

CONVERIUM HOLDING AG

Form 20-F

June 14, 2007

Table of Contents

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

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

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

For the fiscal year ended December 31, 2006.

OR

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

OR

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

Date of current requiring this shell company report _____

Commission file number: 333-14106

CONVERIUM HOLDING AG

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

Switzerland

(Jurisdiction of incorporation or organization)

General Guisan-Quai 26

CH-8002 Zürich

Switzerland

(Address of principal executive offices)

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

Title of each class	Name of each Exchange on which registered
American Depositary Shares (as evidenced by American Depositary Receipts), each representing one-half (1/2) of one registered share, nominal value CHF 5 per share Registered shares, nominal value CHF 5 per share*	New York Stock Exchange New York Stock Exchange
8.25% Guaranteed Subordinated Notes due 2032 issued by Converium Finance S.A.	New York Stock Exchange
Subordinated Guarantee of Subordinated Notes+	New York Stock Exchange

* Not for trading,
but only in
connection with

the listing of
American
Depositary
Shares, pursuant
to the
requirements of
the Securities
and Exchange
Commission.

- + Not for trading,
but only in
connection with
the listing of the
Subordinated
Notes, pursuant
to the
requirements of
the Securities
and Exchange
Commission.

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

None

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

None

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

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

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

Yes No

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

Yes No

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

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

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Item 17 Item 18

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

Yes No

TABLE OF CONTENTS

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

ITEM 3. KEY INFORMATION

ITEM 4. INFORMATION ON THE COMPANY

ITEM 4A. UNRESOLVED STAFF COMMENTS

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

ITEM 8. FINANCIAL INFORMATION

ITEM 9. THE OFFER AND LISTING

ITEM 10. ADDITIONAL INFORMATION

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

ITEM 14. MATERIAL MODIFICATION TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

ITEM 15. CONTROLS AND PROCEDURES

ITEM 16. [RESERVED]

Item 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Item 16B. CODE OF ETHICS

Item 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Item 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Item 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

PART III

ITEM 17. FINANCIAL STATEMENTS

ITEM 18. FINANCIAL STATEMENTS

ITEM 19. EXHIBITS

SIGNATURES

INDEX TO EXHIBITS

EX-1.2

EX-1.3

EX-4.47

EX-4.48

EX-4.49

EX-4.50

EX-4.51

EX-4.52

EX-4.53

EX-7.1

EX-8.1

EX-12.1

EX-12.2

EX-13.0

Table of Contents

PRESENTATION OF INFORMATION

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

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

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

All amounts, comments and tables relate to continuing operations unless otherwise stated. Prior year consolidated balance sheets and statements of cash flows have not been adjusted.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

our ability to refinance our outstanding indebtedness and increase our use of hybrid capital;

uncertainties of assumptions used in our reserving process;

risk associated with implementing our business strategies and our capital improvement measures;

cyclical nature of the reinsurance industry;

Table of Contents

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; our ability to expand into emerging markets; our ability to enter into strategic investment partnerships; a loss of our key employees or executive officers without suitable replacements being recruited within a suitable period of time; political risks in the countries in which we operate or in which we reinsure risks; the passage of additional legislation or the promulgation of new regulation in a jurisdiction in which we or our clients operate or where our subsidiaries are organized; the effect on us and the insurance industry as a result of the investigations being carried out by the US Securities and Exchange Commission (SEC) and New York s Attorney and other governmental authorities; timing and outcome of class action lawsuits; our ability to regain past customers following the rating upgrade; our ability to retain employees and certain business we write prior to and following the consummation of the SCOR Tender Offer (as defined below); our ability to successfully integrate our business with that of SCOR s following the consummation of the SCOR Tender Offer and retain joint ventures in which we are a party; the resolution of the investigations being carried out by the SEC, New York s Attorney General and other governmental authorities; changes in our investment results due to the changed composition of our invested assets or changes in our investment policy; failure of our retrocessional reinsurers to honor their obligations or changes in the credit worthiness of our reinsurers; our failure to prevail in any current or future arbitration or litigation; and extraordinary events affecting our clients, such as bankruptcies and liquidations.

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

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

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

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

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

We have prepared our financial statements included in this annual report in accordance with accounting principles generally accepted in the United States of America (US GAAP). The following financial data highlights selected information that is derived from our financial statements as of and for the years ended December 31, 2006, 2005, 2004, 2003 and 2002.

The selected financial and other data should be read in conjunction with the Consolidated Financial Statements and related notes and with Management's Discussion and Analysis of Financial Condition and Results of Operations. Converium currently manages its business 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 corporate functions as well as expenses not allocated to the operating segments. In addition to reporting segment results individually, management also aggregates results for Standard Property & Casualty Reinsurance and Specialty Lines into non-life business, as management considers this aggregation meaningful in understanding the performance of Converium. In 2004, Converium's North American operations were placed into orderly run-off and reported as the Run-Off segment to monitor this business on a stand-alone basis. On December 13, 2006, Converium sold its North American operations to National Indemnity Company, a Berkshire Hathaway company, for total consideration of USD 295.0 million comprising of USD 95.0 million in cash and USD 200.0 million in assumption of debt. Converium has not provided any guarantee or indemnity in respect of the reserves of the North American operations. The transaction was approved by the Insurance Department of the State of Connecticut. Our North American operations were previously reported as the principal component of a separate segment, the Run-Off segment. Converium's financial results of the North American business, including prior period amounts, have been reclassified to discontinued operations. For further details regarding the sale of the North American operations, see Note 2 to the consolidated financial statements.

Restated(1)	For the year ended December 31,				
USD millions (except per share data)	2006	2005	2004	2003	2002
					Restated(1)
Income statement data:					
Revenues:					
Gross premiums written	1,980.9	1,955.0	3,492.2	3,044.4	2,294.7
Less ceded premiums written	-128.9	-171.9	-236.3	-371.0	-128.1
Net premiums written	1,852.0	1,783.1	3,255.9	2,673.4	2,166.6
Net change in unearned premiums	-40.3	471.7	-157.4	-89.3	-112.7
Net premiums earned	1,811.7	2,254.8	3,098.5	2,584.1	2,053.9
Net investment income	260.4	257.8	227.5	155.6	128.8
Net realized capital gains (losses)	18.9	31.3	31.2	-3.1	-34.2
Total revenues from continuing operations	2,091.0	2,543.9	3,357.2	2,736.6	2,148.5
Benefits, losses and expenses:					
Losses, loss expenses and life benefits	-1,187.8	-1,720.1	-2,395.0	-1,831.8	-1,581.2
Total costs and expenses	-647.9	-740.0	-931.1	-672.2	-518.9
Amortization of intangible assets		-21.5	-9.9	-1.8	

Edgar Filing: CONVERIUM HOLDING AG - Form 20-F

Restructuring costs	0.2	-12.1	-0.2		
Total benefits, losses and expenses	-1,835.5	-2,493.7	-3,336.2	-2,505.8	-2,100.1
	5				

Table of Contents

Restated(1) USD millions (except per share data)	2006	For the year ended December 31,			2002 Restated(1)
		2005	2004	2003	
Income from continuing operations before taxes	255.5	50.2	21.0	230.8	48.4
Income tax (expense) benefit	-40.5	-16.1	4.6	-16.3	-18.1
Income from continuing operations	215.0	34.1	25.6	214.5	30.3
(Loss) income from discontinued operations, net of tax	-157.9	34.6	-608.1	-36.6	64.1
Net income (loss)	57.1	68.7	-582.5	177.9	94.4
Earnings (loss) per share(2):					
Average number of shares (millions)	146.2	146.4	63.4	39.8	39.9
Basic earnings (loss) per share:					
from continuing operations	1.47	0.23	0.40	2.71	0.38
from discontinued operations	-1.08	0.24	-9.59	-0.47	0.81
Total basic earnings (loss) per share	0.39	0.47	-9.19	2.24	1.19
Diluted earnings (loss) per share:					
from continuing operations	1.45	0.23	0.40	2.69	0.38
from discontinued operations	-1.07	0.23	-9.49	-0.46	0.80
Total diluted earnings (loss) per share	0.38	0.46	-9.09	2.23	1.18
Balance sheet data:					
Total invested assets	5,765.3	6,634.3	7,786.2	7,502.0	6,117.3
Total assets	10,523.0	11,825.9	14,187.3	13,126.9	10,675.0
Reinsurance liabilities	7,036.9	8,200.8	9,898.9	8,428.6	6,986.7
Debt	194.1	391.2	391.1	393.1	392.9
Total liabilities	8,677.0	10,172.5	12,452.5	11,198.9	9,079.8
Total shareholders equity	1,846.0	1,653.4	1,734.8	1,928.0	1,595.2
Book value per share	12.63	11.29	11.86	48.47	39.97
Other data:					
Net premiums written by segment:					
Standard Property & Casualty					
Reinsurance	816.9	739.0	1,377.4	1,299.9	974.2
Specialty Lines	729.4	737.7	1,565.3	1,119.0	962.4
Life & Health Reinsurance	305.7	306.4	313.2	254.5	230.0
Total net premiums written	1,852.0	1,783.1	3,255.9	2,673.4	2,166.6
Non-life combined ratio	96.3%	107.0%	105.7%	91.7%	100.6%
Ratio of earnings of continuing operations to fixed charges (3)	13.6	3.4	1.9	12.4	11.3

(1) The figures for the years ended December 31, 2002, 2003 and 2004 have been

restated as set out in the Company's 2004 Form 20-F/A filed with the SEC on February 28, 2006 and as discussed in Note 1 to the financial statements (see page F-11), which decreased 2002 Losses, Loss expenses and Life benefits by USD 58.6 million resulting in an increase in net income.

(2) For the periods 2002 and 2003, the earnings per share have been restated to reflect the Rights Offering that occurred in October 2004.

(3) The ratio of earnings to fixed charges is calculated by dividing income (loss) before taxes plus fixed charges by fixed charges. Fixed charges consist of interest expense and the interest portion of rental expense.

Table of Contents

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

Combined Ratio Analysis	Net	Net	Losses	Other operating and		Loss Acquisition	Administration	Combined ratio (4)	
	premiums written	premiums earned	and loss expenses (USD millions)	Acquisition costs	Administration expenses	ratio (1)	costs ratio (2)		
2006									
Standard Property & Casualty									
Reinsurance	816.9	775.6	-441.1	-195.6	-43.9	56.9	25.2	5.4	87.5
Specialty lines	729.4	723.7	-534.3	-192.4	-38.6	73.8	26.6	5.3	105.7
Total Non-life consolidated	1,546.3	1,499.3	-975.4	-388.0	-82.5	65.1	25.9	5.3	96.3
2005									
Standard Property & Casualty									
Reinsurance	739.0	880.8	-729.6	-181.3	-43.9	82.8	20.6	5.9	109.3
Specialty lines	737.7	1,059.2	-772.5	-263.8	-54.5	72.9	24.9	7.4	105.2
Total Non-life consolidated	1,476.7	1,940.0	-1,502.1	-445.1	-98.4	77.4	22.9	6.7	107.0
2004									
Standard Property & Casualty									
Reinsurance	1,377.4	1,392.2	-1,003.0	-353.3	-52.0	72.0	25.4	3.8	101.2
Specialty lines	1,565.3	1,387.6	-1,154.7	-328.1	-53.3	83.2	23.6	3.4	110.2
Total Non-life consolidated	2,942.7	2,779.8	-2,157.7	-681.4	-105.3	77.6	24.5	3.6	105.7
2003									
Standard Property & Casualty									
Reinsurance	1,299.9	1,285.2	-838.8	-266.4	-48.0	65.3	20.7	3.7	89.7
Specialty lines	1,119.0	1,038.1	-713.0	-228.0	-39.6	68.7	22.0	3.5	94.2
Total Non-life consolidated	2,418.9	2,323.3	-1,551.8	-494.4	-87.6	66.8	21.3	3.6	91.7
2002									
Standard Property & Casualty									
Reinsurance	974.2	942.1	-668.4	-234.2	-38.5	70.9	24.9	4.0	99.8
Specialty lines	962.4	885.5	-709.6	-157.4	-34.3	80.1	17.8	3.6	101.5
Total Non-life consolidated	1,936.6	1,827.6	-1,378.0	-391.6	-72.8	75.4	21.4	3.8	100.6

(1)

Losses divided
by net
premiums
earned

(2) Acquisition
costs divided by
net premiums
earned

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

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

Dividends

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

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

Table of Contents

D. RISK FACTORS

Risks relating to Converium and the reinsurance industry

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

As a multi-line reinsurer Converium pursues a strategy of profitable organic growth with a geographic emphasis on Europe, Asia-Pacific, Central and South America, and the Middle East. Reflecting its significant capabilities in this particular area, the Company places a distinct focus on global specialty lines. Converium implements its strategy by:

Making investments in specialty lines: Based on the Company's track record and human capital Converium is committed to further expanding its specialty portfolio, including Aviation & Space, Engineering, Marine & Energy, Credit & Surety and Agribusiness.

Maintaining and developing multiple distribution channels, including joint ventures: To leverage Converium's proven skills at identifying and managing joint ventures and distribution channels which provide direct access to business, the Company will continue to seek opportunities in this field. This offers growth opportunities beyond organic business development and outright acquisitions.

Broadening the client base: In addition to expanding relationships with existing clients Converium seeks to establish new relationships in the Company's preferred geographical markets and lines of business.

Expanding the knowledge base: Converium believes in the value of a knowledge-based business model, offering clients insight and services beyond pure underwriting capacity. To this end, the Company will continue to boost its intellectual capital.

Further enhancing the risk management and control culture: These efforts will focus on further implementing a state-of-the-art Enterprise Risk Management (ERM) framework.

Advancing cost and capital efficiency: Converium is committed to further rationalize its internal processes and setup in order to achieve a competitive administrative expense ratio. In addition, Converium constantly seeks to maximize capital efficiency by exploring opportunities for leveraging its balance sheet and transferring risks directly to the capital markets.

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

A ratings downgrade could have a material adverse effect on our business, financial condition, result of operations or cash flows

If our ratings were significantly downgraded, our competitive position in the reinsurance industry may suffer, and it could be more difficult for us to market and sell our products. Certain business that we write contains terms that give the ceding company the right to terminate cover and/or require collateral if our ratings are downgraded. A significant downgrade could result in a significant reduction in the number of reinsurance contracts we write and in a substantial loss of premium volume as client companies and brokers that place their business, move to other competitors with higher ratings.

The claims paying ability ratings assigned by rating agencies to reinsurance or insurance companies are based upon factors and criteria established independently by each rating agency. Rating agencies may downgrade or withdraw their ratings in the future if we do not continue to meet the then current criteria for the ratings previously assigned to us. Such criteria may change, perhaps significantly, at the sole discretion of the rating agencies.

Based on the developments in 2004, Standard & Poor's Ratings Services lowered its rating of Converium, including its subsidiaries, to BBB and following the rights offering changed this rating to BBB+. On March 1, 2007 Standard & Poor's raised the rating to A- (Stable Outlook). Although A.M. Best placed its rating of Converium on watch with a positive outlook on September 7, 2006, it continues to rate the Company at B++, the level to which it was downgraded in 2004.

Claims-paying ability and financial strength ratings are a key factor in establishing the competitive position of reinsurers. The Company believes that the A- rating from Standard & Poor's is sufficient but that the B++ rating from A.M. Best may not satisfy the criteria required by some of its target clients and brokers, and that this rating may negatively impact new business and adversely affect its ability to compete.

Table of Contents

In the light of changing business circumstances associated with Converium's ratings downgrade in 2004, Converium entered into fronting agreements with Munich Re and National Indemnity Company in order to support and sustain the aviation business from GAUM. Converium expects that continuation of its membership in GAUM will be supported by its rating upgrade from Standard & Poor's but to some extent may still be conditional upon entering into fronting arrangements acceptable to other pool members in a timely fashion and thereafter maintaining such arrangements. Converium has currently two fronting arrangements in place, both with National Indemnity Company and Munich Re. The current fronting agreement covers the GAUM business written in the US and Canada and is effective from January 1, 2007 until December 31, 2007. The other fronting agreement is for GAUM business written outside the US and Canada and was originally effective from January 1, 2007 until June 30, 2007 and has now been renewed for the period until December 31, 2007.

We cannot guarantee that we will be able to maintain the A-rating from Standard & Poor's and, in the case of a rating downgrade by Standard & Poor's by two notches to below BBB+, Converium's membership in GAUM pool would be reduced to less than a 5% share. In such a case, Converium would not be permitted to participate in future pool business and would have to collateralize, through letters of credit, its obligations under the business written by the pool in its name prior to its termination. If Converium's pool membership were terminated, it would also be required to sell its 30.1% stake in GAUM. In 2006, this business generated USD 230.8 million of gross premiums written. See Notes 7 and 17 to our 2006 consolidated financial statements for additional information on GAUM.

Our loss reserves may not adequately cover future losses and benefits

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

Loss reserves do not represent an exact calculation of liability, but rather are estimates of the expected cost of the ultimate settlement of losses. All of our loss reserve estimates are based on actuarial and statistical projections at a given time, facts and circumstances known at that time and estimates of trends in loss severity and other variable factors, including new concepts of liability and general economic conditions. If the underlying assumptions used do not hold true over time, actual losses could vary, possibly materially, from the estimates.

As of December 31, 2006, we had USD 6,348.6 million of gross reserves and USD 5,743.7 million of net reserves for losses and loss expenses. If we underestimated these net reserves by 5%, this would have resulted in an additional USD 287.2 million of incurred losses and loss expenses, before income taxes, for the year ended December 31, 2006. Unforeseen losses, the type or magnitude of which we cannot predict, may emerge in the future. These additional losses could arise from newly acquired lines of business, changes in the legal environment, or extraordinary events affecting our clients such as reorganizations and liquidations or changes in general economic conditions. We continue to conduct pricing, loss reserving, claims and underwriting studies for many casualty lines of business, including those in which preliminary loss trends are noted. Converium has experienced moderate favorable developments of its loss reserves. Since 2002, Converium has recorded USD (425.6) million of favorable development from continuing operations on prior year's non-life business (2002: USD (113.9) million; 2003: USD (195.7) million; 2004: USD 72.8 million; 2005 USD (86.0) million; and 2006 USD (102.8) million). The positive reserve development within 2006 was largely within the Property line of business, primarily within the underwriting years 2003 and 2004 as well as the aviation line of business, primarily within the underwriting years 2002, 2003 and 2004.

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

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

In November 2004, Converium AG obtained a USD 1.6 billion, three-year syndicated letter of credit facility (the Syndicated Letter of Credit Facility) from various banks. The facility provides Converium's operating companies with a USD 1.5 billion capacity for issuing letters of credit and a USD 100.0 million liquidity reserve. As of December 31, 2006, Converium had outstanding letters of credit of USD 1,974.5 million under the Syndicated Letter of Credit

Facility and other bilateral letter of credit arrangements. Investments of USD 1,973.5 million were

Table of Contents

pledged as collateral related to the Syndicated Letter of Credit Facility and other irrevocable letters of credit of USD 769.1 million (to secure certain assumed reinsurance contracts). Converium must comply with various financial covenants in order to avoid default under the agreement. In an event of default, the majority lenders may cancel the total commitment and/or may declare that all amounts outstanding may be immediately due and payable and that full cash cover in respect of each letter of credit is immediately due and payable.

See Item 3. Key information D. Risk factors Ratings changes for information on collateral requirements related to GAUM and Notes 7 and 17 to our 2006 consolidated financial statements.

We are subject to the cyclical nature of the reinsurance industry

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

price competition and price setting mechanisms of clients;

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

levels of capacity and demand;

general economic conditions; and

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

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

Securitization trend could disadvantage medium-sized players

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

We may face competitive disadvantages in the reinsurance industry

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

Munich Reinsurance Company;

Swiss Reinsurance Company;

Hannover Re Group;

SCOR;

Table of Contents

PartnerRe Group; and

Lloyd's syndicates active in the London market.

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

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

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

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

In view of the industry investigations and the events relating to MBIA described above, Converium engaged independent outside counsel to assist it in a review and analysis of certain of its reinsurance transactions, including the MBIA transactions. The internal review, which was overseen by the Audit Committee, addressed issues arising from the ongoing governmental inquiries and Converium's own decision to review certain additional items. The internal review involved the assessment of numerous assumed and ceded transactions including structured/finite risk and other reinsurance transactions and encompassed all business units of Converium, a review of hundreds of thousands of e-mails, attachments to e-mails and other documents and interviews of certain members of the Global Executive Committee and the Board of Directors, as well as certain former members of senior management and other employees of Converium. The Audit Committee believes that the scope and process of the internal review has been sufficient to determine whether Converium's assumed and ceded transactions which improperly accounted for as reinsurance, rather than as deposits. After discussing the findings of Converium's extensive internal review with independent outside counsel, the Audit Committee determined that certain accounting corrections were appropriate and authorized the restatement of Converium's financial statements as of and for the years ended December 31, 2004 through 1998, which occurred during late 2005. As part of this process, the Audit Committee involved its independent group auditors, PricewaterhouseCoopers Ltd.

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

We are a defendant in a class action lawsuit related to the Company's announcement on July 20, 2004 that second quarter 2004 results would fall short of expectations due to higher than modeled U.S. casualty loss emergence primarily related to the underwriting years 1996 to 2001

As discussed in greater detail below, the Company is a defendant in a securities law class action case arising out of the Company's announcement on July 20, 2004 that second quarter 2004 results would fall short of expectations due to higher than modeled U.S. casualty loss emergence primarily related to the underwriting years 1996 to 2001. The

consolidated actions are in the discovery phase; thus, the timing and outcome of these matters are not currently predictable. The costs of defending the class actions may have a material impact on our operating results in future reporting periods and an unfavorable outcome could have a materially adverse effect on the Company's financial condition, results of operations and cash flows.

Table of Contents***Regulatory or legal changes could adversely affect our business***

Insurance laws, regulations and policies currently governing our clients and us may change at any time in ways which may adversely affect our business. Furthermore, we cannot predict the timing or form of any future regulatory initiatives. We are subject to applicable government regulation in each of the jurisdictions in which we conduct business, particularly in Switzerland, the United States, the United Kingdom and Germany. Regulatory agencies have broad administrative power over many aspects of the insurance and reinsurance industries. Government regulators are concerned primarily with the protection of policyholders rather than shareholders or creditors.

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

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

See Item 4. B. Business Overview Regulation .

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

The new EU Reinsurance Directive that was adopted on November 16, 2005 does not provide for any discrimination of non-EU based reinsurance companies. However, if the individual EU member states, in implementing the EU Reinsurance Directive, should include any discriminatory regulations with respect to reinsurers of a non-EU member state, this could be a disadvantage for Converium AG in its doing business in the EU, as Converium AG derives a substantial proportion of its revenues within the EU and any competitive disadvantage we face there could have an adverse effect on our financial condition, results of operations or cash flows. However, a large portion of those revenues are being written through our subsidiary in the EU member state Germany, where no negative impact can arise from the implementation of the directive. In addition Converium has a second subsidiary in the UK, which also is an EU member. See Item 4. Information on the Company B. Business Overview Regulation European Union Directives .

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

A catastrophic event or multiple catastrophic events may cause unexpected large losses and could have a material adverse effect on our business, financial condition, and results of operations or cash flows. Natural catastrophic events to which we are exposed include windstorms, hurricanes, earthquakes, tornadoes, severe hail, severe winter weather, floods and fires and man-made catastrophic events, for example, acts of terrorism, are inherently unpredictable in terms of both their occurrence and severity. For example, in 2005, the reinsurance industry suffered extensive losses from the hurricanes that occurred in the United States and the floods in Continental Europe. These events adversely affected our results.

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

As a result, claims from natural or man-made catastrophic events could cause substantial volatility in our financial results for any period and adversely affect our financial condition, results of operations or cash flows. Our ability to write new business could also be impacted. We believe that increases in the value and geographic concentration of insured property and the effects of inflation will increase the severity of claims from catastrophic events in the future. The extent of our losses from catastrophic occurrences is a function of the frequency and severity of events, the number of our clients affected, and the total catastrophe losses incurred by our clients and our participation in the reinsurance policies affected. In addition, depending on the nature of the loss, the speed with which claims are made and settled, and the terms and conditions of the policies affected, we may be required to make large claims payments upon short notice. We may be forced to fund these obligations by liquidating investments unexpectedly and in unfavorable market conditions, or by raising funds at unfavorable costs, both of which could adversely affect the

results of our operations.

Table of Contents

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

The majority of the natural catastrophe reinsurance we write relates to exposures within Europe, Japan and the United States. Accordingly, we are exposed to natural catastrophic events, which affect these regions, such as European windstorm, Japanese earthquake and US hurricane or earthquake events.

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

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

Although Zurich Financial Services, through its subsidiaries, has agreed to arrangements that cap our exposure for losses and loss expenses arising out of the September 11th terrorist attacks at USD 289.2 (subsequently reduced to USD 231.0 million following the sale of our North American operations), net of retrocessional reinsurance recoveries, terrorist attacks and other man-made catastrophic events may have a material adverse effect on our business, financial condition or results of operations. For a discussion of the impact of the September 11th terrorist attacks on our business, see Note 8 to our 2006 consolidated financial statements.

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

Investment returns are an important part of our overall profitability, and fluctuations in the fixed income or equity markets could have a material adverse effect on our financial condition, results of operations or cash flows. For the years ended December 31, 2006 and 2005, net investment income and net realized capital gains accounted for 13.4% and 11.4% of our revenues, respectively. Our capital levels, ability to pay claims and our operating results substantially depend on our ability to achieve our investment objectives, which may be affected by general political and economic conditions that are beyond our control.

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

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

Capital market fluctuations may adversely impact the value of our investments and shareholders equity

We had a cash and investments portfolio of USD 6,398.4 million as of December 31, 2006. As with any institutional investor with a similarly sized portfolio, Converium is exposed to the financial markets; in particular, an increase in interest rates, and a resulting decline in the market value of our fixed income securities, would adversely impact our shareholders equity for the securities we account for as available-for-sale.

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

Table of Contents

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

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

We publish our financial statements in US dollars. Therefore, fluctuations in exchange rates used to translate other currencies, particularly European currencies including the Euro, British pound and Swiss franc, into US dollars will impact our reported financial condition, results of operations and cash flows from year to year. These fluctuations in exchange rates will also impact the US dollar value of our investments and the return on our investments. For 2006, approximately:

- 80% of our net premiums written
- 60% of our net investment income
- 85% of our losses, loss expenses and life benefits, and
- 72% of our operating expenses

were denominated in currencies other than the US dollar. As we will only be writing limited business from the United States, a smaller proportion of our business will be denominated in US dollars in the future. For a discussion of the impact of material changes in foreign exchange rates on our shareholders' equity, see Item 11. Quantitative and Qualitative Disclosures About Market Risks .

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

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

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

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

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

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

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

A retrocessionaire's insolvency or its inability or unwillingness to make payments under the terms of its reinsurance treaty with us could have a material adverse effect on our business, financial condition, results of operations or cash flows. Therefore, our retrocessions subject us to credit risk because the ceding of risk to retrocessionaires does not relieve us of our liability to our ceding companies.

We are dependent on a small number of reinsurance brokers for a large portion of our revenue and exposed to their credit risk

We market our reinsurance products in our target markets in part through reinsurance brokers. In some markets we principally write through reinsurance brokers. Loss of all or a substantial portion of the business written through brokers could have a material adverse effect on our financial condition, results of operations or cash flows.

Although the percentage of our gross premiums written produced through brokers decreased to 28% in 2006 (from 32% in 2005), we are still subject to risks associated with business produced through brokers. In accordance with industry practice, we frequently pay amounts owed on claims under our policies to reinsurance brokers, and these brokers, in turn, pay these amounts over to the insurers that have reinsured a portion of their liabilities with us. We refer to these insurers as ceding insurers. In some jurisdictions, or pursuant to some contractual arrangements, if a broker fails to make such a payment, we may remain liable to the ceding insurer for the deficiency. Conversely, in certain jurisdictions, when the ceding insurer pays premiums for these policies to reinsurance brokers for payment over to us, these premiums are considered to have been paid and the ceding insurer will no longer be liable to us for those amounts, whether or not we have actually received the premiums. Consequently, in connection with the settlement of reinsurance balances, we assume a degree of credit risk associated with reinsurance brokers around the world.

