CONVERIUM HOLDING AG
Form 6-K
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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 month of October, 2004

CONVERIUM HOLDING AG

(Translation of registrant s name into English)
Baarerstrasse 8
CH-6300 Zug
Switzerland

(Address of principal executive offices)
Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F þ Form 40-F o

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

Yes o No þ

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

This document contains certain information recently provided to our shareholders in connection with our offering of 106,683,245 registered shares (the Offering). This document does not constitute an offer of, or an invitation by or on behalf of us to purchase, any securities.

Unless the context otherwise requires, references to Converium, Converium Group, we, us and our refer to Converium Holding AG and its consolidated subsidiaries, taken as a whole.

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

Cautionary note regarding forward-looking statements

This document 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. The specific forward-looking statements cover, among other matters, the amount of capital our businesses require and impact of our capital improvement measures, including the run-off of our North American business, our reserve position, the reinsurance market, the outcome of insurance regulatory reviews, our operating results, the rating environment and the prospects for improving results. In light of the risks and uncertainties inherent in all future projections, the inclusion of forward-looking statements should not be considered a representation by us that our objectives or plans will be achieved. Numerous factors could cause our actual results to differ materially from those in the forward-looking statements, including the following:

- certain statements in Background and reasons for the Offering with regard to capital improvement measures, strategy and management objectives, market conditions, market standing and premium volume;

- certain statements in Management s discussion and analysis of financial condition and results of operation with regard to trends in results, prices, rates, volumes, operations, investment results, margins, overall market trends, risk management and exchange rates;

- certain statements in Business with regard to strategy and management objectives, trends in market conditions, prices, rates, market standing and premium volumes, investment results, litigation and the effects of changes or prospective changes in regulation; and

- certain statements in Regulation with regard to the effects of changes or prospective changes in regulation.

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

- the impact of the recent ratings downgrades and the further lowering or loss of one of our financial strength ratings or the failure of Standard & Poor s to raise our ratings upon completion of the Offering;

- uncertainties in our reserving process;

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

- cyclicality of the reinsurance industry;

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

acts of terrorism and acts of war;

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

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

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

a loss of our key employees or executive officers;

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 operate or where our subsidiaries are organized;

changes in our investment results, including as a result of 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;

our ability to obtain applicable regulatory approval for our capital improvement measures; 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.

Risk factors

You should carefully consider the following risk factors and the other information herein. The occurrence of any one or more of the following could materially adversely affect your investment in us or our business and operating results.

Risks relating to Converium and the reinsurance industry

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

The recent adverse developments with respect to reserves and our ratings require that we reevaluate our global strategy to maximize shareholder value. See Background and reasons for the Offering The case for recapitalizing Converium.

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

In particular, our new strategy is dependent upon Standard & Poor s raising our ratings to at least BBB+ . On September 27, 2004 Standard & Poor s announced that it was their expectation that they would so upgrade our ratings if the Offering is completed and barring any material unforeseen event. If, as a result of any such event or otherwise, Standard & Poor s does not raise our ratings to at least BBB+ , we will not be able to implement our new strategy, which would have a material adverse effect on our business, financial condition, results of operations and cash flows.

Even if Standard & Poor s raises our ratings, the decision to place CRNA into run-off and to transfer the underwriting of all North American non-life business to Zurich and Bermuda is expected to result in a reduction of gross written premium of North American originated business of $1.0 billion or more for underwriting year 2005, predominantly in Standard Property & Casualty Reinsurance and Speciality Lines. Based on most recent feedback from non-U.S. insurers, Converium currently expects its non-U.S. premium volume for underwriting year 2005 to be reduced by up to 40% compared to 2004. Accordingly, our preliminary estimates are that in underwriting year 2005 our total gross written premiums will be on the order of half the total for 2004. However, there can be no assurances that we will not experience further premium declines.

The recent ratings downgrades, and any further downgrades, of our ratings could have a material adverse effect on our business, financial condition, result of operations or cash flows

On September 1, 2004, A.M. Best downgraded our financial strength rating to B++ from A and our issuer credit rating to bbb from a . These ratings remain under review with negative implications pending the successful completion of this Offering. At the same time, A.M. Best downgraded the financial strength rating to B from A and the issuer credit rating to bb from a of CRNA following our announcement of our intention to place CRNA into run-off. This rating has been assigned a negative outlook by A.M. Best.

On September 29, 2004, A.M. Best affirmed the financial strength ratings of B++ and upgraded the issuer credit rating to bbb+ from bbb of Converium AG, Converium Rückversicherung (Deutschland) AG and Converium Insurance (UK) Ltd. These ratings have been removed from under review and assigned a stable outlook. At the same time, A.M. Best downgraded the financial strength rating to B from B++ and the issuer credit rating to bb from bbb of CINA. A.M. Best also downgraded the issuer credit rating to b- from bb- of CHNA. These ratings have been removed from under review and assigned a negative outlook.

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

On September 27, 2004, Standard & Poor s revised to positive from developing its CreditWatch implications on the long-term counterparty credit and insurer financial strength ratings on Converium AG. All other ratings remain on CreditWatch with developing implications. In addition, Standard & Poor s noted that if the Offering is completed and barring any material unforeseen event, it expects to raise its long-term ratings on Converium AG to BBB+ and its long-term junior subordinated debt rating on Converium Finance S.A. to BBB- . Standard & Poor s also noted that an acceptable guarantee would allow Standard & Poor s to rate Converium Rückversicherung (Deutschland) AG and Converium Insurance (UK) Ltd. in line with Converium AG. Our revised strategy as described herein is substantially dependent upon Standard & Poor s upgrading our ratings.

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

Additionally, contracts representing approximately one-third of our total ultimate premiums with our cedents contain termination provisions relating to a downgrade of our ratings. As a result of recent downgrades, the termination provisions of many of our contracts have been triggered giving rise to a right of termination in favor of the cedent that allows the cedent to terminate the contract on a prospective basis from the date of termination. Alternatively, the cedent and the reinsurer may renegotiate the terms of the contract. In renegotiating the contract terms, the cedent will usually require the reinsurer to post collateral to secure the obligations under the contract, which would have negative financial implications for us, as reinsurer. Moreover, limitations on our ability to post collateral could force us to renegotiate the contracts on significantly less favorable terms than if we were able to post collateral or lead to the termination of the contracts by cedents. Our recent ratings downgrades may make cedents less inclined to renegotiate the contracts at all, and has led to an increased rate of terminations.

