability, which can change over time. We review and update our estimates and record changes to our loss and loss adjustment reserves in current income.

Debt outstanding

As of December 31, 2004, we had total debt outstanding with a principal amount of US$ 400.0 million and a carrying amount of US$ 390.9 million. We had no scheduled debt repayments in 2004, 2003, or 2002.

In December 2002, Converium Finance S.A. issued US$ 200.0 million principal amount of non-convertible, unsecured, guaranteed subordinated notes, which are irrevocably and unconditionally guaranteed on a subordinated basis by each of Converium Holding AG and Converium AG. These notes mature in full on December 23, 2032 and bear interest at the rate of 8.25%. In 2001, in connection with the Transactions, Converium Holdings (North America) Inc. assumed US$ 200.0 million principal amount of non-convertible, unsecured, unsubordinated senior notes issued originally during October 1993. These notes mature in full on October 15, 2023 and bear interest at the rate of 7.125%. In 2004, the interest payments regarding the 7.125%

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non-convertible, unsecured, unsubordinated senior notes of CRNA were funded (i) by corresponding dividends of CRNA with regards to the coupon payment of April 15, 2004; and (ii) by Converium AG with regards to the coupon payment of October 15, 2004, due to the dividend restrictions of CRNA (see Note 22).

In November 2004, Converium AG signed a US$ 1.6 billion, three-year 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. It replaces the existing US$ 900.0 million letter of credit facility, which was signed in July 2003. As of December 31, 2004, Converium had outstanding letters of credit of US$ 955.7 million under the facility. Investments of US$ 1,060.8 million were pledged as collateral related to the Syndicated Letter of Credit Facility. Converium must maintain the following financial covenants in order to avoid default under the agreement: (i) consolidated total borrowings do not at any time exceed 35% of consolidated tangible net worth, which is defined as total shareholders equity less goodwill; and (ii) consolidated tangible net worth must remain greater than US$ 1,237.5 million at all times. Converium pays commission fees on outstanding letters of credit, which are distributed to the facility banks and can only be impacted by a change in the company s credit rating. The maximum amount of this fee is .50%.

In addition to the syndicated letter of credit facility, other irrevocable letters of credit of US$ 639.1 million were outstanding at December 31, 2004 to secure certain assumed reinsurance contracts. Investments of US$ 704.7 million were pledged as collateral related to certain of these letters of credit.

Shareholders equity

As of December 31, 2004, we had total shareholders equity of US$ 1,720.2 million (US$ 11.76 per share) compared to US$ 2,083.3 million (US$ 52.38 per share) as of December 31, 2003. This decrease is mainly comprised of the 2004 net loss of US$ 760.8 million, a reduction in net unrealized gains on investments, net of taxes of US$ 28.6 million, and US$ 47.8 million of dividends to shareholders paid in 2004. This decrease was offset by the Rights Offering in October 2004 whereby an additional 106,683,245 shares were issued, generating additional shareholders equity of US$ 399.1 million, net of underwriting issuance costs of US$ 29.7 million.

Liquidity and capital resources

Our principal cash requirements are for the payment of dividends to shareholders, servicing debt, investment in businesses, capital expenditures, servicing retrocessional arrangements, commutations, and for paying reinsurance and insurance claims, which could periodically include significant cash requirements related to catastrophic events.

As of December 31, 2004, Converium reported total investments including cash and cash equivalents of US$ 7,164.2, of which (i) US$ 1,060.8 million were pledged as collateral relating to outstanding letters of credit of US$ 955.7 million of the US$ 1.6 billion Syndicated Letter of Credit Facility, (ii) US$ 704.7 million were pledged as collateral relating to other irrevocable letters of credit, (iii) US$ 109.3 million were pledged primarily as deposits with French cedents, and (iv) US$ 562.1 million were pledged to support Converium-internal reinsurance transactions.

Dividends from subsidiaries

As a holding company, Converium Holding AG relies in large part on cash dividends and other permitted payments from its subsidiaries to make principal and interest payments on debt, to pay other outstanding obligations and to pay dividends to shareholders. Converium is subject to legal restrictions on the amount of dividends it may pay to its shareholders. Similarly, the company laws of countries in which our entities operate may restrict the amount of dividends payable by such entities to their parent companies. In addition, the ability of our entities to pay dividends may be restricted or influenced by minimum capital and solvency requirements that are imposed by regulators in the countries in which the entities operate. Dividend payments from Converium AG to Converium Holding AG may be subject to regulatory review, but for 2005 this is not considered a relevant issue as no payment is expected to be made; any dividend payments from CRNA to CHNA requires approval of the regulator of the state of Connecticut (see Note 22). The maximum dividend that Converium Holding AG is able to pay in 2004, before withholding tax, is approximately US$ 29.5 million as of December 31, 2004.

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Cash flows

(US$ million) Year ended December 31	2004	2003	2002
Cash provided by operating activities	224.5	1,265.3	870.4
Reimbursement of reinsurance recoverables in dispute			136.7
Cash provided by operating activities, excluding reimbursement of reinsurance recoverables in dispute	224.5	1,265.3	733.7
Cash outflows due to commutations	526.8		
Cash provided by operating activities, excluding reimbursement of reinsurance recoverables in dispute and cash outflows due to commutations	751.3	1,265.3	733.7
Cash provided by (used in) financing activities	349.5	47.2	179.0

Cash and cash equivalents increased by US$ 384.1 million to US$ 664.9 million as of December 31, 2004 from US$ 280.8 million as of December 31, 2003. Our cash position increased due to the sale of equity securities and was offset by commutations executed in 2004 that resulted in a cash outflow of US$ 526.8 million. The cash balance was maintained in anticipation of pending cash outflows in connection with commutations.