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

As part of the Formation Transactions described under Formation transactions and relationship with Zurich Financial Services in Item 4. Information on the Company A. History and Development of the Company and in Item 10. Additional Information C. Material Contracts, we entered into a number of contractual agreements with Zurich Financial Services and its affiliates including the Master Agreement, the Quota Share Retrocession Agreement, the Master Novation and Indemnity Reinsurance Agreement, service agreements, lease agreements and certain indemnity agreements. Among other things, under the Quota Share Retrocession Agreement, Zurich Financial Services, through its subsidiaries, provides us with a substantial amount of our investment returns. Additionally, Zurich Financial

Services, through its subsidiaries, has agreed to arrangements that cap our exposure, net of retrocessional reinsurance recoveries, for losses and loss expenses arising out of the September 11th terrorist attacks at USD 289.2 million, (subsequently reduced to USD 231.0 million following the sale of our North American operations) the amount of loss and loss expenses we recorded as of September 30, 2001. In addition, subsidiaries of Zurich Financial Services have provided us with retrocessional reinsurance protection, provided coverage for certain workers' compensation exposure, indemnified us for specified taxes and other matters and agreed to lease or sublease office space to us. Therefore, we are exposed to credit risk from Zurich Financial Services with respect to these obligations.

Table of Contents

In addition, Zurich Financial Services subsidiaries remain the legal counterparty for many of our assumed reinsurance contracts, particularly those reinsurance contracts entered into prior to the date of the initial public offering. Although we do not have credit risk exposure with respect to these contracts, if these Zurich Financial Services subsidiaries do not honor their commitments efficiently and effectively to these clients, we might bear reputational risk. See Item 4. Information on the Company A. History and Development of the Company .

We are dependent on a small number of relationships for a substantial proportion of our business; the loss of a key business relationship could significantly reduce our premium volume and reduce net income

Substantial parts of our current business come from a small number of relationships such as Lloyd's syndicates, MDU and GAUM which represent approximately 38% of our total gross premiums written. We are therefore exposed to certain concentration risk. The loss of all or a substantial portion of a key business relationship could significantly reduce the gross premium written and net income of a business segment or the company overall.

We may be restricted from consummating a change of control transaction, disposing of assets or entering new lines of business

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

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

We are potentially exposed to a significant loss of business in the event of a change of control

Certain business that we write contains termination provisions which give the ceding company or counterparty the right of termination in the event of a change in control. Whether a change in control has taken place will ordinarily be determined by the legal jurisdiction which governs the individual contract concerned.

The Company has a number of material contracts which contain such a clause including the aviation pool membership and shareholders agreement in GAUM, the MDU business and our shareholding in MDUSL and the ZIC and ZIB Quota Share Retrocession Agreements. Accordingly the exercise of termination provisions following a change in control could have a material adverse impact on our business, operating results and financial condition.

We may require additional equity or debt financing in the future, which may only be available at unfavourable terms

Our future capital requirements depend on many factors, including our ability to write new business successfully, the frequency and severity of catastrophic events, and our ability to establish premium rates and reserves at levels sufficient to cover losses.

We may need to raise additional funds through financings or curtail our growth and reduce our assets. Any equity or debt financing, if available at all, may be on terms that are not favourable to us.

Equity financings could be dilutive to our existing shareholders and could result in the issuance of securities that have rights, preferences and privileges that are senior to those of our other securities. If we cannot obtain adequate capital on favourable terms or at all, our business, operating results and financial condition could be adversely affected.

Risks Related to SCOR's Tender Offer for Converium's registered shares

On May 9, 2007, Converium and SCOR entered into a transaction agreement (the SCOR Transaction Agreement) pursuant to which SCOR agreed to offer holders of Converium's registered shares 0.5 new SCOR shares and CHF 5.50 in cash in exchange for each Converium registered share tendered and Converium agreed that its Board of Directors would recommend SCOR's Tender Offer (the "SCOR Tender Offer") to Converium shareholders. We are subject to the following risks as a result of the SCOR Tender Offer:

Regardless of whether or not the SCOR Tender Offer is completed, the announcement and pendency of the SCOR Tender Offer could cause disruptions in our business

Uncertainty about the effect of the SCOR Tender Offer on our business operations and employees could result in a material adverse effect on our financial condition and operating results. These uncertainties may impair our ability to retain and motivate key personnel until the SCOR Tender Offer is completed and could cause our customers and other parties who deal with us to defer decisions regarding business relationships with us or other decisions concerning us,

or to seek to change existing business relationships with us. If key employees depart because of uncertainty about their future roles with us, our ability to continue to execute our business and strategic plans could be adversely affected. In addition, the attention of our management may shift away from our ongoing business toward the completion of the SCOR Tender Offer and the integration of our businesses following the consummation of the SCOR Tender Offer. If the SCOR Tender Offer is not completed, our management will have spent considerable time, and incurred significant expenses, which could adversely affect our business and results of operations. Converium expects significant transaction and defense services costs during 2007. In addition, the loss of employees, customers or other relationships during the pendency of the SCOR Tender Offer could adversely affect our business if the SCOR Tender Offer is not completed. Furthermore, the SCOR Transaction Agreement generally restricts us, until the SCOR Tender Offer occurs, from taking actions outside of the ordinary course of business, without the consent of SCOR. These restrictions could adversely affect our ability to pursue key aspects of our strategic plans prior to the completion of the SCOR Tender Offer.

If SCOR is unsuccessful and the SCOR Tender Offer is not consummated, SCOR will control a substantial portion of our registered shares

If the SCOR Tender Offer is not consummated, SCOR will control approximately 32.9% of our voting securities. As a result, SCOR may over time be able to remove our current directors and elect a slate of its own directors and otherwise exert significant influence over the day-to-day affairs of the Company.

After completion of the SCOR Tender Offer, there may be substantial difficulty and costs associated with the integration of our operations with those of SCOR

Prior to the completion of the SCOR Tender Offer, the Company and SCOR operated, and will continue to operate, as independent companies, each with its own business, products, customers, employees, culture and systems. As such, the integration process will be complex, time-consuming and expensive and we may face substantial difficulties, costs and delays associated with the integration, including:

- perceived adverse changes in product offerings available to clients or client service standards, whether or not these changes do, in fact, occur;

- the retention of our and SCOR's existing clients, joint venture partners and underwriters; and

- retaining and integrating management, underwriters and other key employees of the resulting company.

After the consummation of the SCOR Tender Offer, the combined company may seek to consolidate certain operations and functions using common information and communication systems, operating procedures, financial controls and human resource practices, including training, professional development and benefit programs. The combined company may be unsuccessful or delayed in implementing the integration of these systems and processes and, as a result, the expected benefits of a transaction with SCOR may be delayed. Furthermore, as discussed below, following the consummation of the SCOR Tender Offer, Inga Beale, our Chief Executive Officer, and Paolo De Martin, our Chief Financial Officer, will be terminated with effect as of December 31, 2007.

We entered into the SCOR Transaction Agreement with the expectation that the combination with SCOR could result in various benefits including, among other things, benefits relating to enhanced revenues, a strengthened market position for the resulting company in its businesses, cross-selling opportunities, cost savings and operating efficiencies. Achieving the anticipated benefits is subject to general competitive factors in the marketplace and a number of uncertainties, including our ability to integrate with SCOR in an efficient and effective manner. Any delay or the failure to achieve these anticipated benefits could result in increased costs, decreases in the amount of expected revenues and diversion of management's time and energy and could materially impact the resulting company's business, financial condition and operating results.

While we have no intention of doing so, the SCOR Transaction Agreement limits our ability to pursue alternatives to the SCOR Tender Offer

Under the terms of the SCOR Transaction Agreement, we are generally precluded from encouraging or participating in any discussions that could lead to an alternative transaction to the current transaction with SCOR. Similarly, subject to certain exceptions, our Board of Directors is restricted in its ability to withdraw or modify its recommendation that our stockholders approve the SCOR Tender Offer.

The consideration offered in the SCOR Tender Offer is substantially share based which, if taken up by shareholders, would expose them to any future SCOR share price fluctuations

The consideration offered in the SCOR Tender Offer is substantially share based which, if taken up by shareholders, would expose them to any future SCOR share price fluctuations. In addition, our review of SCOR's business was limited to publicly available information. Consequently, we have not independently verified the public information available to us and any undisclosed or unknown liabilities of SCOR may have an adverse effect on the benefits of the combination or on SCOR's profitability, results of operations, financial condition or prospects following the combination.

The market for the Company's registered shares and ADSs may be less liquid following completion of the SCOR Tender Offer, and the value of registered shares and American Depositary Shares may be lower

The consummation of the SCOR Tender Offer will reduce the number of holders of Converium registered shares as well as the number of Converium registered shares that might otherwise trade publicly and, depending upon the number of Converium registered shares so exchanged, could adversely affect the liquidity and market value of the remaining Converium registered shares and American Depositary Shares held by the public. The extent of the public market for the Converium registered shares and the availability of such quotations would depend upon such factors as the number of holders remaining at such time, the interest on the part of securities firms in maintaining a market in Converium registered shares or Converium American Depositary Shares, and the possible termination of registration of Converium registered shares and American Depositary Shares under the Exchange Act, would adversely affect the amount of publicly available information with respect to Converium.

The SCOR Tender Offer has not been extended in, or into, the United States or to holders of the Company's American Depositary Shares

Because the SCOR Tender Offer has not been extended to holders of our registered shares in the United States and is not extended to holders of the Company's American Depositary Shares, regardless of whether such American Depositary Shares are held by persons outside of the United States, to the extent you are a U.S. resident or hold American Depositary Shares, you may not participate in the SCOR Tender Offer. In that instance, following the consummation of the SCOR Tender Offer, you may hold shares or American Depositary Receipts in a Company controlled by SCOR.

The failure of SCOR to consummate the SCOR Tender Offer could negatively affect the price of our registered shares and American Depositary Shares and our future business and financial prospects.

There is no assurance that SCOR will successfully complete the SCOR Tender Offer. If the SCOR Tender Offer is not completed, our management will have spent considerable time, and incurred significant expenses, which could adversely affect our business and results of operations. Our management has spent, and will continue to spend, considerable amounts of time focusing on the integration of our businesses, which could limit their time and effort available to pursue other business activities that may be important to our operations. Additionally, the market price of our registered shares and American Depositary Shares may reflect a market assumption that the SCOR Tender Offer is likely to be consummated, and a failure to do so would likely result in a decline in the market price of our registered shares and American Depositary Shares.

ITEM 4. INFORMATION ON THE COMPANY

Converium Holding AG was incorporated in Switzerland on June 19, 2001 as a joint stock company as defined in article 620 et seq. of the Swiss Code of Obligations. We were registered on June 21, 2001 in the Commercial Register of the Canton of Zug with registered number CH-170.3.024.827-8. Our registered office is General Guisan-Quai 26, CH-8002 Zürich, Switzerland and our telephone number is +41 44 639 9335.

Table of Contents

A. HISTORY AND DEVELOPMENT OF THE COMPANY

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

The Formation Transactions consisted of the following principal steps:

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

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

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

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

The sale of 35,000,000 of our registered shares to the public by Zurich Financial Services on December 11, 2001 in our initial public offering and the subsequent sale of 5,000,000 of our registered shares to the public by Zurich Financial Services on January 9, 2002 as a result of the underwriters' exercise of their over-allotment option, which sales resulted in the public owning 100% of our shares; and

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

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

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

The operating assets of the Zurich reinsurance business; and

The balance of the assets transferred to us consisted of investments and cash, of which approximately USD 140 million was used by Converium AG to acquire residential and commercial rental properties located in Switzerland from subsidiaries of Zurich Financial Services

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

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

Table of Contents

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

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

Converium Underwriting Ltd is a Lloyd's corporate capital vehicle that was incorporated for unlimited duration in the United Kingdom on October 1, 2001. It was acquired by Converium AG on October 10, 2002 and sold to Converium Holdings (UK) Ltd on December 31, 2002. Converium Underwriting Limited participates as a corporate capital provider to syndicates underwriting at Lloyd's of London, ceding 100% of the business written under a quota share arrangement to Converium AG. It has authorized share capital of GBP 2 divided into 2 shares with a par value of GBP 1 per share, all of which are owned by Converium Holdings (UK) Ltd.

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

In 2004, we formed Converium Finance (Bermuda) Ltd, as well as Converium IP Management Ltd, both of which were incorporated in Bermuda on December 17, 2004. As part of the formation process, Converium Holding AG contributed the rights to commercially exploit the Converium brand to Converium Finance (Bermuda) Ltd, which in turn sold the rights to commercially exploit the Converium brand in exchange for a loan to Converium IP Management Ltd. Converium IP Management AG, Bermuda, entered into a license agreement allowing it to commercially exploit the Converium brand with respect to our operating insurance respectively, reinsurance branch offices and subsidiaries. We implemented this corporate change mainly to comply with relevant tax rules applicable to holding companies in the Canton of Zug, Switzerland in order to protect the current tax status of Converium Holding AG as a holding company. During 2005, we subsequently transferred the domicile of Converium IP Management Ltd to Zug, Switzerland.

On December 13, 2006, Converium sold its US operations including CRNA and Converium Insurance (North America) Inc. (CINA) to National Indemnity Company, a Berkshire Hathaway company for a total consideration of USD 295.0 million comprising of USD 95.0 million in cash and USD 200.0 million in assumption of debt. Converium has not provided any guarantee or indemnity in respect of the reserves of the North American operations. The transaction was approved by the Insurance Department of the State of Connecticut.

On Monday, February 19, 2007, SCOR publicly announced that it had acquired a 32.9% interest in Converium's outstanding registered shares, of which 8.3% and 24.6% were acquired through direct market purchases and share purchase agreements, respectively. On Monday, February 26, 2007, SCOR issued a pre-announcement of the then unsolicited tender offer for Converium's registered shares (as defined below) in accordance with the laws of Switzerland.

On April 5, 2007, SCOR formally launched an unsolicited tender offer pursuant to which each of Converium's registered share were to be exchanged for 0.5 ordinary shares of SCOR and CHF 4, the cash portion of which was to be reduced by the gross amount of any dilutive effects in respect of Converium's registered shares prior to the consummation of the SCOR Tender Offer. On May 9, 2007, Converium and SCOR entered into the SCOR Transaction Agreement pursuant to which SCOR agreed to offer holders of Converium's registered shares 0.5 new SCOR shares and CHF 5.50 in cash in exchange for each Converium registered share tendered and Converium agreed

that its Board of Directors would recommend the SCOR Tender Offer to Converium shareholders. SCOR has further agreed to not to reduce the cash portion of the offer consideration by the Company's gross dividend of 0.20 CHF per share for the fiscal year ended December 31, 2006. The SCOR Tender Offer is governed by the laws of Switzerland and is extended to all holders of the Company's registered shares located outside of the United States and Japan and is not extended to holders of the Company's American Depositary Shares, regardless of whether such American Depositary Shares are held by persons outside of the United States or Japan. The SCOR Tender Offer commenced on June 12, 2007 and will remain open for acceptances for a period of 20 business days.

Table of Contents

B. BUSINESS OVERVIEW

Overview

Converium Holding AG and subsidiaries (Converium or the Company) is an international reinsurer whose business operations are recognized for innovation, professionalism and service. As a multi-line reinsurer, we pursue a strategy of profitable organic growth with a geographic emphasis on Europe, Asia-Pacific, Central and South America and the Middle East and a distinct focus on global specialty lines. In addition, we underwrite and manage US-originated business through Converium AG, Zurich, with a focus on shorter-tail lines. We actively seek to develop efficient and effective reinsurance solutions to complement our target clients' business plans and needs. We focus on core underwriting skills and on developing close client relationships while honoring our and our clients' relationships with intermediaries.

Converium currently manages its business 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

Table of Contents

financial results, the Corporate Center carries certain administration expenses, such as costs of the Board of Directors, the Global Executive Committee and other corporate functions as well as expenses not allocated to the operating segments. The business segments are supported by global business support functions such as Actuarial & Risk Management Services, and by global services such as Human Resources, Finance and IT. We believe that this structure provides a higher degree of transparency, accountability and management control. In addition to reporting segment results individually, management also aggregates results for Standard Property & Casualty Reinsurance and Specialty Lines into non-life business, as management considers this aggregation meaningful in understanding the performance of Converium.

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

In addition to our offices in Cologne, Zug and Zurich, we have branch offices in Bermuda, Labuan, Milan, Paris, Singapore, Sydney as well as marketing offices in Buenos Aires, Sao Paulo and Tokyo and Kuala Lumpur. We have a sub-holding company in London and finance subsidiaries in Luxembourg and Bermuda, an IP company in Zug, Switzerland and a licensed reinsurance company in Guernsey, United Kingdom, facilitating intra-group reinsurance within Converium.

We underwrite reinsurance both directly with ceding companies and through intermediaries, giving us the flexibility to pursue business in accordance with our ceding companies preferred reinsurance purchasing method. In addition, we generate business through strategic partnerships and joint ventures such as GAUM and MDU. In 2006, 28% of our gross premiums written were written through intermediaries and 72% of our business was written on a direct basis. In 2004, Converium's North American operations were placed into orderly run-off and reported as the Run-Off segment to monitor this business on a stand-alone basis. On December 13, 2006, Converium sold its North American operations to National Indemnity Company, a Berkshire Hathaway company. Our North American operations were previously reported as the principal component of a separate segment, the Run-Off segment. Converium's financial results of the North American business, including prior period amounts, have been reclassified to discontinued operations. For further details regarding the sale of the North American operations, see Note 2 to our 2006 consolidated financial statements.

Our vision

We aim to be a major player in the international reinsurance industry. Our efforts are focused on supporting our clients with leading-edge solutions. We aspire to be recognized as a learning, decisive, communicative and action-oriented organization.

Our mission

We are an international multi-line reinsurer that satisfies our clients' needs by excelling at analyzing, assuming and managing risks. We are experts in managing our clients' volatility and helping them optimize capital efficiency. In an ethical and responsible manner we provide:

sustainable value growth for our shareholders;

excellent service for our customers and intermediaries; and

a fulfilling work environment for our employees.

Our strategy

As a multi-line reinsurer Converium pursues a strategy of profitable organic growth with a geographic emphasis on Europe, Asia-Pacific, Central and South America, and the Middle East. Reflecting its significant capabilities in this particular area, the Company places a distinct focus on global specialty lines. Converium implements its strategy by:

Making investments in specialty lines: Based on the Company's track record and human capital Converium is committed to further expanding its specialty portfolio, including aviation & space, engineering, marine & energy, credit & surety and agribusiness.

Table of Contents

Maintaining and developing multiple distribution channels, including joint ventures: To leverage Converium's proven skills at identifying and managing joint ventures and distribution channels which provide direct access to business, the Company will continue to seek opportunities in this field. This offers growth opportunities beyond organic business development and outright acquisitions.

Broadening the client base: In addition to expanding relationships with existing clients Converium seeks to establish new relationships in the Company's preferred geographical markets and lines of business.

Expanding the knowledge base: Converium believes in the value of a knowledge-based business model, offering clients insight and services beyond pure underwriting capacity. To this end, the Company will continue to boost its intellectual capital.

Further enhancing the risk management and control culture: These efforts will focus on further implementing a state-of-the-art Enterprise Risk Management (ERM) framework.

Advancing cost and capital efficiency: Converium is committed to further rationalise its internal processes and setup in order to achieve a competitive administrative expense ratio. In addition, Converium constantly seeks to maximize capital efficiency by exploring opportunities for leveraging its balance sheet and transferring risks directly to capital markets.

Our core business

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

Standard Property & Casualty Reinsurance

The Standard Property & Casualty Reinsurance segment is comprised of the General Third Party Liability, Motor, Personal Accident (assumed from non-life insurers) and Property lines of business. The segment strategy focuses on partnership-oriented professional reinsurance buyers in the markets Europe, Latin America and Asia. Our long-term client relationships are based on our capabilities, e.g. natural hazard expertise, financial modeling capabilities, structuring advice and claims and underwriting audits, contributing to earnings and cash flows. We remain committed to underwriting discipline to achieve the best possible shareholder return, which is only possible through cycle management.

Specialty Lines

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

Wherever possible, Converium seeks to develop preferred access to specialty lines through strong relationships, strategic partnerships or participations in entities that enjoy a unique position, such as strong control over the origination of their business, which prevent

Table of Contents

them from having to compete in annual insurance or reinsurance auctions. Examples of the approach by which we seek to develop preferred access to these businesses are our strategic partnership with MDU in the U.K. and our participation in GAUM and our shares in its pools, as well as many strong relationships with specialized mono-line insurers.

Also, Converium Underwriting Ltd, a Lloyd's Corporate Member, has successfully provided and continues to provide third-party capacity to certain specialist Lloyd's syndicates.

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

Life & Health Reinsurance

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

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

Guiding principles for our business

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

Our lead objective is to maximize economic value. The metrics we use to measure this are pre-tax operating income and performance excess. Performance excess is the measure we use to implement economic value-based management at Converium and is an internal key metric for measuring expected and actual underwriting performance. Performance excess represents the economic value added attached to all reinsurance contracts in our portfolio and takes into account all expected benefits and costs emanating from a contract or group of contracts, including expected premiums, expected losses and all other internal and external costs including taxes and the costs of the allocated risk-based capital. Hence, performance excess equals the expected net present value created for shareholders, in excess of the cost of capital;

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

All contracts we underwrite should be profitable in expectation; that is, a performance excess target of at least equal to zero.

We seek to grow our business, but sustainable profitability is a prerequisite; and

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

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

Cycle management. We have a systematic approach to the allocation of capital and resources to those lines of business and markets that meet our profitability standards, and to withdraw from business that does not meet our performance thresholds. Historically, the reinsurance cycles in different lines of business and markets have not moved simultaneously. Our strong international franchise and our distribution and servicing platform provide broad access to an international reinsurance market, and enable the flexible allocation of resources to those lines of business or markets in which profitability prospects are most favorable at any point in time. Our well established relationships with clients and intermediaries, as well as our transparent pricing approach, allow us to manage the cycle by moving in and out of lines of business or markets without putting long-term business relationships at risk.

Risk management. The prominence of risk within Converium, together with its inclusive implementation, has further strengthened the Company's Enterprise Risk Management (ERM) practices. This approach is based on five pillars:

Risk Management Culture, Risk Controls, Emerging Risk Management, Risk and Capital Models, and Strategic Risk Management. ERM was designated as a distinct rating category by Standard & Poor's (together with other rating agencies) in 2006. It is designed to focus financial institutions on

Table of Contents

taking a comprehensive view of their entire risk landscape, and gain a holistic approach to risk measurement, rather than having potential exposures in distinct risk areas.

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

Retention management. We manage our gross and net risk positions on a group-wide basis, through global risk pooling and the use of retrocession on specific line of business exposures.

Investment policy. We allocate capital primarily to support underwriting risks with the aim of optimizing the after-tax risk-return characteristics of our investment portfolio. The recently hired global asset manager assumed overall responsibility for the management of our fixed income portfolio. In order to achieve a higher yielding diversification we adopt a less defensive and more sophisticated approach towards managing this asset class, which is by far the single largest class in Converium's investment portfolio. A shift of our assets into less constrained portfolios supports the optimization of investment yield. Nevertheless, our asset allocation continues to focus on a core portfolio of high quality bonds supplemented by complementary portfolios in other asset classes, including equities, real estate and non traditional or alternative investments.

Capital management. Our main capital management objectives focus on:

a disciplined approach based on our state of the art Enterprise Risk Management (ERM) approach, with excess capital being deployed for profitable growth and being returned to shareholders;

an optimized and appropriately leveraged balance sheet;

a consistent dividend policy with a proposed sustainable pay-out ratio of 25-35%.

Our business

The table below presents, by segment, the distribution of our premiums written and segment income (loss) for the years ended December 31, 2006, 2005 and 2004. For additional information regarding the results of our operating segments, see Item 5 Operating and Financial Review and Prospects A. Operating Results and the Schedule of Segment Data on pages F-9 and F-10 of the financial statements.

For the year ended December 31	Gross premiums written (USD millions)			Net premiums written (USD millions)			Segment income (loss) (USD millions)		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
Business Segment:									
Standard Property & Casualty									
Reinsurance	890.6	803.1	1,509.0	816.9	739.0	1,377.4	204.6	45.9	88.3
Specialty Lines	777.0	833.1	1,655.3	729.4	737.7	1,565.3	98.9	108.9	-13.4
Life & Health Reinsurance	313.3	318.8	327.9	305.7	306.4	313.2	23.5	17.6	16.4
Corporate Center							-54.5	-49.5	-36.8
Total	1,980.9	1,955.0	3,492.2	1,852.0	1,783.1	3,255.9	272.5	122.9	54.5
Other loss							-0.5	-21.9	-4.7
Interest expense							-16.7	-17.2	-18.7
Amortization of intangible assets								-21.5	-9.9
Restructuring costs							0.2	-12.1	-0.2
Income tax (expense) benefit							-40.5	-16.1	4.6
Income from continuing operations							215.0	34.1	25.6
(Loss) income from discontinuing operations, net of tax							-157.9	34.6	-608.1
Net income (loss)							57.1	68.7	-582.5

The table below presents the composition of our gross premiums written by line of business for the non-life business segments and the Life & Health Reinsurance segment, separated between reported and change in accrual for the years ended December 31, 2006, 2005 and 2004:

	For the year ended December 31,								
	2006 Change in			2005 Change in			2004 Change in		
	Reported	Accrual	Total	Reported	Accrual	Total	Reported	Accrual	Total
	(USD millions)			(USD millions)			(USD millions)		
	Gross Premiums Written								
Standard Property & Casualty Reinsurance									
General Third Party Liability	241.4	-1.3	240.1	260.1	-75.9	184.2	376.2	28.5	404.7
Motor	160.8	9.7	170.5	254.3	-65.4	188.9	479.0	-7.0	472.0
Personal Accident (assumed from non-life insurers)	16.0	-0.6	15.4	23.2	-9.9	13.3	51.6	-17.9	33.7

23

Table of Contents

	For the year ended December 31,								
	2006			2005			2004		
	Reported	Change in Accrual (USD millions)	Total	Reported	Change in Accrual (USD millions)	Total	Reported	Change in Accrual (USD millions)	Total
	Gross Premiums Written								
Property	482.8	-18.2	464.6	444.5	-27.8	416.7	631.1	-32.5	598.6
Total Standard Property & Casualty Reinsurance Specialty Lines	901.0	-10.4	890.6	982.1	-179.0	803.1	1537.9	-28.9	1,509.0
Agribusiness	31.5	5.6	37.1	16.0	20.7	36.7	10.7	0.7	11.4
Aviation & Space	274.7	-12.5	262.2	336.7	-82.1	254.6	486.6	-10.2	476.4
Credit & Surety	72.5	-30.4	42.1	161.8	-103.4	58.4	175.9	33.2	209.1
Engineering	84.6	-16.8	67.8	112.5	-41.9	70.6	126.1	-7.6	118.5
Marine & Energy	62.5	-3.5	59.0	77.9	-13.0	64.9	86.5	-0.7	85.8
Professional Liability and other Special Liability	356.5	-43.4	313.1	346.4	13.0	359.4	422.0	18.3	440.3
Workers Compensation	7.7	-12.0	-4.3	84.7	-96.2	-11.5	225.1	88.7	313.8
Total Specialty Lines	890.0	-113.0	777.0	1,136.0	-302.9	833.1	1,532.9	122.4	1,655.3
Life & Health Reinsurance									
Life & Disability	257.2	-2.0	255.2	233.5	14.1	247.6	231.0	16.8	247.8
Accident & Health	65.6	-7.5	58.1	67.0	4.2	71.2	90.6	-10.5	80.1
Total Life & Health Reinsurance	322.8	-9.5	313.3	300.5	18.3	318.8	321.6	6.3	327.9
Total	2,113.8	-132.9	1,980.9	2,418.6	-463.6	1,955.0	3,392.4	99.8	3,492.2

Premium accruals are impacted if and when cedents report premium adjustments over time as the underlying exposure becomes increasingly certain. The premium impact is positive, i.e., accruals increase, if the cedent has assumed a higher exposure and hence higher premium than expected at policy inception. It is typically negative if estimated premiums for the assumed exposure turn out to be lower, leading to a reduction in accruals. The process of adjusting premium accruals varies greatly because cedents in many countries around the world apply local practices for, among other things, the recording of exposure, financial reporting as well as reporting to third parties (such as their reinsurers) and the timing of recording final premiums. In addition, accruals can be impacted by contracts cancelled under special termination clauses, leading to a reduction in premium accruals.