The recent downgrades of our ratings have also made it more difficult to renew our existing contracts, without regard to whether or not the existing contract contains a ratings trigger. A significant portion of our existing contracts are up for renewal on January 1, 2005. We expect we will not be able to renew a significant portion of these contracts, which will, in turn, lead to a corresponding reduction in our premiums written. See Management s discussion and analysis of financial condition and results of operations Future impact of recent developments .

Our Master Retrocession Agreement for our financing contracts in Life & Health Reinsurance contains a rating trigger offering the retrocessionaire the right to terminate the Master Retrocession Agreement in case the Standard & Poor s rating of Converium Rückversicherung (Deutschland) AG falls below BBB . The retrocessionaire has exercised this right and will recapture the cessions and Converium Rückversicherung (Deutschland) AG is obliged to pay back the Experience Account Balance, i.e. the non-amortized financing, as a recapture fee, which will be offset by a relief of deferred acquisition costs.

Our syndicated letter of credit facility contains ratings triggers which required us to post collateral to secure the total commitments as a result of the downgrade of Converium AG s ratings below A by Standard & Poor s.

The pool members agreement with respect to GAUM provides that if a member of the pool has its financial strength rating downgraded below BBB+ by Standard & Poor s Rating Service it may be served with a notice terminating its membership of the pool upon approval by the committee of representatives of the pool. We believe that no formal action has been taken by the pool membership committee to serve a notice terminating our membership on us. However, the committee has discussed our downgrade and sought to take action to limit our rights to dispute the validity of any notice served on us. We expect that continuation of our membership at our current rating is likely to be conditional upon our entering fronting arrangements acceptable to other pool members in a timely fashion and thereafter maintaining such arrangements. We are currently negotiating formal written fronting arrangements that we believe would prevent our termination of membership in the pool, however there is no assurance that such an arrangement can be effectuated. We further expect that the fronting arrangement would require us to post collateral to secure reinsurance obligations under the fronting arrangements. Even if we are able to implement definitive fronting arrangements, such arrangements will have the effect of reducing our margins in GAUM line of business due to the fees and commissions payable in connection with the fronting arrangements. If our membership were terminated, we would not be permitted to participate in future pool business and would have to collateralize by way of a letter of credit our obligations under the business written by the pool in our name prior to our termination. If our membership were terminated, we also may be required to sell our shares in GAUM at a market value as agreed by the parties or as determined by an independent appraiser. If the value of our investment in GAUM declines, we may be required to take an impairment charge.

There can be no assurance that our capital improvement measures will enable us to improve or maintain our ratings.

Our loss reserves may not adequately cover future losses and benefits

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

After giving effect to our reserve strengthening in June 2004, we had $8,520.8 million of gross reserves and $7,229.2 million of net reserves for losses and loss adjustment expenses. If we underestimated these net reserves by 5%, this would have resulted in an additional $361.5 million of incurred losses and loss adjustment expenses, before income taxes, for the six months ended June 30, 2004.

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

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

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

We have experienced significant adverse development in our U.S. casualty reinsurance lines for the last several years. Since 2001, we have recorded a total of $668.5 million of additional provisions on its non-life business (2001: $123.6 million; 2002: $148.5 million; 2003: $(31.3) million; and first half of 2004: $427.7 million).

During the third quarter of 2004, we commissioned the actuarial consulting firm Tillinghast to perform an independent actuarial review of our non-life loss and allocated loss adjustment expense reserves as of June 30, 2004 in respect of the Zurich and New York originated businesses. These reserves amount to $6.8 billion and represent 94.9% of our total reserves. Tillinghast s analysis was based on data available at the time we issued our second quarter 2004 financial statements supplemented by recent commutations.

As a result of their independent review, Tillinghast concluded that our overall net reserves as of June 30, 2004, in total, for the segments reviewed, are below their point estimate. Tillinghast s point estimate for the relevant businesses exceeds our carried reserves as of June 30, 2004 by $212.9 million or by approximately 3.2%. The Tillinghast review was performed on our overall net reserves for the segments of business analyzed. Tillinghast has not expressed an opinion on the reserves at the statutory entity level.

Certain contracts assumed or retroceded by us have provisions whereby the premiums paid to or by us are affected by the losses under the contract. The results of the Tillinghast study imply that we would be required to pay an additional $25.7 million of premiums under a retroceded contract and would receive additional premium under certain assumed contracts. Assuming the Tillinghast point estimate, we estimate this additional premium receivable to be $10.6 million.

We are taking Tillinghast s study under consideration and, following a detailed analysis of the specific conclusions, will make adjustments to carried reserves in the third quarter 2004 to reflect the new information received. Current estimates of anticipated adjustments indicate that a further strengthening of overall net reserves by between $50 million and $100 million will be appropriate in order to bring our carried reserves closer to Tillinghast s point estimate.

We did not commission Tillinghast to review the remaining businesses ($0.4 billion or 5.1% of our carried loss and loss adjustment expense reserves) as they have not experienced the type of volatility we experienced in the business originated out of North America.

See Management s discussion and analysis of financial condition and results of operations Non-life loss and loss adjustment reserves and Background and reasons for the Offering.

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

There has been an increased trend in our industry for a ceding company to require reinsurers to post collateral in excess of applicable regulatory collateral requirements in order to secure the reinsurers obligations to pay claims. In addition to the industry trends, we may be required to post collateral in other circumstances including as a result of recent downgrade of our ratings. We may have greater limitation on our ability to post collateral than some of our competitors.

Our syndicated letter of credit facility contains restrictions which limit our ability to post collateral. In order to meet expected additional requirements to post collateral we intend to enter into a new letter of credit facility; however there can be no assurance that we will be able to enter into a new facility on reasonable terms if at all and we currently have limited availability under our existing facility. These factors may further impair our ability to post collateral required by ceding companies. If we are unable to meet the collateral requirements of ceding companies, we would be limited in our business opportunities, which could have a material adverse effect on our financial condition, results of operations or cash flows.