Our cash flows from operating activities result principally from premiums, collections on losses recoverable and investment income, net of paid losses, acquisition costs and underwriting expenses. Our cash provided by operating activities was US$ 224.5 million for the year ended December 31, 2004 compared to US$ 1,265.3 million and US$ 870.4 million for the years ended December 31, 2003 and 2002, respectively. This represented a decrease of US$ 1,040.8 million, or 82.2% in 2004 versus an increase of US$ 394.9 million, or 45.4% in 2003. This decrease was due to increased claims payment activity, particularly related to the cash outflows for commutations that have taken place during the latter part of 2004, as well as amounts paid related to the retroactive stop-loss retrocession cover from National Indemnity Company. In addition there was a reduction of new business growth as a result of active cycle management. The increase in 2003 was driven by improved operating performance, including strong premium growth. The 2002 cash flow reflects a US$ 136.7 million reimbursement of reinsurance recoverables in dispute received during 2002.

Cash provided by financing activities in 2004 was primarily due to the proceeds, net of related expenses, received from the Rights Offering that occurred in October 2004, offset by the payment of dividends. In 2003, cash used in financing activities was primarily driven by the payment of dividends to shareholders. Cash provided by financing activities in 2002 was due to the issuance of our guaranteed subordinated notes.

The charges in 2004 for reserve strengthening, deferred income taxes, and impairment of goodwill do not have a current impact on cash provided by operating activities. However, future periods may be affected by higher claim payments on those reserves and the run-off of the North American operations, offset by lower tax payments (due to net operating loss carryforwards).

Critical accounting policies

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

Non-life loss and loss adjustment reserves

We are required by applicable insurance laws and regulations, as well as US GAAP, to establish reserves for payment of losses and loss adjustment expenses that arise from our non-life reinsurance and insurance businesses. Loss and loss adjustment reserves are based on estimates of future payments to settle claims, including legal and other expenses. The liability for unpaid losses and loss adjustment expenses for property and casualty business includes amounts determined from loss reports on individual cases and amounts for losses incurred but not reported. If a contract is commuted, we reduce loss and loss adjustment expense carried on our balance sheet and record a gain or loss for the difference between loss and loss adjustment expense

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carried on our balance sheet and the commutation payment. We estimate our loss and loss adjustment reserves on the basis of facts reported to us by ceding companies, and in conjunction with actuarial estimates and methodologies for instances where we have not received reports from ceding companies. Our estimates of losses and loss adjustment expenses are subject to assumptions reflecting economic and other factors such as inflation rates, changes in legislation, court rulings, case law and prevailing concepts of liability, which can change over time. In addition, if ceding company data is not provided to us on a timely basis, this could potentially impact the accuracy of our estimates. We review and update our estimates and record changes to our loss and loss adjustment reserves in current income.

The impact of changes in loss estimates can be mitigated by risk diversification. Risk diversification is a basic risk management tool in the insurance and reinsurance industry; as a multi-line reinsurer there are always likely to be reserve adjustments at the line of business level. Our book of business is broadly diversified by line of business as well as balanced by region and by the expected duration of its claims obligations.

Premiums

When we underwrite business, we receive premiums for assuming the risk. Premiums written in any given period include premiums reported to us by our clients and those we estimate and accrue on contracts underwritten.

In a typical reporting period, we generally earn a portion of the premiums written during that period together with premiums that were written during earlier periods. Likewise, some part of our premiums written will not be earned until future periods. We allocate premiums written but not yet earned to an unearned premium reserve, which represents a liability on our balance sheet. As time passes, the unearned premium reserve is gradually reduced and the corresponding amount is released through the income statement as premiums earned. Premiums are typically earned on a pro rata basis over the period that the coverage is in effect. Our premium earned and written estimates are regularly reviewed and enhanced as information is reported to us by our clients and we are able to refine our estimates and assumptions. Our estimation procedures are also affected by the timeliness and comprehensiveness of the information our clients provide to us. During the course of 2004 Converium implemented enhanced procedures for establishing written premium estimates. The new process derives the accrued written and earned premium from our ultimate premium estimates for a period of two years after the expiration of the underlying direct policy. Following this, the cedent s actual reported premiums are used.

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

Reinsurance recoverables

We cede reinsurance to retrocessionaires in the normal course of business. Under US GAAP, reinsurance is recorded gross in the balance sheet. Reinsurance assets (recoverables) include the balances due from retrocessionaires for paid and unpaid losses and loss adjustment expenses, ceded unearned premiums, and ceded future life benefits. Amounts recoverable from retrocessionaires are estimated in a manner consistent with the liabilities associated with the reinsured contracts.

Retrocessional reinsurance arrangements generally do not relieve us from our direct obligations to our reinsureds. Thus, a credit exposure exists with respect to reinsurance ceded to the extent that any retrocessionaire is unable or unwilling to meet the obligations assumed under the retrocessional agreements. Failure of retrocessionaires to indemnify us due to insolvencies or disputes could result in uncollectible amounts and losses to us. We establish an allowance for potentially uncollectible recoverables from retrocessionaires for amounts owed to us that management believes will not be collected. In addition, we immediately charge operations for any recoverable balances that are deemed to be uncollectible. Collateral and other offsets are considered in determining the allowance or expense.

