CONVERIUM HOLDING AG
Form 6-K
March 24, 2006

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Form 6-K
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934
For the period ending December 31, 2005
CONVERIUM HOLDING AG
(Translation of registrant s name into English)
Dammstrasse 19
CH-6301 Zug
Switzerland
(Address of principal executive offices)

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

Form 20-F þ **Form 40-F** o

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

Yes o **No** þ

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

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Annual Report 2005

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Business profile
By line of business (ongoing)
Total US$ 1,783.1 million (net premiums written)
By region of premium origin
Total US$ 1,994.3 million (gross premiums written)
By business segment (ongoing)
Total US$ 1,783.1 million (net premiums written)
By distribution channel
Total US$ 1,994.3 million (gross premiums written)

Please note all percentage figures rounded.

Shareholders Meeting

The Annual General Meeting 2006 is to be held at 10:30 a.m. local time on Tuesday, April 11, 2006 at the Casino in Zug, Switzerland.

Key share data for 2005

Shares registered as at December 31, 2005	146,689,462
SWX Swiss Exchange	
Share price as at December 31, 2005 in CHF	14.50
Year High in CHF	14.60
Year Low in CHF	9.00
Average price in 2005 in CHF	11.62
Average daily trading volume	1,325,148
Market capitalization as at December 31, 2005 in CHF	2,126,997,199
Basic earnings per share in CHF	0.58
Diluted earnings per share in CHF	0.57
Book value per share as at December 31, 2005 in CHF	14.88
New York Stock Exchange	
ADS price as at December 31, 2005 in US$	5.54
Year High in US$	5.54
Year Low in US$	3.59
Performance versus benchmarks since the IPO	
Converium Ordinary Shares*	-64.80%
Bloomberg European Insurance Index*	-22.00%
Swiss Market Index*	19.84%
Converium ADSs**	-77.50%
Bloomberg US Insurance Index**	20.40%
Dow Jones Industrial Index**	8.38%
Performance versus benchmarks in 2005	
Converium Ordinary Shares*	42.20%
Bloomberg European Insurance Index*	27.80%

Swiss Market Index*	31.47%
Converium ADSs**	23.90%
Bloomberg US Insurance Index**	12.00%
Dow Jones Industrial Index**	-0.11%

* underlying figures in CHF

** underlying figures in US$

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

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

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Financial highlights

(US$ million)	2005	2004	2003
Gross premiums written	1,994.3	3,978.7	4,300.4
Net premiums written	1,815.7	3,726.1	3,922.7
Net premiums earned	2,383.2	3,882.2	3,767.8
Total investment results	350.4	359.2	252.8
Income (loss) before taxes	84.3	-381.2	210.7
Net income (loss)	68.7	-582.5	177.9
Basic earnings (loss) per share (US$)	0.47	-9.2	2.2
Total equity	1,653.4	1,734.8	1,928.0
Total underwriting reserves, net of reinsurance	7,931.1	10,014.2	8,599.4
Total invested assets	6,634.3	7,786.2	7,502.0
Return on equity (beginning of period) (%)	4.0	-30.2	11.2
Ongoing non-life loss ratio (net premiums earned) (%)	77.4	77.6	66.8
Ongoing non-life expense ratio (%)	29.8	28.5	25.1
Ongoing non-life combined ratio (%)	107.2	106.1	91.9
Book value per share (US$)	11.29	11.86	48.47*
Dividend per share (CHF)	0.10		1.50

* Represents book value per share prior to the rights offering.

Ongoing non-life combined ratio

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Letter from the Chairman

Dear shareholders,

Following the turbulence affecting Converium in 2004, 2005 was a year of consolidation for the Company. The demands placed on the entire organization, on both management and employees, have been very high. I wish to emphasize from the outset the high level of competency and professionalism demonstrated by employees at all levels of the Company over this period. Their commitment and loyalty to Converium has been striking.

We have successfully come through the initial stage of our reorientation within a challenging business environment. As Chairman of the Board I can look back on this achievement with a sense of pride and satisfaction.

Over 2005 natural catastrophe events dominated our industry in a way which none of us have previously experienced. Continental Europe first endured winter storm *Erwin*, and later serious flooding, not least in Switzerland. The US hurricane season was the most active on record, with an exceptional accumulation of events causing severe devastation. Global insured losses were around US$ 80 billion, with overall economic losses estimated at more than US$ 200 billion.

We can draw tremendous confidence from the fact that the reinsurance industry was able to meet its obligations arising from such huge losses, and to effectively contribute to the rebuilding and redevelopment of the afflicted areas. The catastrophes demonstrate the key function that reinsurance companies hold in the global economy, and the role they play in helping to regenerate shattered economic and social structures.

The decision, in 2004, to discontinue local underwriting in North America spared Converium from suffering major losses as a result of the hurricane season. We must however accept that, as we only write US business selectively, we will not be able to take full advantage of subsequent rises in US catastrophe reinsurance rates.

The Board of Directors, however, remains convinced that stopping local underwriting in the US and placing our North American entity into run-off was the right decision. The commutation of North American liabilities over 2005 exceeded its target of US$ 500 million. Our team, charged with this difficult and sensitive undertaking, deserves a special mention and thanks.

The forward-looking strategy we developed following the announcement of insufficient reserves in 2004 proved both realistic and achievable. The Company successfully repositioned itself to focus on European, Asian, Middle Eastern and Latin American markets.

This restructured approach has provided Converium with the foundations to consolidate its market position as a medium-sized, multi-line, knowledge-based reinsurer, concentrating on its core competences. Combined with a strong capital base, Converium has retained the trust of clients, and defended its market position. This was confirmed by the encouraging outcome of the treaty renewals at the end of 2005.

The successful stabilization of Converium was reflected in an improved financial performance in 2005 compared to 2004. Our net profit stood at US$ 68.7 million, following a loss of US$ 582.5 million in 2004 due to significant net reserve strengthening in US casualty business and significant charges related to placing the North American operations into orderly run-off. The encouraging business developments of 2005 were above all a combination of the retained quality of our ongoing business and solid underwriting results. We were also pleased with stable reserve developments over the period. However, we were forced onto the back foot in the last quarter by the need to restate our financial accounts back to 1998. The required workload placed an unexpected additional strain on the Company. The Board was aware of the burden it was placing on the organization when it took the relevant decisions in conjunction with the Restatement.

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The restatement not only led to a significant additional workload for our staff, but also to a considerable rise in external costs. Management has been able to bring down underlying administrative costs to a level commensurate with the new Company structure. However, as a result of additional costs imposed in conjunction with the restatement, overall expenditures remain higher than originally anticipated. We will therefore continue to pursue a rigorous cost management approach over the course of the coming year.

Despite our successful stabilization, we have yet to reach our stated goals, to resume dividend payments, and, in the medium term, to be back as one of the ten leading global reinsurers. I remain, however, confident that we will achieve our strategic targets in the near future. The following are all reasons for confidence:

Through a clearly defined strategy we have succeeded in stabilizing the Company.

As a result of Converium s strong capital base we are able to take new business opportunities with acceptable risk profiles. The Company has proved very stable in a year characterized by an unprecedented frequency and severity of natural catastrophes.

The restatement as decided by the Board of Directors did not have any negative effects on the Company s year-end capital base.

The measures announced by our Board member Terry G. Clarke, in his former position as CEO, within the road-map , are taking effect. We have made good progress in strengthening our independent status, in the run-off of our North American business as well as our internal restructuring.

Even during recent turbulent periods we adhered to our underwriting policies.

It is of great importance for the future of Converium that the Board of Directors has been able to rejuvenate the top of the Company. We have gained, with the appointment of Inga Beale, a personality of great international experience, and a considerable reputation within the industry. We are delighted that Inga Beale has accepted this challenge, and are convinced that, in collaboration with the Board of Directors, management and all employees, she will succeed in leading Converium back to being one of the world s leading reinsurers.

Almost at the same time as the announcement of Inga Beale as our new CEO, the Board of Directors paved the way for its own substantial rejuvenation. Terry G. Clarke has decided to step down from Converium s Board of Directors at the Annual General Meeting on April 11, 2006. In addition, three long-serving and respected members of the Board, Georg Mehl, George G.C. Parker, and Anton K. Schnyder have decided not to stand for re-election. I would like to express my sincere thanks for their service, and their high level of commitment during an exacting and difficult period. As I have already indicated at last year s Annual General Meeting, I will be retiring from my current position. I am particularly pleased that we have managed to attract three highly regarded personalities, Lennart Blecher, Detlev Brem-kamp and Harald Wiedmann, as new candidates for the Board of Directors. I wish the new board much success and all the best.

If one looks back on the events of 2005, and the first few weeks of 2006, Converium s successful consolidation becomes apparent. The Company is today following a strategy and a business model which have proved themselves highly appropriate in our current situation. A revitalized and highly competent leadership team, both on a strategic and operative level, combined with a loyal and motivated work force, provides a solid basis for Converium s continued recovery.

I would like to express my sincere thanks to all staff for having helped Converium overcome the challenges of last year. I would particularly like to thank Terry G. Clarke, who, as CEO, has led with great dedication, and contributed substantially to stabilizing the Company. My further thanks go to you, our shareholders, for the trust and the loyalty you have shown in us. Finally, our clients also deserve special recognition: their loyalty has contributed to our own self-belief within the Company. I am convinced that Converium has a promising future ahead of it, and I wish the Company, under its new leadership, good fortune and success.

Sincerely,

Peter C. Colombo
Chairman of the Board of Directors

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Review 2005 and outlook 2006

Reinsurance industry overview

The reinsurance industry over 2005 was dominated by natural catastrophes. The global overall economic loss as a result of these calamities is in the region of US$ 225 billion. The greatest tragedy was in Asia, where an estimated 87,000 died, mainly in Pakistan, as a result of an October earthquake. India suffered severe flooding in July around Mumbai. In Europe winter storm *Erwin* caused significant damage, before a wet August saw floods and landslides, particularly in Switzerland.

The most significant series of events for reinsurers was however the US/Caribbean hurricane season. The worst destruction came in August with hurricane *Katrina*. Along with the massive wind damage, the hurricane s subsequent flood surge rendered much of New Orleans uninhabitable. Alongside property damage many other lines were affected, most notably marine and energy, with around 200 oil production platforms and mobile rigs destroyed or severely damaged. *Katrina* is estimated to have caused insured losses of around US$ 45 billion. The largest losses for *Katrina* fell on US primary insurers and Bermudian reinsurers. The scale of *Katrina* overshadowed what in other years would have been considered major hurricanes in their own right, with *Rita* (September) and *Wilma* (October) both causing insured losses of around US$10 billion.

Total global insured losses as a result of the 2005 catastrophes were around US$ 80 billion. What is particularly notable is that 2005 followed a previous year of record losses the result of an active US hurricane season, several severe Asian-Pacific typhoons, and the South East Asian tsunami. However, despite the scale of devastation, no major reinsurance player suffered bankruptcy-threatening losses. Based on swift access to fresh capital, the reinsurance community has absorbed the double blow of 2004 and 2005 with remarkable resilience.

Encouraged by attractive pricing prospects a number of new players have entered the reinsurance market. Ten new reinsurers registered in Bermuda in the latter half of the year. The class of 2005 hurried to bring business plans together and take advantage of anticipated hardening markets at the January 2006 renewals.

The number of new entrants into the industry over 2005 highlighted the appetite of capital markets to invest in the industry. The Bermudian start-ups raised around US$ 8 billion in capital. A similar amount of fresh capital was raised by established players, also primarily in Bermuda, which had to repair damaged balance sheets as a result of the US hurricane season. The level of losses prompted vigilance on the part of the rating agencies. Seven reinsurers were downgraded over 2005.

The January renewal did see a notable firming of rates for US property lines, particularly in areas with a record of natural catastrophes. Other lines also saw significant price increases, particularly marine and energy.

Whilst a number of new players entered the market place, there was consolidation amongst the larger players. Swiss Re agreed the purchase of GE Insurance Solutions at the end of the year. The acquisition is set to make Swiss Re the world s largest reinsurer.

Converium s 2005 performance

Converium made solid progress over 2005 towards meeting goals stipulated in the roadmap to recovery , launched in late February 2005. After posting a substantial loss of US$ 582.5 million in 2004, which was driven by significant reserve strengthening for prior-year US casualty business, Converium returned to profitability in 2005, generating net income of US$ 68.7 million.

On November 4, 2005, the Board announced its decision to restate prior period financial statements. This decision was taken in the light of findings of an internal review, overseen by the Audit Committee with the assistance of independent outside counsel, launched against the backdrop of ongoing investigations by regulators and governmental authorities into non-traditional insurance and reinsurance products.

The five main features of the business year 2005 can be summarized as follows: First, natural catastrophes had a noticeable impact on our financial performance. Headline losses such as winter storm *Erwin,* the Continental European floods, and, in particular the hurricanes *Katrina, Rita* and *Wilma* reduced the net result by US$ 164.8 million. The overall loss for Converium, however, was comparatively modest compared to many others in the industry, reflecting the effects of placing the US subsidiary Converium Reinsurance (North America) Inc. into run-off as from September 2004. Our losses for *Wilma,* at US$ 46.5 million, were greater than for *Katrina,* at US$ 44.6 million, reflecting higher exposures on the part of our Company to Florida risk compared to the region of Louisiana.

Second, Converium s prior-year reserve position has proven adequate and stable over the course of 2005. We, therefore, continue to feel comfortable with our reserving actions taken in the past.

Third, the run-off of our North American business has progressed as planned. As regards the commutation of North American liabilities we exceeded our target to commute or otherwise settle about US$ 500 million. This led to a significant reduction of risk on Converium s balance sheet over the year 2005.

Fourth, our ongoing business segments Standard Property & Casualty Reinsurance, Specialty Lines and Life & Health Reinsurance generated satisfactory underwriting results. Despite the catastrophe losses the non-life business produced segment income of a combined US$ 156.2 million. Life & Health Reinsurance continued to be profitable with a segment income of US$ 17.6 million.

Fifth, total administrative expenses declined by 4.1% to US$ 210.8 million in 2005, reflecting the cost management measures initiated in spring. The reduction would have been even greater, but was offset by extraordinary legal and consulting fees of approximately US$ 15 million, mainly driven by the restatement.

Outlook 2006

We anticipate demand for reinsurance products to remain robust. After two severe hurricane seasons, the US market will lead the way in looking for greater capacity. One modeling agency puts the chance of a third consecutive severe hurricane season at 60%.

On the supply side, there will certainly be more players. However, the increase in reinsurance capacity may not be as great as the capital inflows over 2005 would suggest. Despite the rises in prices, reinsurers will be more aware of catastrophe risk. Having underestimated potential hurricane losses, particularly with *Katrina,* catastrophe modeling firms are likely to reassess their work with a more cautious bias. Externally, the rating agencies are demanding greater capital requirements on the part of insurers and reinsurers to cover against catastrophe exposure.

It is expected that anticipated stable prices will help Converium as the Company continues to forge its pathway to recovery. January renewals were encouraging, with strong support from existing clients and the establishment of new client relationships. A number of former clients reiterated their intention to resume business with Converium, as and when the Company reaches its stated goal of improving its current financial strength rating.

The largely favorable external environment, which we expect in 2006, will be complemented by internal changes within the Company. Converium appointed a new CEO, Inga Beale, effective February 1 of 2006, who brings with her considerable experience and a noted reputation within the industry. We believe this appointment will enhance our competitive position and help pave the way for our anticipated recovery. As a medium-sized, multi-line reinsurer, Converium will carry on offering its clients diversification from market-dominant players, with a varied risk portfolio, significant intellectual capital and a solid capital base.

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Strategy
Vision
We aim to be a core player in the international reinsurance industry, contributing to the evolution of the sector with forward-thinking solutions that enable our clients to efficiently manage their risk. We aspire to be recognized as an agile, credible and responsive organization.
In June 2005 Converium issued its revised business strategy, reflecting certain adjustments in the wake of the turbulence the Company faced in 2004. The strategy builds on the financial strength and proven franchise the Company has brought to the market place over recent years, whilst facing the future challenges of a complex and shifting risk landscape, inherent in a globalized economy.
Converium aims to restore its position as a leading global reinsurer. In that context we seek to remain a stand-alone entity. As a mid-sized player, we offer our clients independence from market-dominant reinsurers, and diversity in risk management solutions. Our multi-line underwriting and pricing capabilities help us in turn to broadly spread the risks we assume on our balance sheet.
Converium s philosophy of doing business is built on the long-standing experience of many of our employees, focused on building close and mutually beneficial partnerships with our clients on a long-term basis. We believe it is important to maintain a global reach, both to provide world-wide services to customers, and to diversify our liabilities. We pride ourselves on being a knowledge-based reinsurer, and place high value on our intellectual capital. We have dedicated teams in standard and specialty as well as life and health lines of business, with a wide range of backgrounds and knowhow. Using our expertise, we will continue to offer flexible and innovative reinsurance products to the market, whilst closely following developments and trends in the industry.
A strict risk management strategy regarding our own liabilities remains a core value of Converium. We have demanding internal risk processes, strong underwriting procedures, and an established retrocession policy. Continuous exposure management helped the Company limit losses to relatively modest amounts during the severe natural catastrophes of 2005.
Mission
We are an international multi-line reinsurer that satisfies its clients business needs by excelling at analyzing, assuming and managing risks. In an ethical and responsible manner we provide:
- sustainable value growth for our shareholders,
- superior service for our customers and intermediaries,
- a fulfilling work environment for our employees.

We share the benefits of this rigorous and disciplined approach to risk management with our clients and aim to further enhance our reputation as a reliable risk assessment partner. We continuously pass on advice relating to core competences such as product structuring, natural hazard and financial modeling.
Our strategic focus remains on Europe, Asia, the Middle East and Latin America, those areas where Converium s business model has proved most successful and viable. Following the events of 2004 we will continue the run-off strategy of our North American operation and the commutation of our related liabilities. We will continue to write selective North American business from European offices to help us to maintain a globally diversified risk portfolio.
Goals and aspirations
As the Company rebounds from the events of 2004, one of our clear goals is to regain an improved financial strength rating. We hope to achieve this goal as soon as possible by means of our efforts to improve operational efficiency across all segments, to sustain our client relationships and maintain a strong capital base with continuous support by in-house expertise and know-how.
Converium will continue to build on its strengths, together with the lessons learnt from the challenges of 2004. We believe our knowledge-based franchise provides us with the strong foundations for future success. We aspire towards organic growth, and to regain our previous position as a leading reinsurer. We consider 2005 as a year of transition which has seen a successful stabilization of the Company. We now go forward with confidence into 2006, which we intend to make our year of restoration .

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Risk Management

Insured US property/casualty losses sustained in 2005, primarily as a result of the exceptionally active hurricane season in North America. Hurricane *Katrina* alone is estimated to have caused US$ 45 billion of insured losses. As outlined in the Review and Outlook section on page 4, the resulting effects on the reinsurance industry have been considerable. There have been several downgrades, and a substantial number of reinsurers had to raise billions of dollars in fresh capital.