The pool members agreement with respect to GAUM provides that if a member of the pool has its financial strength rating downgraded below BBB+ by Standard & Poor s Rating Service it may be served with a notice terminating its membership in the pool upon approval by the committee of representatives of the pool. We believe that no formal action has been taken by the pool membership committee to serve a notice terminating our membership on us. However, the committee has discussed our downgrade and sought to take action to limit our rights to dispute the validity of any notice served on us. We expect that continuation of our membership at our current rating is likely to be conditional upon our entering fronting arrangements acceptable to other pool members in a timely fashion and thereafter maintaining such arrangements. We are currently negotiating formal written fronting arrangements that we believe would prevent termination of our membership in the pool, however there is no assurance that such an arrangement can be effected. We further expect that such fronting arrangements would require us to post collateral to secure our reinsurance obligations under the fronting arrangements. If our membership were terminated, we would not be permitted to participate in future pool business and would have to collateralize by way of a letter of credit our obligations under the business written by the pool in our name prior to our termination. Currently, the amount that would need to be collateralized is $77.0 million and the current annual cost of providing such security is likely to be approximately $0.5 million. The amount of the collateral and the cost of providing it may fluctuate depending on, among other things, market conditions and the performance of the pool business.

See Background and reasons for the Offering Recent reserve strengthening and subsequent asset impairments Ratings actions and special termination clauses .

We are subject to the cyclicality of the reinsurance industry

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

- price competition and price setting mechanisms of clients;
- frequency of occurrence or severity of both natural and man-made catastrophic events;
- levels of capacity and demand;
- general economic conditions; and
- changes in legislation, case law and prevailing concepts of liability.

As a result, the reinsurance business historically has been characterized by periods of intense price competition due to excessive underwriting capacity as well as periods when shortages of underwriting capacity permitted attractive premium levels. Following the terrorist attacks of September 11, 2001, premium levels increased for most lines of business, some of which have been maintained until today. However, there can be no assurance that such increased premium levels will continue in any line of business in which we participate. We expect to continue to experience the effects of cyclicality, which could have a material adverse effect on our business, financial condition, results of operations or cash flows.

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

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

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

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

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

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

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

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

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

Although Zurich Financial Services, through its subsidiaries, has agreed to arrangements that cap our exposure for losses and loss adjustment expenses arising out of the September 11th terrorist attacks at $289.2 million, net of retrocessional reinsurance recoveries, terrorist attacks and other man-made catastrophic events may have a material adverse effect on our business, financial condition or results of operations. For a discussion of the impact of the September 11th terrorist attacks on our business, see Note 8 to our 2003 consolidated financial statements.

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

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

CRNA has been placed into run-off and we will seek to commute its liabilities wherever appropriate;

We expect to implement a fronting arrangement to enable us to continue to participate in the GAUM pool;

We ceased writing new business from CINA until such time as it is an accepted carrier for our clients;

We will offer reinsurance for U.S.-origin business to select U.S. based clients. This business will be underwritten and managed through Converium AG, Zurich or its Bermuda Branch.

By placing CRNA into run-off, it became subject to increased regulatory scrutiny and our plans are subject to the approval of state insurance regulators in the United States. Although we cannot predict the effect of any future regulatory orders or proceedings, state insurance regulatory agencies in the United States have broad power to institute proceedings and seek consensual orders to, among other things, take possession of the property of an insurer and to conduct the business of such insurer under rehabilitation and liquidation statutes. On September 7, 2004, we entered into a letter of understanding with the Connecticut Department of Insurance pursuant to which CRNA will be prevented from taking a number of actions, including the payment of any dividends, without the approval of the Connecticut Department of Insurance. Other insurance regulators may seek similar agreements or initiate other proceedings or actions. See Regulatory or legal changes could adversely affect our business and Regulation United States.

The recent ratings downgrades as well as our decision to place CRNA into runoff have triggered special funding clauses in CRNA s and CINA s reinsurance and insurance contracts. These clauses require CRNA and CINA to provide collateral for their payment obligations under those contracts. In addition, state insurance regulators may request that CRNA and CINA make special deposits in their states or provide collateral for contracts issued to residents of their states. The approval of the Connecticut Insurance Department is required before we provide any such collateral. If the Connecticut Insurance Department withholds its approval, we would be in default under contracts that have special funding clauses unless the other party to the contract has waived the requirement. In addition, state insurance regulators that requested special deposits or collateral could seek to revoke CRNA s or CINA s licenses or initiate proceedings to take possession of the property, business and affairs of CRNA or CINA in their respective states.

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

We are currently negotiating formal written fronting arrangements with respect to our participation in GAUM but there can be no assurance that we will ultimately be able to enter into any such arrangements. Our failure to enter into such arrangements could result in our termination of membership in the pool. Even if we are able to implement definitive fronting arrangements, such arrangements will have the effect of reducing our margins in GAUM line of business due to the fees and commissions payable in connection with the fronting arrangements.

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

Even if we are able to successfully implement the run-off of our North American business, there can be no assurance that CINA will in the future become an accepted carrier for our clients. A failure of CINA to become so recognized could impair our ability to return to the North American market in the future.

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

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

Investment returns are an important part of our overall profitability, and fluctuations in the fixed income or equity markets could have a material adverse effect on our financial condition, results of operations or cash flows. For the six months ended June 30, 2004 and the year ended December 31, 2003, net investment income and net realized capital gains accounted for 7.8% and 6.4% of our revenues, respectively. Our capital levels, ability to pay claims and our operating results substantially depend on our ability to achieve our investment objectives, which may be affected by general political and economic conditions that are beyond our control.

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

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

Capital market fluctuations may adversely impact the value of our investments

We had a cash and investments portfolio of $7.9 billion as of June 30, 2004. As with any institutional investor with a similarly sized portfolio, Converium is exposed to the financial markets; in particular, an increase in interest rates, and a resulting decline in the market value of our fixed income securities, would adversely impact our shareholders equity.

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

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

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

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

As we will no longer be writing business from the United States, a smaller proportion of our business will be denominated in U.S. dollars in the future. For a discussion of the impact of material changes in foreign exchange rates on our shareholders equity, see Management s discussion and analysis of financial condition and results of operations Quantitative and qualitative disclosures about market risk.

We may face competitive disadvantages in the reinsurance industry

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

- Munich Reinsurance Company;
- Swiss Reinsurance Company;
- General Reinsurance Company, a subsidiary of Berkshire Hathaway, Inc.;
- Employers Reinsurance Corporation, a subsidiary of General Electric Company;
- Hannover Re Group, which is majority-owned by the mutual insurance group HDI Haftpflichtverband der Deutschen Industrie;
- Lloyd s syndicates active in the London market;
- companies active in the Bermuda market, including the PartnerRe Group, XL Capital Ltd., ACE Ltd. and RenaissanceRe Holdings Ltd.;
- Everest Reinsurance Company;

Transatlantic Reinsurance Company; and

SCOR.