Foreign currency translation

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

Invested assets

The majority of our fixed maturities and equity securities are classified as available-for-sale; these investments are carried at fair value. Fixed maturities for which we have the intent and ability to hold to maturity are classified as held-to-maturity. Held-to-

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maturity securities are carried at amortized cost, if purchased, or carrying value, if transferred from the available-for-sale category to the held-to-maturity category. The difference between the fair value and amortized cost at the date of transfer of such securities is amortized over the life of the respective securities. The carrying value of transferred securities is the fair value at the date of transfer less unamortized net unrealized gains. Fixed maturities and equity securities, which we buy with the intention to resell in the near term, are classified as trading and are carried at fair value. Unrealized gains or losses on investments carried at fair value, except those designated as trading are recorded in other comprehensive income, net of deferred income taxes.

When declines in values of securities below cost or amortized cost are considered to be other than temporary, an impairment charge is recorded as a realized capital loss in the statement of income for the difference between cost or amortized cost and estimated fair value. Other than temporary declines are declines in value of the security that exceed 20% over a period of six months, that exceed 50% regardless of the period of decline or any declines in value of equity securities over a period of more than twelve months. The same policy applies to fixed maturities securities when the decline in value is attributable to the deteriorating credit-worthiness of the issuer. At management s judgment, we impair additional securities based on prevailing market conditions by considering various factors such as the financial condition of the issuer, the market value and the expected future cash flows of the security.

Income taxes

Deferred income taxes are provided for all temporary differences, which are based on the difference between financial statement carrying amounts and the income tax bases of assets and liabilities using enacted local income tax rates and laws. In addition, a deferred tax asset is established for net operating loss carryforwards. We have significant net operating loss carryforwards that we can use to offset future taxable income. Realization of the deferred tax asset related to these carryforwards is dependent upon generating sufficient taxable income within specified future periods. We establish a valuation allowance against our deferred tax asset based upon our assessment if it is more likely than not that some or the entire deferred tax asset will not be realized in the applicable jurisdiction. In establishing the appropriate value of the deferred tax asset, we must make judgments about our ability to recognize the benefit of the asset over time, including our ability to utilize the net operating loss carryforwards. In the event that we are unable to realize a deferred tax asset, net income would be adversely affected to the extent a valuation allowance has not been established.

Goodwill and Other Intangible Assets

SFAS No. 142, Goodwill and Other Intangible Assets prohibits the amortization of goodwill and intangible assets that have indefinite useful lives, and requires impairment testing of goodwill annually or if any event occurs which would indicate an impairment of goodwill. Except for the reduction of amortization of goodwill, adoption of SFAS No. 142 did not impact Converium s financial condition or results of operations.

SFAS No. 142 requires that goodwill and other intangible assets be tested for impairment using a two-step process. The first step is to identify a potential impairment. The second step of the goodwill and other intangible assets impairment test measures the amount of the impairment loss, if any, and must be completed by the end of the fiscal year. Intangible assets deemed to have an indefinite life are tested for impairment using a one-step process, which compares the fair value to the carrying amount of the asset as of the beginning of the fiscal year.

Upon application of SFAS No. 142, Converium ceased amortizing goodwill on January 1, 2002.

New accounting standards

We have or will be required to adopt the following new standards in the future:

SFAS 123 (revised 2004), Share-Based Payment

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment . This Statement is a revision of SFAS No. 123, Accounting for Stock-Based Compensation and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees . This Statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity s equity instruments or that may be settled by the issuance of those equity instruments. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. For public entities, this Statement is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. As Converium has already adopted the standards of SFAS No.123, this statement is not expected to have a material impact on the financial condition or results of operations.

SFAS 132 (revised 2003), Employers Disclosures about Pensions and Other Postretirement Benefits an amendment of FASB Statements No. 87, 88, and 106

In December 2003, the FASB issued SFAS No. 132 (revised 2003), Employers Disclosures about Pensions and Other Postretirement Benefits an amendment of FASB Statements No. 87, 88 and 106 . This Statement retains the disclosures required by SFAS No. 132, Employers Disclosures about Pensions and Other Postretirement Benefits an amendment of FASB Statements

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No. 87, 88, and 106 , which standardized the disclosure requirements for pensions and other postretirement benefits to the extent practicable and requires additional information on changes in the benefit obligations and fair values of plan assets. Additional disclosures have been added in response to concerns expressed by users of financial statements; those disclosures include information describing the types of plan assets, investment strategy, measurement date(s), plan obligations, cash flows, and components of net periodic benefit cost recognized during interim periods. This statement is effective for financial statements with fiscal years ending after December 15, 2003, with interim-period disclosures effective for interim periods beginning after December 15, 2003. This statement has been adopted for all of Converium s plans. See Note 14 for additional information.

In December 2003, *the Medicare Prescription Drug, Improvements and Modernization Act of 2003 (The Medicare Act)* was approved in the United States. The Medicare Act expands prescription drug coverage under Medicare. As CRNA s retiree medical coverage is very limited, the Medicare Act did not have a material impact on the financial condition or results of operations.