For a mid-sized multi-line reinsurer, such as Converium, effective risk management to cope not only with severe events, but also with an accumulation of higher frequency-lower severity losses, is fundamental. Our holistic approach to risk control incorporates a highly developed methodology, using specialized intellectual capital as an integral part of our core underwriting competency. We aim to employ refined exposure management techniques that allow us to monitor our own accumulation of risk, and to develop appropriate strategies to subsequently administer and control that risk.

Intellectual capital and catastrophe models

In the wake of the 2005 US hurricane season, many questions have been asked about catastrophe risk modeling techniques in the industry. Converium believes modeling remains fundamental to our risk management process, as much for catastrophe exposure as for other lines of business.

Exceptional and unprecedented were words often used to describe the 2004 hurricane season, when four Atlantic hurricanes made US landfall, causing losses of over US$ 20 billion. Converium s natural catastrophe team advised that although four US landfall hurricanes in a year were above average, they were within the expectations of our models. In a brochure, published in March 2005, titled The severity of frequency , Converium recommended that clients should include not only considerations of storm severity, but also event frequency into their exposure assessments. As if to highlight that advice, in fall 2005, another series of Atlantic hurricanes made landfall: *Dennis, Emily, Katrina, Rita,* and *Wilma,* further demonstrating the frequency and severity of Atlantic hurricanes in a given year. Although two such active storm seasons back-to-back are not the norm, the natural catastrophe team at Converium had helped prepare the Company for such a scenario.

Land-falling hurricanes in the United
States between 1851 and 2005

Hurricanes per year	Years observed	Number of years
7	1886	1
6	1916, 1985	2
5	1893, 1933, 2004, 2005	4
4	1871, 1880, 1906, 1909, 1964	5
3	..., 1971, 1979, 1989, 1998, 1999	28
2	..., 1969, 1986, 1995, 1996, 2003	39
1	..., 1991, 1992, 1993, 1997, 2002	45
0	..., 1982, 1990, 1994, 2000, 2001	31

The table displays the number of hurricanes (Category 1 5) that made landfall per year in the US. For example, in 1886, seven hurricanes struck the US coastline. In addition, the number of years for each respective number of landfalls is shown. For instance, there have been 31 years in which no hurricanes have made landfall.

Converium s natural catastrophe team is well equipped to advise management, as well as clients, on risk posed by multiple-occurrence events within a short time frame. As with other departments, Converium places considerable emphasis on in-house intellectual capital: The natural catastrophe team consists of highly trained professionals in all the relevant natural sciences: geophysicists, meteorologists, mathematicians and environmental scientists.

One core element of our catastrophe risk assessment is probabilistic hazard modeling. The techniques used by the team consist of both internally generated models, and third party products adapted to reflect the requirements of Converium. The use of a variety of models combined with our in-house intellectual capital provides flexibility, challenges assumptions, helps form opinions where no models exist, and supplies a framework in which the inevitable variance in model results can best be understood.

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Managing casualty and liability reinsurance

Advanced catastrophe models alone will not make for a strong reinsurer. Converium builds on the insight of our catastrophe models, without entirely relying on them. Together with other actuarial and risk management techniques, the models contribute to our core underwriting processes, and our overall understanding of the level of exposure faced by the Company.

Converium aims for high standards of data provision throughout the Company. In 1999 we addressed the importance of accurate exposure data and the particular difficulties of inter-industry data transfer with regards to natural catatrophes, thereby driving the creation in 2001 of the CRESTA*plus* data standard. CRESTA*plus* is widely recognized and has led to the creation of the even more detailed ACORD standard, providing a data standard for natural catastrophe exposure data. Beyond that our membership in the Pan-American Surety Association helps promote data standards within credit and surety industry lines.

Our objective is to match our demanding requirements of external data with our internal data processes. The natural catastrophe team s focus is to internally circulate its initial prognosis of expected damage following a severe event within a short working time frame. This allows Converium s management to build its decision making process on early loss assessments.

We believe that strict data requirements are a prerequisite, and should provide the foundations on which to build our core underwriting business. In a constant exchange of information between our underwriters and the natural catastrophe or other risk teams, limits and aggregates are agreed and managed. Converium s disciplined approach to underwriting means that the Company will only provide coverage in those areas in which it has expertise and knowledge required to evaluate risks and to assess them reliably, as well as actively balance its portfolio.

However, our approach extends beyond the assessment of natural perils. Our data benchmark is met by our strict pricing discipline: Contracts are required to meet or exceed return over a risk-based capital threshold. Each treaty is assessed in terms of both expected return and contribution to risk, thereby identifying the capital required to support that additional risk within the overall portfolio. Treaties that improve portfolio diversification require less capital than business that adds to an accumulation of risk, building in an incentive for underwriters to diversify risk. Business is assumed only if strict profitability measures for the capital employed are reached or exceeded. Approval to enter into contracts that do not meet specified thresholds requires the authorization and approval of management.

For deriving risk-based capital, Converium modeling expands beyond considering the portfolio impact. It also considers extremely rare but severe events. Converium s actuaries and financial modelers focus on risk measures such as conditional worst case , tail value at risk and expected policyholder deficit . Converium s capital allocation philosophy is designed to avoid this expected shortfall and ensures that risk beyond the threshold is also considered. Meanwhile, the portfolio approach ensures that Converium avoids accumulation of risk from diverse sources leading to undesired concentration.

In order to understand our risk-based capital, our financial modeling techniques expand well beyond the portfolio impact. We stress-test our systems against what would be considered extraordinarily severe a one-in-a-hundred, or even in a thousand-year event. Working with probabilistic catastrophe models, our actuaries and financial modelers measure tail value at risk : the potential shortfall should events occur beyond a defined threshold.

A further integral part of Converium s liability risk management comes from its retrocession strategy. The recommendations from the natural catastrophe and other teams support a well-defined retrocession process. Global Risk Pooling (GRP) is the function within Converium which is responsible for defining, placing and administrating all retrocession covers in accordance with risk management guidelines. Alongside purchasing standard cover, GRP is also responsible for placing risk on the financial markets. Our issue of Helix 04 notes in 2004 provides the Company with fully collateralized second and subsequent event protection for North Atlantic hurricane, US earthquake, Japanese earthquake and European

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windstorm property catastrophe exposures over a five year run affording added coverage for Converium into the medium term.

Comprehensive catastrophe risk management system

Converium s catastrophe risk management begins with a structured information exchange process between the underwriting, natural catastrophe and retrocession departments. These departments operate according to a number of clear procedures and internal practices, as defined by our risk policies. Our risk management structure allows us to have an overview of exposure and risk levels within the Company and for management to gain a snapshot of our risk profile. Following any natural catastrophe we use a claims process which aims to give us a picture of potential losses and uncertainties, including non-cat lines, as well as the effects our retrocession policies may have had.

Comprehensive risk exposure monitoring

Our risk procedures are designed to ensure that management can request a snapshot of the Company s risk exposure when required. Interaction between claims, underwriting and risk assessment departments aims to ensure that within a couple of working days of any major event, the Company has knowledge of its potential loss, and where remaining uncertainty comes from.

The continuous process of information exchange runs through all levels of the Company. Our risk processes converge at the Global Executive Committee (GEC) in the form of our Chief Risk Officer. This ensures that the GEC has an unbroken overview of exposure levels within the Company, and the status of tail value at risk on the books. Converium s goal is to assess natural or man-made catastrophes not only in terms of life and property losses, but also their effects on other business lines. *Katrina* highlighted the degree to which risk classes can overlap particularly when viewed against continued commercial and residential construction in areas prone to natural disaster with considerable claims registered from lines such as motor and aviation. Most notable with regards to *Katrina* were marine and energy lines, with losses estimated at around US$ 6 billion.

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Corporate Governance

Organizational structure

Converium is organized into four business segments: Standard Property & Casualty Reinsurance, Specialty Lines, Life & Health Reinsurance, which are based on ongoing global lines of business, and the Run-Off segment. The lines of business by segment include the following:

Standard Property & Casualty Reinsurance

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

Specialty Lines

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

Life & Health Reinsurance

Life and Disability
Accident and Health

Run-Off

Primarily comprises the business from Converium Reinsurance (North America) Inc., excluding the US originated aviation business portfolio

The three ongoing business segments are supported by several business functions in the underwriting process. They consist of: Actuarial and Risk Modeling Services, Claims, Risk Pooling, Transactional Legal Services and Risk Management. Converium also has certain departments which provide services to all segments and functions globally. These include Finance, Information Technology, Human Resources, Internal Services, Corporate Legal Services, and Corporate Communications and Development. As of December 31, 2005 Converium had 579 employees worldwide.

Legal structure

Converium Holding AG, a company organized under Swiss law with its domicile in Zug, Switzerland, directly or indirectly owns all Converium companies. Converium Holding AG, with a share capital of CHF 733,447,310, is the only listed company within Converium. Its shares are traded on the SWX Swiss Exchange (ISIN: CH0012997711) and its American Depository Shares (ADSs, ISIN: US21248N1072) are traded on the New York Stock Exchange. The market capitalization as of December 31, 2005 was CHF 2,126,997,199.

Significant non-listed companies

Company name	Country of incorporation	% of equity share held	Currency	Share capital
Converium AG	Switzerland/Zurich	100	CHF	400,000,000
Converium IP Management AG	Switzerland/Zug	100	CHF	100,000
Converium Rückversicherung (Deutschland) AG	Germany/Cologne	100	EUR	4,601,627
Converium Holding (UK) Ltd	United Kingdom/London	100	GBP	101

Converium Insurance (UK) Ltd	United Kingdom/London	100	GBP	60,000,000
Converium London Management Ltd	United Kingdom/London	100	GBP	1,000
Converium Underwriting Ltd	United Kingdom/London	100	GBP	2
Converium Holdings (North America) Inc.	United States/State of Delaware	100	US$	1
Converium Reinsurance (North America) Inc.	United States/State of Connecticut	100	US$	3,500,000
Converium Insurance (North America) Inc.	United States/State of New Jersey	100	US$	5,000,000
Converium Finance S.A.	Luxembourg/Luxembourg	100	EUR	31,000
Converium Finance (Bermuda) Ltd	Bermuda/Hamilton	100	US$	12,000

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

Significant shareholders

The following notices have been given to Converium in 2005 in accordance with Art. 20 of the Federal Act on Stock Exchange and Securities Trading:

Company	Date of notification	% of shareholding
Odey Asset Management [1] London, United Kingdom (acting as investment manager for various funds)	March 4, 2005	11.2%
Dodge & Cox San Francisco, CA, United States (acting as investment managers to institutions and individuals through separately managed portfolios and mutual funds)	June 16, 2005	5.04%
Capital Group Companies Ltd Los Angeles, CA, United States (acting on behalf of various funds)	June 24, 2005	below 5%
Zürcher Kantonalbank Zurich, Switzerland	July 5, 2005	5.001%
	July 5, 2005	below 5%
	August 18, 2005	5.87%
Patinex AG Wilen, Switzerland	December 19, 2005	12.49%[2]

1 On January 16, 2006 Odey Asset Management informed that it has reduced its shareholdings to 5.3%. On February 10, 2006 Odey Asset Management disclosed that it has reduced its shareholdings to 4.96%.

2 5.06% in the form of 7,425,000

registered shares and 7.43% in the form of purchase rights with entitlement to purchase 10,900,000 registered shares.

Cross-shareholdings

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

Capital structure

Ordinary share capital

As of December 31, 2005 Converium Holding AG had an ordinary share capital of CHF 733,447,310 divided into 146,689,462 fully paid-up registered shares with a nominal value of CHF 5 each.

Contingent share capital

Pursuant to Article 3a of Converium s Articles of Incorporation, Converium s share capital can be increased by the issuance of a maximum of 4,000,000 fully paid-up registered shares of CHF 5 nominal value each, amounting to a maximum of CHF 20,000,000 through the exercise of option or conversion rights which will be granted on a stand-alone basis or in connection with bond issuances or other debt financing by Converium or one of its subsidiaries. The subscription right of the shareholders with respect to these shares is excluded. The advance subscription rights of the shareholders may be excluded by the Board if the options or conversion rights are used in connection with the financing of a take-over of a business, parts of a business or participations. In this case, the structure, term and amount of the bond issue or other debt financing, if any, as well as the terms and conditions of the option and/or conversion rights, are to be determined by the Board on the basis of the market conditions prevailing at the time of the issue of the rights. Option and/or conversion rights shall be exercisable for the maximum period of ten years. In 2005 no registered shares were issued from the contingent share capital.

Authorized share capital

Pursuant to Article 3b of the Articles of Incorporation, the Board of Directors is authorized, on or before April 27, 2006, to increase the share capital by the issue of up to a maximum of 4,000,000 fully paid-up registered shares of CHF 5 nominal value each, amounting to a maximum of CHF 20,000,000. The subscription rights of the shareholders may be excluded by the Board if the new shares are used for a take-over of a business, parts of a business, or participations, or for the financing of such transactions, or for the enlargement of the shareholder base in connection with the listing of shares on a stock exchange. In 2005 no registered shares were issued from the authorized share capital.

Changes in capital

The decrease in additional paid-in capital primarily results from the Rights Offering that occurred in October 2004. The Annual General Meeting further approved the dividend payment of CHF 1.50 per share, or CHF 59,796,602, reducing retained earnings. (See pages 48 and 96 of the Notes to the financial statements for further information on shareholders equity.)

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Shares, other certificates and limitations on transferability

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

For more details on ownership rights and nominee registration please see page 20 under shareholder participation rights. Converium has neither issued participation, profit sharing nor dividend-right certificates nor has it issued convertible bonds or options/warrants to third parties. Information about Converium s share options granted to members of the Board of Directors, the Global Executive Committee (GEC) and employees is contained in the Remuneration section of this document on page 19 and 20, and page 94 of the Notes to the financial statements. Some interests in Converium shares are held by investors in the form of ADSs issued by the Bank of New York. One ADS represents the right to receive one half of one Converium share. ADSs are traded on the New York Stock Exchange.

Converium s Board of Directors

Converium s global strategy is set by its Board of Directors, the body with ultimate responsibility for Converium s policies and management, including investment, treasury, solvency and liquidity policies. The Board of Directors consists of no less than four and no more than nine members. Currently it comprises eight. With wide-ranging experience in the reinsurance sector, this group represents an appropriate mix of skills for the effective governance of a major international reinsurance organization. The Board of Directors oversees Converium s affairs and offers regular directives to the Global Executive Committee. All Board members, except Terry G.Clarke who held the position of Chief Executive Officer until January 31, 2006 and Derrell J. Hendrix, who acted for us as a consultant through the RISConsulting Group LLC, are non-executive and independent of management. None of the remaining Board members have ever held an executive position within Converium or any of its subsidiaries. No interlocking directorships exist between the Board members of Converium and board members of any other company. Each Board member must disclose any material relationship with the company or potential conflict of interests, annually, in a special statement which is evaluated by the Audit Committee. Following this evaluation the Board of Directors affirmatively determines which members of the Board of Directors qualify as independent.

Members of the Board of Directors

The composition of the Board of Directors includes a cross section of geography and professional experience. The members of the Board of Directors are elected for a term of office of not more than three years, after which they become eligible for re-election. In case of the election of a substitute, the new Board member finishes the term of office of the predecessor. The members of the Board, their years of birth, nationality and terms of office as at December 31, 2005 were as follows:

Members of the Board of Directors

Name	Year born	Nationality	Date of first election	Term expires in
Peter C.Colombo (Chairman) [1 2 4]	1934	Swiss	16.11.2001	2007
Georg Mehl (Vice Chairman) [2 3 4]	1939	German	16.11.2001	2006
Terry G.Clarke	1941	British	01.01.2002	2007
Markus Dennler [1 3 4]	1956	Swiss	12.04.2005	2008

Derrell J. Hendrix	1953	American	16.11.2001	2007
Rudolf Kellenberger [1 2 3]	1945	Swiss	12.04.2005	2008
George G.C. Parker [3 4]	1939	American	16.11.2001	2006
Anton K. Schnyder [1 2]	1952	Swiss	16.11.2001	2006

1 Member of the Nomination Committee

2 Member of the Remuneration Committee

3 Member of the Finance Committee

4 Member of the Audit Committee

Curricula Vitae of the Board members

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

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

Terry G. Clarke was a consulting actuary with the Tillinghast Business of Towers Perrin and a Principal of Towers Perrin. He joined their London office in 1986 and was Managing Principal of Tillinghast s North America practice prior to retiring at the end of 2001. From 1978 until 1986 Mr Clarke was a member of the Norwich Winterthur Group senior management team. Prior to 1978, he held various positions in the Norwich Union Group. Mr Clarke qualified as a Fellow of the Institute of Actuaries in 1967, and is co-author of several papers on non-life insurance subjects as well as a tutor and examiner. He has been a member of a number of professional committees both in the United Kingdom and in Continental Europe. Mr Clarke served as Converium s Chief Executive Officer until January 31, 2006.

Markus Dennler served in a series of positions within the Credit Suisse Group, most recently as a member of the Executive Board of Credit Suisse Financial Services and as Chief Executive Officer responsible for the global operational Life & Pensions business. Previously, he was a member of the Corporate Executive Board of Winterthur Insurance (subsidiary of Credit Suisse Group). Markus Dennler studied law at the University of Zurich and graduated in 1982. He received his doctorate degree in 1984 and was admitted to the Bar of Zurich in 1986. Further he attended the International Bankers School in New York and the Harvard Business School (AMP) in Boston. Currently he is Chairman of Batigroup, a member of the Board of Directors of Swissquote Group and a councillor of the British-Swiss Chamber of Commerce.

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

Rudolf Kellenberger served as Deputy Chief Executive Officer of Swiss Re from April 1, 2000 until the end of 2004. In this function he dedicated much of his time to tasks within the Corporate Center, in particular in the field of Management Development, Regulatory Affairs and E-Business Development. Previously, he served in a series of positions within Swiss Re s Executive Board assuming responsibilities for the Northern European reinsurance sector and Special Lines and, as of July 1998, taking on the leadership of Swiss Re s then newly founded Europe division. Rudolf Kellenberger studied civil engineering at the Federal Institute of Technology (ETH), Zurich, graduating in 1970. He is Chairman of the Swiss Aviation Pool and a member of the Board of Directors of Swiss Life.

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

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

Internal organizational structure of the Board of Directors

The Board of Directors is headed by the Chairman or, in his absence, by the Vice Chairman. It meets as often as circumstances require, but at least four times per year. In 2005 the Board of Directors met nine times physically and held one further meeting by way of conference call.