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

The loss of key employees and executive officers could adversely affect us

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

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

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

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

Regulatory or legal changes could adversely affect our business

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

Government regulators are concerned primarily with the protection of policyholders rather than shareholders or creditors.

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

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

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

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

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

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

We market our reinsurance products worldwide in substantial part through reinsurance brokers. In some markets we principally write through reinsurance brokers. In 2003, two reinsurance intermediaries produced approximately 11.0% and 12.0% of our gross premiums written, respectively. Loss of all or a substantial portion of the business written through brokers could have a material adverse effect on our financial condition, results of operations or cash flows.

Our reliance on reinsurance brokers exposes us to their credit risk

In 2003, approximately 58.0% of our gross premiums written were written through brokers. In accordance with industry practice, we frequently pay amounts owed on claims under our policies to reinsurance brokers, and these brokers, in turn, pay these amounts over to the insurers that have reinsured a portion of their liabilities with us. We refer to these insurers as ceding insurers. In some jurisdictions, or pursuant to some contractual arrangements, if a broker fails to make such a payment, we may remain liable to the ceding insurer for the deficiency. Conversely, in certain jurisdictions, when the ceding insurer pays premiums for these policies to reinsurance brokers for payment over to us, these premiums are considered to have been paid and the ceding insurer will no longer be liable to us for those amounts, whether or not we have actually received the premiums. Consequently, in connection with the settlement of reinsurance balances, we assume a degree of credit risk associated with reinsurance brokers around the world.

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

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

In addition, Zurich Financial Services subsidiaries remain the legal counterparty for many of our assumed reinsurance contracts. Although we do not have credit risk exposure with respect to these contracts, if these Zurich Financial Services subsidiaries do not honor their commitments efficiently and effectively to these clients, we might bear reputational risk.

See Formation transactions and relationship with Zurich Financial Services.

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

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

We are also restricted from disposing of assets under the terms of our $900 million syndicated letter of credit facility and our indenture relating to $200 million principal amount of 7.125% Senior Notes due 2023.

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

European Commission directives may disadvantage companies like us which are not established within the European Union

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

Background and reasons for the Offering

Recent reserve strengthening and subsequent asset impairments

On April 29, 2004, we announced that first quarter reported losses from prior year U.S. 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 in the second quarter of 2004. In response to the loss development observed in the first and second quarters of 2004, we initiated detailed additional reviews of our North American risk-related business from an integrated underwriting, claims and actuarial perspective in order to examine the adequacy of prior years provisions. These analyses included a comprehensive top-down reserve review of our North American risk-related business written from 1993 to 2004, a re-assessment of old contracts using latest information including, where available, market data for benchmarking purposes and a review of reinsurance agreements to advise on whether carried incurred but not reported reserves were viewed as adequate based on current knowledge. In addition, the Chief Executive Officer and Chief Technical Officer led a bottom-up underwriting review of 114 reinsurance covers consisting of 447 treaty accounts on lines of business with material loss experience. These actions supplemented the claims audits and actuarial reserve reviews that we conduct in our ordinary course of business.

Reserve strengthening

As a result of the in-depth reviews, we recorded a reserve strengthening charge of $384.7 million in the second quarter of 2004, consisting of $96.0 million in the Standard Property & Casualty Reinsurance segment and $288.7 million in the Specialty Lines segment. This action was taken in response to the continued adverse loss emergence due to increased claims reporting activity from clients relating to U.S. casualty business written from 1997 to 2001. In the Standard Property & Casualty Reinsurance segment, the reserve strengthening primarily related to general third party liability lines in the United States ($99.3 million). In the Specialty Lines segment, the reserve strengthening arose primarily from the professional liability & other special liability lines, in particular umbrella, professional liability and excess & surplus lines of business in the United States ($265.2 million).

In order to obtain an external review of our overall reserve position, we commissioned the actuarial consulting firm Tillinghast to perform an independent actuarial review of our non-life loss and allocated loss adjustment expense reserves as of June 30, 2004 in respect of the Zurich and New York originated businesses. These reserves amount to $6.8 billion and represent 94.9% of our total reserves. Tillinghast s analysis was based on data available at the time we issued our second quarter 2004 financial statements supplemented by recent commutations. Tillinghast relied on the accuracy and completeness of this data and information provided for its analysis. Tillinghast notes that there is inherent uncertainty with any estimation of loss reserves. Actual results may vary from the estimates. As a result of their independent review, Tillinghast concluded that our overall net reserves as of June 30, 2004, in total, for the segments reviewed, are below their point estimate, but fall within a reasonable range of actuarial estimates. Tillinghast s point estimate for the relevant businesses exceeds our carried reserves as of June 30, 2004 by $212.9 million or by approximately 3.2%. Our equity as of June 30, 2004 was $1,349.2 million. The Tillinghast review was performed on our overall net reserves for the segments of business analyzed. Tillinghast has not expressed an opinion on the reserves at the statutory entity level.

Since June 30, 2004, we have commuted approximately $250 million in loss reserves related to prior years business assumed by our North American operation, CRNA. Certain of these commutations were reflected in the Tillinghast point estimate, however others were completed subsequent to the delivery of Tillinghast s report. Tillinghast estimates that these recent commutations would further reduce the difference between their point estimate and the reserves carried as of June 30, 2004 by $8.6 million.

Certain contracts assumed or retroceded by us have provisions whereby the premiums paid to or by us are affected by the losses under the contracts. The results of the Tillinghast study imply that we would be required to pay an additional $25.7 million of premium under a retroceded contract, and would receive additional premium under certain assumed contracts. Assuming the Tillinghast point estimate, we estimate this additional premium receivable to be $10.6 million.

We are taking Tillinghast s study under consideration and following a detailed analysis of the specific conclusions, we will make adjustments to carried reserves in the third quarter 2004 to reflect the new information received. Current estimates of anticipated adjustments indicate that a further strengthening of overall net reserves by between $50 million and $100 million will be appropriate in order to bring our carried reserves closer to Tillinghast s point estimate.

The precise amount of reserve increase and the resulting financial impact on our consolidated financial statements is dependent upon ongoing commutation discussions. Currently, Converium Reinsurance (North America) Inc. is in discussion with several clients for offers of commutations and we are pursuing these diligently. A successful conclusion of such commutations may result in a further reduction in the difference between Tillinghast s point estimate and our current level of reserves.