Acquisition costs are comprised of different components, of which some are recognized in line with premiums, as opposed to others which are recognized on different bases such as the profitability of each underlying treaty.

The table below presents the composition of the related acquisition costs by line of business for the non-life business segments and the Life & Health Reinsurance segment, separated between reported and change in accrual for the years ended December 31, 2006, 2005 and 2004:

	For the year ended December 31,								
	2006			2005			2004		
	Reported	Change in Accrual (USD millions)	Total	Reported	Change in Accrual (USD millions)	Total	Reported	Change in Accrual (USD millions)	Total
	Acquisition Costs, gross								
Standard									
Property &									
Casualty									
Reinsurance									
General Third									
Party Liability	46.1	21.5	67.6	66.2	-46.5	19.7	102.3	2.7	105.0
Motor	33.0	5.0	38.0	27.0	0.7	27.7	80.7	4.1	84.8
Personal									
Accident									
(assumed from									
non-life insurers)	4.7	-0.3	4.4	6.2	-2.7	3.5	16.2	-0.6	15.6
Property	102.9	-0.4	102.5	116.4	-21.1	95.3	136.0	-0.4	135.6
Total Standard									
Property &									
Casualty									
Reinsurance	186.7	25.8	212.5	215.8	-69.6	146.2	335.2	5.8	341.0
Specialty Lines									
Agribusiness	4.5	1.9	6.4	2.6	2.9	5.5	2.1	0.4	2.5
Aviation &									
Space	81.6	3.5	85.1	79.6	-0.8	78.8	86.5	17.3	103.8
Credit & Surety	25.1	-2.5	22.6	54.5	-29.7	24.8	59.0	4.3	63.3
Engineering	23.7	-2.1	21.6	29.8	-7.3	22.5	32.1	-2.6	29.5
Marine & Energy	14.4	-1.3	13.1	17.0	0.1	17.1	18.7	-1.1	17.6
Professional									
Liability and									
other Special									
Liability	41.8	15.0	56.8	51.2	-14.1	37.1	64.3	22.6	86.9

Table of Contents

	For the year ended December 31,								
	2006			2005			2004		
	Reported	Change in Accrual	Total	Reported	Change in Accrual	Total	Reported	Change in Accrual	Total
	(USD millions)			(USD millions)			(USD millions)		
	Acquisition Costs, gross								
Workers Compensation	2.6	-2.4	0.2	17.7	-21.9	-4.2	34.1	20.6	54.7
Total Specialty Lines	193.7	12.1	205.8	252.4	-70.8	181.6	296.8	61.5	358.3
Life & Health Reinsurance									
Life & Disability	77.6	-12.1	65.5	163.8	-94.9	68.9	169.0	-128.0	41.0
Accident & Health	17.6	-6.0	11.6	20.4	1.2	21.6	26.3	-5.4	20.9
Total Life & Health Reinsurance	95.2	-18.1	77.1	184.2	-93.7	90.5	195.3	-133.4	61.9
Total segments	475.6	19.8	495.4	652.4	-234.1	418.3	827.3	-66.1	761.2
Amortization of DAC			-19.0			113.8			15.8
Other costs			10.3			14.0			22.0
Total			486.7			546.1			799.0

The table below presents the geographic distribution of our gross premiums written for the years ended December 31, 2006, 2005 and 2004, based on the location of the ceding companies.

	For the year ended December 31,					
	2006		2005		2004	
	(USD millions)	% of total	(USD millions)	% of total	(USD millions)	% of total
United Kingdom(1)	539.3	27.2	481.2	24.6	1,156.9	33.1
Germany	399.9	20.2	395.1	20.2	389.6	11.1
France	71.1	3.6	86.1	4.4	158.2	4.6
Italy	87.5	4.4	107.1	5.5	162.3	4.6
Rest of Europe	298.2	15.0	251.1	12.8	379.7	10.9
Far East	120.5	6.1	132.1	6.8	238.5	6.8
Near and Middle East	132.2	6.7	103.1	5.3	124.3	3.6
North America	235.7	11.9	306.7	15.7	752.7	21.6
Central and South America	96.5	4.9	92.5	4.7	130.0	3.7
Total	1,980.9	100.0	1,955.0	100.0	3,492.2	100.0

(1) Premiums from the United Kingdom include business assumed

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

The table below presents the distribution of our net premiums written and net premiums earned by line of business for the non-life business segments and the Life & Health Reinsurance segment for the years ended December 31, 2006, 2005 and 2004.

(USD millions)	For the year ended December 31,					
	2006		2005		2004	
	Net premiums written	Net premiums earned	Net premiums written	Net premiums earned	Net premiums written	Net premiums earned
Standard Property & Casualty Reinsurance						
General Third Party Liability	229.7	210.1	146.7	204.1	379.1	348.1
Motor	143.1	138.1	188.4	256.8	437.4	450.8
Personal Accident (assumed from non-life insurers)	12.4	9.1	13.3	14.3	34.5	43.8
Property	431.7	418.3	390.6	405.6	526.4	549.5
Total Standard Property & Casualty Reinsurance	816.9	775.6	739.0	880.8	1,377.4	1,392.2
Specialty Lines						
Agribusiness	37.1	34.1	36.7	28.9	11.4	15.5
Aviation & Space	237.1	237.8	241.8	352.4	404.5	327.3
Credit & Surety	42.2	44.8	58.4	168.2	204.3	177.9
Engineering	61.7	66.1	65.5	88.7	112.2	117.3
Marine & Energy	58.1	53.4	64.0	71.7	82.5	85.1
Professional Liability and other Special Liability	297.6	291.9	282.8	295.6	436.5	410.6
Workers Compensation	-4.4	-4.4	-11.5	53.7	313.9	253.9

Table of Contents

	For the year ended December 31,					
	2006		2005		2004	
(USD millions)	Net premiums written	Net premiums earned	Net premiums written	Net premiums earned	Net premiums written	Net premiums earned
Total Specialty Lines	729.4	723.7	737.7	1,059.2	1,565.3	1,387.6
Total non-life reinsurance	1,546.3	1,499.3	1,476.7	1,940.0	2,942.7	2,779.8
Life & Health Reinsurance						
Life & Disability	247.5	251.5	235.2	240.7	234.9	239.7
Accident & Health	58.2	60.9	71.2	74.1	78.3	79.0
Total Life & Health Reinsurance	305.7	312.4	306.4	314.8	313.2	318.7
Total	1,852.0	1,811.7	1,783.1	2,254.8	3,255.9	3,098.5

Types of reinsurance

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

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

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

Both non-life reinsurance and life reinsurance can be written either through treaty or facultative reinsurance arrangements. In treaty reinsurance, the ceding company cedes, and the reinsurer assumes, a specified portion of a type or category of risks insured by the ceding company. Generally in the industry, treaty reinsurers do not separately

evaluate each of the individual risks assumed under their treaties and are largely dependent on the original risk underwriting decisions made by the ceding company's underwriters. This dependence subjects reinsurers to the possibility that the ceding company has not adequately evaluated the risks to be reinsured and, therefore, that the premiums ceded to the reinsurer may not adequately compensate the reinsurer for the risk assumed. Accordingly, the reinsurer's evaluation of the ceding company's risk management and underwriting practices, as well as claims settlement practices and procedures, will usually impact the pricing of the treaty.

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

Table of Contents

Non-traditional reinsurance involves structured reinsurance solutions tailored to meet individual client strategic and financial objectives. Both non-life reinsurance and life reinsurance can be written on a structured/finite basis. Often these reinsurance solutions provide reinsurance protection across a company's entire insurance portfolio. Because of the constantly changing industry and regulatory framework, as well as the changing market demands facing insurance companies, the approaches utilized in structured/finite programs are constantly evolving and will continue to do so. We underwrite our product lines on a non-proportional and proportional basis. We integrate our facultative specialists with our underwriting professionals with treaty expertise, organizing them as focused teams around client relationship management and lines of business. We do not distinguish between treaty and facultative reinsurance, but rather between proportional and non-proportional underwriting and lines of business.

Proportional and non-proportional

We offer traditional reinsurance products on both a proportional and non-proportional basis in all our lines of business. Our business is predominantly proportional, comprising approximately 85.7% of gross premiums written during 2006. Our non-proportional business includes Property, Motor, Aviation & Space and Professional Liability and other Special Liability lines, to complement our established market position in non-proportional liability. We believe that clients and brokers actively seek our input in the evaluation and structuring of businesses with unique or difficult risk characteristics. We believe this is a result of our innovative approach, organizational resources and financial condition. We have developed integrated teams of professionals with significant treaty and individual risk, or facultative, expertise which support the professionals we have in our branch network. We offer facultative products to a limited extent and only to a selected number of clients on a proportional and non-proportional basis. We deploy our international specialty lines experts and local specialists to design solutions to address our clients' risk management needs.

Structured/finite

Structured/finite reinsurance business is contained within our Standard Property & Casualty Reinsurance, Specialty Lines and Life & Health Reinsurance segments. Whether working directly with the client or through a broker, our structured/finite business focuses on developing client-specific solutions after spending time with the client to understand its business needs. These client-specific solutions include such products as loss portfolio transfers and adverse loss development covers. Loss portfolio transfers involve the transfer of liability of discontinued or expired insurance programs from one company to another company for a fee. Coverage under adverse development covers is provided on an excess basis and amounts of indemnification are generally subject to specific aggregate limits. Structured/finite products have several features that differ from traditional reinsurance products and may typically include (i) premium refunds based on actual loss experience; (ii) loss sharing provisions; (iii) additional premiums based on actual loss experience, (iv) sliding scale commission rates, (v) non-refundable reinsurer's margins; and (vi) underwriting terms that limit the maximum aggregate exposure. Structured/finite business is classified as proportional or non-proportional, depending on its characteristics.

Non-life operations***Overview***

We operate our non-life reinsurance business through our two non-life segments: Standard Property & Casualty Reinsurance and Specialty Lines. Our non-life operations had gross premiums written of USD 1,667.6 million for the year ended December 31, 2006, representing 84.2% of our total gross premiums written.

Table of Contents

The table below presents the loss, acquisition costs and combined ratios of our non-life reinsurance business by line of business for the years ended December 31, 2006, 2005 and 2004. This table represents an aggregation of line of business ratios for our two non-life segments. Subsequent tables present ratios for each non-life segment by line of business. Any prior underwriting year development (positive or negative) will affect the ratios of the calendar year in which the activity is recorded.

**Loss, Expense and Combined Ratios
For the year ended December 31,**

	2006			2005			2004		
	Loss ratio	Acq costs ratio	Combined ratio (1)	Loss ratio	Acq costs ratio	Combined ratio (1)	Loss ratio	Acq costs ratio	Combined ratio (1)
General Third Party Liability	55.4%	26.1%	81.5%	91.4%	13.7%	105.1%	67.1%	30.0%	97.1%
Motor	90.2%	24.8%	115.0%	96.4%	16.1%	112.5%	103.7%	17.9%	121.6%
Personal Accident (assumed from non-life insurers)	70.3%	36.3%	106.6%	27.3%	25.9%	53.2%	54.1%	38.4%	92.5%
Property	46.4%	24.7%	71.1%	71.9%	26.7%	98.6%	50.6%	27.6%	78.2%
Agribusiness	73.3%	15.5%	88.8%	78.9%	17.3%	96.2%	94.8%	21.9%	116.7%
Aviation & Space	66.1%	34.8%	100.9%	60.9%	26.4%	87.3%	53.7%	24.5%	78.2%
Credit & Surety	47.3%	52.2%	99.5%	59.2%	34.3%	93.5%	50.1%	30.0%	80.1%
Engineering	42.2%	31.9%	74.1%	71.4%	31.2%	102.6%	76.6%	25.5%	102.1%
Marine & Energy	53.7%	22.1%	75.8%	81.2%	25.8%	107.0%	92.0%	20.7%	112.7%
Professional Liability and other Special Liability	95.9%	16.2%	112.1%	89.6%	17.2%	106.8%	112.3%	19.9%	132.2%
Workers Compensation	129.5%	-18.2%	111.3%	91.8%	20.1%	111.9%	96.8%	24.5%	121.3%
Total non-life	65.1%	25.9%	91.0%	77.4%	22.9%	100.3%	77.6%	24.5%	102.1%

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

For an explanation of ratio calculations, please refer to the Schedule of Segment Data on pages F-9 and F-10 to our 2006 consolidated financial statements. For an explanation of significant loss activity, see Item 5 Operating and

Financial Review and Prospects A. Operating Results .

Standard Property & Casualty Reinsurance

The Standard Property & Casualty Reinsurance segment's strategy focuses on partnership-oriented professional reinsurance buyers in the markets Europe, Latin and South America and Asia. Our long-term client relationships are based on our capabilities, e.g. natural hazard expertise, financial modeling capabilities, structuring advice and claims and underwriting audits, contributing to earnings and cash flows. We remain committed to underwriting discipline to achieve the best possible shareholder return, which is only possible through cycle management.

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

General Third Party Liability

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

Table of Contents*Motor*

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

Personal Accident (assumed from non-life insurers)

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

Property

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

The following table presents the distribution of gross and net premiums written and net premium earned by our Standard Property & Casualty Reinsurance segment for the years ended December 31, 2006, 2005 and 2004.

	For the year ended December 31,								
	2006			2005			2004		
(USD millions)	Gross premiums written	Net premiums written	Net premiums earned	Gross premiums written	Net premiums written	Net premiums earned	Gross premiums written	Net premiums written	Net premiums earned
General Third Party Liability	240.2	229.7	210.1	184.2	146.7	204.1	404.7	379.1	348.1
Motor	170.6	143.1	138.1	188.9	188.4	256.8	472.0	437.4	450.8
Personal Accident (assumed from non-life insurers)	15.3	12.4	9.1	13.3	13.3	14.3	33.8	34.5	43.8
Property	464.5	431.7	418.3	416.7	390.6	405.6	598.5	526.4	549.5
Total Standard Property & Casualty Reinsurance	890.6	816.9	775.6	803.1	739.0	880.8	1,509.0	1,377.4	1,392.2

The following table presents the loss, acquisition costs and combined ratios of our Standard Property & Casualty Reinsurance segment by line of business for the years ended December 31, 2006, 2005 and 2004.

	Loss, Expense and Combined Ratios								
	For the year ended December 31,								
	2006			2005			2004		
Loss ratio	Acq costs ratio	Combined ratio (1)	Loss ratio	Acq costs ratio	Combined ratio (1)	Loss ratio	Acq costs ratio	Combined ratio (1)	
General Third Party Liability	55.4%	26.1%	81.5%	91.4%	13.7%	105.1%	67.1%	30.0%	97.1%
Motor	90.2%	24.8%	115.0%	96.4%	16.1%	112.5%	103.7%	17.9%	121.6%
Personal Accident	70.3%	36.3%	106.6%	27.3%	25.9%	53.2%	54.1%	38.4%	92.5%

(assumed from
non-life
insurers)

Property	46.4%	24.7%	71.1%	71.9%	26.7%	98.6%	50.6%	27.6%	78.2%
Total Standard Property & Casualty Reinsurance	56.9%	25.2%	82.1%	82.8%	20.6%	103.4%	72.0%	25.4%	97.4%

29

Table of Contents

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

For an explanation of ratio calculations, please refer to the Schedule of Segment Data on pages F-9 and F-10 to our 2006 consolidated financial statements. For an explanation of significant loss activity, see Item 5 Operating and Financial Review and Prospects A. Operating Results .

Specialty Lines

The Specialty Lines segment's strategy is to develop specialty businesses in which Converium can position itself as a market leader and effectively leverage its intellectual assets in risk analysis, structuring, product design and risk modeling. We focus on specialty businesses because we believe that Converium possesses superior underwriting and structuring capabilities in certain areas, which is both a key driver of profitability as well as an effective barrier to entry in certain business lines.

Wherever possible, Converium seeks to develop preferred access to specialty lines through strong relationships, strategic partnerships or participations in entities that enjoy a unique position, such as strong control over the origination of their business, which prevent them from having to compete in annual insurance or reinsurance auctions. Examples of the approach by which we seek to develop preferred access to these businesses are our strategic partnership with MDU in the U.K and our participation in GAUM and our shares in its pools, as well as many strong relationships with specialized mono-line insurers.

In addition, Converium Underwriting Ltd, a Lloyd's Corporate Member, has successfully provided and continues to provide third-party capacity to certain specialist Lloyd's syndicates.

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

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

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

Agribusiness

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

Aviation & Space

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

Credit & Surety

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

Engineering

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

Marine & Energy

Table of Contents

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

Professional Liability and other Special Liability

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

Workers Compensation

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

The following table presents the distribution of gross and net premiums written and net premiums earned by our Specialty Lines segment for the years ended December 31, 2006, 2005 and 2004.

	For the year ended December 31,								
	2006			2005			2004		
(USD millions)	Gross premiums written	Net premiums written	Net premiums earned	Gross premiums written	Net premiums written	Net premiums earned	Gross premiums written	Net premiums written	Net premiums earned
Agribusiness	37.1	37.1	34.1	36.7	36.7	28.9	11.4	11.4	15.5
Aviation & Space	262.2	237.1	237.8	254.6	241.8	352.4	476.5	404.5	327.3
Credit & Surety	42.2	42.2	44.8	58.4	58.4	168.2	209.1	204.3	177.9
Engineering	67.8	61.7	66.1	70.6	65.5	88.7	118.5	112.2	117.3
Marine & Energy	59.0	58.1	53.4	64.9	64.0	71.7	85.8	82.5	85.1
Professional Liability and other Special									
Liability	313.1	297.6	291.9	359.4	282.8	295.6	440.2	436.5	410.6
Workers Compensation	-4.4	-4.4	-4.4	-11.5	-11.5	53.7	313.8	313.9	253.9
Total Specialty Lines	777.0	729.4	723.7	833.1	737.7	1,059.2	1,655.3	1,565.3	1,387.6

The following table presents the loss, acquisition costs and combined ratios of our Specialty Lines segment by line of business for the years ended December 31, 2006, 2005 and 2004.

	Loss, Expense and Combined Ratios								
	For the year ended December 31,								
	2006			2005			2004		
	Loss ratio	Acq costs ratio	Combined ratio (1)	Loss ratio	Acq costs ratio	Combined ratio (1)	Loss ratio	Acq costs ratio	Combined ratio (1)
Agribusiness	73.3%	15.5%	88.8%	78.9%	17.3%	96.2%	94.8%	21.9%	116.7%
Aviation & Space	66.1%	34.8%	100.9%	60.9%	26.4%	87.3%	53.7%	24.5%	78.2%
Credit & Surety	47.3%	52.2%	99.5%	59.2%	34.3%	93.5%	50.1%	30.0%	80.1%
Engineering	42.2%	31.9%	74.1%	71.4%	31.2%	102.6%	76.6%	25.5%	102.1%
Marine & Energy	53.7%	22.1%	75.8%	81.2%	25.8%	107.0%	92.0%	20.7%	112.7%
Professional Liability and	95.9%	16.2%	112.1%	89.6%	17.2%	106.8%	112.3%	19.9%	132.2%

other Special Liability Workers Compensation	129.5%	-18.2%	111.3%	91.8%	20.1%	111.9%	96.8%	24.5%	121.3%
Total Specialty Lines	73.8%	26.6%	100.4%	72.9%	24.9%	97.8%	83.2%	23.6%	106.8%

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

Table of Contents

For an explanation of ratio calculations, please refer to the Schedule of Segment Data on pages F-9 and F-10 to our 2006 consolidated financial statements. For an explanation of significant loss activity, see Item 5 Operating and Financial Review and Prospects A. Operating Results .

Life & Health Reinsurance

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

Life & Disability; and

Accident & Health.

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

As a result of these initiatives, our Life & Disability and Accident & Health lines of business written from our European offices have grown significantly in recent years, with our net premiums written increasing from USD 196.0 million in 2001 to USD 305.7 million at the end of 2006.

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

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

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

maintaining a low expense ratio;

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

providing structured/finite solutions; and

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

We are seeking to grow our Life & Health business operations considerably while not compromising our underwriting standards. We believe that Life & Health Reinsurance will represent an increasing percentage of our business going forward.

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

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

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

demutualizations of life insurance companies;

aging of the population;

privatization of benefits that used to be provided by governments;

Table of Contents

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

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

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

Competition

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

financial strength;

expertise, reputation, experience and qualifications of employees;

local presence;

client relationships;

products and services offered;

premium levels; and

contract terms and conditions.

As a direct writer of reinsurance, we compete with a number of major direct marketers of reinsurance both in local markets and internationally. We also compete with a number of major reinsurers who write business through reinsurance brokers. We believe that our largest competitors, both locally and internationally, are:

Munich Reinsurance Company;

Swiss Reinsurance Company;

Hannover Re Group;

SCOR;

PartnerRe Group; and

Lloyd's syndicates active in the London market.

Non-life underwriting, pricing/structuring and accumulation control

We regard underwriting and pricing as core skills. Underwriting is the process by which we identify desirable clients and lines of business, cultivate profitable opportunities and assess and manage our exposure, claims settlement and reserving risk for any particular exposure. In our view, underwriting requires a deep understanding of the client, their business and the market in which the client operates. In evaluating business opportunities, we rely heavily on a collaborative underwriting process that emphasizes communication and information sharing among our underwriting, actuarial/modeling, claims, legal and finance personnel. We bring together all of those disciplines to properly understand, assess, price and execute policies in a manner appropriate to the nature of the risk.

Table of Contents

Our underwriters coordinate to access our expertise and balance sheet capabilities to optimize solutions for our clients business needs. We have underwriting specialists throughout our worldwide organization, covering a wide range of disciplines that help us assess our risk exposures. In an effort to better serve our reinsurance clients, we combine our underwriters and actuaries in client management teams.

Specifically, we have access to significant internal actuarial expertise, which we deploy to assess pricing adequacy and to develop associated capital allocation approaches and risk models. Additionally, our underwriting process draws upon our multidisciplinary specialists, who include engineers, meteorologists, environmental scientists, economists, geologists, seismologists, physicist and mathematicians. These specialists and actuaries are based around the world and work together to ensure and facilitate the application of best practices and the consideration of the most recent scientific developments. Moreover, we actively utilize and develop risk models and other sophisticated tools, many of which are proprietary.

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

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

Additionally, during the underwriting process, we assess and seek to control the amount and concentration of risk underwritten for various areas by analyzing aggregates and accumulation by region, peril or line of business, such as property catastrophe, aviation, Marine & Energy, Agribusiness and Credit & Surety. We normally use proprietary as well as commercially available tools to monitor our accumulations and relate them to our overall risk appetite.

Aggregates are revised regularly and adapted in line with our current strategy and willingness and ability to bear risk, and transformed into rules and parameters for underwriting decisions.

We are committed to underwriting for profit. In pricing, we are committed to price to an after-tax target return that reflects the conditions in the investment markets and the riskiness of the portfolio. Meeting this target requires a constant management of the underwriting cycle including the avoidance of under-priced business.

We allocate capital to transactions based on how they contribute to our portfolio's 1-in-100 year or worse losses.

Business aggregating with existing treaties (that is, treaties that do not diversify well within our existing portfolio) are allocated a disproportionately larger amount of capital than treaties that diversify well. Similarly, larger treaties are allocated a disproportionately larger amount of capital than smaller treaties. This capital approach helps the portfolio become more diverse and optimizes the treaty mix.

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

Our core pricing approach is to estimate the underlying frequency and severity of losses, adjusted for trends, so that we can develop an aggregate probability distribution of ultimate loss. In order to understand the cash flows, we estimate premium collection and loss payout patterns. Taking into account the transaction structure, we then create an aggregate probability distribution of the profit function of the contract that reflects risk-free investment income generated by the cash flows, commissions, brokerage, internal expenses and taxes. We estimate the risk capital by

analyzing the treaty's dependency on the current and future planned portfolio. Key factors that we utilize in the calculation of risk capital are the loss profile of the contract, the duration of the liabilities and the correlation of the risk factors with the remainder of our book of business. From this, the performance of the deal, or Performance Excess, is then computed as the expected profitability of the deal less the cost of capital.

Table of Contents

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

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

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

Non-life claims management

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

Individual claims reported to our non-life operating units are monitored and managed by Claims Services personnel according to global guidelines and procedures. At this level, claims administration includes reviewing initial loss reports, monitoring claims handling activities of clients, requesting additional information where appropriate, establishing initial case reserves and approving payment of individual claims. Claims Services personnel have payment and case reserving authorities commensurate with individual experience.

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

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

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

Table of Contents

The Claims Services team is able to provide value-added services to customers, e.g., assessment, consultation and issuing publications, including surveys on topics of interest.

Life operations underwriting and claims

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

We believe that one of our strengths is our expertise in medical underwriting. We seek to work closely with our clients and, as a value-added service, share this expertise in order to build client loyalty and better understand their risks.

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

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

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

Catastrophe risk management and protection

Natural peril and man-made catastrophe risk management is an essential part of our overall corporate risk management plan. To help us measure and monitor our exposure to natural catastrophic events, we have established a line-of-business function that together with members of senior management with underwriting, actuarial, risk management and other specialized expertise, review relevant aspects of our catastrophe underwriting and risk management.

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

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

A major component of our natural catastrophe risk management approach is to employ global portfolio optimization and geographic diversification. By utilizing careful risk selection, pricing and modeling of portfolio additions, we seek to diversify our exposures

Table of Contents

while optimizing available capacity and maximizing our expected return on equity. This approach helps us to fully capitalize on the natural catastrophe reinsurance premiums our balance sheet supports, while reducing the expected net impact of catastrophe losses. We believe this strategy leaves us well positioned to write additional business during periods of improving market conditions.

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

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

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

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

Supporting clients in all elements of natural hazards risk management: The expertise developed by our catastrophe risk specialists in understanding and managing catastrophe risk allows us to assist our clients in assessing their own loss potential and in designing efficient risk transfer mechanisms. Further, we utilize our expertise to influence property catastrophe exposure reporting in the industry. We believe that the use of data standards will improve data quality, enable more accurate risk assessment and reduce costs.

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

Historically, a majority of the natural catastrophe reinsurance we have written relates to exposures within Europe, Japan and the United States. Accordingly, we are exposed to natural catastrophic events which affect these regions, such as European windstorm, Japanese earthquake and US hurricane and earthquake events. Our estimated potential losses, on a probable maximum loss basis, before giving effect to our retrocessional protection, are currently managed to a self-imposed maximum gross event limit of USD 400 million for a 250-year return period loss.

We use retrocessional reinsurance protection to assist our efforts to ensure that our risk tolerance is not exceeded on a per event or aggregate basis. We actively seek to combine traditional reinsurance protection with capital market solutions, in order to diversify our sources of risk bearing capital. We have developed substantial capital markets expertise, which we can use both to provide additional capacity to our clients and to improve our own results and risk profile.

In 2006, we had the benefit of USD 81.0 million event limit from traditional reinsurance protections for our non-US property portfolio in excess of USD 50.0 million for any natural catastrophe affecting our property portfolio. In addition, we purchased cover for natural catastrophes affecting our non-US property portfolio in excess of USD

25.0 million with cover up to USD 50.0 million, whereby first-event coverage was limited to certain perils. This coverage is reviewed periodically and the majority of the coverage was placed with companies with a single A financial strength ratings or above.