FASB Interpretation 46, Consolidation of Variable Interest Entities an interpretation of ARB No. 51

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities an interpretation of ARB No. 51 (FIN 46), which requires an enterprise to assess whether consolidation of an entity is appropriate based upon its interests in a variable interest entity (the VIE). A VIE is an entity in which the equity investors do not have the characteristics of a controlling financial interest, or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 was effective immediately for new VIEs established or purchased subsequent to January 31, 2003. The adoption of FIN 46 did not have a material impact on Converium s consolidated financial condition or results of operations, as there were no VIEs identified which required consolidation.

In December 2003, the FASB issued a revised version of FIN 46 (FIN 46(R)), which incorporates a number of modifications and changes made to the original version. FIN 46(R) replaces the previously issued FIN 46 and, subject to certain special provisions, is effective no later than the end of the first reporting period that ends after December 15, 2003 for entities considered to be special-purpose entities and no later than the end of the first reporting period that ends after March 15, 2004 for all other VIEs. Early adoption is permitted. Converium adopted FIN 46(R) at December 31, 2003. The adoption of FIN 46(R) did not result in the consolidation of any VIEs.

We have performed an evaluation of the catastrophic protection counter-party agreement with Helix 04 Limited, issued in 2004, to establish whether we are the primary beneficiary of the VIE which issued the securities. Management has concluded that we are not the primary beneficiary of the VIE (see Note 11).

EITF Issue 03-1, The Meaning of Other-than-temporary Impairment and Its Application to Certain Investments (EITF 03-1).

On September 30, the FASB delayed the effective date for the measurement and recognition guidance included in paragraphs 10 through 20 of EITF Issue 03-1. The adoption of EITF 03-1 did not have a material impact on the financial condition or results of operations.

Qualitative and quantitative disclosures about market risks

As a provider of reinsurance solutions, effective risk management is fundamental to our ability to protect both the interests of our clients and shareholders. We have consequently established risk and investment management processes and procedures to actively manage our exposure to qualitative and quantitative market risks. Our risk and investment management procedures focus on ensuring that all of our operating units consistently follow suitable, structured and controlled processes and procedures, with specific guidelines and limits tailored to the characteristics of each business.

We consider our market risk to consist primarily of our exposure to adverse market value changes in our assets, across both short- and long-term periods. Our market risk includes multiple sources of market price fluctuations, including interest rate risks, credit risks, prepayment risks, liquidity risks, sector risks and other risks. Short-term market risks relate primarily to our exposure to adverse market value changes in our assets and the potential inability to realize asset values on a timely basis.

We principally manage our long-term market risks through a procedure we refer to as asset/liability management, or ALM, through which we seek to understand and manage the dynamic interactions between our assets and liabilities. We utilize and continually develop firm-wide ALM processes and models to manage our aggregate financial risks and the correlation between financial risks and underwriting risks. The primary goal of our ALM procedures is to match, in terms of timing and currency, anticipated claims payments to our cedents with investment income and repayments generated by our investment assets and to improve our understanding of the correlation between financial risks and underwriting risks. Because fixed income securities generally provide more stable investment income than equity securities, the preponderance of our investments are in fixed income instruments. Although our ALM techniques are based on theoretical and empirical models and can lead to incorrect assumptions, we believe that the careful use of these ALM techniques leads to a better understanding of the risks inherent in our assets and liabilities and is therefore an important element of our risk and investment management process. Our principal ALM techniques include cash flow analysis, scenario testing and stochastic modeling.

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To help manage our aggregate exposure to concentration and credit risks, we analyze and review the concentration of our risk by entity, risk category (asset, underwriting, retrocession), industry and credit rating on a periodic basis.

Sensitivity analyses for invested assets

Approximately 85.5% of our investment securities are classified for accounting purposes as available-for-sale. These securities are carried at their fair market value as of the balance sheet date with movements in fair value recorded in shareholders equity. In contrast to these assets, certain liability reserves, particularly non-life reinsurance reserves, are not shown at fair market values as of the balance sheet date. Therefore, US GAAP accounting practices typically result in more volatile assets than liabilities. This, in turn, may lead us to report more volatile shareholders equity on our balance sheet than we believe may economically be the case.

The following risk analyses do not take into account that there are strategies in place to minimize the exposures to market fluctuations. These strategies include, among others, changes in asset allocation and the sale of investments. These analyses assume that the change in value of assets is temporary and that the liability reserves would not change.

We have based our computations of prospective effects of hypothetical interest rate changes on numerous assumptions. Because these computations are based on assumptions, they should not be relied on as indicative of future results.

Certain shortcomings are inherent in the method of analysis presented in the computation of the fair value of fixed rate instruments. Actual values may differ from those projections presented should market conditions vary from assumptions used in the calculation of the fair value of individual securities, including non-parallel shifts in the term structure of interest rates and changing individual issuer credit spreads.

Equity market risk

We hold approximately 5.2% (including our participation in PSP Swiss Property AG) of our invested assets in equity securities, which are subject to equity market risk. Our equity market risk is concentrated in the United States and Europe and is highly sensitive to general economic and stock market conditions. The estimated potential exposure of our consolidated net assets to a 10% decline in all stock markets as of December 31, 2004 would be an after-tax reduction in net assets of US$ 34.8 million, which represents approximately 2.0% of our total shareholders equity as of December 31, 2004.