We did not commission Tillinghast to review the remaining businesses ($0.4 billion or 5.1% of our carried loss and loss adjustment expense reserves) as they have not experienced the type of volatility we experienced in the business originated out of North America.

In order to provide additional comfort as regards our reserve position, we have acquired a retrospective stop-loss retrocession cover from National Indemnity Company, a Standard & Poor s AAA-rated member of the Berkshire Hathaway group of insurance companies. The stop-loss provides an additional $150 million of cover against potential adverse reserve development on the underwriting years 1987-2003 for all business written by Converium AG, Converium Reinsurance (North America) Inc. and Converium Insurance (North America) Inc. The cover of $150 million attaches at $100 million in excess of the net reserves carried by these legal entities for these underwriting years as of June 30, 2004. The reinsurance charge for this retrocession is $20 million. We have retained the right to commute the transaction on July 1, 2009, or thereafter at mutually agreeable terms.

Deferred tax asset impairment

We also established a full valuation allowance against the net deferred income tax balances of $269.8 million previously carried at Converium Reinsurance (North America) Inc., the legal entity where the majority of the reserve strengthening has occurred.

As required under SFAS 109, Accounting for Income Taxes , we are required to assess if it is more likely than not that some or all of the net deferred tax assets will not be realized. In making this assessment, reference is made to, among other things, historical losses. Therefore, a full valuation allowance has been established against Converium Reinsurance (North America) Inc. s net deferred tax assets as of June 30, 2004.

Goodwill impairment

SFAS 142, Goodwill and Other Intangible Assets , requires impairment testing of goodwill annually or more regularly if any event or change in business circumstances occurs which would indicate that the carrying value of goodwill may be impaired. Due to the reserving actions taken in the second quarter of 2004 in respect of prior years development of North American business, and a subsequent decision to take a full valuation allowance against the net deferred tax asset at Converium Reinsurance (North America) Inc., a goodwill impairment test has been conducted to assess the fair value of the reporting units at that date. As a result of this assessment, an impairment charge of $94.0 million has been recorded in the second quarter of 2004.

Ratings actions and special termination clauses

On July 20, 2004, as a result of our reserve strengthening, Standard & Poor s Ratings Services lowered both its long-term counterparty credit and insurer financial strength ratings on Converium AG and its main operating subsidiaries to A- from A . In addition, Standard & Poor s lowered its long-term counterparty credit and senior unsecured debt ratings on Converium Holdings (North America) Inc. to BBB- from BBB , and junior subordinated debt rating on Converium Finance S.A. to BBB from BBB+ . At the same time, all ratings were placed on CreditWatch with negative implications. On September 1, 2004, Standard & Poor s lowered its long-term counterparty credit and insurer financial strength ratings on Converium Reinsurance (North America) Inc. following our announcement of our intention to place Converium Reinsurance (North America) Inc. into run-off.

On September 1, 2004, A.M. Best downgraded our financial strength rating to B++ from A- and our issuer credit rating to bbb from A- . At the same time, A.M. Best downgraded the financial strength rating to B- from A- and the issuer credit rating to bb- from a- of Converium Reinsurance (North America) Inc. following our announcement of our intention to place Converium Reinsurance (North America) Inc. into run-off. This rating had been assigned a negative outlook by A.M. Best.

On September 29, 2004, A.M. Best affirmed the financial strength ratings of B++ and upgraded the issuer credit rating to bbb+ from bbb of Converium AG, Converium Rückversicherung (Deutschland) AG and Converium Insurance (UK) Ltd. These ratings have been removed from under review and assigned a stable outlook. At the same time, A.M. Best downgraded the financial strength rating to B from B++ and the issuer credit rating to bb from bbb of CINA. A.M. Best also downgraded the issuer credit rating to b- from bb- of CHNA. These ratings have been removed from under review and assigned a negative outlook.

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

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

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

Ratings and surplus triggers typically give rise to a right of termination in favor of the cedent that allows the cedent to terminate the contract on a prospective basis from the date of termination. However, as a commercial matter, the cedent and reinsurer typically renegotiate the terms of the contract. In renegotiating the contract terms, cedents will usually require the reinsurer to post collateral to secure the obligations under the contract, which would have negative financial implications for us, as reinsurer. Our recent ratings downgrades may make cedents less inclined to renegotiate the contracts at all, and may lead to an increased rate of terminations.

Our syndicated letter of credit facility contains ratings triggers which, as a result of the ratings downgrade by Standard & Poor s, has required us to post collateral in order to secure total commitments under the facility. The collateral, consisting of interests in certain of our securities accounts valued in the aggregate at approximately $1.1 billion, was pledged pursuant to a Deed of Pledge Agreement on September 17, 2004. In order to meet expected additional requirements to post collateral we intend to enter into a new letter of credit facility; however there can be no assurance that we will be able to enter into a new facility on reasonable terms if at all. Our current letter of credit facility contains restrictions with respect to posting additional collateral.

Our Master Retrocession Agreement for our financing contracts in Life & Health Reinsurance contains a rating trigger offering the retrocessionaire the right to terminate the Master Retrocession Agreement in case the Standard & Poor s rating of Converium Rückversicherung (Deutschland) AG falls below BBB. The retrocessionaire has exercised this right and will recapture the cessions and Converium Rückversicherung (Deutschland) AG is obliged to pay back the Experience Account Balance, i.e. the non-amortized financing, as a recapture fee, which will be off-set by a relief of deferred acquisition costs.

The pool members agreement with respect to GAUM provides that if a member of the pool has its financial strength rating downgraded below BBB+ by Standard & Poors Rating Service it may be served with a notice terminating its membership in the pool upon approval by the committee of representatives of the pool. We believe that no formal action has been taken by the pool membership committee to serve a notice terminating our membership on us. However, the committee has discussed our downgrade and sought to take action to limit our rights to dispute the validity of any notice served on us. We expect that continuation of our membership at our current rating is likely to be conditional upon our entering fronting arrangements acceptable to other pool members in a timely fashion and thereafter maintaining such arrangements. We expect to enter into formal written fronting arrangements that would prevent our termination of membership in the pool, however there is no assurance that such an arrangement can be effectuated. We further expect that such fronting arrangements would require us to post collateral to secure our reinsurance obligations under the fronting arrangements. If our membership were terminated, would not be permitted to participate in future pool business and would have to collateralize by way of a letter of credit our obligations under the business written by the pool in our name prior to our termination. Currently, the amount that would need to be collateralized is $77 million and the current annual cost of providing such security is likely to be approximately $0.5 million. The amount of the collateral and the cost of providing it may fluctuate depending on, among other things, market conditions and the performance of the pool business. If our membership were terminated, we also may be required to sell our shares in GAUM at a substantial discount.