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

Table of Contents

on the notes, paid quarterly, less any loss payments made to us. The Helix 04 transaction replaced the Trinom transaction that we had in place since 2001. See Note 10 to our 2006 consolidated financial statements for additional information on Helix.

Payments from Helix 04 to Converium AG are based on modeled reinsurance losses on a notional portfolio. In a modeled loss contract, the covered party's aggregate exposure to each geographical region and type of catastrophe, by line of business, is compared to industry-wide data in order to produce the covered party's market share of particular loss events by line of business using commercially available natural catastrophe loss simulation modeling software. The software simulates a catastrophe, at various levels of severity, by generating certain probabilistic loss distributions, in order to calculate industry-wide losses and the corresponding losses for the covered party on a ground-up basis, by line of business. These losses are then compared to the modeled loss contracts to determine the amount of the covered party's recovery in respect of such an event.

Converium exercised its right to reset the notional portfolio by notice on April 24, 2006 with an effective date of June 30, 2006 to realign the notional portfolio with Converium's anticipated portfolio for the remaining three-year term of the contract.

The Helix 04 contract is first triggered when notional losses reach USD 154.8 million (USD 150.0 million before reset). The second trigger is hit when notional losses reach USD 176.2 million (USD 175.0 million before reset). It then pays out according to a sliding scale of notional losses up to USD 276.2 million (USD 275.0 million before reset).

Converium estimates its gross loss for each of the 2006 catastrophe events to be significantly less than the Helix 04 activation threshold of USD 154.8 million for each such event, and therefore; Converium will not file a trigger event request in respect of these losses.

The annual cost of Helix 04 to Converium is USD 6.1 million for the year ended December 31, 2006. The annual charge to Converium is not impacted by the occurrence of a loss event that is protected by Helix 04, unlike the prior contract in respect of Trinom, where Converium was required to pay higher amounts for the remainder of the term of the contract. The Helix 04 counter-party contract is not treated as reinsurance and accordingly the charge is reflected through other income (loss) although the cost of the counter-party contract is amortized over the term of the contract in a manner similar to reinsurance.

Unlike traditional reinsurance, the Helix 04 transaction is fully collateralized to eliminate any counterparty credit risk on recoveries. Helix 04 provides a second event protection over a five-year horizon, securing a fixed-price capacity, which cannot be impaired by a severe first industry event. Due to the nature of the transaction, we are exposed to modeling uncertainty, meaning that the modeled loss might deviate somewhat from the actual indemnity loss of the notional portfolio (basis risk).

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

Retrocessional reinsurance

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

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

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

- catastrophe coverage for property business;

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

Table of Contents

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

Retrocessional reinsurance arrangements generally do not relieve Converium from its direct obligations to its reinsureds. Thus, a credit exposure exists with respect to reinsurance ceded to the extent that any retrocessionaire is unable or unwilling to meet the obligations assumed under the retrocessional agreements. At December 31, 2006 and 2005, Converium held USD 210.4 million and USD 470.6 million, respectively, in collateral as security under related retrocessional agreements in the form of deposits, securities and/or letters of credit.

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

Bad debt provisions of USD 11.3 million have been recorded for estimated uncollectible premiums receivable and reinsurance recoverables at December 31, 2006, compared with USD 28.1 million at December 31, 2005. The decrease is mainly due to the sale of our North American operations in December 2006.

The following table sets forth Converium's ten largest retrocessionaires as of December 31, 2006, based on non-life underwriting reserves and future life benefits, and their respective Standard & Poor's or A.M. Best financial strength rating.

Retrocessionaire	Retrocessionaire Group	Underwriting reserves and future life benefits (USD million)	% of total	S & P/A.M. Best Rating
Lloyd's Syndicates	Lloyd's	85.8	13.3	A/A
ICM Re S.A.	ICM Re	37.9	5.8	NR
AIOI Insurance Co. Ltd	AIOI Insurance Co. Ltd	34.7	5.4	A+/A
Transamerica Reinsurance	AEGON Group	33.6	5.2	AA/A+
QBE	QBE Insurance Group	31.8	4.9	A+/A
Zurich Financial Services	Zurich Financial Services	27.3	4.2	A+/A
Sompo	Sompo Japan Insurance Group	18.5	2.9	AA-/A+
AXA Re	AXA Group	17.5	2.7	AA-/A
Hannover Rückversicherung	Hannover Re	11.4	1.8	AA-/A
RGA	RGA Reinsurance Group	10.8	1.7	AA-/A+
Total underwriting reserves and future life benefits of top ten retrocessionaires		309.3	49.3	
All other retrocessionaires		337.9	50.7	
Total underwriting reserves and future life benefits		647.2	100.0	

As a consequence of the Formation Transactions, Converium AG has assumed both the benefits and the financial risks relating to third-party reinsurance recoverables under the Quota Share Retrocession Agreement. We manage all third-party retrocessions related to the business reinsured by Converium AG under the Quota Share Retrocession

Agreement. ZIC and ZIB are obligated under the Quota Share Retrocession Agreement, during its term, to maintain in force, renew or purchase third-party retrocessions covering the business covered by the Quota Share Retrocession Agreement at our sole discretion.

In addition, Zurich Financial Services, through its subsidiaries, provided us with a degree of retrocessional reinsurance coverage following the Formation Transactions. In particular, Zurich Financial Services, through its subsidiaries, has agreed to arrangements that cap our net exposure for losses and loss expenses arising out of the September 11th terrorist attacks at USD 289.2 million (subsequently reduced to USD 231.0 million following the sale of our North American operations) the amount of loss and loss expenses we recorded as of September 30, 2001. As part of these arrangements, subsidiaries of Zurich Financial Services have agreed to take responsibility for non-payment by the retrocessionaires of Converium AG and Converium Rückversicherung (Deutschland) AG with regard to losses arising out of the September 11th attacks. Our only retrocessionaire for this business is a unit of Zurich Financial Services. Therefore, we are not exposed to potential non-payments by retrocessionaires for this

Table of Contents

event in excess of the USD 289.2 million cap, although we will be exposed to the risk of non-payment of Zurich Financial Services units and we will be exposed to credit risk from these subsidiaries of Zurich Financial Services. Our recorded losses and loss expenses, net of retrocessional recoveries and the cap from ZFS through its subsidiaries, were reduced from USD 289.2 million to USD 231.0 million, following the sale of our North American operations. In order to provide additional comfort in regards to our reserve position, in August of 2004 we acquired a retrospective stop-loss retrocession cover from National Indemnity Company, a Standard & Poor's AAA-rated member of the Berkshire Hathaway group of insurance companies. The retrospective stop-loss retrocession cover was commuted in December 2006 in preparation for the sale of our North American Operations and after a review of coverage requirements. See Note 10 to our 2006 consolidated financial statements for additional information on this cover and for further information on retrocessional risk management.

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

We are required by applicable insurance laws and regulations and US GAAP to establish reserves for payment of losses and loss expenses that arise from our products. These reserves are balance sheet liabilities representing estimates of future amounts required to pay losses and loss expenses for insured claims which have occurred at or before the balance sheet date, whether already known to us or not yet reported. Significant periods of time can elapse between the occurrence of an insured claim and its reporting by the insured to the primary insurance company and subsequently by the insurance company to its reinsurance company. Loss reserves fall into two categories: reserves for reported losses and loss expenses, and reserves for losses and loss expenses incurred but not yet reported (IBNR). Upon receipt of a notice of claim from a ceding company, we establish a case reserve for the estimated amount of the ultimate settlement. Case reserves are usually based upon the amount of reserves reported by the primary insurance company and may subsequently be increased or reduced as deemed necessary by our claims departments. We also establish reserves for loss amounts that have been incurred but not yet reported, including expected development of reported claims.

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

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

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

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

CORE is our proprietary global loss reserve estimation system. It applies a number of standard actuarial reserving methods on a contract-by-contract basis. This allows us to calculate estimates of IBNR for each transaction based on

its own characteristics. We aggregate the reserves indicated for each transaction to arrive at the total reserve requirement (bottom-up approach).

Table of Contents

In addition to these bottom-up approaches we utilize standard top-down analyses. For these methods we aggregate the majority of our business into a limited number of homogeneous classes and apply standard actuarial reserving techniques. These top-down analyses provide an alternative view that is less dependent on pricing information. The comparison of these different approaches, namely bottom-up and top-down, provide additional insights into the reserve position and can lead to reserve adjustments in either bottom-up or top-down approaches or both.

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

Core reserving methodology***Expected loss/expected loss ratio***

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

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

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

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

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

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

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

- statistics developed by pricing actuaries, or

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

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

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

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

- Paid Loss Bornhuetter Ferguson Method;

- Incurred Loss Bornhuetter Ferguson Method;

- Paid Loss Development Method;

- Incurred Loss Development Method.

Table of Contents

For each reinsurance contract within a given REC and underwriting year, one reserving method is selected based on professional actuarial judgment. Standard practice is to select the expected loss method for a relatively immature underwriting year (i.e. underwriting year and REC for which the expected reported loss as at the valuation period (e.g., December 31, 2006) is less than 50% of the ultimate loss that will eventually be reported) when the actual loss experience is not yet deemed credible. In addition, actual reported losses and expected reported losses are compared and in cases where the actual versus expected are materially different, the reserving actuary may (especially if the actual losses reported are higher than expected) either:

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

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

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

The indicated ultimate loss is intended to represent the expected ultimate loss for the full exposure of each contract at the reserving date (e.g. December 31, 2006). Additional reserve provisions can be added for known losses (notified) that have not been recorded yet in our system.

Typically the indicated ultimate loss for each contract is then adjusted by the ratio of base earned premium to base ultimate premium in order to calculate a reserve provision (IBNR) only to the exposed / expired portion of the reinsurance contract as of the reserving date. The base premium excludes loss sensitive premium adjustments.

For each REC and underwriting year we select best estimate of ultimate losses within a reasonable range. The range estimates are done at the REC level and are not aggregated to the business segment or consolidated level.

Adequacy of reserves

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

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

Development of prior years' reserves: Converium has experienced moderate favorable developments of its loss reserves. Since 2002, Converium has recorded USD (425.6) million of favorable development from continuing operations on prior years' non-life business (2002: USD (113.9) million; 2003: USD (195.7) million; 2004: USD 72.8 million; 2005 USD (86.0) million; and 2006 USD (102.8) million).

For the year ended December 31, 2006, Converium reported net favorable development of prior years' loss reserves of USD 102.8 million. The Standard Property & Casualty Reinsurance segment was positively impacted by net favorable development of prior years' loss reserves of USD 54.1 million primarily related to the Property and General Third Party Liability lines of business of USD 45.1 million and USD 24.6 million, respectively, partially offset by net adverse development of prior years' loss reserves related to the Motor line of business of USD 16.5 million. The Specialty Lines segment was positively impacted by net favorable development of prior years' loss reserves of USD 48.7 million primarily related to the lines of business: Aviation & Space and Engineering of USD 34.9 million and USD 16.2 million, respectively, partially offset by net adverse development of prior years' loss reserves related to the

Professional Liability and other Special Liability line of business of USD 17.6 million.

Table of Contents

For the year ended December 31, 2005, Converium recorded net favorable development of prior years' loss reserves of USD 86.0 million. The Standard Property & Casualty Reinsurance segment was positively impacted by net favorable development of prior years' loss reserves of USD 30.7 million primarily related to the Property line of business of USD 73.3 million, partially offset by net adverse development of prior years' loss reserves within the Motor and General Third Party Liability lines of business of USD 25.0 million and USD 23.4 million, respectively. The Specialty Lines segment was positively impacted by net favorable development of prior years' loss reserves of USD 55.3 million primarily related to the Aviation & Space line of business of USD 57.5 million.

For the year ended December 31, 2004, Converium recorded net adverse development of prior years' loss reserves of USD 72.8 million. The Standard Property & Casualty Reinsurance segment was negatively impacted by net adverse development of prior years' loss reserves of USD 11.3 million primarily related to adverse development within the Motor line of business of USD 78.7 million, which was partially offset by net favorable development of prior years' loss reserves related to the Property line of business of USD 77.8 million. The Specialty Lines segment was negatively impacted by net adverse development of prior years' loss reserves of USD 61.5 million primarily related to adverse developments of the Professional Liability and other Special Liability and Engineering lines of business of USD 116.1 million and USD 13.7 million, respectively, partially offset by net favorable development of prior years' loss reserves related to: Credit & Surety (USD 30.2 million), Aviation & Space (USD 24.6 million) and Workers Compensation (USD 16.4 million) lines of business.

The positive reserve development as described herein in "Loss Reserve Development" have been determined in accordance with our loss reserving policies as described in "Loss and Loss Adjustment Expense Reserves Establishment of Loss and Loss Adjustment Expense Reserves", and was recorded in accordance with our established accounting policies as described in Note 1(d) to our 2006 consolidated financial statements. Under these policies, we review and update our reserves as experience develops and new information becomes known, and we bring our reserves to a reasonable level within a range of reserve estimates by recording an adjustment in the period when the new information confirms the need for an adjustment.

Converium recently commissioned a reserve study by a major independent actuarial firm to analyze December 31, 2006 non-life loss and allocated adjustment expense reserves in depth, and the conclusions of this reserve study support the total level of corresponding booked gross and net reserves. The final version of this reserve study will be considered as part of the full range of information that Converium considers during the normal reserve assessment process in future quarters. Consequently, whilst there is support to the total level of reserves there could be fluctuations in lines of business or segments in future quarters.

Effects of currency fluctuations

A significant factor affecting movements in our net reserve balances has been currency exchange rate fluctuations. These fluctuations affect our net reserves because we report our results in US dollars. As of December 31, 2006, approximately 66% of our loss reserves are for liabilities that will be paid in a currency other than the US dollar. We establish these reserves in original currency, and then, during our consolidation process, translate them to US dollars using the exchange rates as of the balance sheet date. Any increase or decrease in reserves resulting from this translation process is recorded directly to shareholders' equity and has no impact on current earnings. When new losses are incurred or adjustments to prior years' reserve estimates are made, these amounts are reflected in the current year net income at the average exchange rates for the period.

Loss reserve development

The first table below presents changes in the historical non-life loss and loss adjustment expense reserves that we established in 1996 and subsequent years. The top lines of the tables show the estimated loss and loss adjustment reserves, gross and net of reinsurance, for unpaid losses and loss expenses as of each balance sheet date, which represent the estimated amount of future payments for all losses occurring prior to that date. The upper, or paid, portion of the first table presents the cumulative amount of payments of the loss and loss adjustment expense amounts through each subsequent year in respect of the reserves established at each initial year-end. Losses paid in currencies other than the US dollar are translated at consolidation into US dollars using the average foreign exchange rates for periods in which they are paid. The lower, or reserve re-estimated portion, gross and net of reinsurance, of the first table shows the re-estimate of the initially recorded loss and loss adjustment expense reserve as of each succeeding

period-end, including claims paid, but recalculated using the foreign exchange rates for each subsequent period-end. The reserve estimates change as more information becomes known about the actual losses for which the initial reserves were established. The cumulative redundancy/(deficiency) lines at the bottom of the table are equal to the initial reserves less the liability re-estimated as of December 31, 2006.

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

The table below presents our loss and loss expense reserve development as of the dates indicated. These numbers also include our discontinued operations prior to 2006. The movements in 2006 reflect the sale of our North American operations in December 2006.

Table of Contents

	As of December 31,									
(except percentages)	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
for losses and loss	2,245.3	2,636.4	2,987.6	3,482.3	4,504.1	5,642.3	6,876.9	7,879.7	8,908.3	7,560.0
recoverable	106.9	290.1	457.3	640.9	892.3	1,099.2	1,085.7	1,041.3	914.5	760.0
reserves for losses and loss	2,138.4	2,346.3	2,530.3	2,841.4	3,611.8	4,543.1	5,791.2	6,838.4	7,993.8	6,800.0
and as of:										
	466.0	514.5	610.0	850.6	890.6	1,171.0	1,504.4	1,938.9	1,995.3	2,300.0
	721.2	843.0	968.8	1,339.2	1,575.8	2,119.4	2,760.8	3,321.3	3,885.0	4,300.0
	921.7	1,064.4	1,250.7	1,670.1	2,180.9	3,027.2	3,755.0	4,835.8	5,800.0	6,500.0
	1,062.2	1,261.7	1,438.6	2,029.2	2,749.6	3,726.4	4,974.5	6,000.0	7,000.0	7,800.0
	1,178.3	1,336.5	1,622.3	2,312.8	3,210.1	4,719.3	5,800.0	6,800.0	7,800.0	8,800.0
	1,197.5	1,436.7	1,772.9	2,594.4	3,956.1	5,300.0	6,300.0	7,300.0	8,300.0	9,300.0
	1,249.3	1,545.8	1,930.5	3,085.5	4,100.0	5,100.0	6,100.0	7,100.0	8,100.0	9,100.0
	1,319.4	1,638.1	2,243.1	3,000.0	4,000.0	5,000.0	6,000.0	7,000.0	8,000.0	9,000.0
	1,374.0	1,836.1	2,500.0	3,500.0	4,500.0	5,500.0	6,500.0	7,500.0	8,500.0	9,500.0
	1,434.2	1,900.0	2,500.0	3,500.0	4,500.0	5,500.0	6,500.0	7,500.0	8,500.0	9,500.0
re-estimated as of:										
	1,901.5	2,145.6	2,292.6	2,915.7	3,727.5	4,722.5	5,995.3	7,432.3	7,407.9	7,070.0
	1,853.5	2,051.3	2,276.7	3,039.3	3,932.6	4,951.0	6,490.6	7,054.2	7,453.6	7,800.0
	1,736.4	1,970.4	2,303.4	3,039.2	4,200.1	5,441.2	6,270.1	7,067.3	7,800.0	8,500.0
	1,677.3	1,989.1	2,337.8	3,189.2	4,576.2	5,323.5	6,364.2	7,000.0	7,800.0	8,500.0
	1,661.2	1,990.7	2,414.7	3,400.6	4,519.8	5,411.6	6,300.0	7,000.0	7,800.0	8,500.0
	1,645.9	2,013.0	2,504.1	3,385.9	4,552.1	5,400.0	6,300.0	7,000.0	7,800.0	8,500.0
	1,649.3	2,069.5	2,493.1	3,400.9	4,500.0	5,400.0	6,300.0	7,000.0	7,800.0	8,500.0
	1,684.6	2,049.1	2,504.8	3,400.0	4,500.0	5,400.0	6,300.0	7,000.0	7,800.0	8,500.0
	1,666.6	2,052.0	2,500.0	3,400.0	4,500.0	5,400.0	6,300.0	7,000.0	7,800.0	8,500.0
	1,674.4	2,050.0	2,500.0	3,400.0	4,500.0	5,400.0	6,300.0	7,000.0	7,800.0	8,500.0
recoverable re-estimated										
as of December 31, 2006	335.6	421.5	696.0	1,220.4	1,225.3	1,131.8	1,035.3	840.7	920.2	870.0
re-estimated as of										
December 31, 2006	2,010.0	2,473.5	3,200.8	4,621.3	5,777.4	6,543.4	7,399.5	7,908.0	8,373.8	7,940.0
(deficiency)	464.0	294.3	25.5	-559.5	-940.3	-868.5	-573.0	-228.9	540.2	-260.0
redundancy/(deficiency)										
as a percentage of initial net reserves	21.7%	12.5%	1.0%	-19.7%	-26.0%	-19.1%	-9.9%	-3.3%	6.8%	-3.0%
gross										
(deficiency)	235.3	162.9	-213.2	-1,139.0	-1,273.3	-901.1	-522.6	-28.3	534.5	-370.0
redundancy/(deficiency)										
as a percentage of initial gross	10.5%	6.2%	-7.1%	-32.7%	-28.3%	-16.0%	-7.6%	-0.4%	6.0%	-4.0%

As a significant portion of our reserves relate to liabilities payable in currencies other than US dollars, any fluctuations of the US dollar to those currencies will have an impact on the reserve redundancy/(deficiency). As shown on the table above, the net reserve position for 1998 developed favorably from USD 2,530.3 million as of December 31, 1998 to USD 2,504.8 million as of December 31, 2006, reflecting a redundancy of USD 25.5 million. However, shown on the table below, applying the exchange rate as of December 31, 1998 to the 1998 reserves re-estimated as of December 31, 2006 would result in re-estimated reserves of USD 2,600.2 million, or a deficiency of USD (69.9) million,

illustrating that a substantial part of the apparent redundancy is due to currency movements, which may or may not persist to the date claims are actually paid. As a result of these currency movements, the cumulative redundancy/(deficiency) shown above is considerably higher/(lower) as of December 31, 2006 than if the reserves were shown on a constant exchange rate basis for all years presented. Due to the inherent volatility of exchange rates, this effect may change in the future. Accordingly, we expect that future changes in foreign exchange rates will impact our reserve adequacy re-estimates. However, with respect to our primary currencies, we believe that the potential volatility of our liabilities is offset to a large extent by our efforts to invest in assets denominated in the same currency.

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

At December 31, 2006, we recorded USD 604.9 million of underwriting reserves, retro excluding reserves for life benefits, retro. Approximately 42.4% of this amount relates to recoverables in connection with the September 11th terrorist attacks.

The following table shows the development of our initial reserves net of reinsurance using the same exchange rates in effect when each of the initial reserves was set to re-estimate the reserves in subsequent years. These numbers also include our discontinued operations prior to 2006 and the movements in 2006 reflect the sale of our North American operations in December 2006.

	As of December 31,									
(in millions of USD, except percentages)	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Initial reserves for losses and loss	2,138.4	2,346.3	2,530.3	2,841.4	3,611.8	4,543.1	5,791.2	6,838.4	7,993.8	6,800.0
Re-estimated as of:										
Initial reserves	2,004.9	2,108.6	2,394.7	3,008.1	3,779.5	4,698.3	5,735.4	7,185.8	7,808.4	6,640.0
Reinsurance recoveries	1,925.4	2,078.8	2,414.4	3,152.5	3,935.5	4,836.4	6,103.4	7,079.0	7,651.2	6,640.0
Reinsurance recoveries	1,865.4	2,016.6	2,465.6	3,130.1	4,132.7	5,211.6	6,051.5	7,003.4		
Reinsurance recoveries	1,819.3	2,035.0	2,474.0	3,230.8	4,442.4	5,205.1	6,018.3			
Reinsurance recoveries	1,799.4	2,023.7	2,511.6	3,415.0	4,455.0	5,202.9				
Reinsurance recoveries	1,775.9	2,017.9	2,588.8	3,441.4	4,443.8					
Reinsurance recoveries	1,755.5	2,065.5	2,609.8	3,427.8						
Reinsurance recoveries	1,782.5	2,069.3	2,600.2							
Reinsurance recoveries	1,782.0	2,057.5								
Reinsurance recoveries	1,774.2									
Redundancy/(deficiency)	364.2	288.8	-69.9	-586.4	-832.0	-659.8	-227.1	-165.0	342.6	160.0
Redundancy/(deficiency)										
Percentage of initial net reserves	17.0%	12.3%	-2.8%	-20.6%	-23.0%	-14.5%	-3.9%	-2.4%	4.3%	2.3%

Table of Contents

The payment pattern of our loss and loss expense reserves varies from year to year. Based on historical payment patterns and other relevant data, we estimate that the mean time to payment, on an undiscounted basis, of our loss and loss expense provisions, including future life benefits, as of December 31, 2006, was 4.2 years. We expect this average payment period to change as our mix of business changes, as well as due to changes of payment patterns and fluctuations in currency exchange rates.

Reconciliation of beginning and ending loss and loss expense reserves

The table below is a summary reconciliation of the beginning and ending reserves for losses and loss expenses, net of reinsurance, for the years ended December 31, 2006, 2005 and 2004.

	2006	2005	2004
(USD millions)			
As of			
January 1,			
Gross reserves for losses and loss expenses	7,568.9	8,908.3	7,879.7
Less reinsurance recoverable	-761.0	-914.5	-1,041.3
Less net reserves for losses and loss expenses for discontinued operations	-1,309.7		
Net reserves for losses and loss expenses	5,498.2	7,993.8	6,838.4
Losses and loss expenses incurred (1),(2)			
Current year	1,234.2	1,922.3	2,881.9
Prior years	-145.2	-186.1	350.2
Total	1,089.0	1,736.2	3,232.1
Losses and loss expenses paid(2)			
Current year	229.8	451.0	541.4
Prior years	1,016.7	1,995.3	1,938.9
Total	1,246.5	2,446.3	2,480.3
Foreign currency translation effects	403.0	-475.8	403.6
As of			
December 31,			
Net reserves for losses and loss expenses	5,743.7	6,807.9	7,993.8

Reinsurance recoverable	604.9	761.0	914.5
Gross reserves for losses and loss expenses	6,348.6	7,568.9	8,908.3

(1) The loss and loss expenses incurred includes USD 114.2 million, USD 178.3 million and USD 128.0 million of loss and loss expenses included in the Life & Health reinsurance segment for the years ended December 31, 2006, 2005 and 2004, respectively.

(2) Figures for 2005 and 2004 are as originally reported. Loss and loss expenses incurred and loss and loss expenses paid from discontinued operations were USD 55.8 million and USD 924.1 million and USD 948.1 million and USD 1,066.3 million for 2005 and 2004, respectively.

In 2006, Converium recorded USD 145.2 million of favorable development at the 2006 average exchange rate and USD 186.1 million of favorable development at the 2005 average exchange rate. See Adequacy of Reserves . Prior years favorable net loss expenses incurred in 2006 of USD 145.2 million were primarily driven by net favorable development of prior years loss reserves of USD 102.8 million (See Adequacy of reserves), and the reversal of reserves relating to prior years premium accruals in the amount of USD 42.4 million.

Prior years favorable net loss expenses incurred in 2005 of USD 111.2 million were primarily driven by net favorable development of prior years loss reserves of USD 86.0 million (See Adequacy of reserves), and the reversal of reserves relating to prior years premium accruals in the amount of USD 25.2 million.

Prior years favorable net loss expenses incurred in 2004 of USD 101.5 million were primarily driven by net adverse development of prior years loss reserves of USD 72.8 million (See Adequacy of reserves), the reduction of a reinsurance recoverable of USD 12.0 million, which was partially offset by the reversal of reserves relating to prior years premium accruals in the amount of USD 186.3 million.

Reserves for asbestos and environmental losses

We have exposure to liabilities for asbestos and environmental impairment from our assumed reinsurance contracts, primarily arising from business written by Converium Rückversicherung (Deutschland) AG, historically known as Agrippina Rückversicherung AG and subsequently known as Zürich Rückversicherung (Köln) AG (ZRK). Our asbestos and environmental exposure primarily originates from US business written through the London Market and from treaties directly written with reinsurers in the United States.

Table of Contents

We cancelled our relevant London Market reinsurance contracts in 1966 and 1967. At the time, we reduced our participation in asbestos and environmental-exposed US treaties, with the eventual result that Converium Rückversicherung (Deutschland) AG ceased property and liability underwriting in the United States in 1990. Due to uncertainties as to the definitions and to incomplete reporting from clients, exact separation of asbestos and environmental exposures cannot be reached. Converium AG's exposure is also minimal because, under the terms of the Quota Share Retrocession Agreement, Converium AG will only reinsure business written with an inception or renewal date on or after January 1, 1987. In 1986, our contract wording was revised, consistent with a general industry change, such that asbestos and environmental claims were generally excluded.

As of December 31, 2006 and 2005, our total loss and adjustment expense reserves, including additional reserves and IBNR reserves, for US-originated asbestos and environmental losses were approximately USD 49.2 million, respectively for each year or 0.9% and 0.7%, respectively of our total net reserves for losses and loss expenses, respectively. This provision includes reserves originally communicated by our cedents, together with additional reserves we established.