Our strategic asset allocation combines a large percentage of investments in high-quality bonds with investments in equity securities. This allocation seeks to generate strong positive returns with acceptable risks over the long term, while protecting against excessive risks in periods of severe market distress.

During a severe stock market correction associated with a weak economy, recession or depression, losses in the fair market value of equity securities tend to be partially offset by gains on high-quality bonds arising from falling interest rates. We seek to match our investments with our underlying liabilities in the countries and territories in which we operate. Consequently, we strive to keep our equity portfolio diversified so as to provide a broad exposure across major sectors of individual stock markets. We restrict our maximum investment in any one equity security or equity sector by reference to local benchmarks and insurance regulations.

Interest rate risk

Our investments are subject to interest rate risks. Our interest rate risk is concentrated in the United States and Europe and is highly sensitive to many factors, including governmental monetary policies, and domestic and international economic and political conditions. The estimated potential exposure of our consolidated net assets to a one percentage point increase of the yield curve would be an after-tax reduction in net assets of US$ 121.7 million, which represents approximately 7.1% of our total shareholders equity as of December 31, 2004. This reduction would be offset by higher investment income earned on newly invested funds.

To protect our balance sheet from a possible rise of the yield curves, we stabilized the modified duration of our bond portfolio, excluding held-to-maturity securities, at 3.4. Additionally, we expanded our portfolio of held-to-maturity government bonds totaling US$ 850.4 million (15.0% of our fixed maturities portfolio, excluding the Funds Withheld Asset). The duration of the held-to-maturity portfolio is 4.3.

As of December 31, 2004, all of our debt outstanding was at fixed interest rates. Thus, an increase in interest rates would currently have no effect on our annual interest expense or reported shareholders equity, as we account for debt at amortized cost, not fair value.

Management s discussion and analysis
of financial condition and results of operations (continued)

Foreign exchange risk

Our general practice is to invest in assets that match the currency in which we expect related liabilities to be paid. We tend thus to invest our assets with the same currency allocation as our technical liabilities. This results in the same currency split for the assets backing our shareholders equity. This practice enables sound currency asset/liability management, but implies a translation risk of currency rate changes against the US dollar that may result in adverse effects on our reported shareholders equity when expressed in US dollars.

Shareholders equity held in local insurance units is primarily kept in local currencies to the extent that shareholders equity is required to satisfy regulatory and self-imposed capital requirements. This facilitates our efforts to ensure that capital held in local insurance units will be able to support the local insurance business irrespective of currency movements. In line with our functional currency concept, the differences resulting from the currency rate changes are recorded in shareholders equity as cumulative currency translation adjustments.

The table below shows the approximate effect on shareholders equity of instantaneous adverse movements in currency exchange rates of 10% on our major currency exposures at December 31, 2004 against the US dollar.

	Adverse exchange rate movement against the US dollar [1]	Approximate decline in shareholders equity
Euro	10%	$66.7 million
Swiss franc	10%	$46.9 million
UK pound	10%	$9.6 million

1 A weakening of the respective currency against the US dollar

As of December 31, 2004 and 2003, we had unrealized cumulative translation gains of US$ 187.7 million and US$ 116.1 million, respectively.

Our reported premiums, losses and expenses are also affected by exchange rate fluctuations. Business written in currencies other than the US dollar is translated at average exchange rates for the period, and therefore exchange rate movements from period to period can have a significant effect on our US dollar reported premiums, losses and expenses.

The table below shows the percentage of key income statement and balance sheet items, denominated by our main currencies as of and for the year ended December 31, 2004:

US	UK	Swiss	Japanese

	dollar	Euro	pound	franc	yen	Other	Total
Income statement							
Net premiums written	43%	25%	17%	1%	2%	12%	100%
Net investment income	57%	19%	20%	1%		3%	100%
Losses, loss adjustment expenses and life benefits	58%	20%	13%	2%		7%	100%
Underwriting acquisition costs	46%	26%	12%	1%	3%	12%	100%
Other operating and administration expenses	33%	17%	4%	44%		2%	100%
Interest expense	100%						100%
Balance sheet							
Total invested assets	56%	17%	18%	2%		7%	100%
Reinsurance assets	79%	10%	10%			1%	100%
Losses and loss adjustment expenses, gross	57%	19%	19%			5%	100%
Unearned premiums, gross	53%	15%	24%		1%	7%	100%
Future life benefits, gross	42%	54%	1%	1%		2%	100%
Debt	100%						100%

Management s discussion and analysis
of financial condition and results of operations (continued)

Cautionary note regarding forward-looking statements

This Management s discussion and analysis of financial condition and results of operations 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. 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 any forward-looking statements, including the following:

The impact of the recent ratings changes and 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 our plans to run-off 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;

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

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

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;

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.

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

Converium Holding AG and Subsidiaries
Report of the independent Group auditors

To the General Meeting of Shareholders of Converium Holding AG, Zug

We have audited the accompanying consolidated balance sheets of Converium Holding AG as of December 31, 2004 and 2003 and the related consolidated statements of income, cash flows and changes in equity for each of the three years in the period ended December 31, 2004, included on pages 56 through 105 all expressed in United States dollars.

The consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We confirm that we meet the Swiss legal requirements concerning professional qualifications and independence.