Meetings generally last one day, with Committee meetings preceding Board meetings. Agendas are set by the Chairman of the Board of Directors or the pertinent Chairman of the Committee respectively. At each of its meetings the Board of Directors must be informed, through formal reports by the Chief Executive Officer (CEO) and the members of the Global Executive Committee (GEC), about the course of the business and the activity of the business segments and the GEC. In case of important business incidents, the Board of Directors must be informed without delay. Furthermore, each Board member receives appropriate information with respect to any matter to be considered by the Board of Directors. For financial reporting purposes, this includes an appropriate quarterly reporting package comprising financial and investment information including consolidated financial accounts of Converium and its business segments and the Run-Off segment. The Chief Executive Officer (CEO), the Chief Financial Officer (CFO) and the General Legal Counsel attend Board meetings on a regular basis. Members of the GEC and other executives attend meetings at the Chairman s invitation. In addition, conference calls and meetings between Board members and members of the GEC are held to resolve formal matters or to exchange information. The Board of Directors performs an annual self-evaluation and sets its objectives based upon this evaluation. Annually it reviews the performance of the CEO and approves his or her objectives.

The Head of Internal Audit reports directly to the Audit Committee, and the Board meets regularly with Converium s external auditors, and, as may be necessary, with outside consultants to review the business, better understand all laws and policies, and support the management in meeting requirements and expectations.

Board Committees

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

The Nomination Committee comprises at least three Board members and currently comprises four. It appoints and dismisses the Head of Internal Audit and outside directors of Converium companies, unless such appointment or dismissal is required by regulatory law or order, in which case such appointment or dismissal lies in the responsibility of the CEO. The Committee proposes to the Board of Directors the appointment of Board members and the members of its Committees and their Chairmen, the Chairman and Vice Chairman of the Board of Directors, the members of the GEC and the head of the Run-Off segment. It defines and implements procedures for the annual self-evaluation of the Board of Directors and the Committees performance; for the annual statement of independence of the Board of Directors and disclosure of any conflict of interests and any agreements concluded with Converium or any of its subsidiaries; and for the orientation program for new Board members. Standing invitees are the CEO and the Chief Human Resources Officer. In 2005 the Nomination Committee met twelve times physically and held two further meetings by way of conference call.

The Remuneration Committee comprises at least three Board members and currently comprises four. It sets the compensation levels for the GEC (except the CEO) and the Head of Internal Audit, and proposes to the Board of Directors the overall remuneration for the CEO and for each of the members of the Board of Directors, as well as the principles of compensation, of incentive schemes, and bonus payments to employees. Standing invitees are the CEO and the Chief Human Resources Officer. In 2005 the Remuneration Committee met five times physically and held two further meetings by way of conference call.

The Finance Committee comprises at least three Board members and currently comprises four. It approves external providers of asset management services and capital increases in subsidiaries between US$ 5 million and US$ 20 million. It submits to the Board for its approval the accounting standards framework for Converium, the annual budget and financial plans, investment and treasury policy, solvency and liquidity planning, strategic asset allocation, tax planning, the allocation of expenses to be charged to the Corporate Center, capital increases and the use of contingent or authorized capital, year-end results and dividend policy, as well as exchange listings and de-listings. Standing invitees are the CEO and the CFO. In 2005 the Finance Committee held four meetings.

The Audit Committee comprises the Chairman of the Board of Directors and the Chairmen of the Finance, Nomination and Remuneration Committees. The Audit Committee currently comprises four members. Only independent and financially literate directors are eligible to serve on the Audit Committee. In order to qualify as independent, a member may not accept any consulting, advisory or compensatory fee from the Company. In addition, an Audit Committee member may not be a person affiliated with the Company or any of its subsidiaries. The Audit Committee reviews and approves the quarterly financial statements, except year-end results; approves and supervises the implementation of Converium s Audit Charter, including the review of internal control systems and Converium s risk management and auditing processes; reviews and assesses significant accounting and reporting issues; oversees external and internal auditors and the external and internal audit process; assesses the accuracy of the annual financial statements and determines that appropriate accounting principles have been applied; and liaises with Converium s Risk Management functions to identify Converium s areas of greatest risk and to assess management s role in mitigating the risks. Standing invitees are the CEO, the Head of Internal Audit, the CFO, the Chief Risk Officer and the external auditor. In 2005 the Audit Committee met six times physically and held seven further meetings by way of conference call.

The Audit Committee is supported in its supervisory task by Group Internal Audit (GIA). GIA currently consists of eight persons and covers all operations of Converium worldwide. GIA directly reports to the Audit Committee and has unrestricted access to all relevant information and documents. The Audit Committee also approves the audit plans and the budget of GIA. In 2005, GIA conducted 28 audit projects and started with the testing of the Internal Controls over Financial Reporting (ICOFR) as required by Sarbanes-Oxley 404.

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

- To evaluate the reliability and controls of the financial and risk reporting systems and processes as well as to provide reasonable assurance that material errors and irregularities will be detected on a timely basis.
- To evaluate the integrity of financial information.
- To evaluate compliance with policies, plans, procedures, regulations, laws and contracts.
- To safeguard Converium s assets.
- To evaluate and promote efficient use of resources.

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

The areas of responsibility of the Board of Directors and the Global Executive Committee as well as the other corporate bodies are defined in the Organizational By-laws of Converium Holding AG, which are available on the internet at www.converium.com.

Managing Director

Following the appointment of Terry G. Clarke as Chief Executive Officer effective February 24, 2005, the position of Managing Director was removed.

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Converium s Global Executive Committee
The Board of Directors has delegated the management of Converium to the Global Executive Committee (GEC). The GEC comprises an Executive Management Team, currently consisting of seven members. It is generally responsible for implementing Converium s global strategy, ensuring effective collaboration between each subsidiary, and business segment, and reviewing progress against financial and operating plans as approved by the Board of Directors. At December 31, 2005 the GEC consisted of:
Members of the Global Executive Committee

Name	Year born	Nationality	Position held
Terry G. Clarke	1941	British	Chief Executive Officer
Hans Peter Boller	1962	German	Chief Risk Officer
Christian Felderer	1954	Swiss	General Legal Counsel
Benjamin Gentsch	1960	Swiss	Executive Vice President for Specialty Lines
Christoph Ludemann	1956	German	Executive Vice President for Life & Health Reinsurance
Frank Schaar	1960	German	Executive Vice President for Standard Property & Casualty Reinsurance
Andreas Zdrenyk	1959	Swiss	Interim Chief Financial Officer

On February 24, 2005 the Board of Directors appointed Terry G. Clarke as Chief Executive Officer and replaced Dirk Lohmann with immediate effect. The Board appointed Andreas Zdrenyk as interim Chief Financial Officer of Converium following Martin Kauer s agreed departure on February 28, 2005. Inga Beale was appointed as CEO on December 14, 2005. She took up her new role on February 1, 2006, replacing Terry G. Clarke.
Curricula Vitae of the GEC members
For Terry G. Clarke s CV please see page 13.
Hans Peter Boller is the Chief Risk Officer and an Executive Vice President of Converium. He is responsible for risk management, corporate compliance, pricing, reserving, retrocession, Asset and Liability Management (ALM) and natural hazard modeling. He joined the company in 1999 as the Chief Actuary for Zurich Re, Zurich. Prior to 1999, he was a consultant with Tillinghast-Towers Perrin. Mr Boller is a fellow of the German Actuarial Society (DAV) and the Swiss Actuarial Society (SAV), and a member of the International Actuarial Association (IAA). He is the outgoing Chairman of the Reinsurance Subcommittee of the IAA and was a member of the Risk-Based Capital Solvency Structure Working Party of IAA. He also advises the Swiss Regulatory Authority on the emerging Swiss Solvency Regulation. Mr Boller holds a Master s degree in economics and engineering and a doctorate in actuarial science from the University of Karlsruhe.
Christian Felderer is the General Legal Counsel and an Executive Vice President of Converium. He joined Zurich Re in 1997 and has 20 years experience in the insurance and reinsurance industry, most recently as Senior Legal Counsel for Zurich Re and General Counsel for Converium. Between 1990 and 1997 Mr Felderer had various management responsibilities within the Zurich Group s International Division, including the establishment and management of the Captives and Financial Risk Management department and management of the Claims organization of the International Division. From 1986 to 1990 he was Corporate Legal Counsel in the General Counsel s Office of the Zurich Insurance Group, and from 1983 to 1986 he was an underwriter in the Casualty department of the International Division. Mr Felderer has a law degree from the University of Zurich and is admitted to the Bar of the Canton of Zurich.
Benjamin Gentsch is the Executive Vice President for Specialty Lines. In 1998, he joined Zurich Re as the Chief Underwriting Officer Overseas where he was given the task of strengthening the company s position in the Asian, Australian, African and Latin American markets. In addition, he took charge of the Global Aviation reinsurance

department and built up the Professional Risk and Global Marine reinsurance departments. In September 2002, Mr Gentsch was appointed Chief Executive Officer of Converium Zurich. Between 1986 and 1998, he held various positions at Union Reinsurance Company, Zurich, where from 1990 he was responsible for treaty reinsurance business in Asia and Australia. He is a director of Global Aerospace Underwriting Managers Ltd. (GAUM) and Medical Defence Union Services Ltd. (MDUSL). Mr Gentsch holds a degree in business administration of the University of St. Gallen, with a focus on risk management and insurance.

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

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

Andreas Zdrenyk has been appointed interim Chief Financial Officer of the Company as of February 28, 2005. He joined Zurich Re in 1998 and has gained in-depth insight into the Company s operations in various functions such as Chief Information Officer, Chief Financial Officer of Converium Zurich and Zurich Re Zurich, respectively, and Head of Internal Audit & Consulting. Prior to joining Zurich Re Andreas Zdrenyk spent a total of 16 years with the Winterthur Swiss Insurance Group, six years of which as regional Head of Internal Audit North America based in the United States. Since December 5, 2005, Mr Zdrenyk has been a director of Medical Defence Union Services Ltd. (MDUSL). Andreas Zdrenyk holds a Master s of Business Administration degree from Cox School of Business, Dallas, USA and a Master s of Information Systems/Information Technology degree from the Swiss Association of Commerce, Zurich, Switzerland.

Member of the GEC as of February 1, 2006

Curricula Vitae

Inga K. Beale assumed the position of Chief Executive Officer of Converium as of February 1, 2006. She joined the Prudential Assurance Company, London, UK in 1982 as an underwriter specializing in reinsurance. In 1992 she joined GE Insurance Solutions where she headed up the UK Reinsurance Underwriting team. In 2001, Inga Beale took on the role of Global Underwriting Audit Leader in Kansas City, USA. Ms Beale became Global Underwriting CoE Leader in 2002 and in 2003 assumed responsibility for the Property & Casualty reinsurance business throughout Continental Europe, the Middle East and Africa. In 2004, she was appointed President and Chairman of the Board of Management of GE Frankona Rückversicherungs-AG in Munich, Germany. In 1987 she became an Associate of the Chartered Insurance Institute (ACII). She attended Newbury College, UK, where in 1981 she qualified in business studies, majoring in economics, mathematics and accountancy.

Management contracts

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

Compensation, shareholdings and loans

Board remuneration

For the office term 2005/2006, basic cash compensation for an ordinary Board member, set at CHF 100,000 (US$ 80,380), includes compensation for membership of one Committee. Board members are entitled to receive equity compensation granted at the end of the respective period for which it is due, which shall comprise Converium shares equal to a value of CHF 25,000 (US$ 20,095) with a restriction period of three years, and share options equal to a value of CHF 25,000 (US$ 20,095) calculated on the Black-Scholes formula on the basis of Converium s share price at the beginning of the period. The Chairman is entitled to an increase of 50% and the Vice Chairman to one of 25% of the individual elements of the compensation package. The following compensation was agreed for membership of a second and third Committee:

CHF 4,000 (US$ 3,215) for membership of a second Committee

CHF 3,000 (US$ 2,411) for membership of a third and any subsequent Committee and additionally,

CHF 5,000 (US$ 4,019) if the member holds one or more chairmanships in the Committees.

These were the same levels as in 2003 and 2004.

With effect from January 1, 2005 it was agreed that non-executive members of the Board of Directors shall receive compensation of CHF 12,440 (US$ 10,000) annually for a membership in the Board of Directors and CHF 6,220 (US$ 5,000) annually for a membership in a Committee of Converium Reinsurance (North America) Inc.

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In consideration of the increased workload of the Board members it was agreed that starting as of the date of the Ordinary General Meeting in April 2005 they shall receive an additional compensation for any Board or Committee meetings in addition to the regular number of meetings as follows:

CHF 5,000 (US$ 4,019) for any additional meeting with physical presence by the member

CHF 2,500 (US$ 2,009) for a meeting with attendance by phone or video conference by a member

Whereby the regular number of meetings is four Board meetings plus one Strategy Meeting of the Board and a total of seven Audit Committee meetings as well as four meetings each of the Finance, the Remuneration and the Nomination Committees.

The remuneration of the Board of Directors is not performance-related. The following table illustrates the compensation paid to each Board member in 2005. Cash compensation paid at the date of each Ordinary General Meeting comprises 50% of the cash compensation due for the ending annual period and 50% for the commencing annual period.

Total cash compensation (without expenses) paid to Board members in 2005

Peter C. Colombo	CHF	162,000
	(US$	130,216)
Georg Mehl	CHF	137,000
	(US$	110,121)
Terry G. Clarke	CHF	1,835,186[1]
	(US$	1,475,123)[1]
Markus Dennler	CHF	56,000
	(US$	45,013)
Derrell J. Hendrix	CHF	100,000
	(US$	80,380)
Rudolf Kellenberger	CHF	53,500
	(US$	43,003)
George G.C. Parker	CHF	109,000
	(US$	87,614)
Anton K. Schnyder	CHF	104,000
	(US$	83,595)

[1] Includes compensation for services rendered as member of the Board of Directors, Managing Director and Chief Executive Officer.

In 2005 no compensation was paid to a former member of the Board of Directors.

Shareholdings of Board members in Converium as of December 31, 2005

	Shares allocated in 2005	Shares held at Dec 31, 2005
Peter C. Colombo	1,128	4,623
Georg Mehl	940	3,098
Terry G. Clarke	752	7,315
Markus Dennler	0	0
Derrell J. Hendrix	752	1,179
Rudolf Kellenberger	0	0
George G. C. Parker	752	1,979[1]
Anton K. Schnyder	752	1,179

[1] 1,679 shares and 600 ADSs.

Converium has retained the RISConsulting Group LLC, of which Mr Hendrix is co-owner and Chief Executive Officer, for certain consulting services. Converium paid total fees of US$ 20,833 (CHF 25,918) to the RISConsulting Group LLC for services rendered in 2005. Mr Hendrix is also a manager and owner of approximately 57% of the outstanding share capital of RISC Ventures LLC, a Delaware-based limited liability company created to manage and operate companies engaged in commercializing technologies and intellectual properties developed by the RISConsulting Group LLC and its affiliates. In April 2004, Converium AG invested US$ 2.0 million in RISC Ventures LLC for an approximate 17.5% ownership interest in that entity. Converium sold its 17.5% ownership interest in RISC Ventures LLC to a third party at book value on October 28, 2005.

In 2005 neither Converium nor any of its subsidiaries granted loans, advance payments or credit lines to Board members, senior management or parties closely related to them. As of the end of December 2005 no such loans, advance payments or credit lines are outstanding. No shares and options are held by closely linked parties of the members of the Board.

Options[1] held by Board members as of December 31, 2005

	Number of options										
Year of grant	**Peter C. Colombo**	**Georg Mehl**	**Terry G. Clarke**	**Markus Dennler**	**Derrell J. Hendrick**	**Rudolf Kellenberger**	**George G. C. Parker**	**Anton K. Schnyder**	**Expiry date**	**Subscription ratio**	**Strike[2] price**
2002	1,406	1,125	681	n.a.	937	n.a.	937	937	Oct 30, 12	1:1	CHF 28.67
2003	2,797	2,237	1,864	n.a.	1,864	n.a.	1,864	1,864	Nov 27, 13	1:1	CHF 27.03
2004	2,172	1,810	1,448	n.a.	1,448	n.a.	1,448	1,448	Oct 27, 14	1:1	CHF 14.80
2005	4,889	4,074	3,259	0	3,259	0	3,259	3,259	Oct 12, 15	1:1	CHF 33.22
Total	**11,264**	**9,246**	**7,252**	**0**	**7,508**	**0**	**7,508**	**7,508**			

1 Options vest immediately, have a term of 10.5 years and an exercise price equal to fair market value at the beginning of the period for which they are granted.

2 The strike price of all options outstanding prior to the Rights Offering in 2004 was adjusted in 2005 in order to account for the dilution of the value of the options as a

result of the Rights Offering. The reduction in the strike price maintains the same Black-Scholes value of the option before and after the Rights Offering and does not reflect any other decrease in the share price.

GEC remuneration

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

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

The Remuneration Committee determines the awards paid out to the GEC. The performance-based incentive component consists of the Annual Incentive Plan (AIP) and the Long-Term Incentive Plan (LTIP). A minimum of 25% of the performance-based compensation paid under the AIP is paid in the form of Converium shares. The LTIP is part of Converium s executive share ownership program and designed to align the interests of management closely with those of shareholders as well as to encourage stock ownership. 50% of the award paid out under the LTIP is delivered in Converium shares and the other 50% of the award is paid out in non-qualified options.

Shareholdings of GEC members[1] in Converium as of December 31, 2005

	Shares[2] granted in 2005	Shareholdings as of December 31, 2005 Unvested shares	Vested shares [3]
Hans Peter Boller	18,319	35,184	20,500
Christian Felderer	16,283	29,059	9,003
Benjamin Gentsch	24,849	46,129	48,887
Christoph Ludemann	17,377	30,518	5,935
Frank Schaar	23,064	45,775	14,630
Andreas Zdrenyk	13,625	22,079	6,788

1 For Terry G. Clarke see Board remuneration.

2 Shares granted in 2005 include

shares awarded under the LTIP, which are subject to various vesting schedules and shares purchased through the employee stock purchase plan. During the vesting period there is a risk of forfeiture.

[3] Includes shares held by closely linked parties.

Total aggregate compensation of all officers of the GEC in 2005 was US$ 4.6 million (CHF 5.7 million). This total includes base salary and cash awards made under short- and long-term incentive plans paid during 2005, and the estimated value of other compensation-related items. The GEC members agreed to waive any award under the AIP for 2004 otherwise payable in 2005.

Two members of the GEC gave up their functions during 2005. In line with contractual obligations a total of US$ 3.8 million (CHF 4.8 million) (including share awards) was paid to these individuals in 2005. No further payments were made to former members of the GEC.

GEC members held shares and options at the end of December 2005. Some were awarded under Converium s AIP and LTIP, some converted to Converium shares and options from employee participation plans of Converium s former parent, Zurich Financial Services, and others bought in conjunction with the Initial Public Offering or otherwise. No options are held by closely linked parties. GEC members participate in local pension plans. More information about Converium s employee participation and pension plans is contained on pages 91 and 94 of the notes to the financial statements.