We estimate that the survival ratio of our asbestos and environmental risk portfolio, calculated as the ratio of reserves held, including IBNR, over claims paid over the average of the last three years, was 13.8 years at December 31, 2006 and 14.1 years as of December 31, 2005. Survival ratio is an industry measure of the number of years it would take a company to exhaust its reserves for asbestos and environmental liabilities based on that company's current level of claims payments.

Reserving for asbestos and environmental claims is subject to a range of uncertainties that has historically been greater than those presented by other types of claims. Among the complications are a lack of historical data, long reporting delays and uncertainty as to the number and identity of insureds with potential exposure. In addition, there are complex, unresolved legal issues regarding policy coverage and the extent and timing of contractual liability.

These uncertainties and issues are not likely to be resolved in the near future. Consequently, traditional loss reserving techniques cannot wholly be relied on and, therefore, the uncertainty with respect to the ultimate cost of these types of claims is greater than the uncertainty relating to standard lines of business. In addition, changes to existing legal interpretation, new legislation or new court decisions could materially impact our reserves, results of operations, cash flows and financial position in future periods.

Investments

Our overall financial results are in large part dependent upon the quality and performance of our investment portfolio. Net investment income and net realized capital gains (losses) accounted for 13.4%, 11.4% and 7.7% of our revenues for the years ended December 31, 2006, 2005 and 2004, respectively.

Our assets are invested with the objective of achieving investment returns consistent with those of the markets in which we invest, using state-of-the-art risk management techniques to optimize, diversification, tax regulatory and liquidity considerations. We principally focus on high quality, liquid securities and seek to invest in securities whose durations correspond to the estimated payout patterns of the reinsurance liabilities they support.

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

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

As of December 31, 2006 and 2005, total invested assets (excluding cash and cash equivalents) were USD 5,765.3 million and USD 6,634.3 million, respectively.

The sale of our North American operations in December 2006 resulted in a decrease of total invested assets including cash and cash equivalents of USD 883.2 million.

Table of Contents

The table below presents the carrying value of our consolidated investment portfolios as of December 31, 2006, 2005 and 2004.

	For the year ended December 31,					
	2006		2005		2004	
	USD millions	% of total	USD millions	% of total	USD millions	% of total
Fixed maturities securities	3,840.8	60.0	4,963.4	68.1	5,685.2	67.1
Equity securities	734.7	11.5	362.6	5.0	399.4	4.7
Funds Withheld Asset	940.7	14.7	1,020.1	14.0	1,305.1	15.4
Short-term investments	44.9	0.7	253.1	3.5	117.3	1.4
Other investments	204.2	3.2	35.1	0.5	279.2	3.3
Total investments	5,765.3	90.1	6,634.3	91.1	7,786.2	91.9
Cash and cash equivalents	633.1	9.9	647.3	8.9	680.9	8.1
Total investments and cash and cash equivalents	6,398.4	100.0	7,281.6	100.0	8,467.1	100.0

In 2006, we liquidated our private equity investments in a secondary market transaction from the investment portfolio in our North American operations to reflect the run-off situation and to accommodate expected for upcoming liquidity requirements. Due to the sale of our North American operations and their concentration on investments in fixed maturities securities, our allocation to fixed maturity securities declined significantly. For the continuing operations, in the second half of 2006, we sold twelve Swiss direct real estate holdings together with 800,000 shares of PSP Swiss Property AG and reallocated the proceeds into Real Estate Investment Trusts (REITs). Furthermore, in line with our asset/liability management (ALM) approach, we realigned our investment portfolio towards our strategic asset allocation, whereby, we increased our exposure to equity securities by approximately USD 240.0 million to 8.3% and modestly increased our alternative investments exposure by investments in hedge funds.

Fixed maturities

As of December 31, 2006, our fixed maturities portfolio, excluding the Funds Withheld Asset (described more fully below), had a carrying value of USD 3,840.8 million and represented 60.0% of our total investment portfolio including cash and cash equivalents (74.7% including the Funds Withheld Asset). This represents a decrease in carrying value of USD 1,122.6 million, or 22.6%, from December 31, 2005. This decrease was primarily driven by the liquidation of available for sale fixed maturity securities in connection with the sale of our North American operations.

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.

(USD millions, except percentages)	Estimated fair value	% of total	Carrying value	% of total
	Available-for-sale (AFS)	AFS	Held-to-maturity (HTM)	HTM
As of December 31, 2006				
Less than one year	249.9	8.0		
One year through five years	1,931.6	61.8	599.4	83.4
Five years through ten years	689.6	22.1	118.9	16.6
Over ten years	53.1	1.7		

Subtotal	2,924.2	93.6	718.3	100.0
Mortgage and asset-backed securities	6.2	0.2		
Unit trust bonds	192.1	6.2		
Total as of December 31, 2006	3,122.5	100.0	718.3	100.0

Most of our fixed income securities are rated by Standard & Poor's, Moody's or similar rating agencies. As of December 31, 2006, approximately 92.9% of our fixed income securities portfolio was invested in securities rated A or better by these agencies and approximately 83.3% was invested in AAA/Aaa rated securities.

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

(USD millions, except percentages)	Estimated fair value	% of total	Carrying value	% of total
	Available-for-sale		Held-to-maturity	
As of December 31, 2006	(AFS)	AFS	(HTM)	HTM
AAA/Aaa	2,508.6	80.4	691.9	96.3
AA/Aa2	100.3	3.2	7.8	1.1
	47			

Table of Contents

(USD millions, except percentages)	Estimated fair value	% of total	Carrying value	% of total
	Available-for-sale		Held-to-maturity	
As of December 31, 2006	(AFS)	AFS	(HTM)	HTM
A/A2	313.5	10.0	18.6	2.6
BBB/Baa2	94.1	3.0		
BB	11.5	0.4		
B	9.2	0.3		
Not rated (1)	85.3	2.7		
Total as of December 31, 2006	3,122.5	100.0	718.3	100.0

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

Equity securities

As of December 31, 2006, our equity securities portfolio had a carrying value of USD 734.7 million (including PSP Swiss Property AG and REITs). This represents an increase in carrying value of USD 372.1 million, or 102.6%, from December 31, 2005, which was due to the strategic investment decision to increase our holdings in equity securities. Equity securities, excluding PSP Swiss Property AG and REITs, were approximately 8.3% and 3.9% of our total investment portfolio, including cash and cash equivalents, as of December 31, 2006 and December 31, 2005, respectively.

Our equity portfolio consists of listed securities held either directly or through funds. Substantially, all the equity portfolios are invested 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. As of December 31, 2006, we have no exposure to private equity investments as compared with approximately USD 46.9 million for the same period of 2005. In 2006, we liquidated our private equity investments in a secondary market transaction from the investment portfolio in our former North American operations to reflect the run-off situation and to accommodate expected for upcoming liquidity requirements.

As of December 31, 2006 and 2005, gross unrealized gains on our equity securities portfolio were USD 121.8 million and USD 76.0 million and gross unrealized losses were USD 1.7 million and USD 1.1 million, respectively. We have reviewed the securities that have declined in value and have recorded impairments accordingly. See Item 5. Operating and financial review and prospects A. Operating results Critical accounting policies for additional information on our impairment policy.

Our guidelines also restrict our maximum investment in any one equity security or industry sector by reference to local benchmarks and applicable insurance regulations. As of December 31, 2006, excluding our investments in funds, no single equity security represented more than 5% of our equity securities portfolio.

Funds Withheld Asset

The transfer of certain historical reinsurance business to Converium was affected as of July 1, 2001 by means of the Quota Share Retrocession Agreement with ZFS. 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, 2006, the Funds Withheld Asset was USD 940.7 million. The decrease of USD 79.4 million over December 31, 2005 was substantially due to paid claims.

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

See Note 16 to our 2006 consolidated financial statements for additional information on the Funds Withheld Asset and a recent change to the underlying agreement.

Short-term investments

Table of Contents

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, 2006, we had short-term investments with a carrying value of USD 44.9 million, representing 0.7% of our total investment portfolio, including cash and cash equivalents. Short-term investments at December 31, 2005 were USD 35.1 million or 0.5% of our total investment portfolio, including cash and cash equivalents.

Real estate

At December 31, 2006, we had real estate held for investment through a direct real estate fund of USD 44.7 million, consisting primarily of investments in commercial real estate in the Eurozone. Our real estate investments, both direct and indirect totaled USD 144.6 million at December 31, 2005. Converium sold its Swiss direct real estate holdings in the fourth quarter of 2006 and reinvested the proceeds in diversified global real estate investment trust securities, which are included in the equity securities category. As of December 31, 2006, the total amount invested in REITs was USD 148.1 million. In addition to these direct and indirect real estate investments, Converium owns a 2.0% participation in PSP Swiss Property AG (an indirect real estate investment, included within the equity securities category) with a market value of USD 56.0 million as of December 31, 2006 compared with USD 76.8 million or 3.8% in 2005. In the third quarter of 2006, we sold 800,000 shares representing 1.8% of participation in PSP Swiss Property AG for proceeds of USD 40.9 million. Our total real estate portfolio represented 3.9% of our total investment portfolio, including cash and cash equivalents.

Other investments

As of December 31, 2006 and December 31, 2005, we had USD 168.5 million and USD 107.4 million, respectively in funds of hedge funds. This investment is included under the caption *Other investments* in the balance sheet.

Premiums receivable

We had premiums receivable of USD 880.9 million at December 31, 2006 compared with USD 1,059.3 million at December 31, 2005, a decrease of USD 178.4 million, or 16.8%. Premiums receivable include those currently due, as well as deferred premiums receivable, which is comprised primarily of accruals on premium balances which have not yet been reported and which are not contractually due to be paid until some time in the future. Current premiums receivable represented 13.0% and 18.3% of total premiums receivable at December 31, 2006 and December 31, 2005, respectively and accrued premiums receivable represented 87.0% and 81.7%, respectively. Bad debt provisions of USD 9.2 million have been recorded for estimated uncollectible premiums receivable at December 31, 2006, compared with USD 11.6 million at December 31, 2005.

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, 2006 and 2005, Converium held USD 210.4 million and USD 470.6 million, respectively, in collateral as security under related retrocessional agreements in the form of deposits, securities and/or letters of credit. Bad debt provisions of USD 2.1 million have been recorded for estimated uncollectible reinsurance recoverables at December 31, 2006, compared with USD 16.5 million at December 31, 2005.

As of December 31, 2006, we had reserves for unpaid losses, loss expenses and future life benefits from retrocessionaires of USD 647.2 million compared with USD 805.1 million at December 31, 2005. The reduction is primarily due to the sale of the North American operations.

Capital expenditures

For the three years ended December 31, 2006, we invested a total of USD 6.7 million in fixed assets. Most of these amounts were invested in equipment and information technology, and were financed from our free cash flow. Capital investments will considerably increase in the next two years due to major enhancements with the replacement of our current reinsurance administration systems with a new integrated reinsurance software package with total projected costs of USD 17.0 million.

Ratings

Table of Contents

During the course of 2006, Converium interacted frequently with Standard & Poor's and A.M. Best. On February 28, 2007, Standard & Poor's Ratings Services raised its long-term counterparty credit and insurer financial strength ratings on Switzerland-based reinsurer Converium AG and its long-term insurer financial strength ratings on guaranteed operating entities Converium Rückversicherung (Deutschland) AG and Converium Insurance (U.K.) Ltd. to A- from BBB+. At the same time, Standard & Poor's removed these ratings from CreditWatch, where they had been placed with positive implications on Oct. 17, 2006. The outlook on all entities is stable.

Regulation**General**

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

This regulation, which is described in more detail below, generally is designed to protect policyholders rather than investors, and relates to such matters as rate setting; limitations on dividends and transactions with affiliates; solvency standards which must be met and maintained; the licensing of insurers and their agents; the examination of the affairs of insurance companies, which includes periodic market conduct examinations by the regulatory authorities; annual and other reports, prepared on a statutory accounting basis; establishment and maintenance of reserves for unearned premiums and losses; and requirements regarding numerous other matters. US regulations accordingly have in the past materially affected our US business operations, although not, we believe, in a manner disproportionate to or unusual in our industry. We allocate considerable time and resources to comply with these requirements, and could be adversely affected if a regulatory authority believed we had failed to comply with applicable law or regulation. We believe that Converium and all of its subsidiaries are in material compliance with all applicable laws and regulations pertaining to their business and operations. Set forth below is a summary of the material regulations applicable to us.

Switzerland

Converium AG has received an operating license from the Federal Office of Private Insurance (Bundesamt für Privatversicherungen) (the FOPI), an administrative unit of the Swiss Ministry of Finance (Eidgenössisches Finanzdepartement) and is subject to the continued supervision by the FOPI pursuant to the Swiss Insurance Supervisory Act of December 17, 2004 (Versicherungsaufsichtsgesetz) (ISA). The FOPI has supervisory authority as well as the authority to make decisions to the extent that the Swiss Ministry of Finance is not explicitly designated by law. On January 1, 2006 a completely revised ISA together with an Implementing Ordinance entered into force. The main changes are an amended definition of solvency (Art. 9) which includes consideration of financial and operational risks, an emphasis on risk management aspects, the control of corporate governance elements by the FOPI and an increased transparency and consumer protection. The most important new feature is the introduction of the Swiss Solvency Test (SST), a risk-based capital model which preempts the forthcoming changes in the EU based upon the proposed EU Solvency II Directive. Insurance undertakings are allowed to use their internal risk models if they comply with certain conditions of a qualitative, quantitative and organizational nature defined and accepted by the FOPI. Furthermore, as a result of the revised ISA, FOPI may decide to establish a Group Supervision over Converium, in accordance with Art. 65 of the ISA. By virtue of the relevant provisions on Group Supervision as defined in the revised ISA, Converium companies outside of Switzerland could become the subject of certain supervisory powers of FOPI.

Unlike insurance business, which is strictly regulated in Switzerland, regulation of reinsurance business is less intensive and most of the technical rules for direct insurers are not applicable to the reinsurance business. The supervision exercised by the FOPI is mainly indirect through the supervision of direct insurance companies and the reinsurance arrangements which they have established. Reinsurance companies from other countries which conduct only reinsurance business in Switzerland from their foreign domicile are exempt from supervision by the FOPI. Based upon a decree of the Federal Council of November 30, 2001, a commission has been constituted to consider a revision

of the overall framework of the Swiss banking and insurance supervision. The first part of the report was released in July 2003 by the commission. The proposal includes the formation of a uniform financial services authority, which will become the supervisory authority for banks (currently supervised by the Federal Banking Commission) and insurance (currently supervised by the FOPI).

Table of Contents

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

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

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

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

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

Converium AG and Converium Rückversicherung (Deutschland) AG, our non-US reinsurance subsidiaries, also assume reinsurance from primary US insurers. In order for primary US insurers to obtain financial statement credit for the reinsurance obligations of our non-US reinsurers, our non-US reinsurers must satisfy reinsurance requirements. Non-US reinsurers that are not licensed in a state generally may become accredited by filing certain financial information with the relevant state commissioner and maintaining a US trust fund for the payment of valid reinsurance claims in an amount equal to the reinsurer's US reinsurance liabilities covered by the trust plus an additional USD 20 million. In addition, unlicensed and unaccredited reinsurers may secure the US primary insurer with funds equal to its reinsurance obligations in the form of cash, securities, letters of credit or reinsurance trusts.

Terrorism legislation

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

Regarding our ceding companies, TRIA, provides for the federal government to share with the insurance industry the risk of loss from certain future terrorist attacks. Each participating insurance company must pay covered losses equal to a deductible based on a percentage of direct earned premiums for specified commercial insurance lines from the previous calendar year. TRIA was originally scheduled to expire at the end of 2005, but was extended in December 2005 for an additional two years. As extended, the insurer deductible will be increased from 15% in 2005 to 17.5% in 2006 and 20% in 2007. For losses in excess of a company's deductible, the federal government will cover 90.0% of the excess losses in 2006, while companies retain the remaining 10.0%, with the government's share decreasing to 85.0% in 2007. Losses covered by the program remain capped annually at USD 100.0 billion. The extended TRIA will establish a new program trigger under which federal compensation will become available only if

aggregate insured losses sustained by all insurers exceed USD 50.0 million from a certified act of terrorism occurring after March 31, 2006 and

Table of Contents

USD 100.0 million for losses resulting from a certified act which occurs on or after January 1, 2007. This new trigger will be in addition to the USD 5.0 million certification threshold for an event to be certified.

Congress is considering an extension to TRIA. However, we cannot assure you that TRIA will be extended beyond 2007 or whether it will be extended on a permanent or temporary basis, and its expiration could have an adverse effect on our clients, the industry or us.

Legislative and regulatory proposals

New federal legislation, the Non-Admitted and Reinsurance Reform Act of 2007 (the *NRRA*) has been introduced in the U.S. House of Representatives. If enacted in its present form, the *NRRA* would establish the U.S. ceding insurer's domiciliary state as the sole regulatory authority with respect to credit for reinsurance and establish streamlined processes for the procurement and regulation of non-admitted surplus lines insurance. In addition, the Insurance Industry Competition Act of 2007 (the *IICA*) has been introduced in the U.S. Senate and the U.S. House of Representatives. If enacted in its current form, the *IICA* would remove the insurance industry's antitrust exemption created by the McCarran-Ferguson Act, which provides that insurance companies are exempt from federal antitrust law so long as they are regulated by state law, absent boycott, coercion or intimidation.

State law initiatives affecting the insurance and reinsurance markets in the U.S. and worldwide also continue to evolve. For example, Florida has enacted recent insurance reforms which significantly increase the state's subsidy of insurance rates. The legislation allows Citizens Property Insurance Corp., traditionally the state's insurer of last resort, and private insurers to purchase property catastrophe reinsurance from the Florida Hurricane Catastrophe Fund at prices well below current market prices. Such reforms may cause a decline in premiums assumed by the private reinsurance industry.

We are unable to predict whether any of the foregoing proposed legislation, or any other proposed laws and regulations will be adopted, the form in which any such laws and regulations would be adopted, or the effect, if any, these developments would have on our operations and financial condition.

European Union directives

Our businesses in the United Kingdom and Germany, as well as in the other member states of the EU and the European Economic Area, (the *EEA*), are impacted by EU directives. These directives are implemented through legislation in each member state. Switzerland, which is not a member state of the EU, entered into a treaty with the EU in 1989 which allows Swiss direct insurers, other than life insurers, the free establishment of branches and subsidiaries within the EU. Without being part of the *EEA* or being bound by contract, Switzerland reviews and largely conforms its financial services regulations to EU directives.

The new EU Reinsurance Directive adopted on November 16, 2005 is based largely on solvency related concepts stipulated in the prior directive adopted by the European Union (the *EU*) for insurance companies. The Directive does not provide for any discrimination of non-EU based reinsurance companies. However, if the individual EU member states, in implementing the EU Reinsurance Directive, should include any discriminatory regulations with respect to reinsurers of a non-EU member state, this could be a disadvantage for Converium AG in its doing business in the EU, as Converium AG derives a substantial proportion of its revenues within the EU and any competitive disadvantage we face there could have an adverse effect on our financial condition, results of operations or cash flows. However, a large portion of those revenues are being written through our subsidiary in the EU member state Germany, where no negative impact can arise from the implementation of the directive. In addition Converium has a second subsidiary in the UK, which also is an EU member.

Germany

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

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

financial statements to the supervisory authority.

Table of Contents

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

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

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

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

The remaining items of the EU directive have been prepared for a white paper. The German federal cabinet decided on this paper on April 25, 2006 and submitted it to the parliament for approval. The new law is expected to become effective in 2007 and contains issues such as:

- implementation of the principle of supervision in the member state of the company's head office;
- approval of the European stock corporation as a form of enterprise;
- additional supervision of reinsurers within an insurance group;
- introduction of regulations for finance reinsurance;
- supervision of special purpose vehicles; and
- introduction of the supervision of branches belonging to reinsurance companies in countries outside the EU-member countries.

In addition, extensive work has been initiated by the local German supervisory authority and the German insurance association in order to prepare for a risk based solvency system (Solvency II), which should be similar to the Basel II requirements enacted for the banking industry. Solvency II is not expected to be released prior to 2008/2009.

German Branch Office

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

Asia

Restrictions imposed by the Monetary Authority of Singapore

Citing developments affecting the Converium Group, in 2004 the Monetary Authority of Singapore had imposed certain restrictions on the conduct of our business originating from our Singapore branch.

Following our ratings upgrade to single A -, the Monetary Authority of Singapore lifted these restriction on March 26, 2007.

C. ORGANIZATIONAL STRUCTURE

Converium Holding AG has substantially no net assets other than its ownership of 100% of the shares in each of Converium AG, Zurich, Converium Finance (Bermuda) Ltd., and Converium IP Management Ltd., Zug. As of December 31, 2006, Converium AG

Table of Contents

held approximately 49% of our net assets itself, and an additional 51% through its direct and indirect ownership of each of our subsidiaries.

We are a multinational group of companies with insurance and reinsurance subsidiaries and other companies organized in jurisdictions worldwide. Our significant subsidiaries are Converium AG, Converium Finance S.A., Converium Rückversicherung (Deutschland) AG and Converium Holding (UK) Ltd., which holds our subsidiaries in the United Kingdom. Converium AG owns directly or indirectly, 100% of all of our operating companies.

The following chart summarizes our corporate structure.

D. PROPERTY, PLANTS AND EQUIPMENT

Our operational head office is located at General Guisan Quai 26, 8002 Zurich, Switzerland, where we lease an aggregate of 227,226 square feet. We also maintain offices at our German headquarters in Cologne, Germany, at Clever Strasse 36, 50668 Köln, Germany where we lease an aggregate of 44,918 square feet.

In addition to our headquarter offices, we lease space for our branch and marketing offices.

Table of Contents

4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. OPERATING RESULTS

The following discussion and analysis should be read in conjunction with our 2006 consolidated 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 .

Overview

Converium currently manages its business 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 corporate functions as well as expenses not allocated to the operating segments. In addition to reporting segment results individually, management also aggregates results for Standard Property & Casualty Reinsurance and Specialty Lines into non-life business, as management considers this aggregation meaningful in understanding the performance of Converium.

In non-life reinsurance, our lines of business include General Third Party Liability, Motor, Personal Accident (assumed from non-life insurers), Property, Agribusiness, Aviation & Space, Credit & Surety, Engineering, Marine & Energy, Professional Liability and other Special Liability and Workers' Compensation. In Life & Health Reinsurance, our lines of business include Life and Disability reinsurance, including quota share, surplus coverage and financing contracts and Accident & Health.

We underwrite reinsurance both directly with ceding companies and through intermediaries, giving us the flexibility to pursue business in accordance with our ceding companies' preferred reinsurance purchasing method. In addition, we generate business through strategic partnerships and joint ventures such as GAUM and MDU. In 2006, 28% of our gross premiums written were written through intermediaries and 72% were written on a direct basis.

On December 13, 2006, Converium sold its North American operations, which was placed into orderly run-off in 2004, to National Indemnity Company, a Berkshire Hathaway company, for total consideration of USD 295.0 million comprising of USD 95.0 million in cash and USD 200.0 million in assumption of debt. Converium has not provided any guarantee or indemnity in respect of the reserves of the North American operations. The transaction was approved by the Insurance Department of the State of Connecticut. Our North American operations were previously reported as the principal component of a separate segment, the Run-Off segment. Converium's financial results of the North American business, including prior period amounts, have been reclassified to discontinued operations. For further details regarding the sale of the North American operations, see Note 2 to our 2006 consolidated financial statements. We prepare segregated financial information for each of our operating segments. In the future, we plan to continue conducting our business and measuring our financial and operating performance based on these segments.

We derive our revenues principally from:

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

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

interest on premium and loss deposits withheld by our clients.

Our costs and expenses principally consist of:

Table of Contents

losses and loss expenses, which include:

non-life reinsurance and insurance losses and loss expenses;

death and other life reinsurance benefits;

operating and administration costs, which include:

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

overhead costs, predominantly consisting of salaries and related costs;

interest expenses; and

income taxes.

Our profitability depends to a large extent on:

the quality of our underwriting and pricing;

the level of incurred losses and commissions;

the timing of loss and benefit payments;

our ability to earn appropriate yields on our investment portfolio;

our ability to manage operating and administration costs; and

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

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

Critical accounting policies

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

Non-life loss and loss expense reserves

We are required by applicable insurance laws and regulations, as well as US GAAP, to establish reserves for payment of losses and loss expenses that arise from our non-life reinsurance and insurance businesses. Loss and loss expense reserves are based on estimates of future payments to settle claims, including legal and other expenses. The liability for unpaid losses and loss expenses for property and casualty business includes amounts determined from loss reports on individual cases (case reserves) and amounts for losses incurred but not yet reported (IBNR), including expected development of reported claims. Upon receipt of a notice of claim from a ceding company, we establish a case reserve for the estimated amount of the ultimate settlement. Case reserves are usually based upon the amount of reserves reported by the primary insurance company and may subsequently be increased (additional case reserves or ACR s) or reduced if necessary to reflect our best estimate of the liability, by our claims departments. Our cedents are domiciled in

Table of Contents

many countries around the world and typically apply local practices and regulations when handling losses. This leads to a wide variety of approaches, in among other things, setting individual claims reserves, recording loss data and handling loss adjustments. In particular, the legal systems, loss reporting and applicable accounting rules can vary greatly by country and can potentially lead to inconsistent information and information flow from our cedents to us, with respect to timing, format and level of detail. These factors are considered when managing and assessing claims and establishing loss reserves and should be noted when reviewing the gross reserve splits in the table below.

	Case reserves	IBNR	Total gross non-life loss reserves
Standard Property & Casualty	1,423.6	1,141.9	2,565.5
Specialty Lines	1,940.3	1,558.0	3,498.3
Life & Health Reinsurance	79.5	205.3	284.8
Total	3,443.4	2,905.2	6,348.6

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

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

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

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

As a consequence, the estimation of loss and loss expense reserves is dependent on many assumptions and selection of parameters, and their combination. One of the most critical assumptions, particularly for lines with long-tail characteristics, is the selection of the reporting tail. The reporting tail is the period of time that elapses before a claim is reported to the cedent and then subsequently reported to the reinsurer. A change of this factor can lead to a substantially different estimate of ultimate losses and therefore reserves for loss and loss expenses. This change in the tail factor could be triggered by any of the drivers mentioned above, or a combination thereof.

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

Favorable
development of
prior years net loss

Edgar Filing: CONVERIUM HOLDING AG - Form 20-F

	Net loss reserves beginning of year	expenses incurred during the year	Development on prior years' loss reserves (%)
2004	4,614.7	101.5	2.2
2005	5,817.7	111.2	1.9
2006	5,498.2	145.2	2.6

57

Table of Contents

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

Prior years' favorable net loss expenses incurred in 2006 of USD 145.2 million were primarily driven by net favorable development of prior years' loss reserves of USD 102.8 million, and the reversal of reserves relating to prior years' premium accruals in the amount of USD 42.4 million.

Prior years' favorable net loss expenses incurred in 2005 of USD 111.2 million were primarily driven by net favorable development of prior years' loss reserves of USD 86.0 million and the reversal of reserves relating to prior years' premium accruals in the amount of USD 25.2 million.

Prior years' favorable net loss expenses incurred in 2004 of USD 101.5 million were primarily driven by net adverse development of prior years' loss reserves of USD 72.8 million, the reduction of a reinsurance recoverable of USD 12.0 million, which was partially offset by the reversal of reserves relating to prior years' premium accruals in the amount of USD 186.3 million.

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

We use historical loss information in our assessment/analysis of existing loss reserves and/or as a means of noticing unusual trends in the information received from the cedents. Our analyses of estimated loss reserves are based on, among other things, original pricing analyses as well as our experience with similar lines of business and historical trends, such as reserving patterns, exposure growth, loss payments, pending levels of unpaid claims and product mix, as well as court decisions and economic conditions. Our estimates of reserves from reported and unreported losses and related reinsurance recoverable assets are reviewed and updated periodically. Adjustments resulting from this process are reflected in current income. Our analyses rely upon the basic assumption that past experience, adjusted for the effect of current developments and likely trends, is an appropriate basis to estimate our current loss and loss expense liabilities. Because estimation of loss reserves is an inherently uncertain process, quantitative techniques frequently have to be supplemented by professional and managerial judgment. In addition, trends that have affected development of reserves in the past may not necessarily occur or affect reserve development to the same degree in the future.