Our audits were conducted in accordance with auditing standards promulgated by the Swiss profession and with the Standards of the Public Company Accounting Oversight Board (United States). Those standards require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Converium Holding AG at December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers Ltd

A. Hill M. Frei

Zurich, March 4, 2005

Converium Holding AG and Subsidiaries
Consolidated statements of (loss) income

(US$ million, except per share information) Year ended December 31	Notes	2004	2003	2002
Revenues				
Gross premiums written		3,840.9	4,223.9	3,535.8
Less ceded premiums written		287.9	396.9	213.6
Net premiums written	11	3,553.0	3,827.0	3,322.2
Net change in unearned premiums		132.1	150.5	156.7
Net premiums earned	11	3,685.1	3,676.5	3,165.5
Net investment income	7	311.6	233.0	251.8
Net realized capital gains (losses)	7	46.5	18.4	10.3
Other (loss) income		2.6	2.7	1.2
Total revenues		4,040.6	3,930.6	3,405.8
Benefits, losses and expenses				
Losses, loss adjustment expenses and life benefits	9,11	3,263.1	2,674.2	2,492.0
Underwriting acquisition costs	11	842.5	803.2	666.7
Other operating and administration expenses		217.9	197.8	173.3
Interest expense	12	33.1	31.0	16.4
Impairment of goodwill	8	94.0		
Amortization of intangible assets	8	9.9		
Restructuring costs	4	2.7		
Total benefits, losses and expenses		4,463.2	3,706.2	3,348.4
(Loss) income before taxes		422.6	224.4	57.4
Income tax (expense) benefit	13	338.2	39.3	49.4
Net (loss) income		760.8	185.1	106.8

Basic (loss) earnings per share	24	12.00	2.33	1.34
Diluted (loss) earnings per share	24	12.00	2.32	1.33

The notes to the consolidated financial statements are an integral part of these financial statements.

Converium Holding AG and Subsidiaries
Consolidated balance sheets

(US$ million, except share information) Year ended December 31	Notes	2004	2003
Assets			
Invested assets			
Held-to-maturity securities:			
Fixed maturities	7	850.4	500.4
Available-for-sale securities:			
Fixed maturities	7	4,834.8	4,428.2
Equity securities	7	408.5	840.2
Other investments	7	272.3	173.5
Short-term investments		133.3	55.8
Total investments		6,499.3	5,998.1
Funds Withheld Asset	7	1,305.1	1,530.6
Total invested assets		7,804.4	7,528.7
Other assets			
Cash and cash equivalents		664.9	280.8
Premiums receivable:			
Current		318.5	182.8
Accrued		1,859.5	1,825.5
Reinsurance assets:			
Underwriting reserves	11	1,337.8	1,718.6
Insurance balances receivable, net		233.5	224.0
Funds held by reinsureds		1,721.3	1,374.0
Deferred policy acquisition costs		484.7	380.1
Deferred income taxes	13	78.3	345.1
Other assets	8	439.7	495.0

Total assets		14,942.6	14,354.6
Liabilities and equity			
Liabilities			
Losses and loss adjustment expenses, gross	9	8,776.9	7,842.8
Unearned premiums, gross	11	1,312.3	1,467.4
Future life benefits, gross	11	545.8	483.5
Other reinsurance liabilities		1,375.3	1,087.3
Funds held under reinsurance contracts		379.3	529.8
Deferred income taxes	13	157.2	158.3
Accrued expenses and other liabilities		284.7	311.6
Debt	12	390.9	390.6
Total liabilities		13,222.4	12,271.3
Equity			
Common stock CHF 5 nominal value, 146,689,462 shares issued, (146,272,886 shares outstanding), respectively, CHF 10 nominal value, 40,006,217 shares issued, (39,775,620 shares outstanding)	16	554.9	253.0
Additional paid-in capital		1,430.6	1,326.7
Treasury stock, (416,576 and 230,597 shares, respectively)		7.7	10.0
Unearned stock compensation	15	7.5	6.1
Accumulated other comprehensive income:			
Net unrealized gains on investments, net of taxes	7	116.7	145.3
Cumulative translation adjustments		187.4	116.1
Total accumulated other comprehensive income		304.1	261.4
Retained (deficit) earnings		554.2	258.3
Total equity		1,720.2	2,083.3
Total liabilities and equity		14,942.6	14,354.6

The notes to the consolidated financial statements are an integral part of these financial statements.

Converium Holding AG and Subsidiaries
Consolidated statements of cash flows

(US$ million) Year ended December 31	2004	2003	2002
Cash flows from operating activities			
Net (loss) income	760.8	185.1	106.8
Adjustments for			
Net realized capital (gains) losses on investments	46.5	18.4	10.3
Amortization of premium/discount	59.1	43.9	20.6
Depreciation and amortization	34.2	30.5	38.2
Impairment of goodwill and deferred tax asset	383.7		
Total adjustments	430.5	56.0	69.1
Changes in operational assets and liabilities			
Deferred policy acquisition costs	82.0	90.5	47.0
Reinsurance assets	443.2	13.6	331.1
Funds held by reinsureds	237.4	307.8	311.2
Funds Withheld Asset	283.8	230.6	100.0
Premiums receivable	98.3	162.2	565.1
Unearned premiums, gross	212.2	204.2	139.0
Losses and loss adjustment expenses, gross	622.1	603.7	744.5
Future life benefits, gross	40.7	85.0	119.7
Funds held under reinsurance contracts	177.4	72.7	38.2
Other reinsurance liabilities	227.1	329.0	280.2
Income taxes, net	29.1	40.3	32.8
Net changes in all other operational assets and liabilities	283.9	5.6	25.7
Total changes in operational assets and liabilities	554.8	1,024.2	694.5