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Options[1] held by GEC members[2] as of December 31, 2005

	Number of options								
Year of grant	**Hans Peter Boller**	**Christian Felderer**	**Benjamin Gentsch**	**Christoph Ludemann**	**Frank Schaar**	**Andreas Zdrenyk**	**Expiry date**	**Subscription ratio**	**Strike[3] price**
2001	22,375	957	22,965	0	53,030	974	Jun 11, 12	1:1	CHF 26.50
2001	0	0	211	0	0		Jan 31, 06	1:1	CHF 26.50
2001	0	0	605	0	0		Jan 13, 07	1:1	CHF 26.50
2002	2,314	1,791	2,613	0	4,123	1,791	Oct 01, 12	1:1	CHF 27.59
2002	2,315	1,792	3,857	0	4,123	1,792	Apr 01, 13	1:1	CHF 18.00
2003	5,444	4,423	10,208	3,012	9,456	4,423	Oct 01, 13	1:1	CHF 15.07
2003	4,311	3,385	5,974	2,037	5,649	2,213	Apr 01, 14	1:1	CHF 16.09
2004	7,790	6,059	9,781	8,958	9,852	3,583	Oct 01, 14	1:1	CHF 16.28
2004	7,790	6,059	9,781	7,423	9,852	3,583	May 01, 15	1:1	CHF 8.64
2004	26,822	20,862	33,677	25,551	33,913	12,337	Jun 22, 15	1:1	CHF 8.64
2005	26,596	23,642	33,394	25,231	33,488	18,663	Oct 01,15	1:1	CHF 11.60
2005	27,044	24,039	33,955	25,654	34,050	18,976	Apr 01, 16	1:1	CHF 13.05
Total	**132,801**	**93,009**	**167,021**	**97,866**	**197,536**	**68,335**			

1 Options have an exercise price

equal to the market value of the shares or ADSs on the date of grant, vest 25% immediately on the grant date and 25% each year thereafter, and have a 10.5-year term.

2 For Terry G. Clarke see Board remuneration.

3 The strike price of all options outstanding prior to the Rights Offering in 2004 was adjusted in 2005 in order to account for the dilution of the value of the options as a result of the Rights Offering. The reduction in the strike price maintains the same Black-Scholes value of the option before and after the Rights Offering and does not reflect any other decrease in the share price.

Shareholders participation rights

Converium s registered shareholders are granted rights to participate at Ordinary and Extraordinary General Meetings (General Meeting). The procedure for convocation is set out in Article 9 of the Articles of Incorporation. Agenda items are set by the Board of Directors. According to Article 10 of the Articles of Incorporation, shareholders representing a nominal amount of at least CHF 1 million may request agenda items at least 45 days prior to the General Meeting. The General Meeting is convened by the Board of Directors or, if necessary, by the auditors, at least twenty days before the date of the meeting in accordance with the Articles of Incorporation. A notice of the meeting states the place and time of the meeting, the items on the agenda, and the motions of the Board of Directors and of the shareholders who requested the meeting. In case of elections, the names of the nominated candidates are specified. If these conditions have not been met, no resolutions are passed, except resolutions to convene an Extraordinary General Meeting or to initiate a special audit. Motions within the limits of the items on the agenda and negotiations that do not require the passing of a resolution do not require such an announcement. The business report and the report of the auditors are made available for inspection by the shareholders at the registered office of the company no later than twenty days before the Ordinary General Meeting. Each share grants the holder the right to one vote. Only shareholders listed in the share register on a cut-off day prior to the General Meeting as defined by the Board of Directors are authorized to take part. In view of the Ordinary General Meeting 2006, all shareholders registered on April 7, 2006 in Converium s share register as shareholders with voting rights are eligible to vote. Registered shareholders may exercise all further membership rights, including the right to appoint a proxy, convene an Extraordinary General Meeting, place items on the agenda of a General Meeting, and other rights defined in the Swiss Code of Obligations. A shareholder may be represented by his legal representative, another person who does not need to be a shareholder of the company, by independent proxies or by depositaries, authorized in writing. The General Meeting passes resolutions and holds elections with the majority of votes cast, excluding abstentions and void and blank votes. As an exception, the following matters, which are set in Converium s Articles of Incorporation, require the approval of at least two-thirds of votes represented, and an absolute majority of the nominal values of the shares represented is required.

1. An alteration of the purpose of Converium.
2. The creation of super-voting shares.
3. Restrictions on the transfer of registered shares and the removal of such restrictions as well as restrictions to vote and the removal of such restrictions.

4. An authorized or contingent increase of share capital.
5. An increase of share capital by conversion of capital surplus, by contribution in kind or for the purpose of an acquisition of assets and the grant of special rights.
6. A restriction or exclusion of the subscription right or advance subscription right.

7. A change of Converium s registered office.

8. The dissolution of Converium without liquidation.

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

Changes of control

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

Upon a take-over situation all outstanding options and shares granted to the members of the GEC or other staff would vest immediately, unless the acquisition or tender offer is approved by the Board of Directors.

Auditors

PricewaterhouseCoopers Ltd, Zurich, Switzerland assumed their initial mandate as Converium s external auditors on June 19, 2001, the date of Converium s incorporation. The duration of the mandate is one year, from Ordinary General Meeting to Ordinary General Meeting. At the Annual General Meeting on April 12, 2005 PricewaterhouseCoopers Ltd was re-appointed for another one-year term as Converium s auditors. The current lead audit engagement partner assumed the mandate on May 27, 2003. The fees for services rendered, excluding expenses, related to the year 2005 are:

Audit fees	CHF	13,847,000
(including fees related to the restatement)	(US$	11,130,000)
Audit-related fees	CHF	829,000

	(US$	666,000)
Tax advisory services	CHF	120,000
	(US$	96,000)
Other non-audit services	CHF	131,000
	(US$	105,000)
Total fees	CHF	14,927,000
	(US$	11,997,000)

The Audit Committee reviews the scope and general extent of the internal and external audit, including its cost effectiveness, the independence and objectivity of the external auditors, and the nature and extent of non-audit services provided by the external auditors. In 2005 the Audit Committee met six times physically and held seven conference calls with the external auditors.

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Sarbanes-Oxley Act

As a foreign registrant listed on the New York Stock Exchange, Converium is subject to all relevant United States securities laws and regulations including the US Sarbanes-Oxley Act (the Act) of 2002. The US Congress enacted this law as a response to several large insolvencies of registered entities involving fraudulent accounting and financial reporting practices. Converium is legally required to comply with Section 404, a critical section regarding internal controls and procedures for financial reporting for the year ending December 31, 2006. Converium is using the Act as an opportunity to further streamline and document its business and control processes, thus making them more effective and efficient. Converium has dedicated a qualified project team to focus on the implementation of the compliance process required by the Act.

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

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

Regular meetings of non-management directors without any participation of management directors

In 2005 Converium did not comply with this requirement as Terry G.Clarke, member of the Board of Directors and CEO attended all meetings of the Board of Directors.

Responsibility of the Audit Committee for the appointment of external auditors

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

Shareholders votes on equity compensation plans

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

Nominating/Corporate Governance and Compensation Committee must have a written charter

The main duties and responsibilities of the Nomination and Remuneration Committees are defined in the Organizational By-laws. Converium s Nomination and Remuneration Committees do not have separate written charters. The Organizational By-laws are available on the internet at www.converium.com. Converium has no separate Corporate Governance Committee. The Board of Directors addresses corporate governance issues that are not especially assigned to one of the Committees.

Separate reports of the Board of Directors Committees to be included in the annual report

Under Swiss company law all reports addressed to the shareholders are provided and signed by the Board of Directors. The Committees prepare and submit their reports to the Board of Directors.

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Information policy

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

Investor Relations

Zuzana Drozd
Head of Investor Relations
Converium AG
General Guisan-Quai 26
P.O. Box 8022
Zurich, Switzerland
Phone +41 44 639 9120
E-mail zuzana.drozd@converium.com

Shareholder contact

Livia Gallati
Shareholder Services
Converium Holding AG
Dammstrasse 19
6301 Zug, Switzerland
Phone +41 44 639 9335
E-mail shareholder.services@converium.com

Media Relations

Esther Gerster
Head of Public Relations
Converium AG
General Guisan-Quai 26
P.O. Box
8022 Zurich, Switzerland
Phone +41 44 639 9022
E-mail esther.gerster@converium.com

Transfer Agent & Registrar

For American Depository Shares (ADS)
traded on the New York Stock Exchange:
The Bank of New York
Corporate Trust Office
101 Barclay Street
New York, NY 10286, USA
Phone +1 646 885 3300

Auditors

PricewaterhouseCoopers Ltd
Birchstrasse 160
8050 Zurich, Switzerland
Phone +41 58 792 4400

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Financial Statements

Converium Holding AG and Subsidiaries

Converium Holding AG

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The Converium share

The Converium share in 2005

Despite the considerable advances by equity markets across the world over 2005, the Converium share outperformed the major indices, including the headline Swiss Market Index (SMI) on the Swiss Exchange (over a 30% increase in 2005), and the European Insurance Index. Likewise, Converium ADRs outperformed the US Insurance index, mirroring the gains made by our Swiss shares in the second half of the year.

Converium Ordinary Shares*	- 64.8%
Bloomberg European Insurance Index*	- 22.0%
Swiss Market Index*	19.8%
Converium ADSs**	- 77.5%
Bloomberg US Insurance Index**	20.4%
Dow Jones Industrial Index**	8.4%

* underlying figures in CHF

** underlying figures in US$

Converium Ordinary Shares*	42.2%
Bloomberg European Insurance Index*	27.8%
Swiss Market Index*	31.5%
Converium ADSs**	23.9%
Bloomberg US Insurance Index**	12.0%
Dow Jones Industrial Index**	- 0.1%

* underlying figures in CHF

** underlying figures in US$

Key share data for 2005

Shares registered as at December 31, 2005	146,689,462
SWX Swiss Exchange	
Share price as at December 31, 2005 in CHF	14.50
Year High in CHF	14.60
Year Low in CHF	9.00
Average price in 2005 in CHF	11.62
Average daily trading volume	1,325,148
Market capitalization as at December 31, 2005 in CHF	2,126,997,199
Basic earnings per share in CHF	0.58
Diluted earnings per share in CHF	0.57
Book value per share as at December 31, 2005 in CHF	14.88
New York Stock Exchange	
ADS price as at December 31,2005 in US$	5.54
Year High in US$	5.54
Year Low in US$	3.59

Major shareholders

Odey Asset Management LLP, London, United Kingdom: 11.2% (date of notification March 4, 2005)

On January 16, 2006 Odey Asset Management informed that it has reduced its shareholdings to 5.3%. On February 10, 2006 Odey Asset Management disclosed that it has reduced its shareholdings to 4.96%.

Dodge & Cox, San Francisco, United States: 5.04% (date of notification June 16, 2005)

Capital Group Companies Ltd, Los Angeles, United States: below 5% (date of notification June 24, 2005)

Zurich Cantonal Bank, Zurich, Switzerland: 5.87% (date of notification August 18, 2005),

Patinex AG, Wilen, Switzerland: 12.49% (date of notification December 19, 2005), 5.06% in the form of 7,425,000 registered shares and 7.43% in the form of purchase rights with entitlement to purchase 10,900,000 registered shares.

Find more information on major shareholders in the Corporate Governance section on page 11.

Financial calendar

April 11, 2006	Annual General Meeting
May 23, 2006	First quarter results
August 8, 2006	Half-year results
November 7, 2006	Third quarter results

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Restatement overview

In February 2006, Converium restated its consolidated financial statements as of and for the years ended December 31, 2004, 2003, 2002, 2001, 2000, 1999 and 1998 and for each of the quarters ended March 31, 2003 through June 30, 2005, and the Notes related thereto as discussed further in Note 3 to our 2005 consolidated financial statements.

Background to the restatement: internal review

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

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

Restatement overview

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

The Restatements were included in the Company s 2004 Form 20-F/A filed with the SEC on February 28, 2006.

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Selected financial and other data

We have prepared our financial statements included in this annual report in accordance with accounting principles generally accepted in the United States of America (US GAAP). The following selected financial data highlights information that is derived from our financial statements found later in this annual report.

Income statement data

(US$ million, except per share information)

Year ended December 31

	2005	2004	2003	2002	2001
Revenues					
Gross premiums written	1,994.3	3,978.7	4,300.4	3,372.4	2,846.8
Less ceded premiums written	- 178.6	- 252.6	- 377.7	- 137.2	- 194.1
Net premiums written	1,815.7	3,726.1	3,922.7	3,235.2	2,652.7
Net change in unearned premiums	567.5	156.1	- 154.9	- 157.7	- 204.2
Net premiums earned	2,383.2	3,882.2	3,767.8	3,077.5	2,448.5
Net investment income	324.9	312.7	234.4	251.8	234.9
Net realized capital gains (losses)	25.5	46.5	18.4	- 10.3	- 18.4
Other (loss) income	- 13.4	- 8.2	17.5	31.6	2.9
Total revenues	2,720.2	4,233.2	4,038.1	3,350.6	2,667.9
Benefits, losses and expenses					
Losses, loss expenses and life benefits	- 1,775.9	- 3,342.5	- 2,760.1	- 2,491.1	- 2,460.6
Total costs and expenses	- 818.0	- 1,165.3	- 1,065.5	- 841.6	- 687.5
Amortization and impairment of goodwill[1]		- 94.0			- 7.8
Amortization of other intangible assets[1]	- 21.5	- 9.9	- 1.8		
Restructuring costs	- 20.5	- 2.7			- 50.0
Total benefits, losses and expenses	- 2,635.9	- 4,614.4	- 3,827.4	- 3,332.7	- 3,205.9
Income (loss) before taxes	84.3	- 381.2	210.7	17.9	- 538.0
Income tax (expense) benefit	- 15.6	- 201.3	- 32.8	17.9	182.4
Net income (loss)	68.7	- 582.5	177.9	35.8	- 355.6
Earnings (loss) per share					
Average number of shares (millions)	146.4	63.4	39.8	39.9	40.0
Basic earnings (loss) per share[2]	0.47	- 9.19	2.24	0.45	- 4.46
Diluted earnings (loss) per share[2]	0.46	- 9.19	2.23	0.45	- 4.46

Balance sheet data

(US$ million, except per share information)

Year ended December 31

	2005	2004	2003	2002	2001
Total invested assets	6,634.3	7,786.2	7,502.0	6,117.3	4,892.1
Total assets	11,825.9	14,187.3	13,126.9	10,675.0	8,777.9
Reinsurance liabilities	8,200.8	9,898.9	8,428.6	6,986.7	5,871.3
Debt	391.2	391.1	393.1	392.9	206.1
Total liabilities	10,172.5	12,452.5	11,198.9	9,079.8	7,277.1
Total shareholders equity	1,653.4	1,734.8	1,928.0	1,595.2	1,500.8
Book value per share					
Book value per share	11.29	11.86	48.47	39.97	37.52

Segment data
(US$ million)
Year ended December 31

	2005	2004	2003	2002	2001
Net premiums written by segment:					
Standard Property & Casualty Reinsurance	739.0	1,377.5	1,299.9	974.2	1,015.0
Specialty Lines	737.7	1,565.3	1,119.0	962.4	443.3
Life & Health Reinsurance	306.4	313.2	254.5	230.0	196.0
Run-off	32.6	470.1	1,249.3	1,068.7	998.4
Total net premiums written	1,815.7	3,726.1	3,922.7	3,235.2	2,652.7
Ongoing non-life combined ratio	107.2%	106.1%	91.9%	101.3%	116.4%[3]

[1] For a discussion of goodwill and other intangible assets Converium s compliance with SFAS No.142, *Goodwill and Other Intangible Assets* , see Notes 2 (n) and 9 to our 2005 consolidated financial statements. In 2004, we recorded US$ 94.0 million of impairment of goodwill and in 2001, we recorded US$ 7.8 million of amortization of goodwill.

[2] For the periods 2001 through 2004, the figures have been restated to reflect the facts of the Rights Offering that occurred in October 2004 (see Note 25 to our 2005 consolidated financial statements).

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

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

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

The financial statements and certain financial data set forth in our 2005 consolidated financial statements for the years ended December 31, 2004 and 2003 and as of December 31, 2004 and in our management s discussion and analysis for the same periods, reflect restatements made in February 2006 of our previously issued financial statements for these periods. See Note 3 to our 2005 consolidated financial statements for additional information on the Restatement.

Overview

Converium Holding AG and subsidiaries (Converium) is an international reinsurer whose business operations are recognized for innovation, professionalism and service. In terms of geographical markets we focus on Europe, Asia, the Middle East and Latin America. We pursue this strategy as a multi-line writer offering all major lines of business. In addition, we underwrite and manage US originated business through Converium AG, Zurich, with a focus on shorter-tail lines. We actively seek to develop efficient and effective reinsurance solutions to complement our target clients business plans and needs. We focus on core underwriting skills and on developing close client relationships while honoring our and our clients relationships with intermediaries.

We 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.

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

In the first quarter of 2005, Converium formally adopted a change to the reporting line of the management of its North American operations. This change was introduced to reflect the placement of Converium Reinsurance (North America) Inc. (CRNA) into orderly run-off and management s desire to monitor this business on a stand-alone basis. Therefore, Converium s business is now organized around three ongoing operating segments: Standard Property & Casualty Reinsurance, Specialty Lines and Life & Health Reinsurance, which are based principally on global lines of business, in addition to a Run-Off segment. The Run-Off segment includes all business; both non-life and life, originating from CRNA and Converium Insurance (North America) Inc. (CINA), excluding the US originated aviation business. In addition to the four segments financial results, the Corporate Center carries certain administration expenses, such as costs of the Board of Directors, the Global Executive Committee and other corporate functions as well as expenses not allocated to the operating segments. In addition to reporting segment results individually, management also aggregates results for Standard Property & Casualty Reinsurance and Specialty Lines into ongoing non-life business, as management considers this aggregation meaningful in understanding the performance of Converium. This measure excludes the non-life business contained within the Run-Off segment in line with management s desire to monitor this segment on a stand-alone basis. The aggregation of the Life & Health Reinsurance segment with the ongoing non-life business is referred to as total ongoing business. Segment data for all years is presented in line with the new reporting segments.

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

BBB+ and B++, respectively, with a stable outlook.