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

Our Standard Property and Casualty Reinsurance segment is primarily comprised of short and medium-tail lines of business and accounted for 40.4%, 40.0%, and 45.4% of our gross non-life loss and loss expense reserves at December 31, 2006, 2005 and 2004, respectively. Our Specialty Lines segment is primarily comprised of medium and long-tail lines of business and accounted for 55.1%, 55.2% and 50.3% of our gross non-life loss and loss expense reserves at December 31, 2006, 2005 and 2004, respectively. As discussed in the reporting tail description above, this factor can have a significant impact on the volatility of reserves and the uncertainties that exist in the reserve estimation process.

Premiums

When we underwrite business, we receive premiums for assuming the risk. Premiums written in any given period include premiums reported to us by our clients and those we estimate and accrue on contracts underwritten. Reported premiums written and earned are based upon reports received from cedents, supplemented by our own estimates of premiums written for which ceding company reports

Table of Contents

have not been received.

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

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

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

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

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

Our estimation procedures are also affected by the timeliness and comprehensiveness of the information our clients provide to us. The time lag between the release of this information from the ceding company to us can be significant and depends on the reporting frequency of the underlying accounts.

Consideration receivable for a retroactive reinsurance contract is recognized as premiums earned at the inception of the contract.

Deposit accounting

In the ordinary course of business, we both purchase, or cede and sell, or assume, property and casualty reinsurance protection. For both ceded and assumed reinsurance, risk transfer requirements mainly those in SFAS 113,

Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts must be met in order to obtain reinsurance accounting, principally resulting in the recognition of cash flows under the contract as premium and losses. If risk transfer requirements are not met, a contract is to be accounted for under deposit accounting, typically resulting in the recognition of cash flows under the contract as a deposit asset or liability and not as revenue or expense. Generally, to meet risk transfer requirements, a reinsurance contract must include both insurance risk, consisting of underwriting and timing risk and a reasonable possibility of a significant loss for the assuming entity. Reinsurance and insurance contracts that include both significant risk sharing provisions, such as adjustments to premiums or loss coverage based on loss experience and relatively low policy limits as evidenced by a high proportion of maximum premium assessments to loss limits, can require considerable judgment to determine whether or not risk transfer requirements are met. For such contracts, often referred to as finite or structured products, we require that risk transfer be specifically assessed for each contract by developing expected cash flow analyses at contract inception. To support risk transfer, the cash flow analyses must support the fact that a significant loss is reasonably possible. For purposes of cash flow analyses, we generally use a risk-free rate of return consistent with the expected average duration of loss payments. In addition, to support insurance risk, we must prove the reinsurer's risk of loss varies consistently with that of the reinsured and/or support various scenarios under which the assuming entity can recognize a significant loss.

Table of Contents

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

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

Reinsurance recoverables

We cede reinsurance to retrocessionaires in the normal course of business. Under US GAAP, reinsurance is recorded gross in the balance sheet. Reinsurance assets (recoverables) include the balances due from retrocessionaires for paid and unpaid losses and loss expenses, ceded unearned premiums and ceded future life benefits. Amounts recoverable from retrocessionaires are estimated in a manner consistent with the liabilities associated with the reinsured contracts. Retrocessional reinsurance arrangements generally do not relieve us from our direct obligations to our reinsureds. Thus, a credit exposure exists with respect to reinsurance ceded to the extent that any retrocessionaire is unable or unwilling to meet the obligations assumed under the retrocessional agreements. Failure of retrocessionaires to indemnify us due to insolvencies or disputes could result in uncollectible amounts and losses to us. We establish an allowance for potentially uncollectible recoverables from retrocessionaires for amounts owed to us that management believes will not be collected. In addition, we immediately charge operations for any recoverable balances that are deemed to be uncollectible. Collateral and other offsets are considered in determining the allowance or expense.

Foreign currency translation

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.

Invested assets

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

Investments in which the Company has significant influence over the operating and financial policies of the investee are accounted for under the equity method of accounting. Under this method, the Company records its proportionate share of income or loss from such investments in its results for the period. Any decline in value of equity method investments considered by management to be other than temporary is charged to income in the period in which it is determined.

Other- than- temporary impairment

Table of Contents

Based on quantitative and qualitative factors, the Company reviews at least quarterly individual debt and equity securities classified as held-to-maturity or available-for-sale, for whether or not there is an indication that a decline in fair value below the investment security's carrying value is considered other-than-temporary.

If the decline in fair value is judged to be other-than-temporary, and management does not have the intent and ability to hold the investment until recovery, impairment is deemed to have occurred and the cost basis of the security shall be written down to fair value as the new cost basis. The amount of this write-down should be recognized as impairment of securities in the statement of income.

For all marketable and non-marketable equity and debt securities where the cost basis has remained in excess of the fair value for twelve months consecutively and the fair value has declined by 20% or more of the cost basis, except in circumstances where potential recovery for equity securities can be conclusively demonstrated and documented, the declines will be presumed to be other-than-temporary and thus impaired and must be written down to the fair value. Furthermore, management believes that where there is a 50% or more magnitude of decline, an impairment provision should immediately be recognized.

For securities expected to be sold, an other-than-temporary charge should be recognized if the Company does not expect the fair value to recover prior to the expected date of sale.

Converium has outsourced investment management to recognized and experienced professional funds managers that operate and are monitored in relation to the specific investment guidelines of the Company and has sufficient control to support our ability and intent assertions where applicable.

Income taxes

Deferred income taxes are provided for all temporary differences that are based on the difference between the financial statement carrying amounts and the income tax bases of assets and liabilities, tax effected using enacted local income tax rates and laws. In addition, a deferred tax asset has been established for net operating loss carry forwards. Converium has significant net operating loss carry forwards that the Company can use to offset future taxable income. Realization of the deferred tax asset related to these carry forwards is dependent upon generating sufficient taxable income within specified future periods. Converium establishes a valuation allowance against its net deferred tax asset based upon its assessment if it is more than likely than not that some or the entire deferred tax asset will not be realized in the applicable jurisdiction. In establishing the appropriate valuation allowance against its deferred tax asset, Converium must, to the extent that no valuation allowance has been established, make judgments about its ability to recognize the benefit of the asset over time, including its ability to utilize the net operating loss carry forwards. The Company does not affirmatively apply the exception to the recognition of deferred taxes under Accounting Principles Board Opinions No. 23 (APB23), *Accounting for Income Taxes - Special Areas*, and therefore is required under SFAS No. 109 to provide for taxes on the undistributed earnings of its foreign subsidiaries and foreign corporate joint ventures. However, due to various factors, including no positive undistributed earnings in any foreign subsidiaries or joint ventures and the availability of the participation exemption, no provision for taxes is made on earnings of the foreign subsidiaries and joint ventures.

Converium is subject to income taxes in Switzerland and various foreign jurisdictions. Significant judgment is required in determining the Company's worldwide provision for income taxes and recording the related assets and liabilities. In the ordinary course of the Company's business, there are many transactions and calculations where the ultimate tax determination is uncertain. Accruals for tax contingencies are provided, if necessary, in accordance with the requirements of SFAS No. 5, *Accounting for Contingencies*.

Goodwill and other intangible assets

Goodwill and intangible assets with an indefinite life are no longer amortized with effect from January 1, 2002, in accordance with SFAS 142. The Company continues to review the carrying value of goodwill related to all of its investments for any impairment on an annual basis. If it is determined that an impairment exists, the Company adjusts the carrying value of goodwill to fair value. The impairment charge is recorded in the period in which it is determined. Identifiable intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives. The Company evaluates both the expected useful life and the recoverability of its intangible assets whenever changes in circumstances warrant. If it is determined that an impairment exists, the excess of the unamortized balance over the fair value of the intangible asset will be charged to income at that time. If it has been determined that the estimated

useful life of the intangible asset has changed the

Table of Contents

remaining unamortized balance of the intangible asset will be amortized on a straight-line basis over the newly determined expected useful life of the asset. See Note 7 to our 2006 consolidated financial statements for further information on goodwill and intangible assets

Investment results

Investment results are an important part of our overall profitability. Our net investment income increased by USD 2.6 million, or 1.0% for the year ended December 31, 2006 as compared with the same period in 2005. The average total invested assets remained largely unchanged. However, the lower income contribution from the Funds Withheld Asset which was attributable to the declining balance on this asset, was more than offset by higher investment income from short dated investments reflected in other investment income, due to generally higher yields as a result of an inverted yield curve environment. Our net investment income increased by USD 30.3 million, or 13.3% for the year ended December 31, 2005 as compared with the same period in 2004. The increase largely resulted from growth in total invested assets during 2005, and a reallocation from equity securities into income generating fixed maturities securities. We paid fees in the amount of USD 8.1 million, USD 9.8 million and USD 11.6 million to our asset managers and custodians in 2006, 2005 and 2004, respectively, including other investment-related costs. Our average net investment income yield (pre-tax) was 4.2% for the year ended December 31, 2006 as compared with 4.2% and 3.9% for the same periods in 2005 and 2004, respectively.

An increasing component of net investment income arises from income received on business written on a funds withheld basis such as certain Lloyd's transactions. As these assets are reported under funds held by reinsureds and do not form part of the average total invested assets, while the investment income from these funds held by reinsureds is included in our net investment income, there is an increase of 0.2 points for 2006 in the reported average net investment income yield (pre-tax). Excluding this effect, the average net investment income yield (pre-tax) would have been 4.0%, 3.9% and 3.7% for the years ended December 31, 2006, 2005 and 2004, respectively.

The following table shows the average pre-tax yields and investment results on our investment portfolio for the years ended December 31, 2006, 2005 and 2004.

**Net Investment Income and Net Realized and Unrealized Capital Gains
(Losses)**

Year Ended December

	2006			31, 2005			2004		
	Net investment income	Pre-tax yield (%)	Realized gains (losses)	Net investment income	Pre-tax yield (%)	Realized gains (losses)	Net investment income	Pre-tax yield (%)	Realized gains (losses)
(USD millions, except yields)									
Fixed maturity securities	152.5	4.0%	-18.6	153.8	4.0%	-4.8	112.9	3.4%	1.9
Equity securities	5.6	1.1%	23.5	5.8	1.8%	40.0	13.2	2.9%	34.9
Funds Withheld Asset	52.1	5.2%		62.6	5.3%		75.1	5.4%	
Short-term and other investments	60.5	7.1%	14.0	44.7	5.4%	-3.9	36.8	5.9%	-5.6
Less investment expenses	-10.3			-9.1			-10.5		
Total	260.4	4.2%		257.8	4.2%		227.5	3.9%	
Net realized capital gains (losses)	18.9			31.3			31.2		
Net investment income and net realized capital gains (losses)	279.3	4.5%		289.1	4.7%		258.7	4.5%	
Change in net unrealized gains (losses)	25.1			-15.2			8.0		
Total investment return	304.4	5.0%		273.9	4.5%		266.7	4.6%	

- (1) In line with the income statement presentation for discontinued operations, yields have been calculated by excluding the North American operations invested assets from the average total invested assets sums for 2005 and 2004

Our average total investment income yield (pre-tax) was 4.5% for the year ended December 31, 2006 as compared with 4.7% for 2005 and 4.5% for 2004. Yields are calculated based on the average of beginning and ending total invested asset balances (including cash and cash equivalents). The total investment income yield was slightly lower in 2006 as compared with 2005. In 2006, net realized gains were predominately driven by the sale of Swiss direct real estate holdings, while realized gains on equity securities were offset by realized losses on fixed maturities securities and impairment. The 2005 and 2004 yields were positively impacted by realized gains resulting from the sale of equity securities to adjust our asset allocation in order to reduce investment portfolio risks. In addition, our average total investment income yield (pre-tax) was negatively impacted by USD 11.7 million, USD 9.2 million and USD 6.2 million of impairment charges during 2006, 2005 and 2004, respectively.

Table of Contents

Our average total investment return (pre-tax) was 5.0% for the year ended December 31, 2006 as compared with 4.5% and 4.6% for the same periods in 2005 and 2004, respectively. Our 2006 total investment return was positively impacted by the strong performance of equity securities markets and hedge funds, which also resulted in positive changes in unrealized gains. Additionally, the sale of our North American operations reduced total unrealized losses by USD 26.5 million. This positive development was partially offset by the lower valuation on fixed maturities securities due to yield curve shifts. In 2005, the change in net unrealized gains 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.

Pursuant to the agreement signed on March, 15, 2007 with Deutsche Asset Management AG to offer strategic investment support, we initiated a project to evaluate the continued classification of investments into available for sale and held to maturity accounting categories.

Restructuring costs

For the year ended December 31, 2006 we incurred a restructuring benefit of USD 0.2 million due to the release of restructuring accruals as compared with expenses of USD 12.1 million for the same period in 2005. In 2005, the reduction in overall business volume required organizational changes and an adjustment to our global cost base including employee terminations and closure of smaller offices. In 2004 we recorded restructuring costs of USD 0.2 million.

Income tax

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

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

Converium recorded an income tax expense of USD 40.5 million and USD 16.1 million for the years ended December 31, 2006 and 2005, respectively and an income tax benefit of USD (4.6) million for the year ended December 31, 2004. Our global effective tax rate for continuing operations was 15.9% for the year ended December 31, 2006 as compared with 32.1% and (21.9)% for the same periods of 2005 and 2004, respectively. For the year ended December 31, 2006, Converium's consolidated income tax expense of USD 40.5 million comprised of USD 10.3 million of current income tax expense and USD 30.2 million of deferred income tax expense. The current income tax portion reflects the net tax paying position of some affiliated companies. Due to the establishment of a full valuation allowance in 2004 on the net deferred tax position for certain affiliates in Switzerland, no deferred income tax expense has been reported for these entities. For all other jurisdictions the Company applies the annual effective tax rate to calculate the income tax expense on a jurisdiction-by-jurisdiction basis.

As of December 31, 2006, Converium had total net operating losses carried forward of USD 1,040.5 million available to offset future taxable income of certain branches and subsidiaries. All of these net operating losses carried forward relate to Converium Rückversicherung (Deutschland) AG and Converium AG. Converium AG's net operating losses expire in the years 2011 through 2013. The benefits of these carryforwards are dependent on the generation of taxable income in those jurisdictions in which they arose and accordingly, a valuation allowance has been provided where management has determined that it is more likely than not that the carryforwards will not be utilized.

As a result of the rating upgrade in 2007, roadmap to sustainable value creation and other events occurring post year end, the company completed the regular assessment of the need for a valuation allowance as at March 31, 2007, and determined that a substantial release was required during 2007. Each quarter Converium reassesses the need for a valuation allowance in light of all available information, which could result in a change in this position.

For further information about our income tax expenses, see Note 12 to our 2006 consolidated financial statements.

Regulatory and legislative environment

Table of Contents

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

Results of operations

The table below presents summary income statement data for the years ended December 31, 2006, 2005 and 2004.

	For the year ended December 31,		
	2006	2005	2004
	(USD millions)		
Revenues:			
Gross premiums written	1,980.9	1,955.0	3,492.2
Net premiums written	1,852.0	1,783.1	3,255.9
Net premiums earned	1,811.7	2,254.8	3,098.5
Net investment income	260.4	257.8	227.5
Net realized capital gains (losses)	18.9	31.3	31.2
Total revenues	2,091.0	2,543.9	3,357.2
Benefits, losses and expenses:			
Losses, loss expenses and life benefits	-1,187.8	-1,720.1	-2,395.0
Acquisition costs	-482.1	-537.4	-753.9
Other operating and administration expenses	-148.6	-163.5	-153.8
Other loss	-0.5	-21.9	-4.7
Interest expense	-16.7	-17.2	-18.7
Amortization of other intangible assets		-21.5	-9.9
Restructuring costs	0.2	-12.1	-0.2
Total benefits, losses and expenses	-1,835.5	-2,493.7	-3,336.2
Income from continuing operations before taxes	255.5	50.2	21.0
Income tax (expense) benefit	-40.5	-16.1	4.6
Income from continuing operations	215.0	34.1	25.6
(Loss) income from discontinued operations, net of tax	-157.9	34.6	-608.1
Net income (loss)	57.1	68.7	-582.5

For the year ended December 31, 2006, we reported income from continuing operations of USD 215.0 million compared with USD 34.1 million for the same period in 2005. Our 2006 figures demonstrate the quality of our underlying book of business, the absence of any major catastrophic events, as well as a satisfactory net investment income. The significant increase in profit is driven by an improvement in the non-life combined ratio from 107.0% in 2005 to 96.3% in 2006. In addition, our results were positively impacted by the net favorable impact of prior accident years on the technical result of USD 52.1 million, resulting from net favorable development of prior years' loss reserves of USD 102.8 million, which were offset by reductions in premiums and other expenses of USD 50.7 million. However, the costs of defending the class actions, see Item 8. Financial Information A. Consolidated Statements and Other Financial Information Class Action Lawsuits , may have a material impact on our operating results in future reporting periods and an unfavorable outcome could have a materially adverse effect on the Company's financial condition, results of operations and cash flows.

The (loss) income from discontinued operations comprises of the sale of the North American operations (discontinued business), which were sold to the National Indemnity Company. In 2006, loss from discontinued operations was USD 157.9 million, consisting of a total transaction loss of USD 190.1 million which was recognized upon the completion of the sale on December 13, 2006. This was offset by income from operations of discontinued business of USD 32.2 million.

Net income from operations of discontinued business was USD 32.2 million and USD 34.6 million for the years ended December 2006 and 2005, respectively compared with a net loss for the year ended December 2004 of USD 608.1 million. The positive results in 2005 reflect commutations after our North American operations were put into run-off in 2004. The net loss from discontinued operations in 2004 included the net adverse impact of prior year accident years on the technical result of USD 506.4 million and an impairment of goodwill of USD 94.0 million. Our 2005 results were positively impacted by the net favorable impact of prior accident years on the technical result of USD 42.8 million, resulting from net favorable development of prior years' loss reserves of USD 86.0 million, which were offset by the reductions in premiums and other expenses of USD 43.2 million as well as a satisfactory net investment income. However, our

Table of Contents

results were adversely impacted by significant natural catastrophe losses totaling USD 149.2 million from Winter Storm Erwin, the Continental European floods and the US hurricanes, which had an effect of 7.7 points on our 2005 non-life combined ratio of 107.0%.

The table below shows the reconciliation between pre-tax operating income and net income (loss). We use pre-tax operating results to measure the performance of our underlying reinsurance operations, 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 or restructuring costs.

	For the year ended December 31,		
	2006	2005	2004
	(USD millions)		
Pre-tax operating income continuing operations	236.4	52.5	-0.1
Net realized capital gains	18.9	31.3	31.2
Amortization of other intangible assets		-21.5	-9.9
Restructuring costs	0.2	-12.1	-0.2
Income from continuing operations before taxes	255.5	50.2	21.0
Income from continuing operations	215.0	34.1	25.6
(Loss) income from discontinued operations	-157.9	34.6	-608.1
Net income (loss)	57.1	68.7	-582.5

Year ended December 31, 2006 compared with year ended December 31, 2005*Converium consolidated net income*

For the year ended December 31, 2006, we reported net income of USD 57.1 million compared with USD 68.7 million for the same period in 2005.

Converium consolidated income from continuing operations

For the year ended December 31, 2006, we reported income from continuing operations of USD 215.0 million compared with USD 34.1 million for the same period in 2005. Our 2006 figures demonstrate the quality of our underlying book of business, the absence of any major catastrophic events, as well as a satisfactory net investment income. The significant increase in profit is driven by an improvement in the non-life combined ratio from 107.0% in 2005 to 96.3% in 2006. In addition, our results were positively impacted by the net favorable impact of prior accident years on the technical result of USD 52.1 million, resulting from net favorable development of prior years' loss reserves of USD 102.8 million, which were offset by reductions in premiums and other expenses of USD 50.7 million. The Company uses pre-tax operating results to measure the performance of our underlying reinsurance 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. We reported a pre-tax operating income from continuing operations of USD 236.4 million for the year ended December 31, 2006 as compared with a pre-tax operating income of USD 52.5 million for the same period in 2005.

We reported net realized gains on investments of USD 18.9 million and USD 31.3 million for the years ended December 31, 2006 and 2005, respectively. Net realized gains for 2006 largely reflect the sale of our holdings in Swiss direct real estate of USD 130.1 million in gross proceeds which generated pre-tax realized gains of USD 18.7 million. Net realized capital gains for 2005 primarily related to the sale of equity securities which were driven by our asset reallocation, which generated proceeds of approximately USD 39.6 million. This positive impact was partially offset by USD 2.4 million related to the partial impairment of our 48% participation in SATEC, which we sold in December 2005.

Converium consolidated (loss) income from discontinued operations

The (loss) income from discontinued operations comprises of the sale of our North American operations (discontinued business), which were sold to the National Indemnity Company. In 2006, loss from discontinued operations was USD 157.9 million, consisting of a total transaction loss of USD 190.1 million which was recognized upon the completion of the sale on December 13, 2006. This was offset by income from operations of discontinued business of USD 32.2 million.

Table of Contents

Net income from operations of discontinued business was USD 32.2 million and USD 34.6 million for the years ended December 2006 and 2005, respectively. Income from operations of discontinued business of USD 32.2 million includes commutation gains in connection with the sales transaction of our North American operations. The positive results in 2005 reflect commutations after our North American operations were put into run-off in 2004.

Converium consolidated premiums

For the year ended December 31, 2006, gross premiums written increased by 1.3% and net premiums written increased by 3.9% showing a resilient franchise and visible progress made towards the Company's turnaround in 2006. Net premiums earned have decreased due to the impact of the ratings downgrades in 2004.

For the year ended December 31, 2006, net premiums written in Standard Property & Casualty Reinsurance increased by USD 77.9 million, or 10.5%, Specialty Lines decreased by USD 8.3 million, or 1.1% and net premiums written in the Life & Health Reinsurance segment decreased by USD 0.7 million, or 0.2%. On a consolidated basis we ceded 6.5% and 8.8% of our gross premiums written for the years ended December 31, 2006 and 2005, respectively.

Converium consolidated net investment income and net realized capital gains (losses)

Investment results are an important part of our overall profitability. Our net investment income increased by USD 2.6 million, or 1.0% for the year ended December 31, 2006 as compared with the same period in 2005. The average total invested assets remained largely unchanged. However, the lower income contribution from the Funds Withheld Asset which was attributable to the declining balance on this asset, was more than offset by higher investment income from short-dated investments reflected in other investment income, due to generally higher yields as a result of an inverted yield curve environment. We paid fees in the amount of USD 8.1 million and USD 9.8 million to our asset managers and custodians for the years ended December 31, 2006 and 2005, respectively, including other investment-related costs. Our average net investment income yield (pre-tax) was 4.2% for the year ended December 31, 2006 as compared with 4.2% for the same period in 2005.

An increasing component of net investment income arises from income received on business written on a funds withheld basis such as certain Lloyd's transactions. As these assets are reported under funds held by reinsureds and do not form part of the average total invested assets, while the investment income from these funds held by reinsureds is included in our net investment income, there is an increase of 0.2 points for 2006 on the reported average net investment income yield (pre-tax). Excluding this effect, the average net investment income yield (pre-tax) would have been 4.0% and 3.9% for the years ended December 31, 2006 and 2005, respectively.

Our average total investment income yield (pre-tax) was 4.5% for the year ended December 31, 2006 as compared with 4.7% for 2005. Yields are calculated based on the average of beginning and ending total invested asset balances (including cash and cash equivalents). The total investment income yield was slightly lower in 2006 as compared with 2005. In 2006, net realized gains were predominately driven by the sale of Swiss direct real estate holdings, while realized gains on equity securities were offset by realized losses on fixed maturities securities and impairment. In addition, our average total investment income yield (pre-tax) was negatively impacted by USD 11.7 million and USD 9.2 million of impairment charges during 2006 and 2005, respectively. See Critical accounting policies for details on our fixed maturities and equity securities impairment policy.

Our average total investment return (pre-tax) was 5.0% for the year ended December 31, 2006 as compared with 4.5% for the same periods in 2005. Our 2006 total investment return was positively impacted by the strong performance of equity securities markets and hedge funds, which also resulted in positive changes in unrealized gains. Additionally, the sale of our North American operations reduced total unrealized losses by USD 26.5 million. This positive development was partially offset by the lower valuation on fixed maturities securities due to yield curve shifts. In 2005, the change in net unrealized gains 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.

Converium consolidated losses, loss expenses and life benefits

Our losses, loss expenses and life benefits incurred decreased for the year ended December 31, 2006 as compared with the same period of 2005 due to a reduction in overall business volume, the absence of any major catastrophic events as well as net favorable development of prior years' loss reserves. The results for the year ended December 31, 2005 were impacted by the effects of natural catastrophes, which added 7.7 points to the non-life loss ratio.

Table of Contents

Development of prior years' loss reserves: For the year ended December 31, 2006, we reported net favorable development of prior years' loss reserves of USD 102.8 million. The Standard Property & Casualty Reinsurance segment was positively impacted by net favorable development of prior years' loss reserves of USD 54.1 million primarily related to the Property and General Third Party Liability lines of business of USD 45.1 million and USD 24.6 million, respectively, partially offset by net adverse development of prior years' loss reserves related to the Motor line of business of USD 16.5 million. The Specialty Lines segment was positively impacted by net favorable development of prior years' loss reserves of USD 48.7 million primarily related to the lines of business: Aviation & Space and Engineering of USD 34.9 million and USD 16.2 million, respectively, partially offset by net adverse development of prior years' loss reserves related to the Professional Liability and other Special Liability line of business of USD 17.6 million.

For the year ended December 31, 2005, we recorded net favorable development of prior years' loss reserves of USD 86.0 million. The Standard Property & Casualty Reinsurance segment was positively impacted by net favorable development of prior years' loss reserves of USD 30.7 million primarily related to the Property line of business of USD 73.3 million, partially offset by net adverse development of prior years' loss reserves within the Motor and General Third Party Liability lines of business of USD 25.0 million and USD 23.4 million, respectively. The Specialty Lines segment was positively impacted by net favorable development of prior years' loss reserves of USD 55.3 million primarily related to the Aviation & Space line of business of USD 57.5 million.

Impact of property catastrophe losses: The year ended December 31, 2006 exhibited insignificant natural catastrophe activity with total incurred losses of USD 10.5 million. There were no individual large losses, defined as those in excess of USD 10.0 million or more of net incurred losses to us.

The year ended December 31, 2005 exhibited significant natural catastrophe activity and included the following large losses, defined as those in excess of USD 10.0 million or more of net incurred losses:

(USD millions)

Winter Storm Erwin	32.5
Continental European Floods	24.8
Hurricane Katrina	33.2
Hurricane Rita	14.1
Hurricane Wilma	44.6
Total	149.2

For the non-life business, total net incurred losses from these natural catastrophes were USD 149.2 million which added 7.7 points to the non-life loss ratio of 77.4% for the year ended December 31, 2005. Excluding these events, our non-life loss ratio for the year would have been 69.7%.

Guaranteed Minimum Death Benefit (GMDB) business: For the years ended December 31, 2006 and 2005, there were no additional reserving actions required for the GMDB book of business. As a result of the positive performance of the US stock markets, GMDB's net amount at risk further decreased to USD 353.9 million at December 31, 2006 from USD 478.2 million at December 31, 2005.