Cash provided by operating activities	224.5	1,265.3	870.4
Cash flows from investing activities			
Purchases of fixed maturities held-to-maturity	228.2	192.4	
Proceeds from sales and maturities of fixed maturities available-for-sale	4,116.0	3,813.4	4,573.3
Purchases of fixed maturities available-for-sale	4,420.2	5,054.0	5,375.3
Cash flows from investing activities (fixed maturities)	532.4	1,433.0	802.0
Proceeds from sales of equity securities	983.1	94.3	599.2
Purchases of equity securities	541.3	244.2	651.1
Cash flows from investing activities (equity securities)	441.8	149.9	51.9
Net (increase) decrease in short-term investments	71.2	277.1	228.5
Proceeds from sales of other assets	82.3	47.4	33.0
Purchases of other assets	115.8	69.4	43.9
Cash flows from investing activities (other)	104.7	255.1	239.4
Net cash used in investing activities	195.3	1,327.8	1,093.3
Cash flows from financing activities			
Issuance of guaranteed subordinated notes			193.7
Net purchases of common shares	6.0	17.3	14.7
Dividends to shareholders	47.8	29.9	
Proceeds from Rights Offering	428.4		
Rights Offering issuance costs	25.1		
Net cash provided by (used in) financing activities	349.5	47.2	179.0
Effect of exchange rate changes on cash and cash equivalents	5.4	29.0	15.1
Change in cash and cash equivalents	384.1	80.7	59.0
Cash and cash equivalents as of January 1	280.8	361.5	420.5
Cash and cash equivalents as of December 31	664.9	280.8	361.5

The notes to the consolidated financial statements are an integral part of these financial statements.

Converium Holding AG and Subsidiaries
Consolidated statements of changes in equity

(US$ million)

	Common stock	Additional paid-in capital	Treasury stock	Unearned stock compensation	Accumulated other comprehensive income	Retained earnings (deficit)	Total equity
Balance, December 31, 2001	253.0	1,336.5		27.1	8.4		1,570.8
Net income						106.8	106.8
Change in net unrealized gains (losses) on investments, net of taxes					83.6		83.6
Translation adjustments					135.8		135.8
Total comprehensive income							159.0
Purchases of common shares			14.7				14.7
Releases of common shares from treasury		12.9	11.4				1.5
Net amortization of stock compensation		7.3		17.1			24.4
Balance, December 31, 2002	253.0	1,330.9	3.3	10.0	60.6	106.8	1,738.0
Net income						185.1	185.1
Change in net unrealized gains (losses) on investments, net of taxes					198.6		198.6
Translation adjustments					2.2		2.2
Total comprehensive income							385.9
Dividends to shareholders						29.9	29.9

Transfer to general legal reserve		3.7				3.7	
Purchases of common shares			17.3				17.3
Releases of common shares from treasury		14.0	10.6				3.4
Net amortization of stock compensation		6.1		3.9			10.0
Balance, December 31, 2003	253.0	1,326.7	10.0	6.1	261.4	258.3	2,083.3
Net loss						760.8	760.8
Change in net unrealized gains (losses) on investments, net of taxes					28.6		28.6
Translation adjustments					71.3		71.3
Total comprehensive loss							718.1
Dividends to shareholders						47.8	47.8
Transfer to general legal reserve		3.9				3.9	
Purchases of common shares			6.0				6.0
Releases of common shares from treasury		8.2	8.3				0.1
Net amortization of stock compensation		11.0		1.4			9.6
Increase in capital due to Rights Offering	428.4						428.4
Decrease of nominal value	126.5	126.5					
Rights Offering issuance costs		29.3					29.3
Balance, December 31, 2004	554.9	1,430.6	7.7	7.5	304.1	554.2	1,720.2

The notes to the consolidated financial statements are an integral part of these financial statements.

Converium Holding AG and Subsidiaries
Notes to the consolidated financial statements

Schedule of segment data
(US$ million)

	Standard Property & Casualty Reinsurance			Specialty Lines		
Year ended December 31	2004	2003	2002	2004	2003	2002
Gross premiums written	1,617.6	1,795.4	1,542.3	1,777.3	2,022.0	1,650.3
Less ceded premiums written	162.6	149.8	90.1	119.2	210.1	95.0
Net premiums written	1,455.0	1,645.6	1,452.2	1,658.1	1,811.9	1,555.3
Net change in unearned premiums	97.0	15.7	55.5	41.1	148.3	97.3
Net premiums earned	1,552.0	1,629.9	1,396.7	1,699.2	1,663.6	1,458.0
Total investment results	142.3	101.5	98.1	186.1	132.4	125.3
Revenues	1,694.3	1,731.4	1,494.8	1,885.3	1,796.0	1,583.3
Losses, loss adjustment expenses and life benefits	1,246.1	1,113.6	1,065.0	1,689.6	1,241.0	1,166.9
Underwriting acquisition costs	376.8	363.1	310.4	367.9	360.1	292.3
Other operating and administration expenses	83.9	71.0	63.6	73.0	79.7	68.1
Benefits, losses and expenses	1,706.8	1,547.7	1,439.0	2,130.5	1,680.8	1,527.3
Segment (loss) income	12.5	183.7	55.8	245.2	115.2	56.0
Other (loss) income						
Interest expense						
Impairment of goodwill						
Amortization of intangible assets						
Restructuring costs						