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Results of operations

(US$ million)			
Year ended December 31	2005	2004	2003
Pre-tax operating income (loss)	100.8	-321.1	194.1
Net realized capital gains (losses)	25.5	46.5	18.4
Impairment of goodwill		-94.0	
Amortization of other intangible assets	-21.5	-9.9	-1.8
Restructuring costs	-20.5	-2.7	
Income (loss) before taxes	84.3	-381.2	210.7
Net income (loss)	68.7	-582.5	177.9

For the year ended December 31, 2005 we reported net income of US$68.7 million versus a net loss of US$582.5 million for the same period in 2004. Our 2005 figures reflect the reduction in our overall business volume as a result of the ratings downgrades that occurred in 2004. Apart from this, our results were positively impacted by the net gain of commutations on the technical result in the amount of US$93.7 million carried out during 2005, the net favorable impact of prior accident years on the technical result in the amount of US$12.1 million, resulting from the net favorable development of prior years loss reserves of US$75.5 million, offset by the reductions in premium and acquisition costs of US$63.4 million and a satisfactory net investment income. Negatively impacting results was the net impact on underwriting results of Winter Storm Erwin, the Continental European floods and the US hurricanes amounting to US$164.8 million, with an effect of 7.7 points on our 2005 ongoing non-life combined ratio of 107.2% (excluding US$15.6 million of catastrophe losses within the Run-Off segment). In addition, our results were impacted by increased expenditures relating to the Restatement and US$20.5 million of restructuring costs. Accordingly, the implementation of our cost management measures during 2005 resulted in only a marginal reduction in operating and administration expenses.

Our 2004 results were negatively impacted by several items that resulted in measurable effects on our financial results. These items included the net negative impact of prior accident years on the technical result in the amount of US$629.4 million, resulting from net adverse development of prior years loss reserves of US$579.2 million, offset by the reductions in premiums, related losses and acquisition costs. The resulting ongoing non-life combined ratio was 106.1 % for the year ended December 31, 2004. In addition, we established a full valuation allowance against the net deferred income tax balances previously carried at CRNA of US$347.6 million and a valuation allowance against the net deferred tax assets at Converium AG of US$126.1 million. In addition, CRNA recorded an impairment of goodwill of US$94.0 million.

We reported pre-tax operating income (defined as income (loss) before taxes excluding net realized capital gains (losses), impairment of goodwill, amortization of other intangible assets and restructuring costs) of US$100.8 million for the year ended December 31, 2005 as compared to a pre-tax operating loss of US$321.1 million for the same period in 2004. We use 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.

For the year ended December 31, 2005, gross premiums written decreased 49.9%, net premiums written decreased 51.3% and net premiums earned decreased 38.6%. As referenced above, the reduction in gross and net premiums written primarily resulted from the overall reduction in business volume as a result of the ratings downgrades that occurred in 2004.

We had net realized capital gains of US$25.5 million and US$46.5 million for the years ended December 31, 2005 and 2004, respectively. Net realized capital gains for 2005 include US$2.4 million related to the partial impairment of our 48% participation in SATEC (which we sold in December 2005; see Note 19 to our 2005 consolidated financial statements). The 2004 results include net realized capital gains due to the sale of equity securities to adjust our asset allocation to reduce investment portfolio risks, offset by impairment charges of US$6.2 million.

Other loss for the years ended December 31, 2005 and 2004 was US$13.4 million and US$8.2 million, respectively. Other loss for 2005 primarily includes a US$9.0 million charge related to our strategic alliance with the Medical Defence Union (MDU), (See Note 19 to our 2005 consolidated financial statements for further information) and a charge of US$2.4 million related to the impairment of our *usufruct* agreements with the co-owners of SATEC. Other loss for the year ended December 31, 2004 includes an amount of US$20.0 million for a retroactive stop-loss retrocession cover from National Indemnity Company.

Our effective tax rate was 18.5% for the year ended December 31, 2005 as compared to (52.8%) and 15.6% for the same periods of 2004 and 2003, respectively. For the year ended December 31, 2005, Converium s consolidated income tax expense of US$15.6 million is comprised of US$11.2 million of current income tax expense and US$4.4 million of deferred income tax expense. The current income tax portion reflects the net tax paying position of some affiliated companies and the financial statement benefit recognized for net operating loss utilization. Due to the establishment of a full valuation allowance on the net deferred tax position for certain other affiliated companies, no deferred income tax expense has been reported for these entities. The 2004 consolidated income tax expense reflects an additional expense of US$ 473.7 million related to the establishment of a full valuation allowance against the net deferred income tax balances previously carried at CRNA (US$ 347.6 million) and a valuation allowance against the net deferred tax assets at Converium AG (US$ 126.1 million).

For the year ended December 31, 2003, we reported net income of US$ 177.9 million, which was reflective of our non-life underwriting results and the realization of US$ 18.4 million of net capital gains on our investment portfolio. Pre-tax operating income was US$ 194.1 million for the year ended December 31, 2003.

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

Reinsurance results

(US$ million) Year ended December 31	2005	2004	% change 2005 over 2004	2003	% change 2004 over 2003
Gross premiums written	1,994.3	3,978.7	-49.9	4,300.4	-7.5
Net premiums written	1,815.7	3,726.1	-51.3	3,922.7	-5.0
Net premiums earned	2,383.2	3,882.2	-38.6	3,767.8	3.0

Gross and net premiums written decreased for the year ended December 31, 2005 over the same period in 2004 and 2003, primarily due to the reduction in overall business volume caused by the placement of CRNA into orderly run-off and the ratings downgrades, both of which occurred in 2004. In 2004, the reduction in gross and net premiums written was largely due to clients exercising their rights of special termination under various reinsurance contracts and adjustments of ultimate premium estimates.

For the year ended December 31, 2005, net premiums written in Standard Property & Casualty Reinsurance decreased by US$ 638.5 million, or 46.4%, Specialty Lines decreased by US$ 827.6 million, or 52.9% and net premiums written in the Life & Health Reinsurance segment decreased by US$ 6.8 million, or 2.2%. On a consolidated basis we ceded 9.0% and 6.4% 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. This earnings pattern will not continue into 2006 as these premiums will be fully earned.

(US$ million) Year ended December 31	2005	2004	% change 2005 over 2004	2003	% change 2004 over 2003
Losses, loss expenses and life benefits	-1,775.9	-3,342.5	-46.9	-2,760.1	21.1
Ongoing non-life loss ratio (to net premiums earned)	77.4%	77.6%	-0.2pts	66.8%	10.8pts

Our losses, loss expenses and life benefits incurred decreased for the year ended December 31, 2005 as compared to the same period of 2004 as a result of commutations carried out during 2005, primarily with our North American cedents (see Commutations below), the net favorable development of prior years loss reserves in the amount of US$ 75.5 million and a reduction in overall business volume. This decrease was partially offset by the effects of natural catastrophes that occurred during 2005, which added 7.7 points to the ongoing non-life loss ratio. The results for the year ended December 31, 2004 were primarily driven by the significant adverse development of prior years loss reserves that was recorded during 2004 on our US casualty reinsurance lines of business in the amount of US$ 579.2 million.

Development of prior years loss reserves

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

During early 2004, Converium announced that reported losses from prior year US casualty business had exceeded expected loss emergence and that the volatility of longer-tail risks was likely to persist for some time. This adverse loss-reporting trend continued and accelerated into mid-2004 and prompted Converium to initiate additional reviews of its US business from an integrated underwriting, claims and actuarial perspective in order to examine the adequacy of prior years provisions. In addition, in order to obtain an external review of our overall reserve position, we commissioned the actuarial consulting firm Tillinghast-Towers Perrin to perform an independent actuarial review of our non-life loss and allocated loss expense reserves as of June 30, 2004 in respect of the Zurich and New York originated businesses. The outcome of these in-depth internal and external reviews resulted in net adverse development of prior years loss reserves by US$ 579.2 million for the year ended December 31, 2004. This action was taken in response to the continued adverse loss emergence due to increased reporting activity from clients relating to US casualty business written from 1997 to 2001 as well as deterioration from European non-proportional motor business written in recent years. The increased claims reporting was attributable to both frequency and severity. In the first quarter of 2005, Converium formally adopted a change to the reporting line of the management of its North American operations. This change was introduced to reflect the placement of CRNA into orderly run-off and management s desire to monitor this business on a stand-alone basis. Therefore, Converium s business is now organized around three ongoing operating segments: Standard Property & Casualty Reinsurance, Specialty Lines and Life & Health Reinsurance, which are based principally on global lines of business, in addition to a Run-Off segment. The Run-Off segment includes all business; both life and non-life, originating from CRNA and CINA, excluding the US originated aviation business. This formal adoption of the change in segment structure and reporting resulted in a change of the previously reported non-life net adverse development of prior years loss reserves of US$ 565.7 million to US$ 579.2 million for the year ended December 31, 2004.

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

For the year ended December 31, 2003, we recorded net favorable development of prior years loss reserves of US$ 63.5 million. The development of prior years loss reserves for 2003 consisted of net favorable development of prior years loss reserves of US$ 94.7 million in the Standard Property & Casualty Reinsurance segment, primarily comprised of net favorable development of prior years loss reserves in the Property line of business in the amount of US$ 100.3 million, offset by net adverse development of prior years loss reserves in the Motor line of business in the amount of US$ 16.6 million. The net favorable development of prior years loss reserves of US$ 101.0 million in the Specialty Lines segment primarily related to net favorable development of prior years loss reserves within the Aviation & Space, Credit & Surety and Professional Liability and other Special Liability lines of business in the amounts of US$ 105.9 million, US$ 28.3 million and US$ 17.7 million, respectively and was partially offset by net adverse development of prior years loss reserves in the Workers Compensation line of business in the amount of US$ 49.3 million. In the Run-Off segment, we recorded net adverse development of prior years loss reserves of US$ 132.2 million. The reserve releases in 2003 were primarily from the 2002 underwriting year, while the US business written in 1997 to 2001 mostly saw continued strengthening.

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 US$ 10.0 million or more:

Winter Storm Erwin	US$ 32.5 million	
Continental European Floods	US$ 24.8 million	
Hurricane Katrina	US$ 44.6 million	*
Hurricane Rita	US$ 16. 4 million	*
Hurricane Wilma	US$ 46.5 million	*

* US$ 15.6 million, in total for all these hurricanes are reported in the Run-Off segment

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These natural catastrophes added 7.7 points to the ongoing non-life loss ratio of 77.4% for the year ended December 31, 2005. Excluding these events, our ongoing 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 US$ 154.5 million and in 2003, we recorded losses related to natural catastrophes for Typhoon Maemi (US$ 15.4 million) and the Algerian earthquake (US$ 10.6 million).

Based on current estimates of losses from the catastrophic events that occurred during 2005, we will 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 9 to our 2005 consolidated financial statements for further information on our Helix catastrophic protection.

Commutations

In conjunction with the placement of CRNA into orderly run-off and the execution of its related commutation strategy, we commuted gross (net) loss reserves, primarily with North American cedents, in the amount of US$ 651.1 million (US$ 521.6 million) for the year ended December 31, 2005, resulting in a net commutation gain on the segment s technical result of US$ 93.7 million. Commutations can accelerate the realization of profit inherent in long tail reserves by crystallizing outstanding claims reserves into payments, which are discounted to reflect the time value of money. Since commutation payments essentially reflect a discounted present value of estimated future cash flows, future investment income earned is expected to decline as the assets backing those reserves are liquidated to make payments. The total reduction of gross (net) loss reserves in the Run-off segment, after commutations and loss and loss expenses paid, was US$ 1,096.7 million (US$ 854.9 million) from US$ 2,560.8 million (US$ 2,176.1 million) in 2004 to US$ 1,464.1 million (US$ 1,321.2 million) in 2005.

In 2005, on a CRNA local statutory basis, we commuted gross (net) loss reserves in the amount of US$ 651.1 million (US$ 372.9 million) for the year ended December 31, 2005, resulting in a net commutation gain on CRNA s net income of US$ 60.5 million. The total reduction of gross (net) loss reserves from commutations and other settlements from CRNA was US$ 1,109.5 million (US$ 653.1 million) from US$ 2,643.0 million (US$ 1,770.0 million) in 2004 to US$ 1,533.5 million (US$ 1,116.9 million) in 2005.

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, while in 2003 we strengthened net reserves for this closed block of variable annuity business by US$ 55.5 million. As a result of the positive performance of the US stock markets, GMDB s net amount at risk further decreased to US$ 478.2 million at December 31, 2005 from US$ 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 US$ 692.9 million arising out of the terrorist attacks. Net of retrocessional recoveries and the cap from ZFS, through its subsidiaries, our recorded losses and loss expenses were US$ 289.2 million. While the cap does not cover non-payment by the retrocessionaires of CRNA, our only retrocessionaire for this business is a unit of ZFS. This business is fully collateralized in the form of letters of credit. Therefore, we are not exposed to potential non-payments by retrocessionaires for these events in excess of the US$ 289.2 million cap, although we will be exposed to the risk of non-payment of ZFS units and we are exposed to credit risk from these subsidiaries of ZFS. 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 US$ 8.7 million, but as our losses are capped at US$ 289.2 million by ZFS, as described above, this ruling did not have an effect on our net loss position. In 2005, 2004 and 2003, there was no additional development in net reserves for the September 11th terrorist attacks.

Asbestos and environmental exposures

As of December 31, 2005 and 2004, we had reserves for environmental impairment liability and asbestos-related claims of US$ 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 14.1 years at December 31, 2005 and 13.6 years at December 31, 2004.

(US$ million) Year ended December 31	2005	2004	% change 2005 over 2004	2003	% change 2004 over 2003
Acquisition costs	-575.6	-912.4	-36.9	-832.0	9.7
Operating and administration expenses	-210.8	-219.8	-4.1	-202.5	8.5
Ongoing non-life acquisition costs ratio (to net premiums earned)	22.9%	24.5%	-1.6pts	21.3%	3.2pts
Ongoing non-life administration expense ratio (to net premiums written)	6.9%	4.0%	2.9pts	3.8%	0.2pts

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

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 ongoing non-life acquisition costs ratio remained relatively stable. Acquisition costs have decreased as a result of the reduction in overall business volume; however premiums are still being earned from business written in prior underwriting years. Offsetting this decrease was a shift in our mix of business from non-proportional to proportional, which generally carries higher acquisition costs. Our 2004 acquisition costs increased over 2003 in excess of the increase in earned premiums, which lead to a higher acquisition costs ratio.

Operating and administration expenses decreased for the year ended December 31, 2005 versus the same period in 2004. Our operating and administration expenses are reflective of the cost management measures implemented during 2005, but the full reduction was masked by expenditures relating to the Restatement that occurred during 2005/2006 and costs resulting from staff retention plans and expenses which we consider vital investments to facilitate a fast rebound, such as the additional fronting commission for the Global Aerospace Underwriting Management Ltd (GAUM) business. Although our operating and administration expenses decreased for the year ended December 31, 2005, the ongoing non-life administration expense ratio increased as compared to the same periods of 2004 and 2003 because of the significant reduction in net premiums written. We calculate our ongoing non-life administration expense ratio based on net premiums written. Using the alternative methodology based on net premiums earned would result in an ongoing non-life administration expense ratio for the year ended December 31, 2005 of 5.2%.

Investment results

(US$ million) Year ended December 31	2005	2004	2003
Investment income:			
Fixed maturities	221.3	198.3	120.4
Equity securities	5.9	14.8	12.1
Funds Withheld Asset	62.6	75.1	85.6
Other, net of expenses	35.1	24.5	16.3
Net investment income	324.9	312.7	234.4
Average net investment income yield (pre-tax)	4.1%	3.8%	3.3%
Net realized capital gains (losses)	25.5	46.5	18.4
Total investment results	350.4	359.2	252.8
Average total investment income yield (pre-tax)	4.4%	4.4%	3.5%
Change in net unrealized (losses) gains (pre-tax)	-38.4	-25.1	154.2
Total investment return (pre-tax)	312.0	334.1	407.0
Average total investment return (pre-tax)	4.0%	4.1%	5.7%
Average total invested assets (including cash and cash equivalents)	7,874.4	8,125.0	7,150.7

Investment results are an important part of our overall profitability. Our net investment income increased by US$ 12.2 million, or 3.9% for the year ended December 31, 2005 as compared to the same period in 2004. The increase largely resulted from the higher allocation to fixed maturities securities throughout the year as well as a general increase in the US short term yields. The decline in income from the Funds Withheld Asset is due to the declining asset balance. See Funds Withheld Asset . Our net investment income increased US$ 78.3 million, or 33.4% for the year ended December 31, 2004 as compared to the same period in 2003. The increase largely resulted from growth in invested assets during 2004, particularly in our fixed maturities portfolio, as well as income received from the transition of a fixed income bond fund to a direct fixed income investment portfolio. We paid fees in the amount of US$ 9.8 million, US$ 11.6 million and US$ 8.0 million to our asset managers and custodians in 2005, 2004 and 2003, respectively, including other investment related costs. Our average net investment income yield (pre-tax) was 4.1 % for the year ended December 31, 2005 as compared to 3.8% and 3.3% for the same periods in 2004 and 2003, 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, there is an increase in the reported average net investment income yield (pre-tax). Excluding this effect, the average net investment income yield (pre-tax) would have been 3.9%, 3.7% and 3.3% for the years ended December 31, 2005, 2004 and 2003, respectively.

Our average total investment income yield (pre-tax) was 4.4%, respectively, for the years ended December 31, 2005 and 2004 as compared to 3.5% for the same period in 2003. Yields are calculated based on the average of beginning and ending total invested assets balances (including cash and cash equivalents). The total investment income yield was flat in 2005 as compared to 2004. 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 as well as the decline in impairment charges compared to 2003. Our total investments results include US$ 9.2 million, US$ 6.2 million and US$ 27.4 million of impairment charges recorded during 2005, 2004 and 2003, respectively. See Critical accounting policies for details on our fixed maturities and equity securities impairment policy.

Our average total investment return (pre-tax) was 4.0% for the year ended December 31, 2005 as compared to 4.1 % and 5.7% for the same periods in 2004 and 2003, respectively. Our 2005 total investment return was stable compared to 2004 and was impacted by a strong performance of the European stock markets offset by increased interest rates in the US. In 2004, the return was driven by a reduction in net unrealized capital gains due to the realization of gains triggered by the sale of equity securities, partially offset by the continued positive development of the stock markets. In 2003, we had an increase in net unrealized capital gains as a result of the strong recovery of the stock markets.

Other

(US$ million)			
Year ended December 31	2005	2004	2003
Other (loss) income	-13.4	-8.2	17.5
Interest expense	-31.6	-33.1	-31.0
Impairment of goodwill		-94.0	
Amortization of other intangible assets	-21.5	-9.9	-1.8
Restructuring costs	-20.5	-2.7	
Income tax expense	-15.6	-201.3	-32.8

Other (loss) income: Other loss for the years ended December 31, 2005 and 2004 was US$ 13.4 million and US$ 8.2 million, respectively as compared to other income of US$ 17.5 million for the same period of 2003. Other loss for the year ended December 31, 2005 includes a US$ 9.0 million charge related to our strategic alliance with the MDU, (see Note 19 to our 2005 consolidated financial statements for further information) and a charge of US$ 2.4 million related to the impairment of our *usufruct* agreements with the co-owners of SATEC. Other loss for the year ended December 31, 2004 includes an amount of US$ 20.0 million for a retroactive stop-loss retrocession cover from National Indemnity Company.