September 11th terrorist attacks: The September 11th terrorist attacks in the United States represented one of the largest loss events in the insurance industry's history. In 2001, we recorded gross losses and loss expenses of USD 692.9 million arising out of the terrorist attacks (including losses from our subsequently sold North American operations). These losses are capped through an agreement with ZFS. Our recorded losses and loss expenses, net of retrocessional recoveries and the cap from ZFS through its subsidiaries, were reduced from USD 289.2 million to USD 231.0 million, following the sale of our North American operations. We will be exposed to the risk of non-payment of ZFS' units and we are exposed to credit risk from these subsidiaries of ZFS. We are not exposed to potential non-payments by retrocessionaires for these events in excess of the cap. In 2006, 2005 and 2004, there was no additional development in net reserves for the September 11th terrorist attacks.

Asbestos and environmental exposures: As of December 31, 2006 and 2005, we had reserves for environmental impairment liability and asbestos-related claims of USD 49.2 million, respectively, for each year. 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 13.8 years at December 31, 2006 and 14.1 years at December 31, 2005.

Converium consolidated acquisition costs

Table of Contents

Acquisition costs primarily relate to commissions on treaty and individual risk business. For the year ended December 31, 2006 our acquisition costs decreased as compared with the same period of 2005 primarily as a result of the reduction of our overall business volume. Our non-life acquisition costs ratio increased for the year ended December 31, 2006 primarily driven by a relatively low acquisition cost ratio in 2005 due to the receipt of reinsurance premiums to close (RITC) on our Lloyd's participations on which there were no acquisition costs.

Converium consolidated operating and administration expenses

Operating and administration expenses decreased for the year ended December 31, 2006 as compared with the same period in 2005 resulting from the 2005 cost management measures. The decrease in administration costs reflects lower average staffing levels, the non-recurrence of the expenses associated with staff retention plans in 2005, the closure of some of our smaller offices in 2005 as well as the full amortization of some of our internal software systems in 2005. Accordingly, the non-life administration expense ratio decreased for the year ended December 31, 2006 as compared with the same period of 2005.

Converium consolidated other loss

Other loss was USD 0.5 million for the year ended December 31, 2006 as compared with USD 21.9 million for the same period in 2005. Other loss in 2006 includes increased interest income from business written on a funds held basis and lower costs of USD 19.9 million incurred from our Lloyd's participations compared with USD 24.0 million in 2005. Additionally, 2006 includes an income of USD 5.3 million due to the recovery on a balance previously written off. Other loss for the year ended December 31, 2005 includes a USD 9.0 million charge related to our strategic alliance with MDU, (See Note 17 for further information) and a charge of USD 2.4 million related to our investment in SATEC.

Converium consolidated interest expense, amortization of intangible assets and restructuring costs

Interest expense: Interest expense remained relatively stable for the year ended December 31, 2006 as compared with the same period in 2005. Interest expense primarily includes payment on the Guaranteed Subordinated Notes. See Note 11 to our 2006 consolidated financial statements for additional information on our outstanding debt.

Amortization of intangible assets: There was no amortization of intangible assets for the year ended December 31, 2006 compared with USD 21.5 million same period in 2005. The amortization amount in 2005 relates to the intangible asset for Global Aerospace Underwriting Managers Limited (GAUM). For additional information on GAUM see Notes 7 and 17 to our 2006 consolidated financial statements.

Restructuring costs: For the year ended December 31, 2006 we incurred a restructuring benefit of USD 0.2 million due to the release of restructuring accruals as compared with expenses of USD 12.1 million for the same period in 2005. In 2005, the reduction in overall business volume required organizational changes and an adjustment to our global cost base including employee terminations and closure of smaller offices.

Converium consolidated income tax expense

We recorded an income tax expense of USD 40.5 million and USD 16.1 million for the years ended December 31, 2006 and 2005, respectively. Our global effective tax rate for continuing operations was 15.9% for the year ended December 31, 2006 as compared with 32.1% for the same period of 2005. For the year ended December 31, 2006, Converium's consolidated income tax expense of USD 40.5 million comprised of USD 10.3 million of current income tax expense and USD 30.2 million of deferred income tax expense. The current income tax portion reflects the net tax paying position of some affiliated companies. Due to the establishment of a full valuation allowance in 2004 against existing net deferred tax assets our operations in Switzerland reported no income tax and no deferred income tax expense. For all other jurisdictions the Company applies the annual effective tax rate to calculate the income taxes on a jurisdiction-by-jurisdiction basis.

The 2005 consolidated income tax expense of USD 16.1 million comprised of a current income tax expense of USD 12.0 million and a deferred income tax expense of USD 4.1 million.

Converium consolidated combined ratios

Table of Contents

Our non-life combined ratio was 96.3% in 2006 and 107.0% in 2005. The decrease in 2006 of the non-life combined ratio resulted from the absence of any major catastrophic events as well as net favorable impact of prior accident years on the technical result of USD 52.1 million. In 2005, our combined ratio was negatively impacted by the catastrophic losses of the US hurricanes and Continental European floods.

Year ended December 31, 2005 compared with year ended December 31, 2004***Converium consolidated net income (loss)***

For the year ended December 31, 2005 we reported a net income of USD 68.7 million compared with a net loss of USD 582.5 million for the same period in 2004.

Converium consolidated income from continuing operations

For the year ended December 31, 2005, we reported income from continuing operations of USD 34.1 million compared with USD 25.6 million for the same period in 2004. Our 2005 results were positively impacted by the net favorable impact of prior accident years on the technical result of USD 42.8 million, resulting from net favorable development of prior years' loss reserves of USD 86.0 million, which were offset by the reductions in premiums and other expenses of USD 43.2 million as well as a satisfactory net investment income. However, our results were adversely impacted by significant natural catastrophe losses totaling USD 149.2 million from Winter Storm Erwin, the Continental European floods and the US hurricanes, which had an effect of 7.7 points on our 2005 non-life combined ratio of 107.0%.

We reported a pre-tax operating income from continuing operations of USD 52.5 million for the year ended December 31, 2005 as compared with a pre-tax operating loss of USD 0.1 million for the same period in 2004. We reported net realized gains on investments of USD 31.3 million and USD 31.2 million for the years ended December 31, 2005 and 2004, respectively. The 2005 net realized capital gains primarily resulted from higher realized capital gains on the sale of equity securities offset by higher realized losses on fixed maturity securities in connection with ordinary trading activity. The 2004 net realized capital gains reflected the sales of equity securities to adjust the Company's asset allocation to reduce investment portfolio risk.

Converium consolidated income (loss) from discontinued operations

Net income from operations of discontinued business was USD 34.6 million for the year ended December 2005 as compared with a net loss of USD 608.1 million for the same period of 2004. The positive results in 2005 reflect commutations after our North American operations were put into run-off in 2004. The net loss from discontinued operations in 2004 included the net adverse impact of prior year accident years on the technical result of USD 506.4 million and an impairment of goodwill of USD 94.0 million.

Converium consolidated premiums

For the year ended December 31, 2005, gross premiums written decreased by 44.0%, net premiums written decreased by 45.2% and net premiums earned decreased by 27.2% primarily due to the ratings downgrades which occurred in 2004.

For the year ended December 31, 2005, net premiums written in Standard Property & Casualty Reinsurance decreased by USD 638.4 million, or 46.3%, Specialty Lines decreased by USD 827.6 million, or 52.9% and net premiums written in the Life & Health Reinsurance segment decreased by USD 6.8 million, or 2.2%. On a consolidated basis we ceded 8.8% and 6.8% of our gross premiums written for the years ended December 31, 2005 and 2004, respectively. Net premiums earned for the year ended December 31, 2005 decreased at a slower rate than the corresponding net premiums written as premiums are still being earned from business written in prior underwriting years.

Converium consolidated net investment income and net realized capital gains (losses)

Our net investment income increased by USD 30.3 million, or 13.3% for the year ended December 31, 2005 as compared with the same period in 2004. The increase largely resulted from growth in total invested assets during 2005, and a reallocation from equity securities into income generating fixed maturities securities. We paid fees in the amount of USD 9.8 million and USD 11.6 million to

Table of Contents

our asset managers and custodians for the years ended December 31, 2005 and 2004, respectively, including other investment-related costs. Our average net investment income yield (pre-tax) was 4.2% for the year ended December 31, 2005 as compared with 3.9% for the same periods in 2004.

An increasing component of net investment income arises from income received on business written on a funds withheld basis such as certain Lloyd's transactions. These assets are reported under funds held by reinsureds and do not form part of the average total invested assets, while the investment income from these funds held by reinsureds is included in our net investment income. Excluding this effect, the average net investment income yield (pre-tax) would have been 3.9% and 3.7% for the years ended December 31, 2005 and 2004, respectively.

Our average total investment income yield (pre-tax) was 4.7% for the year ended December 31, 2005 as compared with 4.5% for 2004. Yields are calculated based on the average of beginning and ending total invested asset balances (including cash and cash equivalents). The 2005 and 2004 yields were positively impacted by realized gains resulting from the sale of equity securities to adjust our asset allocation in order to reduce investment portfolio risks. In addition, our average total investment income yield (pre-tax) was negatively impacted by USD 9.2 million and USD 6.2 million of impairment charges during 2005 and 2004, respectively. See *Critical accounting policies* for details on our fixed maturities and equity securities impairment policy.

Our average total investment return (pre-tax) was 4.5% for the year ended December 31, 2005 as compared with 4.6% for the same period in 2004. In 2005, the change in net unrealized gains 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.

Converium consolidated losses, loss expenses and life benefits

Our losses, loss expenses and life benefits incurred decreased for the year ended December 31, 2005 as compared with the same period of 2004 due to a reduction in overall business volume as well as net favorable development of prior years' loss reserves. This decrease was partially offset by the effects of natural catastrophes, which added 7.7 points to the non-life loss ratio. The results for the year ended December 31, 2004 were similarly impacted by natural catastrophes which added 3.5 points to the non-life loss ratio as well as net adverse development of prior years' loss reserves.

Development of prior years' loss reserves: For the year ended December 31, 2005, we recorded net favorable development of prior years' loss reserves of USD 86.0 million. The Standard Property & Casualty Reinsurance segment was positively impacted by net favorable development of prior years' loss reserves of USD 30.7 million primarily related to the Property line of business of USD 73.3 million, partially offset by net adverse development of prior years' loss reserves within the Motor and General Third Party Liability lines of business of USD 25.0 million and USD 23.4 million, respectively. The Specialty Lines segment was positively impacted by net favorable development of prior years' loss reserves of USD 55.3 million primarily related to the Aviation & Space line of business of USD 57.5 million.

For the year ended December 31, 2004, we recorded net adverse development of prior years' loss reserves of USD 72.8 million. The Standard Property & Casualty Reinsurance segment was negatively impacted by net adverse development of prior years' loss reserves of USD 11.3 million primarily related to adverse development within the Motor line of business of USD 78.7 million, which was partially offset by net favorable development of prior years' loss reserves related to the Property line of business of USD 77.8 million. The Specialty Lines segment was negatively impacted by net adverse development of prior years' loss reserves of USD 61.5 million primarily related to adverse developments of the Professional Liability and other Special Liability and Engineering lines of business of USD 116.1 million and USD 13.7 million, respectively, partially offset by net favorable development of prior years' loss reserves related to: Credit & Surety (USD 30.2 million), Aviation & Space (USD 24.6 million) and Workers Compensation (USD 16.4 million) lines of business.

Impact of property catastrophe losses: The year ended December 31, 2005 exhibited significant natural catastrophe activity and included the following large losses, defined as those in excess of USD 10.0 million or more of net incurred losses:

(USD millions)

Winter Storm Erwin	32.5
Continental European Floods	24.8
Hurricane Katrina	33.2
Hurricane Rita	14.1
Hurricane Wilma	44.6
Total	149.2

Table of Contents

For the non-life business, total net incurred losses from these natural catastrophes were USD 149.2 million which added 7.7 points to the non-life loss ratio of 77.4% for the year ended December 31, 2005. Excluding these events, our non-life loss ratio for the year would have been 69.7%. In 2004, our large natural catastrophe losses included hurricanes in the US and the Caribbean, the Japanese typhoons and the tsunami in the Indian Ocean, with a total net impact of USD 98.4 million. These natural catastrophes added 3.5 points to the non-life loss ratio of 77.6% for the year ended December 31, 2004. Excluding these events, our non-life loss ratio for the year would have been 74.1%. Based on current estimates of losses from the catastrophic events that occurred during 2005, we did not file a trigger event request regarding our catastrophe protection provided under our Helix 04 Limited counterparty contract in respect of these losses. See Note 10 to our 2006 consolidated financial statements for further information on our Helix catastrophic protection.

Guaranteed Minimum Death Benefit (GMDB) business: For the year ended December 31, 2005 and 2004 there were no additional reserving actions required for the GMDB book of business. As a result of the positive performance of the US stock markets, GMDB's net amount at risk further decreased to USD 478.2 million at December 31, 2005 from USD 635.5 million at December 31, 2004.

September 11th terrorist attacks: The September 11th terrorist attacks in the United States represented one of the largest loss events in the insurance industry's history. In 2001, we recorded gross losses and loss expenses of USD 692.9 million arising out of the terrorist attacks (including losses from our subsequently sold North American operations). These losses are capped through an agreement with ZFS. Our recorded losses and loss expenses, net of retrocessional recoveries and the cap from ZFS through its subsidiaries, were reduced from USD 289.2 million to USD 231.0 million, following the sale of our North American operations. We will be exposed to the risk of non-payment of ZFS units and we are exposed to credit risk from these subsidiaries of ZFS. We are not exposed to potential non-payments by retrocessionaires for these events in excess of the cap. In December 2004, a federal jury in New York concluded that the two planes that crashed into the World Trade Center during the attacks of September 11th, for insurance purposes, represented two separate attacks. This ruling increased our gross losses and loss expenses by USD 8.7 million, but as our losses are capped at USD 231.0 million by ZFS, as described above, this ruling did not have an effect on our net loss position. In 2005 and 2004, there was no additional development in net reserves for the September 11th terrorist attacks.

Asbestos and environmental exposures: As of December 31, 2005 and 2004, we had reserves for environmental impairment liability and asbestos-related claims of USD 49.2 million for each year. 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 14.1 years at December 31, 2005 and 13.6 years at December 31, 2004.

Converium consolidated acquisition costs

Acquisition costs primarily relate to commissions on treaty and individual risk business. For the year ended December 31, 2005 our acquisition costs decreased and our non-life acquisition cost ratio remained relatively stable compared with the same period of 2004. Acquisition costs decreased as a result of the reduction in overall business volume; however premiums were still being earned from business written in prior underwriting years.

Converium consolidated operating and administration expenses

In 2005, operating and administration expenses increased as compared with 2004 primarily due to expenditures relating to the restatement that occurred during 2005/2006 and costs resulting from staff retention plans. The non-life administration expense ratio increased in 2005 as compared with 2004 resulting from the measures referred to above as well as from the sharp decrease in premium volume in 2005 compared with 2004.

Converium consolidated other loss

Other loss for the years ended December 31, 2005 and 2004 was USD 21.9 million and USD 4.7 million, respectively. Other loss for the year ended December 31, 2005 includes a USD 9.0 million charge related to our strategic alliance with MDU, (See note 17 for further information) and a charge of USD 2.4 million related to our investment in SATEC.

Table of Contents*Converium consolidated interest expense, goodwill and other intangible assets and restructuring costs*

Interest expense: Interest expense remained relatively stable for the year ended December 31, 2005 as compared with the same period in 2004. Interest expense primarily includes payment on the Guaranteed Subordinated Notes. See Note 11 to our 2006 consolidated financial statements for additional information on our outstanding debt.

Amortization of intangible assets: Amortization of other intangible assets was USD 21.5 million for the year ended December 31, 2005 as compared with USD 9.9 million for the same period in 2004. The amortization amounts in 2005 and 2004 relate to the intangible asset for Global Aerospace Underwriting Managers Limited (GAUM). The charge for 2005 increased due to the fact that the remaining useful life of the intangible asset was reassessed in the fourth quarter of 2004 to be less than one year which led to the accelerated amortization. For additional information on GAUM see Notes 7 and 17 to our 2006 consolidated financial statements.

Restructuring costs: Converium recorded restructuring costs of USD 12.1 million for the year ended December 31, 2005 compared with USD 0.2 million for the same period of 2004. In 2005, the reduction in overall business volume required organizational changes and an adjustment to our global cost base including employee terminations and closure of smaller offices.

Converium consolidated income tax (expense) benefit

We recorded an income tax expense of USD 16.1 million for the year ended December 31, 2005 compared with an income tax benefit USD 4.6 million in 2004. Our global effective tax rate for continuing operations was 32.1% for the year ended December 31, 2005 as compared with (21.9)% for the same period of 2004. For the year ended December 31, 2005, Converium's consolidated income tax expense of USD 16.1 million comprised of USD 12.0 million of current income tax expense and USD 4.1 million of deferred income tax expense. The current income tax portion reflects the net tax paying position of some affiliated companies.

Converium consolidated combined ratios

Our non-life combined ratio was 107.0% in 2005 and 105.7% in 2004. The increase in the non-life combined ratio resulted from the negative impact on underwriting results of US hurricanes, Continental European floods and increased expenditures relating to the Restatement.

Results of Operations by Operating Segment

Converium currently manages its business 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 corporate functions as well as expenses not allocated to the operating segments. In addition to reporting segment results individually, management also aggregates results for Standard Property & Casualty Reinsurance and Specialty Lines into non-life business, as management considers this aggregation meaningful in understanding the performance of Converium.

	Year ended December 31,		
	2006	2005	2004
	(USD millions)		
Segment income (loss):			
Standard Property & Casualty Reinsurance	204.6	45.9	88.3
Specialty Lines	98.9	108.9	-13.4
Life & Health Reinsurance	23.5	17.6	16.4
Corporate Center	-54.5	-49.5	-36.8
Total segment income (loss)	272.5	122.9	54.5
Other loss	-0.5	-21.9	-4.7
Interest expense	-16.7	-17.2	-18.7
Amortization of other intangible assets		-21.5	-9.9
Restructuring costs	0.2	-12.1	-0.2
Income (loss) from continuing operations before taxes	255.5	50.2	21.0
Income tax (expense) benefit	-40.5	-16.1	4.6

Income (loss) from continuing operations	215.0	34.1	25.6
(Loss) income from discontinuing operations, net of tax	-157.9	34.6	-608.1
Net income (loss)	57.1	68.7	-582.5

72

Table of Contents**Non-life**

The table below presents information regarding results of operations of our non-life business for the years ended December 31, 2006, 2005 and 2004. This information is further discussed on a segment basis below.

	Year ended December 31,		
	2006	2005	2004
	(USD millions, except ratios)		
Revenues:			
Gross premiums written	1,667.6	1,636.2	3,164.3
Net premiums written	1,546.3	1,476.7	2,942.7
Net premiums earned	1,499.3	1,940.0	2,779.8
Net investment income and net realized capital gains	250.1	260.4	239.5
Total revenues	1,749.4	2,200.4	3,019.3
Losses and expenses:			
Losses and loss expenses	-975.4	-1,502.1	-2,157.7
Acquisition costs	-388.0	-445.1	-681.4
Other operating and administration expenses	-82.5	-98.4	-105.3
Total losses and expenses	-1,445.9	-2,045.6	-2,944.4
Segment income	303.5	154.8	74.9
Ratios (%):			
Non-life loss ratio	65.1	77.4	77.6
Non-life acquisition costs ratio	25.9	22.9	24.5
Non-life administration expense ratio	5.3	6.7	3.6
Non-life combined ratio	96.3	107.0	105.7

Standard Property & Casualty Reinsurance

The table below presents information regarding the results of operations of our Standard Property & Casualty Reinsurance segment for the years ended December 31, 2006, 2005 and 2004.

	Year ended December 31,		
	2006	2005	2004
	(USD millions, except ratios)		
Revenues:			
Gross premiums written	890.6	803.1	1,509.0
Net premiums written	816.9	739.0	1,377.4
Net premiums earned	775.6	880.8	1,392.2
Net investment income and net realized capital gains (losses)	109.6	119.9	104.4
Total revenues	885.2	1,000.7	1,496.6
Losses and expenses:			
Losses and loss expenses	-441.1	-729.6	-1,003.0
Acquisition costs	-195.6	-181.3	-353.3
Other operating and administration expenses	-43.9	-43.9	-52.0
Total losses and expenses	-680.6	-954.8	-1,408.3
Segment income	204.6	45.9	88.3
Ratios (%):			
Loss ratio	56.9	82.8	72.0
Acquisition costs ratio	25.2	20.6	25.4
Administration expense ratio	5.4	5.9	3.8
Combined ratio	87.5	109.3	101.2

Year ended December 31, 2006 compared with year ended December 31, 2005

Standard Property & Casualty Reinsurance segment income

Standard Property & Casualty Reinsurance reported a segment income of USD 204.6 million and USD 45.9 million in 2006 and 2005, respectively. Segment income was primarily affected by the following:

73

Table of Contents

The recognition of net favorable impact of prior accident years on the technical result of USD 38.6 million in 2006, resulting from net positive development of prior years' loss reserves of USD 54.1 million, offset by reductions in premiums and other expenses of USD 15.5 million.

The net favorable development of prior years' loss reserves of USD 54.1 million in 2006 was primarily related to the Property and General Third Party Liability lines of business of USD 45.1 million and USD 24.6 million, respectively, partially offset by net adverse development of prior years' loss reserves within the Motor line of business of USD 16.5 million.

A strong underwriting result within the property catastrophe and non-catastrophe book of business due to the absence of any major catastrophe losses in 2006.

In 2005, segment income was impacted by a number of large natural catastrophes. The Standard Property & Casualty segment experienced a total net impact of USD 78.4 million in losses from hurricanes in the United States (Hurricane Katrina: USD 25.6 million, Hurricane Rita: USD 11.2 million and Hurricane Wilma: USD 41.6 million).

In addition, in 2005, the continental European floods in Switzerland, Germany, Austria and Romania and Winter Storm Erwin resulted in net pre-tax losses of USD 24.8 million and USD 32.5 million, respectively. The overall pre-tax effect from the natural catastrophes mentioned above was USD 135.7 million.

In 2005, offsetting these catastrophes, we recorded a net favorable impact of prior accident years on the technical result of USD 19.7 million, resulting from net favorable development of prior accident years' loss reserves of USD 30.7 million offset by reductions in premiums and other expenses of USD 11.0 million.

The net favorable development of prior years' loss reserves of USD 30.7 million was primarily related to the Property line of business of USD 73.3 million, partially offset by net adverse development of prior years' loss reserves within the Motor and General Third Party Liability lines of business of USD 25.0 million and USD 23.4 million, respectively.

Standard Property & Casualty Reinsurance premiums

For the year ended December 31, 2006, gross premiums written increased by 10.9% to USD 890.6 million, net premiums written increased by 10.5% to USD 816.9 million and net premiums earned decreased by 11.9% to USD 775.6 million. The decrease of net premiums earned in 2006 reflects the impact of the ratings downgrades in 2004 with significantly lower earned premiums from prior underwriting years.

For the year ended December 31, 2006, the increase in net premiums written in the Standard Property & Casualty Reinsurance segment by line of business included:

Property increased by 10.5% or USD 41.1 million to USD 431.7 million, primarily due to increased business; and

General Third Party Liability increased by 56.6% or USD 83.0 million to USD 229.7 million, reflecting additional Lloyd's business as well as revisions of premium estimates in 2005.

These increases were partially offset by a decrease in the Motor line of business by 24.0% or USD 45.3 million to USD 143.1 million, reflecting this year's closing of the 2003 Lloyd's underwriting year as well as a decrease in the Personal accident (assumed from non-life insurers) by 6.8% or USD 0.9 million to USD 12.4 million.

Standard Property & Casualty Reinsurance net investment income and net realized capital gains (losses)

Standard Property & Casualty Reinsurance recorded net investment income and net realized capital gains of USD 109.6 million for the year ended December 31, 2006, a decrease of USD 10.3 million, or 8.6%, compared with net investment income and net realized capital gains of USD 119.9 million for the same period in 2005.

Standard Property & Casualty Reinsurance losses and loss expenses

Table of Contents

Standard Property & Casualty Reinsurance had losses and loss expenses incurred of USD 441.1 million in 2006, a decrease of USD 288.5 million, or 39.5%, over 2005. The loss ratio was 56.9% in 2006 as compared with 82.8% in 2005.

In 2006, the Standard Property & Casualty Reinsurance segment recorded net favorable development of prior years loss reserves of USD 54.1 million in 2006 which was primarily related to the Property and General Third Party Liability lines of business of USD 45.1 million and USD 24.6 million, respectively. This was partially offset by net adverse development of prior years loss reserves within the Motor line of business of USD 16.5 million.

In 2006, losses and loss expenses incurred decreased due to the absence of any major catastrophe losses in 2006.

In 2005, the Standard Property & Casualty Reinsurance segment was impacted by a number of large natural catastrophes. The Standard Property & Casualty segment experienced a total net impact of USD 78.4 million in losses from hurricanes in the United States (Hurricane Katrina: USD 25.6 million, Hurricane Rita: USD 11.2 million and Hurricane Wilma: USD 41.6 million).

In addition, in 2005, the continental European floods in Switzerland, Germany, Austria and Romania and Winter Storm Erwin resulted in net pre-tax losses of USD 24.8 million and USD 32.5 million, respectively. The overall pre-tax effect from the natural catastrophes mentioned above was USD 135.7 million.

Slightly offsetting the aforementioned items was net favorable development of prior years loss reserves of USD 30.7 million which was primarily related to the Property line of business of USD 73.3 million, partially offset by net adverse development of prior years loss reserves within the Motor and General Third Party Liability lines of business of USD 25.0 million and USD 23.4 million, respectively.

Standard Property & Casualty Reinsurance acquisition costs

Acquisition costs primarily relate to commissions on treaty and individual risk business. The Standard Property & Casualty Reinsurance segment's acquisition costs increased by USD 14.3 million from USD 181.3 million in 2005 to USD 195.6 million in 2006. The acquisition cost ratio was 25.2% in 2006 as compared with 20.6% for the same period of 2005. The increase is mainly driven by a relatively low acquisition cost ratio in 2005 due to the receipt of reinsurance premiums to close (RITC) on our Lloyd's participations on which there were no acquisition costs.

Standard Property & Casualty Reinsurance operating and administration expenses

Operating and administration expenses remained flat at USD 43.9 million in 2006 while the administration expense ratio decreased from 5.9% in 2005 to 5.4% in 2006 due to the increase in net premiums written.

Standard Property & Casualty Reinsurance combined ratios

Standard Property & Casualty Reinsurance's combined ratio was 87.5% in 2006 and 109.3% in 2005. The decrease in the combined ratio was primarily due to the absence of major catastrophe losses and the net favorable development of prior years loss reserves.

Year ended December 31, 2005 compared with year ended December 31, 2004*Standard Property & Casualty Reinsurance segment income*

Standard Property & Casualty Reinsurance reported a segment income of USD 45.9 million and USD 88.3 million in 2005 and 2004, respectively. In addition to the overall reduction in business volume as a result of the ratings downgrades that occurred in 2004, the segment income was primarily affected by the following:

The effect of large natural catastrophes that occurred in 2005 impacted the Standard & Property & Casualty Reinsurance segment. The segment experienced a total net impact of USD 78.4 million in losses from hurricanes in the United States (Hurricane Katrina: USD 25.6 million, Hurricane Rita: USD 11.2 million and Hurricane Wilma: USD 41.6 million).

In addition, in 2005, the Continental European floods in Switzerland, Germany, Austria and Romania and Winter Storm Erwin resulted in net pre-tax losses of USD 24.8 million and USD 32.5 million, respectively. The overall pre-tax effect from the

Table of Contents

natural catastrophes mentioned above was USD 135.7 million. In 2004, pre-tax results within the Standard Property & Casualty segment were impacted by USD 55.3 million related to natural catastrophes.

Slightly offsetting the aforementioned items was the recognition of a net favorable impact of prior accident years on the technical result in the amount of USD 19.7 million, resulting from net favorable development of prior accident years loss reserves of USD 30.7 million, offset by reductions in premium, related losses and acquisition costs of net USD 11.0 million for the year ended December 31, 2005.