(Loss) income before taxes						
Income tax (expense) benefit						
Net (loss) income						
At December 31						
Reinsurance assets underwriting reserves	435.9	553.2	622.8	861.9	989.9	926.5
Losses and loss adjustment expenses, gross	3,602.2	3,231.3	2,774.7	4,961.5	4,427.2	3,898.9
Future life benefits, gross						
Ratios						
Loss ratio (Losses divided by net premiums earned)	80.3%	68.3%	76.3%	99.4%	74.6%	80.0%
Underwriting expense ratio (Underwriting acquisition costs divided by net premiums earned)	24.3%	22.3%	22.2%	21.7%	21.6%	20.0%
Administration expense ratio (Other operating and administration expenses divided by net premiums written)	5.8%	4.3%	4.4%	4.4%	4.4%	4.4%
Combined ratio (Sum of the loss, underwriting expense and administration expense ratios)	110.4%	94.9%	102.9%	125.5%	100.6%	104.4%

Converium Holding AG and Subsidiaries
Notes to the consolidated financial statements

Total Non-life consolidated			Life & Health Reinsurance			Corporate Center			Total consolidated		
2004	2003	2002	2004	2003	2002	2004	2003	2002	2004	2003	2002
3,394.9	3,817.4	3,192.6	446.0	406.5	343.2				3,840.9	4,223.9	3,535.8
281.8	359.9	185.1	6.1	37.0	28.5				287.9	396.9	213.6
3,113.1	3,457.5	3,007.5	439.9	369.5	314.7				3,553.0	3,827.0	3,322.2
138.1	164.0	152.8	6.0	13.5	3.9				132.1	150.5	156.7
3,251.2	3,293.5	2,854.7	433.9	383.0	310.8				3,685.1	3,676.5	3,165.5
328.4	233.9	223.4	29.7	17.5	18.1				358.1	251.4	241.5
3,579.6	3,527.4	3,078.1	463.6	400.5	328.9				4,043.2	3,927.9	3,407.0
2,935.7	2,354.6	2,231.9	327.4	319.6	260.1				3,263.1	2,674.2	2,492.0
744.7	723.2	602.7	97.8	80.0	64.0				842.5	803.2	666.7
156.9	150.7	131.7	23.0	12.8	11.3	38.0	34.3	30.3	217.9	197.8	173.3
3,837.3	3,228.5	2,966.3	448.2	412.4	335.4	38.0	34.3	30.3	4,323.5	3,675.2	3,332.0
257.7	298.9	111.8	15.4	11.9	6.5	38.0	34.3	30.3	280.3	252.7	75.0
									2.6	2.7	1.2
									33.1	31.0	16.4
									94.0		
									9.9		
									2.7		
									422.6	224.4	57.4
									338.2	39.3	49.4
									760.8	185.1	106.8

1,297.8	1,543.1	1,549.3	40.0	175.5	78.4	1,337.8	1,718.6	1,627.7
8,563.7	7,658.5	6,673.6	213.2	184.3	147.7	8,776.9	7,842.8	6,821.3
			545.8	483.5	371.7	545.8	483.5	371.7
90.3%	71.5%	78.2%						
22.9%	22.0%	21.1%	22.5%	20.9%	20.6%			
5.0%	4.4%	4.4%	5.2%	3.5%	3.6%			
118.2%	97.9%	103.7%						

Converium Holding AG and Subsidiaries
Notes to the consolidated financial statements (continued)

1. Organization and nature of operations

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

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

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

Subsequent to the Initial Public Offering, Converium has operated as an independent company. However, under the Master Agreement, Converium has several ongoing business relationships with Zurich Financial Services. These include the Quota Share Retrocession Agreement, the Catastrophe Agreement, aggregate excess of loss reinsurance coverage for losses from the Unicover Pool and September 11th terrorist attacks, as well as certain operating relationships (see Notes 11 and 17).

Due to the reserving actions and subsequent lowering of Converium s ratings during 2004, it placed its US reinsurance operations into run-off, which resulted in the discontinuation of writing reinsurance from offices located in North America. Converium, however, offers reinsurance for attractive US-originated business to a limited number of select accounts. This business will be underwritten and managed through Converium AG, Zurich. Converium Reinsurance (North America) Inc. (CRNA) was placed into orderly run-off and Converium is seeking to commute CRNA s liabilities wherever appropriate.

2. Summary of significant accounting policies

Converium s financial statements have been prepared on the basis of accounting principles generally accepted in the United States (US GAAP) and comply with Swiss law.

(a) Basis of preparation

Converium s financial statements present the financial condition as of December 31, 2004 and 2003 and the related statements of income, cash flows and changes in equity for each of the three years in the period ended December 31, 2004.

The financial statements include all companies which Converium, directly or indirectly controls (more than 50% of voting rights). Special purpose entities, irrespective of their legal structure, are consolidated in instances where Converium has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Investments in associated companies (investments of between 20% and 50% in a company s voting rights) and