Interest expense: Interest expense remained relatively stable for the year ended December 31, 2005 as compared to the same periods in 2004 and 2003. Interest expense primarily includes payment on CHNA s 7.125% senior debt note and the Guaranteed Subordinated Notes. See Note 13 to our 2005 consolidated financial statements for additional information on our outstanding debt.

Impairment of goodwill: Impairment of goodwill was nil for the year ended December 31, 2005 as compared to US$ 94.0 million and nil for the same periods in 2004 and 2003, respectively.

The impairment charge for 2004 reflects the application of SFAS No. 142, *Goodwill and Other Intangible Assets* , resulting from the assessment of the fair value of CRNA subsequent to the reserving actions taken during 2004 in respect of prior year reserve development on business written in North America and the subsequent decision to take a full valuation allowance against the net deferred tax asset at CRNA.

Amortization of other intangible assets: Amortization of other intangible assets was US$ 21.5 million for the year ended December 31, 2005 as compared to US$ 9.9 million and US$ 1.8 million for the same periods in 2004 and 2003, respectively. The amortization relates to the intangible asset for GAUM. The charge for 2005 has increased due to the fact that the remaining useful life of the intangible asset was reassessed in fourth quarter 2004 to be less than one year. For additional information on GAUM see Notes 9 and 19 to our 2005 consolidated financials statements.

Restructuring costs: The reduction in overall business volume required organizational changes and an adjustment to our global cost base. Consequently, we notified certain of our employees that their employment would be terminated.

In addition, as a result of the global restructuring, during 2005 our primary office space in New York, New York was vacated and consolidated in our Stamford, Connecticut office space. With regard to these cost-savings measures, Converium recorded restructuring costs of US$ 20.5 million for the year ended December 31, 2005. The remaining accrual reported for restructuring costs as of December 31, 2005 is US$ 1.7 million and relates to future payments on prior lease obligations. US$ 2.7 million and nil of restructuring costs were recorded for the years ended December 31, 2004 and 2003, respectively.

Income tax expense: For the year ended December 31, 2005, Converium s consolidated income tax expense of US$ 15.6 million is comprised of US$ 11.2 million of current income tax expense and US$ 4.4 million of deferred income tax expense. The current portion reflects the net tax paying position of some affiliates and the financial statement benefit recognized for net operating loss utilization. Due to the establishment of a full valuation allowance on the net deferred tax position for certain other affiliates, no deferred income tax expense has been reported for these entities.

Converium s consolidated income tax expense for the year ended December 31, 2004 reflects an additional expense of US$ 473.7 million related to the establishment of a full valuation allowance against the net deferred tax balances previously carried at certain affiliates. The effect of the establishment of the valuation allowance is partially offset by an increase in deferred tax assets from additional net operating losses and general reserve strengthening.

Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* , requires that a valuation allowance be established when it is more likely than not that all or a portion of net deferred tax assets will not be realized. As a result of the continued net loss positions of certain of the Company s affiliates, the Company established a full valuation allowance against the net deferred tax assets of those companies. Historical losses were considered among other factors in making this assessment.

Converium will continue to monitor its tax position and reassess the need for a full valuation allowance on its net deferred tax assets on a periodic basis. Realization of the deferred tax asset related to net operating losses carried forward is dependent upon generating sufficient taxable income within specified future periods.

Business development

Converium s business is organized around three ongoing operating segments: Standard Property & Casualty Reinsurance, Specialty Lines and Life & Health Reinsurance, which are based principally on global lines of business, in addition to a Run-Off segment. The Run-Off segment includes all business, both non-life and life, originating from CRNA and CINA excluding the US originated aviation business. In addition to the four segments financial results, the Corporate Center carries certain administration expenses, such as costs of the Board of Directors, the Global Executive Committee and other corporate functions as well as other expenses not allocated to the operating segments.

The following table compares Converium s segment results for the years ended December 31, 2005, 2004 and 2003 and reconciles segment results to income (loss) before taxes:

(US$ million)			
Year ended December 31	2005	2004	2003
Segment income (loss):			
Standard Property & Casualty Reinsurance	46.7	91.5	209.8
Specialty Lines	109.5	-7.3	159.6
Life & Health Reinsurance	17.6	16.7	-69.1
Run-Off	47.6	-296.0	-40.0
Corporate Center	-50.1	-38.2	-34.3
Total segment income (loss)	171.3	-233.3	226.0
Other (loss) income	-13.4	-8.2	17.5
Interest expense	-31.6	-33.1	-31.0
Impairment of goodwill		-94.0	
Amortization of other intangible assets	-21.5	-9.9	-1.8
Restructuring costs	-20.5	-2.7	
Income (loss) before taxes	84.3	-381.2	210.7

Standard Property & Casualty Reinsurance

(US$ million)			% change 2005 over 2004		% change 2004 over 2003
Year ended December 31	2005	2004	2004	2003	2003

Gross premiums written	803.1	1,509.1	-46.8	1,438.6	4.9
Net premiums written	739.0	1,377.5	-46.4	1,299.9	6.0
Net premiums earned	880.8	1,392.3	-36.7	1,285.2	8.3
Total investment results	122.0	113.9		80.1	
Segment income	46.7	91.5		209.8	
Loss ratio	82.8%	72.0%		65.3%	
Acquisition costs ratio	20.6%	25.4%		20.7%	
Administration expense ratio	6.1%	4.2%		3.9%	
Combined ratio	109.5%	101.6%		89.9%	
Retention ratio (net premiums written divided by gross premiums written)	92.0%	91.3%		90.4%	

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Standard Property & Casualty Reinsurance reported a segment income of US$ 46.7 million, US$ 91.5 million and US$ 209.8 million in 2005, 2004 and 2003, 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. The Standard Property & Casualty segment experienced a total net impact of US$ 78.4 million in losses from hurricanes in the United States (Hurricane Katrina: US$ 25.6 million, Hurricane Rita: US$ 11.2 million and Hurricane Wilma: US$ 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 US$ 24.8 million and US$ 32.5 million, respectively. The overall pre-tax effect from the natural catastrophes mentioned above was US$ 135.7 million. In 2004, pre-tax results within the Standard Property & Casualty segment were impacted by US$ 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 US$ 19.7 million, resulting from net favorable development of prior accident years loss reserves of US$ 30.7 million, offset by reductions in premium, related losses and acquisition costs of net US$ 11.0 million for the year ended December 31, 2005.

- The net favorable development of prior years loss reserves of US$ 30.7 million was primarily within the Property line of business in the amount of US$ 73.3 million. Partially offsetting this was net adverse development of prior years loss reserves within the Motor and General Third Party Liability lines of business in the amount of US$ 25.0 million and US$ 23.4 million, respectively.

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

- The net adverse development of prior years loss reserves of US$ 11.3 million was primarily related to adverse development within the Motor line of business in the amount of US$ 78.7 million, which was partially offset by net favorable development of prior years loss reserves related to the Property line of business in the amount of US$ 77.8 million.

For the year ended December 31, 2005, gross premiums written decreased 46.8% to US$ 803.1 million, net premiums written decreased 46.4% to US$ 739.0 million and net premiums earned decreased 36.7% to US$ 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 US$ 249.0 million to US$ 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 US$ 135.8 million to US$ 390.6 million), primarily due to the rating downgrades in 2004;

- General Third Party Liability (decreased by 61.3% or US$ 232.5 million to US$ 146.7 million), due to rating downgrades and revisions to 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 US$ 21.2 million to US$ 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.

The acquisition costs ratio decreased for the year ended December 31, 2005 due to the receipt of reinsurance premiums to close (RITC) on our Lloyd s participations on which there are no acquisition costs. Although the operating and administration expenses decreased for the year ended December 31, 2005, the administration expense ratio increased as compared to the same periods of 2004 and 2003 because of the significant reduction in net premiums written. We calculate our administration expense ratio based on net premiums written. Using the alternative methodology, based on net premiums earned, would result in an administration expense ratio for the year ended December 31, 2005 of 5.1%. The combined ratio for the year ended December 31, 2005 was 109.5% as compared to 101.6% and 89.9% for the same periods in 2004 and 2003, respectively. The natural catastrophes in 2005 impacted the segment s combined ratio by 15.4 points.

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Specialty Lines

(US$ million) Year ended December 31	2005	2004	% change 2005 over 2004	2003	% change 2004 over 2003
Gross premiums written	833.1	1,655.3	-49.7	1,325.0	24.9
Net premiums written	737.7	1,565.3	-52.9	1,119.0	39.9
Net premiums earned	1,059.2	1,387.6	-23.7	1,038.1	33.7
Total investment results	142.9	147.5		103.8	
Segment income (loss)	109.5	-7.3		159.6	
Loss ratio	72.9%	83.2%		68.7%	
Acquisition costs ratio	24.9%	23.6%		22.0%	
Administration expense ratio	7.6%	3.8%		3.7%	
Combined ratio	105.4%	110.6%		94.4%	
Retention ratio (net premiums written divided by gross premiums written)	88.5%	94.6%		84.5%	

Specialty Lines reported segment income (loss) of US$ 109.5 million, US$ (7.3) million and US$ 159.6 million in 2005, 2004 and 2003, respectively. 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:

The recognition of the net favorable impact of prior accident years on the technical result in the amount of US$ 23.1 million, resulting from net favorable development of prior accident years loss reserves of US$ 55.3 million, offset by reductions in premium, related losses and acquisition costs of net US$ 32.2 million.

The net favorable development of prior years loss reserves of US$ 55.3 million for the year ended December 31, 2005 primarily consisted of US$ 57.5 million of net favorable development of prior years loss reserves in the Aviation & Space line of business. The loss ratio for the year ended December 31, 2005 decreased by 10.3 points as compared to 2004.

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

The net adverse development of prior years loss reserves of US$ 61.5 million primarily related to Professional Liability & other Special Liability and Engineering lines of business in the amounts of US$ 116.1 million and US$ 13.7 million, respectively. These adverse developments 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 US$ 30.2 million, US$ 24.6 million and US$ 16.4 million, respectively.

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 US$ 13.5 million.

For the year ended December 31, 2005, gross premiums written decreased by 49.7% to US$ 833.1 million, net premiums written decreased by 52.9% to US$ 737.7 million and net premiums earned decreased by 23.7% to US$ 1,059.2 million. Premium volumes for the year ended December 31, 2005 were still 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 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.

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 US$ 162.7 million to US$ 241.8 million);

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

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

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

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

- Workers Compensation (decreased by 103.7% or US$ 325.4 million to US$ (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 US$ 25.3 million to US$ 36.7 million. This reflected the decision to write this business out of Zurich and to grow the business written in Europe.

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.

The Specialty Lines combined ratio was 105.4%, 110.6% and 94.4% for the years ended December 31, 2005, 2004 and 2003, 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 to 2004. This positive trend was partially offset by an increased administration expense ratio for the year ended December 31, 2005 as compared to 2004 and 2003 due to reduced premium volume in 2005. We calculate our administration expense ratio based on net premiums written. Using the alternative methodology, based on net premiums earned, would result in an administration expense ratio for the year ended December 31, 2005 of 5.3%.

Life & Health Reinsurance

(US$ million) Year ended December 31	2005	2004	% change 2005 over 2004	2003	% change 2004 over 2003
Gross premiums written	318.8	327.9	-2.8	280.7	16.8
Net premiums written	306.4	313.2	-2.2	254.5	23.1
Net premiums earned	314.8	318.7	-1.2	260.8	22.2
Total investment results	29.2	20.9		14.7	
Segment income (loss)	17.6	16.7		-69.1	
Acquisition costs ratio	29.3%	22.7%		20.1%	
Administration expense ratio	5.3%	4.2%		4.8%	
Retention ratio (net premiums written divided by gross premiums written)	96.1%	95.5%		90.7%	

Life & Health Reinsurance reported segment income (loss) of US$ 17.6 million, US$ 16.7 million and US$ (69.1) million for the years ended December 31, 2005, 2004 and 2003, 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 US$ 14.2 million as compared to US$ 16.4 million and US$ (66.0) million for the same periods of 2004 and 2003, respectively. 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 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 US$ 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, while in 2003 net reserves were strengthened by US$ 55.5 million.

For the year ended December 31, 2005, gross premiums written decreased US$ 9.1 million or 2.8% to US$ 318.8 million, net premiums written decreased US$ 6.8 million or 2.2% to US$ 306.4 million and net premiums earned decreased by US$ 3.9 million or 1.2% to US$ 314.8 million. The reduction in net written premiums was primarily within the health line of business which decreased by 30.8% or US$ 10.3 million to US$ 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 downgrading and the decision 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.

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The acquisition cost ratio increased for the year ended December 31, 2005 as compared to 2004 and 2003 as a result of new reinsurance transactions in Continental Europe, which carry higher acquisition costs in the early years of a contract.

Run-Off

(US$ million) Year ended December 31	2005	2004	% change 2005 over 2004	2003	% change 2004 over 2003
Gross premiums written	39.3	486.4	-91.9	1,256.1	-61.3
Net premiums written	32.6	470.1	-93.1	1,249.3	-62.4
Net premiums earned	128.4	783.6	-83.6	1,183.7	-33.8
Total investment results	56.3	76.9		54.2	
Segment income (loss)	47.6	-296.0		-40.0	

The Run-Off segment reported segment income for the year ended December 31, 2005 as compared to a segment loss for the same periods of 2004 and 2003, respectively. The results for 2005 were driven by the favorable impact of the commutations carried out during the year resulting in a net commutation gain on the segment s technical result of US$ 93.7 million and were partially offset by the effect of losses from Hurricanes Katrina, Rita and Wilma in the United States, with a total net impact of US$ 15.6 million.
The Run-Off segment experienced a net adverse impact of prior years accident years on the technical result in the amount of US$ 30.7 million resulting from net adverse development of prior accident years loss reserves of US$ 10.5 million and premium, related losses and acquisition costs of net US$ 20.2 million.
The net adverse development of prior years loss reserves of US$ 10.5 million was primarily within the Workers Compensation and Professional Liability and other Special Liability lines of business in the amounts of US$ 15.9 million and US$ 10.2 million, respectively. These adverse developments were partially offset by net favorable development of prior years loss reserves of US$ 20.8 million and US$ 11.6 million in the Property and Motor lines of business, respectively.
In 2004, we recorded a net adverse impact of prior years accident years on the technical result in the amount of US$ 451.8 million resulting from net adverse development of prior accident years loss reserves of US$ 506.4 million, which was offset by the effect of commutations.
The net adverse development of prior years loss reserves of US$ 506.4 million was primarily related to the Professional Liability and other Special Liability, General Third Party Liability, Workers Compensation, Credit & Surety and Motor lines of business in the amounts of US$ 314.6 million, US$ 74.7 million, US$ 71.8 million, US$ 26.5 million and US$ 13.0 million, respectively.

Corporate Center

(US$ million) Year ended December 31	2005	2004	% change 2005 over 2004	2003	% change 2004 over 2003
Operating and administration expenses	-50.1	-38.2	31.2	-34.3	11.4

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, 2005 as compared to the same periods of 2004 and 2003 due to increased legal, audit and consulting fees of approximately US$ 15.0 million, primarily relating to the internal review and the Restatement.

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Financial condition and liquidity

Invested Assets

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

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

As of December 31, 2005 and December 31, 2004, total invested assets (excluding cash and cash equivalents) were US$ 6,634.3 million and US$ 7,786.2 million, respectively.

During 2005, commutations as well as negative operating cash flows have resulted in a decrease of total invested assets including cash and cash equivalents of US$ 1,185.5 million of which US$ 700.0 million is attributable to CRNA and US$ 389.2 million is related to Converium AG.

As of December 31, 2005, Converium reported total investments including cash and cash equivalents and excluding the Funds Withheld Asset of US$ 6,261.5 million, of which US$ 1,385.2 million are held in our North American operations and are subject to the restrictions of an entity in run-off. Of the total US$ 4,876.3 million related to Converium s ongoing operations, certain amounts were pledged as follows: (i) US$ 2,238.1 million were pledged as collateral relating to outstanding letters of credit of US$ 1,160.2 million (these outstanding letters of credit are related to the US$ 1.6 billion Syndicated Letter of Credit Facility) and other irrevocable letters of credit of US$ 852.9 million (to secure certain reinsurance contracts), (ii) US$ 246.0 million were pledged primarily as deposits with cedents; and (iii) US$ 582.6 million were pledged to support Converium internal reinsurance transactions. US$ 255.2 million were deposited in trust or with regulatory authorities or states related to the US$ 1,385.2 million held in our North American operations.

Our asset mix, including cash and cash equivalents, consisted of the following at December 31, 2005 and December 31, 2004:

Asset class	2005	2004
Fixed maturity securities (including the Funds Withheld Asset)	82.2%	82.6%
Equity securities[1]	3.9%	3.5%
Cash and short-term investments	9.4%	9.4%
Real estate and other[1, 2]	4.5%	4.5%
Total	100.0%	100.0

1 Our participation in PSP Swiss Property AG is included in Real estate and other with a market

value of US$ 76.8 million as of December 31, 2005 and US$ 98.9 million as of December 31, 2004.

[2] Included in the caption real estate and other are investments in funds of hedge funds, which had a carrying value of US$ 107.4 million as of December 31, 2005.

In order to better match cash flow profiles and liquidity constraints for potential commutations, during 2005, we aligned the investment portfolio in our North American operations to reflect the run-off situation. We lowered our exposure to mortgage-backed securities and replaced them with asset-backed securities and commercial mortgage-backed securities, which have less interest rate sensitivity than current investments but still offer attractive yields.

During 2004, we adjusted our asset allocation and lowered our exposure to investments in equity securities by approximately US$ 500.0 million. This reduced our equity exposure (excluding our participation in PSP Swiss Property AG) to below 3.5% of total invested assets versus approximately 10% as of December 31, 2003. These sales generated net realized capital gains of US$ 22.0 million (pre-tax). The proceeds of this divestiture were invested in highly rated fixed income instruments.

In order to protect shareholders equity from potential future increases of the yield curves, we continued to lower the modified duration of our fixed income portfolio to 3.3 as of December 31, 2005 versus 3.5 as of December 31, 2004 and held a relatively high portion of cash and cash equivalents. In 2004, sales relating to this reduction in duration generated net realized capital losses of less than US$ 2.0 million. Furthermore, during 2004, we increased our held-to-maturity portfolio by US$ 350.0 million.

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Fixed maturities

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

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

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

(US$ million)	Estimated fair value	% of total	Carrying value	% of total
As of December 31, 2005	Available-for-sale (AFS)	AFS	Held-to-maturity (HTM)	HTM
Less than one year	336.5	8.1	39.7	5.0
One year through five years	2,216.2	53.1	513.9	64.8
Five years through ten years	776.3	18.6	219.2	27.6
Over ten years	110.9	2.7	20.8	2.6
Subtotal	3,439.9	82.5	793.6	100.0
Mortgage and asset-backed securities	561.4	13.5		
Unit trust bonds	168.5	4.0		
Total	4,169.8	100.0	793.6	100.0

Most of our fixed income securities are rated by Standard & Poor s, Moody s or similar rating agencies. As of December 31, 2005, approximately 92.0% of our fixed income securities portfolio was invested in securities rated A or better by these agencies and approximately 80.5% was invested in AAA/Aaa rated securities.