The MDU Shareholders Agreement provides that if our credit rating is lowered by more than seven points from our initial A+ rating by a recognized credit ratings agency, MDU may serve us with a termination notice pursuant to which the joint venture governing the MDU pool would be terminated. Within sixty days after service of such termination notice, MDU has the right to purchase our interests in the joint venture at a price to be mutually agreed upon by the parties or to be determined by two firms of independent chartered accountants. Our recent ratings downgrades have not triggered the termination provisions of the MDU Shareholders Agreement. We believe that MDU will retain Converium as capacity provider of its indemnity plan.

The case for recapitalizing Converium

Strong franchise and broker and client support outside the U.S.

We have a track record of building profitable businesses in key markets such as Europe, Asia-Pacific and Latin America. From our initial public offering through June 30, 2004 we have generated net income of $595 million from the businesses we intend to continue to write under our revised strategy. This net income was comprised of $145 million in the period from the time of our IPO to December 31, 2002, $324 million for the year ended December 31, 2003 and $126 million for the six months ended June 30, 2004. As a result of the revised strategy, this historical performance may not be indicative of our future results.

The following table shows our historical net premiums written in the key markets in which we intend to write business going forward.

Net premiums written(1)

($ in millions)	Six months ended June 30, 2004	Year ended December 31, 2003	2002	2001
Europe	1,175	1,758	1,442	1,077
Asia-Pacific	124	236	148	122
Latin America	81	152	166	146

(1) In light of the events and actions described elsewhere in this section, our net premiums written in 2005 will be substantially lower than in 2004, and we cannot assure you that our net premiums written for future periods will be consistent with the performance reflected above.

The following table shows our historical calendar year technical combined ratio, non-life, in the key markets in which we intend to write business going forward.

Gross technical combined ratio, non-life(1)

	Six months ended June 30, 2004	Year ended December 31, 2003	2002	2001
Europe	94.3%	84.2%	101.9%	138.1%
Asia-Pacific	70.3%	68.5%	71.8%	100.8%
Latin America	84.1%	68.0%	67.5%	79.9%

(1) In light of the events and actions described elsewhere in this section, we cannot assure you that our profitability levels for future years will be consistent with the performance reflected above. In particular, historically we have written business based on our former previously higher ratings and although we intend to write profitable lines of business in the future, we may prove unable to maintain the profitability levels of our most recent years.

We believe that despite the setbacks suffered in the United States, we continue to enjoy a strong franchise among our customers in our remaining markets. This franchise is founded upon our financial strength, our dual distribution platform which provides access to profitable business, the quality of our client relationships and intellectual capital. The foundations of some of these client relationships have been in place and enriched over the past 20 years. We believe that a survey from Flaspöhler Research Group demonstrates primary insurers desire for choice and diversification when entering into a reinsurance transaction. Given the limited number of professional reinsurers with direct distribution capabilities, clients and brokers in many markets have recently reiterated strong support for our intention of continuing to write business.

Our future shape and priorities

Reduction of top-line due to geographic realignment and focus on target clients

Going forward, we will focus on markets where we believe our franchise remains strong, i.e. Europe, Asia and Latin America. We will seek to capitalize on our successful record of building a profitable market position in these regions. In general, we will focus on small and medium-sized clients who have limited access to capital markets and rely on additional services from their reinsurers, such as reinsurance structuring advice and risk modelling capabilities. Among this target group of clients are mutuals, cooperatives, public body insurers, regional insurers and specialist insurers. Based on the Flaspöhler survey we believe that these carriers value relationship orientation. Accordingly, in order to enhance our position with these clients we will continue our successful Client Relationship Management (CRM) strategy launched in 2001 prior to our initial public offering.

Further development and reinforcement of strategic alliances

We will seek to reinforce and develop our joint venture relationships such as Global Aerospace Underwriting Managers Ltd (GAUM) in global aviation insurance, Satec in global space insurance, the Medical Defence Union (MDU) in U.K. medical malpractice insurance and our corporate name at Lloyd s (Converium Underwriting Ltd.). In 2003, these operations accounted for gross written premiums of $532.8 million. In the first half of 2004, these operations accounted for gross written premiums of $296.1 million compared to $243.8 million in the first half of 2003. These businesses are either not rating-sensitive or we will seek to secure them through suitable fronting arrangements currently under negotiation.

Discontinuation of North American business

We have placed our U.S. operations into run-off. We discontinued the writing of reinsurance from offices located in North America. However, we will offer reinsurance for attractive U.S. originated business to a limited number of select accounts. This business will be underwritten and managed through Converium AG, Zurich and its Bermuda branch. CRNA has been placed into orderly run-off and we will seek to commute CRNA s liabilities wherever adequate.

We are also examining the possibility of a sale of Converium Reinsurance (North America) Inc.

U.S. legacy issues addressed

We have resolutely addressed our North American reserving deficiencies. After our expected reserve strengthening in the second half of 2004, our profitable non-U.S. record is no longer expected to be impaired by reserve shortfalls in the U.S. We also emphasize that, irrespective of the recent rating decisions, our commitment to a strict underwriting discipline will be maintained. In addition, we will adjust our cost base to the reduced top-line in order to remain cost-competitive.

Investment results expected to remain strong

Our cash and investment portfolio amounted to $7.9 billion as of June 30, 2004. Our conservative asset allocation is driven by Asset and Liability Management considerations. Our investments are expected to continue to generate strong investment results.

Aim for an improved financial strength rating within a reasonable time frame

In order to preserve our economic value we will seek to restore an improved financial strength rating within a reasonable time frame. We believe that our portfolio, following the recent reserve strengthening, has a strong embedded earnings potential. We regard this, in conjunction with a strong capital adequacy following a successful share issue, as the foundation upon which an improved rating will be based.

Active management of capital base

We aim at generating attractive returns on capital. If capital cannot be fully deployed in future periods we will consider returning such capital to shareholders. At the same time, we are committed to maintaining our capital at a level that is consistent with an A -level rating.