In 2004, we recorded a net adverse impact of prior accident years on the technical result in the amount of USD 53.3 million, resulting from net adverse development of prior accident years loss reserves of USD 11.3 million and reductions in premium, related losses and acquisition costs of net USD 42.0 million for the year ended December 31, 2004.

Standard Property & Casualty Reinsurance premiums

For the year ended December 31, 2005, gross premiums written decreased 46.8% to USD 803.1 million, net premiums written decreased 46.3% to USD 739.0 million and net premiums earned decreased 36.7% to USD 880.8 million. For the year ended December 31, 2005, the reduction in net premiums written in the Standard Property & Casualty Reinsurance segment by line of business included:

Motor (decreased by 56.9% or USD 249.0 million to USD 188.4 million), largely reflecting reduced writings in the France and United Kingdom books of business due to profitability considerations as well as cancellation of business due to the ratings downgrades in 2004;

Property (decreased by 25.8% or USD 135.8 million to USD 390.6 million), primarily due to the rating downgrades in 2004;

General Third Party Liability (decreased by 61.3% or USD 232.4 million to USD 146.7 million), due to rating downgrades and revisions of premium estimates on our London Market North America and United Kingdom books of business; and

Personal accident (assumed from non-life insurers) (decreased by 61.4% or USD 21.2 million to USD 13.3 million), primarily as a result of the cancellation or non-renewal of business and reduced shares in current business due to the ratings downgrades in 2004.

Standard Property & Casualty Reinsurance net investment income and net realized capital gains (losses)

Standard Property & Casualty Reinsurance recorded net investment income and net realized capital gains of USD 119.9 million for the year ended December 31, 2005, an increase of USD 15.5 million, or 14.8%, compared with net investment income and net realized capital gains of USD 104.4 million for the same period in 2004. The investment result was positively impacted by realized gains resulting from the sale of equity securities to adjust our asset allocation in order to reduce investment portfolio risks.

Standard Property & Casualty Reinsurance losses and loss expenses

Standard Property & Casualty Reinsurance had losses and loss expenses incurred of USD 729.6 million in 2005, a decrease of USD 273.4 million, or 27.3%, over 2004. The loss ratio was 82.8% in 2005 as compared with 72.0% in 2004.

In 2005, the Standard Property & Casualty Reinsurance segment recorded net favorable development of prior years loss reserves of USD 30.7 million which was primarily within the Property line of business of USD 73.3 million. Partially offsetting this was net adverse development of prior years loss reserves within the Motor and General Third Party Liability lines of business of USD 25.0 million and USD 23.4 million, respectively.

The Standard Property & Casualty segment experienced a total net impact of USD 78.4 million in losses from hurricanes in the United States (Hurricane Katrina: USD 25.6 million, Hurricane Rita: USD 11.2 million and Hurricane Wilma: USD 41.6 million).

In addition, in 2005, the Continental European floods in Switzerland, Germany, Austria and Romania and Winter Storm Erwin resulted in net pre-tax losses of USD 24.8 million and USD 32.5 million, respectively.

Table of Contents

In 2004, the Standard Property & Casualty Reinsurance segment recorded net adverse development of prior years' loss reserves of USD 11.3 million which was primarily related to adverse development within the Motor line of business of USD 78.7 million, which was partially offset by net favorable development of prior years' loss reserves related to the Property line of business of USD 77.8 million.

In addition, the segment was also impacted by USD 55.3 million in losses related to natural catastrophes.

Standard Property & Casualty Reinsurance acquisition costs

Acquisition costs primarily relate to commissions on treaty and individual risk business. The Standard Property & Casualty Reinsurance segment's acquisition costs decreased by USD 172.0 million, or 48.7% to USD 181.3 million.

The acquisition costs ratio was 20.6% in 2005 as compared with 25.4% in 2004. The decrease was due to the receipt of reinsurance premiums to close (RITC) on our Lloyd's participations on which there are no acquisition costs.

Standard Property & Casualty Reinsurance operating and administration expenses

Operating and administration expenses decreased by USD 8.1 million or 15.6% to USD 43.9 million in 2005 while the administration expense ratio increased from 3.8% in 2004 to 5.9% in 2005 due to the significant reduction in net premiums written.

Standard Property & Casualty Reinsurance combined ratios

Standard Property & Casualty Reinsurance's combined ratio was 109.3% in 2005 and 101.2% in 2004. The increase in the combined ratio was primarily driven by the natural catastrophes in 2005 which impacted the combined ratio by 15.4 points.

Specialty Lines

The table below presents information regarding the results of operations of our Specialty Lines segment for the years ended December 31, 2006, 2005 and 2004.

	Year ended December 31,		
	2006	2005	2004
	(USD millions, except ratios)		
Revenues:			
Gross premiums written	777.0	833.1	1,655.3
Net premiums written	729.4	737.7	1,565.3
Net premiums earned	723.7	1,059.2	1,387.6
Net investment income and net realized capital gains (losses)	140.5	140.5	135.1
Total revenues	864.2	1,199.7	1,522.7
Losses and expenses:			
Losses and loss expenses	-534.3	-772.5	-1,154.7
Acquisition costs	-192.4	-263.8	-328.1
Other operating and administration expenses	-38.6	-54.5	-53.3
Total losses and expenses	-765.3	-1,090.8	-1,536.1
Segment income (loss)	98.9	108.9	-13.4
Ratios (%):			
Loss ratio	73.8	72.9	83.2
Acquisition costs ratio	26.6	24.9	23.6
Administration expense ratio	5.3	7.4	3.4
Combined ratio	105.7	105.2	110.2

*Year ended December 31, 2006 compared with year ended December 31, 2005**Specialty Lines segment income*

Specialty Lines reported segment income of USD 98.9 million and USD 108.9 million in 2006 and 2005, respectively.

The large decrease of net premiums earned in 2006 reflects the impact of the ratings downgrades in 2004 with significantly lower earned premiums from prior underwriting years.

Table of Contents

Offsetting the decrease in segment income in 2006 was the recognition of net favorable impact of prior accident years on the technical result of USD 13.5 million, resulting from net favorable development of prior years' loss reserves of USD 48.7 million, offset by reductions in premiums and other expenses of USD 35.2 million.

The net favorable development of prior years' loss reserves of USD 48.7 million in 2006 primarily related to the lines of business: Aviation & Space and Engineering of USD 34.9 million and USD 16.2 million, respectively, partially offset by net adverse development of prior years' loss reserves related to the Professional Liability and other Special Liability line of business of USD 17.6 million.

In 2005, we recorded a net favorable impact of prior accident years on the technical result of USD 23.1 million, resulting from net favorable development of prior years' loss reserves of USD 55.3 million offset by reductions in premiums and other expenses of USD 32.2 million.

The net favorable development of prior years' loss reserves of USD 55.3 million primarily related to the Aviation & Space line of business of USD 57.5 million.

Specialty Lines premiums

For the year ended December 31, 2006, gross premiums written decreased by 6.7% to USD 777.0 million, net premiums written decreased by 1.1% to USD 729.4 million and net premiums earned decreased by 31.7% to USD 723.7 million. Premium volumes for the year ended December 31, 2006 were still impacted by the ratings downgrades that occurred in 2004.

For the year ended December 31, 2006, the reduction in net premiums written in the Specialty Line segment by line of business included:

Aviation & Space decreased by 1.9% or USD 4.7 million to USD 237.1 million;

Credit & Surety decreased by 27.7% or USD 16.2 million to USD 42.2 million;

Engineering decreased by 5.8% or USD 3.8 million to USD 61.7 million and;

Marine & Energy decreased by 9.2% or USD 5.9 million to USD 58.1 million.

For the year ended December 31, 2006, these decreases were partially offset by an increase in net premiums written in the Professional Liability and other Special Liability line of business by 5.2% or USD 14.8 million to USD 297.6 million due to our Lloyd's participations partially offset by the non-renewal of US casualty business. Furthermore, the Agribusiness line of business increased by 1.1% or USD 0.4 million to USD 37.1 million due to our decision to expand our business written in Europe.

Specialty Lines net investment income and net realized capital gains (losses)

Net investment income and net realized capital gains remained flat at USD 140.5 million for the year ended December 31, 2006 compared with net investment income and net realized capital gains of USD 140.5 million for the same period in 2005.

Specialty Lines losses and loss expenses

Specialty Lines had losses and loss expenses incurred of USD 534.3 million in 2006, a decrease of USD 238.2 million, or 30.8%, over 2005. The loss ratio was 73.8% in 2006 as compared with 72.9% in 2005.

In 2006, the Specialty Lines segment recorded net favorable development of prior years' loss reserves of USD 48.7 million in 2006 primarily related to the lines of business: Aviation & Space and Engineering of USD 34.9 million and USD 16.2 million, respectively, partially offset by net adverse development of prior years' loss reserves related to the Professional Liability and other Special Liability line of business of USD 17.6 million.

In 2005, the segment recorded net favorable development of prior years' loss reserves of USD 55.3 million primarily related to the

Table of Contents

Aviation & Space line of business of USD 57.5 million.

Specialty Lines acquisition costs

Acquisition costs decreased USD 71.4 million, or 27.1%, in 2006 due to the lower volume of business. The acquisition cost ratio increased for the year ended December 31, 2006 from 24.9% to 26.6% primarily due to an additional fronting commission for the GAUM business in relation to the ratings downgrades in 2004.

Specialty Lines Operating and administration expenses

Operating and administration expenses decreased by USD 15.9 million or 29.2% to USD 38.6 million in 2006 compared with USD 54.5 million in 2005, however the administration expense ratio decreased by 2.1 points to 5.3% as a result of the reduced operating and administration expenses in 2006 compared with 2005.

Specialty Lines combined ratios

The Specialty Lines combined ratio was 105.7% and 105.2% for the years ended December 31, 2006 and 2005, respectively.

Year ended December 31, 2005 compared with year ended December 31, 2004*Specialty Lines segment income (loss)*

Specialty Lines reported segment income of USD 108.9 million in 2005 versus a segment loss of USD 13.4 million in 2004. The results for the Specialty Lines segment are reflective of the overall reduction in business volume as a result of the ratings downgrades that occurred in 2004. In addition to the overall reduction in business volume, the segment income was primarily affected by the following:

In 2005, the Specialty Lines segment recorded a net favorable impact of prior accident years on the technical result of USD 23.1 million, resulting from net favorable development of prior accident years' loss reserves of USD 55.3 million offset by reductions in premiums and other expenses of USD 32.2 million.

The net favorable development of prior years' loss reserves of USD 55.3 million primarily related to the Aviation & Space line of business of USD 57.5 million.

Slightly offsetting the increase in segment income in 2005 was the net impact of losses arising from Hurricanes Katrina, Rita and Wilma within the United States in the amount of USD 13.5 million.

In 2004, we recorded a net adverse impact of prior accident years on the technical results in the amount of USD 69.7 million, resulting from net adverse development of prior accident years' loss reserves of USD 61.5 million, and reductions in premium, related losses and acquisition costs of net USD 8.2 million for the year ended December 31, 2004.

The net adverse development of prior years' loss reserves of USD 61.5 million primarily related to adverse developments of the Professional Liability and other Special Liability and Engineering lines of business of USD 116.1 million and USD 13.7 million, respectively, partially offset by net favorable development of prior years' loss reserves related to: Credit & Surety (USD 30.2 million), Aviation & Space (USD 24.6 million) and Workers Compensation (USD 16.4 million) lines of business.

Specialty Lines premiums

For the year ended December 31, 2005, gross premiums written decreased by 49.7% to USD 833.1 million, net premiums written decreased by 52.9% to USD 737.7 million and net premiums earned decreased by 23.7% to USD 1,059.2 million. Premium volume for the year ended December 31, 2005 was impacted by the ratings downgrades that occurred in 2004, which resulted in clients canceling their business or reducing their shares with us. In 2004, 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 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 due to the implementation of enhanced procedures for establishing written premium estimates throughout 2004.

Table of Contents

For the year ended December 31, 2005, the reduction in net premiums written in the Specialty Line segment by line of business included:

Aviation & Space (decreased by 40.2% or USD 162.7 million to USD 241.8 million);

Credit & Surety (decreased by 71.4% or USD 145.9 million to USD 58.4 million);

Professional Liability and other Special Liability (decreased by 35.2% or USD 153.7 million to USD 282.8 million);

Engineering (decreased by 41.6% or USD 46.7 million to USD 65.5 million);

Marine & Energy (decreased by 22.4% or USD 18.5 million to USD 64.0 million); and

Workers Compensation (decreased by 103.7% or USD 325.4 million to USD (11.5) million); which in addition to the reduction caused by the ratings downgrades was further impacted by a reduction in premium estimates.

For the year ended December 31, 2005, these decreases were partially offset by an increase in net premiums written in the Agribusiness line of business, which increased by 221.9% or USD 25.3 million to USD 36.7 million. This reflected the decision to write this business out of Converium AG, Zurich and to grow the business written in Europe.

Specialty Lines net investment income and net realized capital gains (losses)

Specialty Lines reported net investment income and net realized capital gains of USD 140.5 million for the year ended December 31, 2005, an increase of USD 5.4 million, or 4.0%, compared with net investment income and net realized capital gains of USD 135.1 million for the same period in 2004.

Specialty Lines losses and loss expenses

Specialty Lines had losses and loss expenses incurred of USD 772.5 million in 2005, a decrease of USD 382.2 million, or 33.1%, over 2004.

In 2005, the segment recorded net favorable development of prior years loss reserves of USD 55.3 million primarily related to the Aviation & Space line of business of USD 57.5 million.

For 2004, the segment recorded adverse development of prior years loss reserves of USD 61.5 million primarily related to Professional Liability and other Special Liability and Engineering lines of business in the amounts of USD 116.1 million and USD 13.7 million, respectively. These adverse developments were partially offset by net favorable development of prior years loss reserves related to the Credit & Surety, Aviation & Space and Workers Compensation lines of business in the amounts of USD 30.2 million, USD 24.6 million and USD 16.4 million, respectively.

The loss ratio was 72.9% in 2005 as compared with 83.2% in 2004, a decrease of 10.3 percentage points.

Specialty Lines acquisition costs

Acquisition costs decreased by USD 64.3 million, or 19.6%, in 2005 due to the lower volume of business. The acquisition costs ratio increased for the year ended December 31, 2005 from 23.6% in 2004 to 24.9% in 2005 due to the additional fronting commission for the GAUM business because of the ratings downgrades in 2004.

Specialty Lines operating and administration expenses

Operating and administration expenses increased by USD 1.2 million or 2.3% to USD 54.5 million in 2005 compared with USD 53.3 million in 2004, however the administration expense ratio increased by 4.0 points to 7.4% as a result of the reduced premium volume in 2005 versus 2004.

Table of Contents*Specialty Lines combined ratios*

The Specialty Lines combined ratio was 105.2% and 110.2% for the years ended December 31, 2005 and 2004, respectively. The decrease in the combined ratio in 2005 resulted from the recording of net favorable development of prior years' loss reserves, which led to a reduction of 10.3 points in the loss ratio of 72.9% as compared with 2004. This positive trend was partially offset by an increased administration expense ratio of 7.4% for the year ended December 31, 2005 as compared with 2004.

Life & Health Reinsurance

The table below presents information regarding the results of operations of our Life & Health Reinsurance segment for the years ended December 31, 2006, 2005 and 2004.

	Year ended December 31,		
	2006	2005	2004
	(USD millions, except ratios)		
Revenues:			
Gross premiums written	313.3	318.8	327.9
Net premiums written	305.7	306.4	313.2
Net premiums earned	312.4	314.8	318.7
Net investment income and net realized capital gains (losses)	29.2	28.7	19.2
Total revenues	341.6	343.5	337.9
Losses and expenses:			
Losses, loss expenses and life benefits	-212.4	-218.0	-237.3
Acquisition costs	-94.1	-92.3	-72.5
Other operating and administration expenses	-11.6	-15.6	-11.7
Total benefits, losses and expenses	-318.1	-325.9	-321.5
Segment income	23.5	17.6	16.4
Ratios (%):			
Acquisition costs ratio	30.1	29.3	22.7
Administration expense ratio	3.8	5.1	3.7

*Year ended December 31, 2006 compared with year ended December 31, 2005**Life & Health Reinsurance segment income*

Life & Health Reinsurance reported segment income of USD 23.5 million and 17.6 million for the years ended December 31, 2006 and 2005, respectively. Segment income is comprised of technical results, less other income (loss), total investment results and other operating and administration expenses.

Although there was a slight decrease in our overall business volume, the total results exhibit the segment's ability to retain business despite the effects of the ratings downgrades that occurred in 2004. The segment's positive performance in 2006 was primarily attributable to new, and the expansion of existing reinsurance transactions, particularly within Continental Europe.

The technical result for the year ended December 31, 2006 was USD 16.3 million as compared with USD 14.2 million for the same period of 2005. Technical result is defined as net premiums earned minus losses, loss expenses and life benefits minus acquisition costs plus other technical income (mainly technical interest).

The increase in the technical result in 2006 was primarily attributable to our European and Middle East markets, where we were able to increase our business with current and new cedents.

For the years ended December 2006 and 2005 there were no additional reserve actions required for our Guaranteed Minimum Death Benefit (GMDB) book of business.

Life & Health Reinsurance premiums

For the year ended December 31, 2006, gross premiums written decreased by 1.7% to USD 313.3 million, net premiums written decreased by 0.2% to USD 305.7 million and net premiums earned decreased by 0.8% to USD 312.4 million. Net premiums written for the Life & Disability

Table of Contents

line of business increased by 5.2% or USD 12.3 million, compared with 2005, which was primarily driven by new business within our European market. The Accident & Health line of business decreased by 18.3% or USD 13.0 million, compared with 2005, which was mainly due to non-renewal of unprofitable treaties within our European market. This decrease was partially offset by growth within our Middle East market.

Life & Health Reinsurance net investment income and net realized capital gains (losses)

Life & Health Reinsurance reported net investment income and net realized capital gains of USD 29.2 million for the year ended December 31, 2006 compared with net investment income and net realized capital gains of USD 28.7 million for the same period of 2005. The investment results were positively impacted by the disposal of Swiss direct real estate holdings, while realized gains on equity securities were largely offset by realized losses on fixed maturities securities and impairment postings.

Life & Health Reinsurance losses, loss expenses and life benefits

Life & Health Reinsurance had losses, loss expenses and life benefits incurred of USD 212.4 million, a decrease of USD 5.6 million, or 2.6%, in 2006. This decrease was mainly due to the non-renewal of unprofitable treaties within the Accident & Health line of business in our European markets.

Life & Health Reinsurance acquisition costs

Acquisition costs increased by USD 1.8 million, or 2.0%, to USD 94.1 million for the year ended December 31, 2006 as compared with USD 92.3 million for 2005 as a result of new reinsurance transactions in Continental Europe, which carry higher acquisition costs in the early years of a contract. The acquisition cost ratio was 30.1% in 2006 and 29.3% in 2005.

Life & Health Reinsurance operating and administration expenses

Operating and administration expenses decreased USD 4.0 million, or 25.6%, in 2006. The life administration expense ratio was 3.8% in 2006 as compared with 5.1% in 2005.

Year ended December 31, 2005 compared with year ended December 31, 2004*Life & Health Reinsurance segment income*

Life & Health Reinsurance reported segment income of USD 17.6 million and USD 16.4 million for the years ended December 31, 2005 and 2004, respectively.

Although there was a slight decrease in our overall business volume, the total Life & Health Reinsurance results exhibit the segment's ability to retain business despite the effects of the ratings downgrades that occurred in 2004. Technical result for the year ended December 31, 2005 was USD 14.2 million as compared with USD 16.4 million for the same period of 2004. Technical result is defined as net premiums earned minus losses, loss expenses and life benefits minus acquisition costs plus other technical income (mainly interest on deposits).

The decrease in the technical result in 2005 was primarily attributable to the cancellation of existing reinsurance transactions in Latin America as well as the establishment of an additional provision for the Asian tsunami of USD 0.7 million.

For the years ended December 2005 and 2004 there were no additional reserve actions required for our Guaranteed Minimum Death Benefit (GMDB) book.

Life & Health Reinsurance premiums

For the year ended December 31, 2005, gross premiums written decreased by USD 9.1 million or 2.8% to USD 318.8 million, net premiums written decreased by USD 6.8 million or 2.2% to USD 306.4 million and net premiums earned decreased by USD 3.9 million or 1.2% to USD 314.8 million. The reduction in net premiums written was primarily within the health line of business which decreased by 30.8% or USD 10.3 million to USD 23.1 million. The decline was attributable to the cancellation of existing reinsurance transactions in the Middle East in 2004 and a reduction of business in Latin America due to our ratings downgrades and the decision

Table of Contents

to close down our life operations in Buenos Aires. Additionally, premiums decreased in our non-active North American markets, as expected, both in the health line of business as well as the life line of business. These decreases were partially offset by new business written in the Middle East and Continental Europe as well as the expansion of existing reinsurance transactions in 2005.

Life & Health Reinsurance net investment income and net realized capital gains (losses)

Life & Health Reinsurance reported net investment income and net realized capital gains of USD 28.7 million for the year ended December 31, 2005 compared with net investment income and net realized capital losses of USD 19.2 million for the same period of 2004. The investment results were positively impacted by realized gains resulting from the sale of equity securities to adjust our asset allocation in order to reduce investment portfolio risks.

Life & Health Reinsurance losses, loss expenses and life benefits

Life & Health Reinsurance had losses, loss expenses and life benefits incurred of USD 218.0 million, a decrease of USD 19.3 million, or 8.1%, in 2005. This decrease was mainly due to the cancellation of existing reinsurance transactions in the Middle East in 2004 as well as reduced business in our inactive North American markets.

Life & Health Reinsurance acquisition costs

Acquisition costs increased USD 19.8 million, or 27.3%, to USD 92.3 million for the year ended December 31, 2005 as compared with USD 72.5 million for 2004. This increase is related to the increase in financing business which shows high acquisition costs in the first year of the contract. The acquisition costs ratio was 29.3% in 2005 and 22.7 % in 2004.

Life & Health Reinsurance operating and administration expenses

Operating and administration expenses increased USD 3.9 million, or 33.3%, in 2005. The life administration expense ratio was 5.1% in 2005 as compared with 3.7% in 2004.

Corporate Center

The table below presents information regarding the results of operations of our Corporate Center for the years ended December 31, 2006, 2005 and 2004. The Corporate Center carries certain administration expenses, such as costs of the Board of Directors, the Global Executive Committee, and other global functions.

	Year ended December 31,		
	2006	2005	2004
		(USD millions)	
Other operating and administration expenses	-54.5	-49.5	-36.8
Segment loss	-54.5	-49.5	-36.8

Year ended December 31, 2006 compared with year ended December 31, 2005*Corporate Center operating and administration expenses*

The Corporate Center carries certain administration expenses, such as costs of the Board of Directors, the Global Executive Committee and other corporate functions as well as other expenses not allocated to the operating segments. The Corporate Center costs increased for the year ended December 31, 2006 as compared with the same period of 2005 primarily due to increased legal, audit fees and costs associated with Sarbanes-Oxley compliance.

Year ended December 31, 2005 compared with year ended December 31, 2004*Corporate Center operating and administration expenses*

The Corporate Center costs increased for the year ended December 31, 2005 as compared with the same period of 2004 due to increased legal, audit and consulting fees of approximately USD 15.0 million, primarily relating to the internal review and the Restatement.

Table of Contents**B. LIQUIDITY AND CAPITAL RESOURCES**

We operate a treasury function responsible for managing our banking relationships, capital raising activities, including equity and debt issues, our overall cash, cash pooling and liquidity positions and the payment of internal and external dividends. Individual subsidiaries are responsible for managing local cash and liquidity positions, including the repayment of debt.

In the event of local short-term cash requirements, internal loans are available, subject to certain required approvals based on amount.

Liquidity requirements

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

Letters of credit

As of December 31, 2006, Converium had total letters of credit outstanding of USD 1,974.5 million, which included USD 1,898.0 million secured and USD 76.5 million unsecured.

Letters of credit

(USD million)	Date of agreement	Duration	Capacity	Utilized	Assets pledged
	Nov 29, 2004	3 years	1,600.0	1,053.2	1,074.7
Syndicated letter of credit facility					
Bilateral letters of credit	various	various	1,120.0	844.8	898.8
	Aug 11, 2006	1 year	250.0	76.5	
Unsecured letters of credit					
Total letters of credit			2,970.0	1,974.5	1,973.5

Other pledges

Deposit account for cedents	282.5
Internal trust	486.6
Total other pledges	769.1

There are financial covenants attached to the syndicated letter of credit facility including restrictions on total borrowing up to 35% of tangible net worth (shareholders' equity less goodwill) and tangible net worth must remain greater than USD 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 0.50%.

On August 11, 2006, Converium secured an uncollateralized USD 250.0 million letter of credit facility from a leading European banking group, at market conditions. It will be primarily used to support third party claims related to the underwriting business. As of December 31, 2006, the total outstanding letter of credit under this facility was USD 76.5 million.

As of December 31, 2006, Converium reported total investments including cash and cash equivalents and excluding the Funds Withheld Asset of USD 5,457.7 million. Of this total, USD 1,973.5 million was pledged as collateral relating to outstanding letters of credit.

Interest on debt and short-term borrowings was USD 16.7 million, USD 17.2 million and USD 18.7 million for the years ended December 31, 2006, 2005 and 2004, respectively. We had no scheduled debt repayments in 2006, 2005 or 2004. The carrying value of our outstanding debt was USD 194.1 million at December 31, 2006, USD 391.2 million at December 31, 2005 and USD 391.1 million at December 31, 2004.

Liquidity sources

Table of Contents

Our principal liquidity sources consist of premiums, fees, investment income, proceeds from the sale and maturity of investment securities and borrowings. Our business units pay reinsurance and insurance claims and benefits and operating expenses predominantly from their own cash resources. As a reinsurer, our future cash flows are inherently difficult to predict. We do not expect the Funds Withheld Asset to have a material impact on our liquidity, as we will not be required to access our own liquidity sources for claims under the Quota Share Retrocession Agreement. Under the Quota Share Retrocession Agreement, Zurich Insurance Company (ZIC) and Zurich International Bermuda Ltd. (ZIB) have the right to prepay to us, in whole or in part, the balance of the Funds Withheld Asset. For more detail on cash flows see Capital requirements .

Asset/Liability Management

The use of asset/liability management, or ALM, is a key tool in managing the assets part of our business and the determination of our capital requirements. Through the use of ALM, we principally manage our long-term market risks and we seek to understand and manage the dynamic interactions between our assets and liabilities. We utilize and continually develop firm-wide ALM processes and models to manage our aggregate financial risks and the correlation between financial risks and underwriting risks. The primary goal of our ALM procedures is to match, in terms of timing and currency, anticipated claims payments to our cedents with investment income and repayments generated by our invested 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 majority 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 risk/return profile inherent in our assets and liabilities and is therefore an important element of our risk, capital allocation and investment management process. Our principal ALM techniques include cash flow analysis, scenario testing and stochastic modeling. See Item 4. Information on the Company B. Business Overview Investments for additional information on our invested asset base.

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 Holding AG paid a gross dividend of CHF 0.10 for the business year 2005 and CHF 0.20 for the business year 2006 to its shareholders. The dividend payments were made on April 18, 2006 and May 15, 2007 respectively. 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. (see Notes 15 and 21 to our 2006 consolidated financial statements).

Debt outstanding

As of December 31, 2006, we had total debt outstanding with a principal amount of USD 200.0 million and a carrying amount of USD 194.1 million.

This debt is comprised of USD 200.0 million principal amount of non-convertible, unsecured, guaranteed subordinated notes, issued by Converium Finance S.A. in December 2002, 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%. The first call date is December 24, 2007. (See Notes 11 and 15 to our 2006 consolidated financial statements). We had no scheduled debt repayments in 2006, 2005, or 2004.

Capital requirements

As of December 31, 2006, we had total shareholders' equity of USD 1,846.0 million (USD 12.63 per share) compared with USD 1,653.4 million (USD 11.29 per share) as of Decembe