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

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

[1] Includes US$ 77.1 million

private collateralized loans issued by German banks with a credit rating equivalent to S&P AAA.

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Our guidelines also restrict our maximum investment in bonds issued by any group or industry sector by reference to local benchmarks and applicable insurance regulations. As of December 31, 2005 no aggregated amount of bonds issued by a single group (excluding governments and funds) represented more than 5% of our fixed maturities securities portfolio. Our ten biggest direct investments in corporate obligations (excluding commercial mortgage and asset-backed securities) were:

(US$ million)	Estimated fair value	% of total
As of December 31, 2005	Available-for-sale (AFS)	AFS
HSBC Financial Corporation	12.2	0.3
HVB Group	11.8	0.3
Westfalische Landschaft Bodenkreditbank AG	11.8	0.3
JPMorgan Chase & Company	11.8	0.3
Morgan Stanley	10.1	0.2
General Electric Capital Corporation	9.1	0.2
Merril Lynch & Company	8.8	0.2
Bank of America Corporation	8.6	0.2
DaimlerChrysler North America Holding Corporation	7.9	0.2
American Home Products Corporation	7.3	0.2

Our four largest investments in funds investing in fixed maturities as of December 31, 2005, were:

(US$ million)	Estimated fair value	% of total
As of December 31, 2005	Available-for-sale (AFS)	AFS
HSBC AM French Government Bond Fund	145.1	3.5
DWS Zurich Invest Renten Euroland	14.8	0.4
CCR Gestion Centrale	6.6	0.2
ING (L) Liquid SICVA, Luxembourg	2.0	

As of December 31, 2005 our investments in mortgage and asset-backed securities were US$ 616.6 million. These investments are summarized as follows:

(US$ million)	Estimated fair value	% of total
As of December 31, 2005	Available-for-sale (AFS)	AFS
Federal National Mortgage Association	133.2	3.2
Federal Home Loan Mortgage Corporation	70.0	1.7
Government National Mortgage Association	23.2	0.6
Other mortgage and asset-backed securities	335.0	8.0
Total	561.4	13.5

Equity securities

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

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

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Our ten largest direct equity investments as of December 31, 2005 were:

(US$ million)	Estimated fair value	% of total
As of December 31, 2005	Available-for-sale (AFS)	AFS
PSP Swiss Property AG	76.8	21.2
International Financial Group	6.0	1.7
Novartis Inc.	3.1	0.9
Nestlé SA	3.1	0.9
Roche Holding AG	2.7	0.7
UBS AG	2.6	0.7
General Electric Company	2.4	0.7
Exxon Mobil Corporation	2.3	0.6
Microsoft Corporation	1.6	0.4
Credit Suisse Group	1.6	0.4

Our three largest investments in funds investing in equities as of December 31, 2005 were:

(US$ million)	Estimated fair value	% of total
As of December 31, 2005	Available-for-sale (AFS)	AFS
Barclay s Global Investors Index Selection UK Fund	51.7	14.3
Deutsche Bank DJ Eurostoxx 50 DVG	49.9	13.8
Vanguard Institutional Index Fund	5.4	1.5

Our exposure to private equity fund investments as of December 31, 2005 was approximately US$ 46.9 million. This represents the sum of the fair value of invested capital (as determined by the fund managers) and remaining unpaid commitments. Of this total, the value of remaining unpaid commitments was approximately US$ 1.7 million as of December 31, 2005.

Our investments in private equity funds as of December 31, 2005 were:

(US$ million)	Estimated fair value	% of total
As of December 31, 2005	Available-for-sale (AFS)	AFSs
Capital Z Financial Services Fund II	23.6	6.5
Oak Hill Securities Fund LP II	15.6	4.3
Clayton Dubilier & Rice Fund	4.8	1.3
Insurance Partners LP	0.6	0.2
Oak Hill Securities Fund	0.6	0.2

At December 31, 2005 and 2004, gross unrealized gains on our equity securities portfolio were US$ 76.0 million and US$ 73.0 million and gross unrealized losses were US$ 1.1 million and US$ 2.5 million, respectively. We have reviewed the securities that have declined in value and have recorded impairments accordingly.

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

Our guidelines also restrict our maximum investment in any one equity security or industry sector by reference to local benchmarks and applicable insurance regulations. As of December 31, 2005 excluding our investments in funds and our participation in PSP Swiss Property AG, no single equity security represented more than 5% of our equity securities portfolio.

Funds Withheld Asset

The transfer of certain historical reinsurance business to Converium was 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, 2005, the Funds Withheld Asset was US$ 1,020.1 million. The decrease of US$ 285.0 million over December 31, 2004 was substantially due to paid claims.

The table below shows the distribution of the Funds Withheld Asset by currency as of December 31, 2005 and 2004.

Funds Withheld Asset

As of December 31	2005	2004
U.S. dollar	42%	42%
U.K. pound	28%	28%
Euro	25%	25%
Swiss franc	3%	3%
Japanese yen	2%	2%
Total	100%	100%
Weighted average interest rate	5.3%	5.4%

In general, the Funds Withheld Asset is reduced by paid claims, profit commissions, amounts paid to maintain the retrocession agreements and other amounts paid on the business subject to the Quota Share Retrocession Agreement and is increased by premiums (less premium refunds), salvage and subrogation, recoveries under retrocession agreements, profit commissions and other amounts received for the business subject to the Quota Share Retrocession Agreement. The balance of the Funds Withheld Asset will decrease over time. However, business historically written on the Zurich Insurance Company (ZIC) and Zurich International (Bermuda) Ltd (ZIB) balance sheets 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 18 to our 2005 consolidated financial statements for additional information on the Funds Withheld Asset and a recent change to the underlying agreement.

Short-term investments

Our short-term investment portfolio includes investments in fixed-term deposits and fiduciary investments. These investments generally have maturities of between three months and one year. As of December 31, 2005, we had short-term investments with a carrying value of US$ 35.1 million, representing 0.5% of our total investment portfolio, including cash and cash equivalents. Short-term investments at December 31, 2004 were US$ 117.3 million or 1.4% of our total investment portfolio, including cash and cash equivalents.

Real estate and other investments

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

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

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

Management s discussion and analysis
of financial condition and results of operations (continued)
Our five largest real estate investments, as of December 31, 2005 were:

Real estate

(US$ million) As of December 31, 2005		Carrying value	% of total Other investments
Dietikon	residential/commercial building	21.2	8.4
Effretikon	residential building	13.8	5.5
Zurich	residential/commercial building	13.7	5.4
Basel	residential/commercial building	11.8	4.7
Bern	residential/commercial building	9.1	3.6

Premiums receivable

We had premiums receivable of US$ 1,059.3 million at December 31, 2005 compared to US$ 1,832.2 million at December 31, 2004, a decrease of US$ 772.9 million, or 42.2%. This decrease is primarily due to the reduction in business volume. Premiums receivable include those currently due, as well as deferred premiums receivable, which is comprised primarily of accruals on premium balances which have not yet been reported and which are not contractually due to be paid until some time in the future. Current premiums receivable represented 18.3% and 20.1% of total premiums receivable at December 31, 2005 and December 31, 2004, respectively and accrued premiums receivable represented 81.7% and 79.9%, respectively. Bad debt provisions of US$ 28.1 million have been recorded for estimated uncollectible premiums receivable and reinsurance recoverables at December 31, 2005, compared to US$ 30.6 million at December 31, 2004.

Retrocessional reinsurance

Retrocessional reinsurance arrangements generally do not relieve Converium from its direct obligations to its reinsureds. Thus, a credit exposure exists with respect to reinsurance ceded to the extent that any retrocessionaire is unable or unwilling to meet the obligations assumed under the retrocessional agreements. At December 31, 2005 and 2004, Converium held US$ 470.6 million and US$ 300.9 million, respectively, in collateral as security under related retrocessional agreements in the form of deposits, securities and/or letters of credit. Converium is able to access outside capacity for both traditional and non-traditional coverage and therefore is not dependent upon any single retrocessional market.

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

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

(US$ million) As of December 31, 2005 Retrocessionaire	Retrocessionaire Group	Underwriting reserves and future life benefits	% of total	S & P /A.M. Best Rating
Lloyd s Syndicates	Lloyd s	197.5	24.5	A/A
Continental Casualty Company	CNA	57.7	7.2	A /A
Zurich Financial Services	Zurich Financial Services	48.1	6.0	A+ /A
ICM Re S.A.	ICM Re	35.7	4.4	NR

AIOI Insurance Co., Ltd.	AIOI Insurance Co., Ltd.	35.7	4.4	A
Transamerica Reinsurance	AEGON Group	35.1	4.4	AA /A+
Hannover Ruckversicherung	Hannover Re	33.6	4.2	AA /A
AXA Group	AXA Group	30.3	3.8	AA
Augsburger Ruck	Augsburger Ruck	30.1	3.7	A
PartnerRe Global	PartnerRe Group	27.3	3.4	AA /A+
Total underwriting reserves and future life benefits of top ten retrocessionaires		531.1	66.0	
All other retrocessionaires		274.0	34.0	
Total underwriting reserves and future life benefits		805.1	100.0	

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Management s discussion and analysis
of financial condition and results of operations (continued)
Liabilities
Gross loss and loss reserves and future life benefits
We had gross loss and loss expense reserves of US$ 7,568.9 million at December 31, 2005, compared to US$ 8,908.3 million at December 31, 2004. The decrease in our reserve position is mainly driven by the commutations that were carried out during 2005 and the overall reduction in business volume. For the year ended December 31, 2005, on a CRNA local statutory basis, we commuted gross loss reserves, primarily with North American cedents, in the amount of US$ 651.1 million. The total reduction of gross loss reserves from commutation and other settlements from CRNA was US$ 1,109.5 million from US$ 2,643.0 million in 2004 to US$ 1,533.5 million in 2005. Gross reserves for future life benefits were US$ 405.6 million at December 31, 2005 compared to US$ 407.1 million at December 31, 2004.
Debt outstanding
As of December 31, 2005, we had total debt outstanding with a principal amount of US$ 400.0 million and a carrying amount of US$ 391.2 million. We had no scheduled debt repayments in 2005, 2004, or 2003.
In December 2002, Converium Finance S.A. issued US$ 200.0 million principal amount of non-convertible, unsecured, guaranteed subordinated notes, which are irrevocably and unconditionally guaranteed on a subordinated basis by each of Converium Holding AG and Converium AG. These notes mature in full on December 23, 2032 and bear interest at the rate of 8.25%. In 2001, in connection with the Transactions, Converium Holdings (North America) Inc. (CHNA) assumed US$ 200.0 million principal amount of non-convertible, unsecured, unsubordinated senior notes issued originally during October 1993. These notes mature in full on October 15, 2023 and bear interest at the rate of 7.125%. In 2005, the interest payments regarding the 7.125% non-convertible, unsecured, unsubordinated senior notes of CHNA were funded by Converium AG with regards to the coupon payments of April 15 and October 15, 2005, due to the dividend restrictions of CRNA. (See Notes 13, 17 and 23 to our 2005 consolidated financial statements).
In addition to the syndicated letter of credit facility, other irrevocable letters of credit of US$ 852.9 million were outstanding at December 31, 2005 to secure certain assumed reinsurance contracts. Investments of US$ 2,238.1 million were pledged as collateral related to the Syndicated Letter of Credit Facility, as well as other irrevocable letters of credit.
Shareholders equity
As of December 31, 2005, we had total shareholders equity of US$ 1,653.4 million (US$ 11.29 per share) compared to US$ 1,734.8 million (US$ 11.86 per share) as of December 31, 2004, a decrease of US$ 81.4 million (US$ 0.57 per share). This is mainly due to a reduction in cumulative translation adjustments of US$ 94.3 million and a reduction in net unrealized gains (losses) on investments of US$ 62.5 million, offset by net income of US$ 68.7 million. Book value is calculated using shares outstanding at the end of the period.
Liquidity and capital resources
Our principal cash requirements are for the payment of dividends to shareholders, servicing debt, investment in businesses, capital expenditures, servicing retrocessional arrangements, commutations and for paying reinsurance and insurance claims, which could periodically include significant cash requirements related to catastrophic events.
On November 29, 2004, Converium AG signed a US$ 1.6 billion, three-year syndicated letter of credit facility from various banks. The facility provides Converium s non-US operating companies with a US$ 1.5 billion capacity for issuing letters of credit and a US$ 100.0 million liquidity reserve. It replaces the existing US$ 900.0 million letter of credit facility, which was signed in July 2003. As of December 31, 2005, Converium had outstanding letters of credit of US$ 1,160.2 million under the facility. Converium must maintain the following financial covenants in order to avoid default under the agreement: i) consolidated total borrowings do not at any time exceed 35% of consolidated tangible net worth, which is defined as total shareholders equity less goodwill; and ii) consolidated tangible net worth must remain greater than US$ 1,237.5 million at all times. Converium pays commission fees on outstanding letters of

credit, which are distributed to the facility banks and can only be impacted by a change in the Company s credit rating. The maximum amount of this fee is 0.5%.

As of December 31, 2005, Converium reported total investments including cash and cash equivalents and excluding the Funds Withheld Asset of US$ 6,261.5 million, of which US$ 1,385.2 million are held in our North American operations and are subject to the restrictions of an entity in run-off. Of the total US$ 4,876.3 million related to Converium s ongoing operations, certain amounts were pledged as follows: (i) US$ 2,238.1 million were pledged as collateral relating to outstanding letters of credit of US$ 1,160.2 million (these outstanding letters of credit are related to the US$ 1.6 billion Syndicated Letter of Credit Facility) and other irrevocable letters of credit of US$ 852.9 million (to secure certain assumed reinsurance contracts), (ii) US$ 246.0 million

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

were pledged primarily as deposits with cedents; and (iii) US$ 582.6 million were pledged to support Converium internal reinsurance transactions. US$ 255.2 million were deposited in trust or with regulatory authorities or states related to the US$ 1,385.2 million held in our North American operations.

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. Based on Converium s financial performance in 2005 as well as the Company s capitalization, the Board of Directors will propose a gross cash dividend of Swiss francs 0.10 per share at the Annual General Meeting. 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. Any dividend payments from CRNA to Converium Holdings (North America) Inc. requires approval of the regulator of the state of Connecticut (see Notes 17 and 23 to our 2005 consolidated financial statements).

Cash flows

(US$ million)			
Year ended December 31	2005	2004	2003
Cash (used in) provided by operating activities	-399.9	358.7	917.2
Net cash provided by (used in) investing activities	363.8	-315.4	-1,314.2
Net cash (used in) provided by financing activities	-36.8	347.8	252.9

Cash and cash equivalents decreased by US$ 33.6 million to US$ 647.3 million as of December 31, 2005 from US$ 680.9 million as of December 31, 2004. Our cash position primarily decreased due to cash outflows related to the commutations that were carried out during 2005.

Our cash flows from operating activities result principally from premiums, collections on losses recoverable and investment income, net of paid losses, acquisition costs and administration expenses. Our cash used in operating activities was US$ 399.9 million, US$ 358.7 million and US$ 917.2 million for the years ended December 31, 2005, 2004 and 2003, respectively. This decrease was due to a reduction in overall business volume and cash outflows due to commutations recorded in 2005. Cash for these measures was primarily provided by the liquidation of investments, which is reflected in the results of cash flow from investing activities.

Cash used in financing activities for the year ended December 31, 2005 was US$ 36.8 million. For the year ended December 31, 2004 cash provided by financing activities was primarily driven by the proceeds, net of related expenses, received from the Rights Offering that occurred in October 2004, offset by the payment of dividends to shareholders. In 2003, cash used in financing activities was primarily driven by the payment of dividends to shareholders.

As of December 31, 2005, Converium Holding AG had cash and cash equivalents of US$ 41.9 million. Significant cash needs in 2006 will be payments of the 2005 dividend to shareholders of approximately CHF 15.0 million (US$ 12.0 million) and interest payments to Converium Finance S.A., Luxembourg of approximately US$ 10.0 million, related to the note payable with a principle of US$ 200.0 million. The cash needs are primarily financed through existing cash funds held at Converium Holding AG, short-term intercompany loan receivables from Converium AG, Switzerland, and dividend payments from Converium IP Management AG, Switzerland and Converium Finance Ltd., Bermuda.

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Management s discussion and analysis
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Critical accounting policies

Our discussion and analysis of the financial condition and results of operations are based upon our 2005 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. While we believe that the assumptions and estimates used are the most appropriate at this time, changes in underlying assumptions or estimates could have a material impact on the Company s financial position. Accounting policies that rely on the most subjective estimates and assumptions are discussed is this section.

A description of other significant accounting policies used by us in preparing our financial statements is included in the Notes to our 2005 consolidated financial statements.

Segment presentation

Following changes in certain executive management responsibilities, the Company changed the reporting segments under which certain business units are reported in order to reflect these changes in responsibilities.

In the first quarter of 2005, Converium formally adopted a change to the reporting line of the management of its North American operations. This change was introduced to reflect the placement of CRNA into orderly run-off and management s desire to monitor this business on a stand-alone basis. Therefore, Converium s business is now organized around three ongoing operating segments: Standard Property & Casualty Reinsurance, Specialty Lines and Life & Health Reinsurance, which are based principally on global lines of business, in addition to a Run-Off segment. The Run-Off segment includes all business, both nonlife and life, originating from CRNA and CINA, excluding the US originated aviation business. In addition to the four segments financial results, the Corporate Center carries certain administration expenses, such as costs of the Board of Directors, the Global Executive Committee and other corporate functions as well as expenses not allocated to the operating segments. In addition to reporting segment results individually, management also aggregates results for Standard Property & Casualty Reinsurance and Specialty Lines, into ongoing non-life business, as management considers this aggregation meaningful in understanding the performance of Converium. This measure excludes the non-life business contained within the Run-Off segment in line with management s desire to monitor this segment on a stand-alone basis. The aggregation of the Life & Health Reinsurance segment with the ongoing non-life business is referred to as total ongoing business.

Non-life loss and loss adjustment reserves

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

	Case reserves	IBNR	Total gross non-life loss reserves
Standard Property & Casualty	1,430.9	1,010.8	2,441.7
Specialty Lines	1,718.6	1,653.1	3,371.7
Life & Health Reinsurance	87.7	203.7	291.4
Run-Off	691.6	772.5	1,464.1
Total	3,928.8	3,640.1	7,568.9

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

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

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

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

As a consequence, the estimation of loss and loss expense reserves is dependent on many assumptions and selection of parameters and their combination. One of the most critical assumptions, particularly for lines with long-tail characteristics, is the selection of the reporting tail. The reporting tail is the period of time that elapses before a claim is reported to the cedent and then subsequently reported to the reinsurer. A change of this factor can lead to a substantially different estimate of ultimate losses and therefore reserves for loss and loss expenses. This change in the tail factor could be triggered by any of the drivers mentioned above, or a combination thereof. For example, a change in the tail factor of 5% for a line with one of the longest tails, Treaty Umbrella (in North America), which is included in the Professional Liability and other Special Liability line of business, would increase/decrease total held net loss reserves of US$ 6,807.9 million by US$ 15.2 million.