Employee Retention Plan

In September 2004, we adopted a retention plan for certain of our key employees in order to ensure the successful continuation of business operations at Converium AG and Converium Rückversicherung (Deutschland) AG and the orderly run-off of our North American operations. The retention bonus is paid to the eligible employees in cash in two or three equal installments in amounts up to the equivalent of such employees base salary. The last installment becomes due on January 31, 2006. The estimated cost of the program is approximately $32.0 million. In addition, severance amounts of $7.0 million will be required to be paid to certain CRNA employees in the event of a change of control or certain other events.

Restoration of total tangible equity

The reserve strengthening, the impairments of intangible balance sheet positions and additional changes in reported shareholders equity resulted in a reduction of our total tangible equity of $409.4 million since year-end 2003 to $1,322.8 million. Total tangible equity is one of the key criteria used as a measure of financial strength.

The table below sets out the movement in our total tangible equity.

	June 30, 2004		December 31,		
($ in millions)	**As adjusted**	**Actual**	**2003**	**2002**	**2001**
Reported shareholders equity	1,749.2	1,349.2	2,083.3	1,738.0	1,570.8
Less net deferred income taxes(1)	+50.4	+50.4	-186.8	-257.9	-193.9
Less goodwill	-49.2	-49.2	-140.2	-117.6	-112.0
Less other intangible assets(2)	-27.6	-27.6	-24.1	-	-
Total tangible equity	1,722.8	1,322.8	1,732.2	1,362.5	1,264.9
Change	+400.0	-409.4	+369.7	+97.6	n.m.

(1) Defined as deferred tax liabilities less deferred tax assets, as per our balance sheet.

(2) Represents intangible assets relating to our investment in GAUM.

In deciding to raise approximately $400 million (net of expenses) through the Offering, we believe we are taking adequate steps to restore our total tangible equity to approximately our 2003 level. As adjusted for the Offering, our total tangible equity as of June 30, 2004 would be $1,722.8 million compared to $1,732.2 as of December 31, 2003. However, there have been a number of recent developments that will have an impact on our third quarter 2004 results and corresponding shareholders equity and tangible equity. See Management s discussion and analysis of financial condition and results of operations Third quarter 2004 developments.

In addition to the proposed recapitalization, we will implement a number of measures to de-risk our business, as described below under Concurrent measures to de-risk our business.

Impact of our revised strategy

The decision to place CRNA into run-off and to transfer the underwriting of all North American non-life business to Zurich and Bermuda is expected to result in a reduction of gross written premium of North American originated business of $1.0 billion or more for underwriting year 2005, predominantly in Standard Property & Casualty Reinsurance and Speciality Lines. Based on most recent feedback from non-U.S. insurers, Converium currently expects its non-U.S. premium volume for underwriting year 2005 to be reduced by up to 40% compared to 2004. Accordingly, our preliminary estimates are that in underwriting year 2005, our total gross written premiums will be on the order of half the total for 2004. We expect profitable growth to resume in 2006.

A strong capitalization is necessary to protect the Converium franchise

Enhancing our total tangible equity position is critical in our efforts to:

Improve our financial strength rating

A financial strength rating of BBB+ or higher is a prerequisite for retaining and gaining access to reinsurance business as it is a key criterion used by clients and intermediaries to assess counterparty risk. This is particularly true in some of the lines we intend to write going forward.

Protect our book of business

As described above and as is customary for the reinsurance sector, some of our contracts with cedents contain provisions allowing the cedent to terminate the contract on a prospective basis if our statutory surplus falls by a certain percentage or if our financial strength rating is downgraded below certain levels by rating agencies. As a result of recent surplus declines and ratings downgrades, the termination provisions of many of our contracts have been triggered and a number of our clients have exercised their termination rights. Were we not to restore our capital position, we would expect further ratings downgrades and could lose unearned premiums carried in our balance sheet for unexpired risk relating to contracts with termination clauses that have been triggered. We consider this business, which was written in a favorable market environment, to represent a source of potential future profits that would be hard to replace if lost.

Preserve and enhance our competitive strengths

We believe our capitalization after the Offering and our broad geographic reach should enable us to access business at attractive rates, terms and conditions and, as a result, produce attractive risk adjusted returns for shareholders. Our franchise with clients and intermediaries is primarily rooted in our broad geographic distribution and servicing platform and our technical expertise:

Our broad geographic distribution and servicing platform gives access to both broker and direct distribution channels. In 2003, 58% of our net premiums written were generated by the broker channel and 42% were direct.

The extension of short-tail lines and an active reduction of excess & surplus and umbrella casualty lines, have led to a more diversified and less volatile non-life portfolio.

The strong growth of our Standard Property & Casualty Reinsurance segment since the initial public offering in late 2001 was driven by Continental European direct markets, such as Germany which are less ratings sensitive and where the targeted client segments value our structuring advice and modeling capabilities.

Our technical expertise enables us to write business in less ratings sensitive Specialty Lines as well as in strategic alliances (e.g. business generated through GAUM, MDU Services Ltd. or Satec and our corporate name at Lloyd s). See Business Strategy Our core business Specialty Lines.

Retain and attract skilled personnel

A strong financial position is an important factor in allowing us to retain and attract skilled personnel, especially underwriters with specific expertise in high-margin, non-commoditized specialty lines of business.

We believe that we remain equipped to exploit market opportunities in our targeted markets

Favorable reinsurance rates in certain lines

Reinsurance rates are expected to remain at attractive levels in most lines of business. This is particularly true in Specialty Lines, which are less price-sensitive than Standard Property & Casualty Reinsurance, as these lines require strong intellectual and structuring capabilities.

Stringent profitability thresholds

We remain committed to underwriting for profit. In pricing, our after-tax target return for each line of business is 11% plus the higher of 4% or the local risk-free rate. This translates into a minimum return of 15% on allocated risk-based capital in each market. Meeting these targets requires a consequent management of the underwriting cycle including the avoidance of under-priced business.

Active cycle management

We have a systematic approach to the allocation of capital and resources to those lines of business and markets that meet our profitability standards, and to withdraw from businesses that do not meet our performance thresholds. Our commitment to managing the underwriting cycle is reflected in relatively moderate top-line growth rates resulting from the renewals of business at the end of 2003 and beginning of 2004. In some lines of business and markets, we have even reduced our writings due to profitability considerations. Although we anticipate a significant decrease in our premium volume as described above, we remain committed to our profitability standards, and to actively manage the underwriting cycle.