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

	Net loss reserves beginning of year	Favorable/(adverse) development of prior years loss reserves during the year	Development on prior years loss reserves (%)
2001	3,611.8	-167.8	-4.6
2002	4,543.1	-201.1	-4.4
2003	5,791.2	63.5	1.1
2004	6,838.4	-350.2	-5.1
2005	7,993.8	186.1	2.3

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 2005 in the amount of US$ 186.1 million were primarily driven by net favorable development of prior years loss reserves of US$ 75.5 million, the net commutation gains on the segment s technical result in 2005 amounting to US$ 93.7 million and the reversal of reserves relating to adjustments of prior years premium accruals. For further details, see Note 10 to our 2005 consolidated financial statements.

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

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 & Casualty Reinsurance segment is primarily comprised of short and medium-tail lines of business and accounted for 32.3%, 32.3%, and 30.2% of our gross non-life loss and loss expense reserves at December 31, 2005, 2004 and 2003, respectively. Our Specialty Lines segment is primarily comprised of medium and long-tail lines of business and accounted for 44.5%, 35.9% and 32.1% of our gross non-life loss and loss expense reserves at December 31, 2005, 2004 and 2003, respectively. As discussed in the reporting tail description above, this factor can have a significant impact on the volatility of reserves and the uncertainties that exist in the reserve estimation process.

Premiums

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

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

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

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

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

Similarly, the seasonality of premium writings, are also analyzed on a regular basis by our underwriters and client relationship managers, taking into account the underlying business, the local market environments and emerging trends.
Our estimation procedures are also affected by the timeliness and comprehensiveness of the information our clients provide to us. The time lag between the release of this information from the ceding company to us can be significant and depends on the reporting frequency of the underlying accounts.
Our processes require underwriters and others to assess the realization of premium estimates on a quarterly basis. For the year ended December 31, 2005, these analyses resulted in a decrease in net premiums written and earned in the Standard Property & Casualty Reinsurance and Specialty Lines segments in the amount of US$ 20.3 million; after reflecting the impact on accrued acquisition costs of US$ (2.3) million and losses of US$ 25.2 million, the impact of these adjustments on the technical result was US$ 2.6 million.
For the year ended December 31, 2004, these analyses resulted in a decrease in net premiums written and earned in the Standard Property & Casualty Reinsurance and Specialty Lines segments in the amount of US$ 221.1 million; after reflecting the impact on accrued acquisition costs of US$ 16.5 million and losses of US$ 186.4 million, the impact of these adjustments on the technical result was US$ 18.2 million.
Consideration received 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 as per SFAS 113 must be met in order to obtain reinsurance accounting, principally resulting in the recognition of cash flows under the contract as premium and losses. If risk transfer requirements are not met, a contract is to be accounted for as a deposit, typically resulting in the recognition of cash flows under the contract as a deposit asset or liability and not as revenue or expense. To meet risk transfer requirements, a reinsurance contract must include both insurance risk, consisting of underwriting and timing risk and a reasonable possibility of a significant loss for the assuming entity.
Reinsurance and insurance contracts that include both significant risk sharing provisions, such as adjustments to premiums or loss coverage based on loss experience and relatively low policy limits as evidenced by a high proportion of maximum premium assessments to loss limits, can require considerable judgment to determine whether or not risk transfer requirements are met. For such contracts, often referred to as finite or structured products, we require that risk transfer be specifically assessed for each contract by developing expected cash flow analyses at contract inception. To support risk transfer, the cash flow analyses must support the fact that a significant loss is reasonably possible, such as a scenario in which the ratio of the net present value of losses divided by the net present value of premiums equals or exceeds 110 percent. For purposes of cash flow analyses, we generally use a risk-free rate of return consistent with the expected average duration of loss payments. In addition, to support insurance risk, we must prove the reinsurer s risk of loss varies consistently with that of the reinsured and/or support various scenarios under which the assuming entity can recognize a significant loss.
In the event that a transaction does not meet the risk transfer requirements promulgated by SFAS 113, the transaction will be accounted for in 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.

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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

In view of our global scale and the fact that a significant part of our business is transacted in US dollars, 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

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

The Company reviews the fair value of its investment portfolio on a periodic basis to identify declines in fair value below the cost or amortized cost that are other than temporary. This review involves consideration of several factors including (i) the time period during which there has been a significant decline in fair value below cost, (ii) an analysis of the liquidity, business prospects and overall financial condition of the issuer, (iii) the significance of the decline; and (iv) for those securities below cost as a result of interest rate rises, the Company s intent and ability to hold the investment for a sufficient period of time for the value to recover. Where the Company concludes that declines in fair values are other than temporary, the cost of the security is written down to fair value and the previously unrealized loss is therefore realized in the period such determination is made.

With respect to securities where the decline in value is determined to be temporary and the security s value is not written down, a subsequent decision may be made to sell that security and realize a loss. Subsequent decisions on security sales are made within the context of overall risk monitoring, changing information, market conditions generally and assessing value relative to other comparable securities

Converium considers Other than temporary declines as declines in value of the security that (i) exceed 20% over a period of six months, that (ii) exceed 50% regardless of the period of decline; or (iii) any declines in value of equity securities over a period of more than twelve months. The same policy applies to fixed maturities securities when the decline in value is attributable to the deteriorating credit-worthiness of the issuer. At management s judgment, we impair additional securities based on prevailing market conditions by considering various factors such as the financial condition of the issuer, the market value and the expected future cash flows of the security.

Income taxes

Deferred income taxes are provided for all temporary differences 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.

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

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 other intangible assets with an indefinite life are no longer amortized with effect from January 1, 2002, in accordance with SFAS No.142, *Goodwill and Other Intangible Assets* (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 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 9 for further information on goodwill and other intangible assets.

Recent accounting pronouncements

See Note 2 to our 2005 consolidated financial statements for a discussion on recent accounting pronouncements.

Qualitative and quantitative disclosures about market risks

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

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

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

To help manage our aggregate exposure to concentration and credit risks, we analyze the concentration of our risk by entity, risk category (asset, underwriting, retrocession), industry and credit rating. These concentrations and credit risks are reviewed every six months by our Finance Committee as a part of the review and approval of the ALM report.

Sensitivity analyses for invested assets

Approximately 84.1% of our investment securities are classified for accounting purposes as available-for-sale. These securities are carried at their fair market value as of the balance sheet date with movements in fair value recorded in shareholders equity. In contrast to these assets, certain liability reserves, particularly non-life reinsurance reserves, are not shown at fair market values as of the balance sheet date. Therefore, US GAAP accounting practices typically result in more volatile assets than liabilities. This, in turn, may lead us to report more volatile shareholders equity on our balance sheet than we believe may economically be the case.

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

Interest rate risk

We have based our computations of interest rate sensitivity on numerous assumptions. Therefore they should not be relied on as indicative of future results.

Our investments are subject to interest rate risks. Our interest rate risk is concentrated in the United States and Europe and is highly sensitive to many factors, including governmental monetary policies and domestic and international economic and political conditions. The estimated potential exposure of our consolidated net assets to a one percentage point increase of the US yield curve would be an after-tax reduction in net assets of US$ 149.5 million, which represents approximately 9.0% of our total shareholders equity as of December 31, 2005. This reduction would be offset by higher investment income earned on newly invested funds.

To protect our balance sheet from a possible rise of the yield curves, we slightly reduced the modified duration of our bond portfolio, excluding held-to-maturity securities, to 3.3. Additionally, our portfolio of held-to-maturity government bonds stabilized at US$ 793.6 million (16.0% of our fixed maturities portfolio, excluding the Funds Withheld Asset). The duration of the held-to-maturity portfolio is 3.6.

As of December 31, 2005, all of our debt outstanding was at fixed interest rates. Thus, an increase in interest rates would currently have no effect on our annual interest expense or reported shareholders equity, as we account for debt at amortized cost, not fair value.

Foreign exchange risk

Our general practice is to invest in assets that match the currency in which we expect related liabilities to be paid. We tend thus to invest our assets with the same currency allocation as our technical liabilities. This results in the same currency split for the assets backing our shareholders equity. This practice supports sound currency asset/liability management, but if not properly matched, there is a translation risk of currency rate changes against the US dollar that may adversely effect our reported shareholders equity when expressed in US dollars.

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

Equity market risk

We hold approximately 5.0% (including our participation in PSP Swiss Property AG) of our invested assets in equity securities, which are subject to equity market risk. Our equity market risk is concentrated in the United States and Europe and is highly sensitive to general economic and stock market conditions. The estimated potential exposure of our consolidated net assets to a 10% decline in all stock markets as of December 31, 2005 would be an after-tax reduction in net assets of US$ 36.3 million, which represents approximately 2.2% of our total shareholders equity as of December 31, 2005.

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

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

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

We restrict our maximum investment in any one equity security or equity sector by reference to local benchmarks and insurance regulations.

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

The table below shows the approximate effect on shareholders equity of instantaneous adverse movements in currency exchange rates of 10% on our major currency exposures at December 31, 2005 against the US dollar.

	Adverse exchange rate movement against the US dollar		Approximate decline in shareholders equity
Euro	10%	US$	50.9 million
Swiss franc	10%	US$	22.4 million
UK pound	10%	US$	14.5 million

As of December 31, 2005 and 2004, we had unrealized cumulative translation gains of US$ 96.9 million and US$ 191.2 million, respectively.

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

The table below shows the percentage of key income statement and balance sheet items, denominated by our main currencies as of and for the year ended December 31, 2005:

	US dollar	Euro	UK pound	Swiss franc	Japanese yen	Other	Total
Income statement							
Net premiums written	22%	36%	22%	2%	4%	14%	100%
Net investment income	51%	15%	29%	1%		4%	100%
Losses, loss expenses and life benefits	41%	27%	23%	1%	1%	7%	100%
Acquisition costs	33%	37%	14%	1%	3%	12%	100%
Other operating and administration expenses	36%	13%	3%	46%		2%	100%
Interest expense	98%	2%					100%
Balance sheet							
Total invested assets	55%	18%	20%	4%		3%	100%
Reinsurance assets	74%	6%	19%			1%	100%
Losses and loss expenses, gross	53%	19%	23%	1%		4%	100%

Unearned premiums, gross	39%	14%	36%	1%		10%	100%
Future life benefits, gross	41%	58%	1%				100%
Debt	100%						100%

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Cautionary note regarding forward-looking statements

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

In particular, statements using words such as expect , anticipate , intend , believe or words of similar import generally involve forward-looking statements. In light of the risks and uncertainties inherent in all future projections, the inclusion of forward-looking statements should not be considered a representation by us that our objectives or plans will be achieved. Numerous factors could cause our actual results to differ materially from those in any forward-looking statements, including the following:

- The impact of the ratings changes and a further lowering or loss of one of our financial strength ratings;
- Uncertainties of assumptions used in our reserving process;
- Risks associated with implementing our business strategies and our capital improvement measures and our plans in respect to our North American business;
- Cyclicality of the reinsurance industry;
- The occurrence of natural and man-made catastrophic events with a frequency or severity exceeding our estimates;
- Acts of terrorism and acts of war;
- Changes in economic conditions, including interest and currency rate conditions that could affect our investment portfolio;
- Actions of competitors, including industry consolidation and development of competing financial products;
- The effect on us and the insurance industry as a result of the investigations being carried out by US and international regulatory authorities including the US Securities and Exchange Commission (SEC) and New York s Attorney General;
- A decrease in the level of demand for our reinsurance or increased competition in our industries or markets;
- A loss of our key employees or executive officers;
- Political risks in the countries in which we operate or in which we reinsure risks;
- The passage of additional legislation or the promulgation of new regulation in a jurisdiction in which we or our clients operate or where our subsidiaries are organized;
- Changes in our investment results due to the changed composition of our invested assets or changes in our investment policy;
- Failure of our retrocessional reinsurers to honor their obligations;
- Failure to prevail in any current or future arbitration or litigation; and
- Extraordinary events affecting our clients, such as bankruptcies and liquidations.

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

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

Converium Holding AG and Subsidiaries

Report of the independent group auditors

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

We have audited the accompanying consolidated balance sheets of Converium Holding AG as of December 31, 2005 and 2004 and the related consolidated statements of income, cash flows and changes in shareholders equity for each of the three years in the period ended December 31, 2005, included on pages 60 through 113 all expressed in United States dollars.

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Converium Holding AG at December 31, 2005 and 2004 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America and comply with Swiss law.

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

We draw to your attention the fact that the consolidated financial statements for the year ended December 31, 2004 of Converium Holding AG, as approved by the Annual General meeting on April 12, 2005, have been restated. The Board of Directors describes in Note 3 the reasons for and the impact on certain lines of the income statement, earnings per share and shareholders equity for the years ended December 31, 2004 and 2003 resulting from this restatement.

PricewaterhouseCoopers Ltd

A. Hill M. Frei

Zurich, March 20, 2006

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Converium Holding AG and Subsidiaries

Consolidated statements of income (loss)

(US$ million, except per share information)	Notes	2005	2004	2003
Year ended December 31			Restated	Restated
Revenues				
Gross premiums written		1,994.3	3,978.7	4,300.4
Less ceded premiums written		-178.6	-252.6	-377.7
Net premiums written	12	1,815.7	3,726.1	3,922.7
Net change in unearned premiums		567.5	156.1	-154.9
Net premiums earned	12	2,383.2	3,882.2	3,767.8
Net investment income	8	324.9	312.7	234.4
Net realized capital gains (losses)	8	25.5	46.5	18.4
Other (loss) income		-13.4	-8.2	17.5
Total revenues		2,720.2	4,233.2	4,038.1
Benefits, losses and expenses				
Losses, loss expenses and life benefits	10,12	-1,775.9	-3,342.5	-2,760.1
Acquisition costs	12	-575.6	-912.4	-832.0
Other operating and administration expenses		-210.8	-219.8	-202.5
Interest expense	13	-31.6	-33.1	-31.0
Impairment of goodwill	9		-94.0	
Amortization of other intangible assets	9	-21.5	-9.9	-1.8
Restructuring costs	5	-20.5	-2.7	
Total benefits, losses and expenses		-2,635.9	-4,614.4	-3,827.4
Income (loss) before taxes		84.3	-381.2	210.7
Income tax expense	14	-15.6	-201.3	-32.8
Net income (loss)		68.7	-582.5	177.9
Basic earnings (loss) per share	25	0.47	-9.19	2.24
Diluted earnings (loss) per share	25	0.46	-9.19	2.23

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

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Converium Holding AG and Subsidiaries
Consolidated balance sheets

(US$ million, except share information)	Notes	2005	2004
Year ended December 31			Restated
Assets			
Invested assets			
Held-to-maturity securities:			
Fixed maturities	8	793.6	850.4
Available-for-sale securities:			
Fixed maturities	8	4,169.8	4,834.8
Equity securities	8	362.6	399.4
Other investments		253.1	279.2
Short-term investments		35.1	117.3
Total investments		5,614.2	6,481.1
Funds Withheld Asset	8	1,020.1	1,305.1
Total invested assets		6,634.3	7,786.2
Other assets			
Cash and cash equivalents		647.3	680.9
Premiums receivable		1,059.3	1,832.2
Reserves for unearned premiums, retro		37.8	55.2
Reinsurance assets:			
Underwriting reserves	12	805.1	937.9
Insurance and reinsurance balances receivable		37.6	139.3
Funds held by reinsureds		1,817.4	1,737.7
Deposit assets		183.4	170.4
Deferred policy acquisition costs		304.3	482.7
Deferred income taxes	14	1.0	6.2
Other assets	9	298.4	358.6
Total assets		11,825.9	14,187.3
Liabilities and shareholders equity			
Liabilities			
Reinsurance liabilities			
Unpaid losses and loss expenses	10	7,568.9	8,908.3
Future life benefits, gross	12	405.6	407.1
Insurance and reinsurance balances payable		226.3	583.5
Reserves for unearned premiums, gross	12	610.8	1,247.7
Other reinsurance liabilities		127.8	70.8
Funds held under reinsurance contracts		332.9	194.8
Deposit liabilities		300.6	356.5
Deferred income taxes	14	8.1	8.2
Accrued expenses and other liabilities		200.3	284.5

Debt	13	391.2	391.1
Total liabilities		10,172.5	12,452.5
Shareholders equity			
Common stock CHF 5 nominal value, 146,689,462 and 146,689,462 shares issued, respectively (146,473,231 and 146,272,886 shares outstanding, respectively)	17	554.9	554.9
Additional paid-in capital		1,354.2	1,360.5
Treasury stock (216,231 and 416,576 shares, respectively)		-1.5	-7.7
Unearned stock compensation	16	-3.5	-7.5
Total accumulated other comprehensive income:			
Minimum pension liabilities, net of taxes	15	-4.9	-7.7
Net unrealized gains on investments, net of taxes	8	42.7	105.2
Cumulative translation adjustments, net of taxes	6	96.9	191.2
Total accumulated other comprehensive income		134.7	288.7
Retained deficit		-385.4	-454.1
Total shareholders equity		1,653.4	1,734.8
Total liabilities and shareholders equity		11,825.9	14,187.3

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

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Converium Holding AG and Subsidiaries
Consolidated statements of cash flows

(US$ million) Year ended December 31	2005	2004 Restated	2003 Restated
Cash flows from operating activities			
Net income (loss)	68.7	-582.5	177.9
Adjustments for			
Net realized capital (gains) losses on investments	-25.5	-46.5	-18.4
Amortization of premium/discount	50.7	59.1	43.9
Depreciation and amortization	39.6	34.2	30.5
(Reduction) increase of valuation allowance	-17.1	473.7	
Impairment of goodwill		94.0	
Total adjustments	47.7	614.5	56.0
Changes in operational assets and liabilities			
Premiums receivable	567.3	-106.7	-438.6
Reserves for unearned premiums, retro	13.1	54.1	-67.0
Reinsurance assets	200.2	129.6	136.4
Funds held by reinsureds	-180.2	-332.9	-305.1
Funds Withheld Asset	197.5	283.8	230.6
Deferred policy acquisition costs	149.3	-80.8	-90.6
Unpaid losses and loss expenses	-1,053.3	716.6	585.0
Future life benefits, gross	-4.9	41.2	131.4
Insurance and reinsurance balances payable	-104.8	378.9	280.9
Reserves for unearned premiums, gross	-596.3	-224.4	213.3
Other reinsurance liabilities	50.2	-94.3	-65.6
Funds held under reinsurance contracts	161.8	-5.0	67.3
Income taxes, net	32.7	-240.1	35.6
Net changes in all other operational assets and liabilities	51.1		