Recent underwriting years have been profitable

Excluding prior years adverse developments we have recorded a non-life combined ratio of 94.2% for the six months ended June 30, 2004, with a breakdown of 93.8% in Standard Property & Casualty Reinsurance and 94.6% in Specialty Lines. The tables below provide further information on the performance of our more recent underwriting years.

Standard Property & Casualty Reinsurance segment technical combined ratio of underwriting years 2002 to 2004 by calendar year semester

($ in millions)	Six months ended June 30, 2002	Six months ended December 31, 2002	Six months ended June 30, 2003	Six months ended December 31, 2003	Six months ended June 30, 2004
Net premiums written	585.6	564.7	963.5	721.2	978.8
Net premiums earned	319.9	516.3	770.3	847.6	841.1
Combined ratio	71.1%	106.7%(1)	86.5%	87.8%	92.3%

Specialty Lines segment technical combined ratio of underwriting years 2002 to 2004 by calendar year semester

($ in millions)	Six months ended June 30, 2002	Six months ended December 31, 2002	Six months ended June 30, 2003	Six months ended December 31, 2003	Six months ended June 30, 2004
Net premiums written	342.3	661.5	899.4	842.9	1,003.3
Net premiums earned	126.8	422.9	733.7	759.9	887.1
Combined ratio	98.1%	105.1%	101.9%	84.2%	94.7%

Total Non-life technical combined ratio of underwriting years 2002 to 2004 by calendar year semester

($ in millions)	Six months ended June 30, 2002	Six months ended December 31, 2002	Six months ended June 30, 2003	Six months ended December 31, 2003	Six months ended June 30, 2004
Net premiums written	927.9	1,226.2	1,862.9	1,564.1	1,982.1
Net premiums earned	446.7	939.2	1,504.0	1,607.5	1,728.2
Combined ratio	78.8%	106.1%(1)	94.1%	86.2%	93.5%

(1) Floods in Central Europe, incurred net loss of $49.5 million or 9.6% for Standard Property & Casualty Reinsurance and 5.3% for Total Non-life.

In light of the events and actions described elsewhere in this section, we cannot assure you that our profitability levels for future underwriting years will be consistent with the performance reflected above. In particular, historically we have written business based on our former previously higher ratings and although we intend to write profitable lines of business in the future, we may prove unable to maintain the profitability levels of our most recent underwriting years.

Concurrent measures to de-risk our business

In order to secure the strong capitalization needed to successfully execute our strategy and protect the interests of our shareholders, we have taken steps to de-risk our business. These measures reduce capital requirements from both a solvency and rating agency perspective. We have analyzed various options and have determined that we will take the following actions in addition to the Offering:

Establish run-off unit and seek commutations

We are in the process of establishing a unit to ensure an orderly run-off of business written by our Converium Reinsurance (North America) Inc. business unit. Included within the scope of an orderly run-off will be the entertainment of offers of commutation wherever adequate.

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 future cash flows, future investment income earned will decline as the assets backing those reserves are liquidated to make payments. In addition, commutations reduce the amount of reserves carried on our balance sheet and therefore reduce the capital required to address reserve risk from a solvency perspective.

Reduce investment portfolio risks

Since June 30, 2004, we have adjusted our asset allocation and lowered our exposure to investments in equity securities by nearly $500 million. This will reduce our equity exposure to below 4% of total invested assets from approximately 10% as of June 30, 2004. These sales generated net realized capital gains of approximately $17.6 million (pre-tax), which will be recorded in the third quarter of 2004. The proceeds of this divestiture will be invested in highly liquid and highly rated fixed income instruments. As equity securities generally have a greater volatility associated with them than other assets such as highly rated fixed income instruments, they require a higher capital charge. The sale of equities will therefore have a beneficial impact by reducing our capital requirements.

In addition, in order to protect shareholders equity from potential future interest rate increases, we have lowered the modified duration of our fixed income portfolio from 3.8 as of June 30, 2004 to 3.6. Sales relating to this reduction in duration generated net realized capital losses of less than $2.0 million. Fixed income securities with a lower duration generally exhibit lower interest rate sensitivity than longer-term bonds. Furthermore, since June 30, 2004, we have increased our OECD government held-to-maturity portfolio by approximately $300 million.

Swiss statutory accounting implications

For Swiss statutory accounting purposes, Converium Holding AG and Converium AG are both required to perform an annual assessment of the carrying value of investments in affiliates as part of the annual statutory financial statement process. This annual impairment assessment is conducted in the fourth quarter of each calendar year when it is considered that the best financial information is available to perform this test. In order to assess the fair value of each investment, management has utilized a number of internationally recognized valuation techniques taking into account the fair value of the existing balance sheet, current projected business plans and credit rating and foreign exchange rate assumptions.

In respect of Converium AG s investment in Converium Holdings (North America) Inc., it is recognized that as a result of the reserve strengthening and related impairment of goodwill and deferred taxes in CRNA, there will be an impairment charge. The size of this impairment charge will depend on developments occurring during the remainder of 2004. Similarly, Converium Holding AG will perform an annual impairment test on its investment in Converium AG as part of its Swiss annual statutory financial statement process, adopting the valuation principles outlined above. This impairment charge will not have an impact on the consolidated financial position, results of operations or cash flows of the company.

Dividend policy

Our dividend policy in future periods will depend on a number of factors including the successful implementation of our new strategy, our results of operations, our financial condition, our capital and cash requirements, general business conditions, legal, contractual and regulatory restrictions regarding the payment of dividends by us and other factors.

As a holding company, we are dependent on dividends, interests and royalty fees from our subsidiaries to pay cash dividends. The payment of dividends by our subsidiaries to their parent companies is restricted by applicable laws and regulations. To the extent our subsidiaries are restricted from paying dividends to Converium Holding AG, we may be unable to pay dividends to our shareholders. For further information on the restrictions on our ability to pay dividends, see Note 14 to our 2003 consolidated financial statements.

Under Swiss law, we may only pay dividends if we have either sufficient profits available for distribution or if we have sufficient free reserves created for this purpose pursuant to our statutory (non-consolidated) balance sheet and the provisions of Swiss law to allow for distributions from that reserve. As long as the general reserves amount to less than 20% of our nominal share capital, Swiss law requires at least 5% of our annual net profits to be retained as general reserves. Any net profits remaining after this retention and any further allocations required by Swiss law, are eligible to be distributed as dividends, subject to approval by our shareholders at a shareholders meeting, and our auditors must confirm that a dividend proposal by the Board complies with our Articles of Incorporation and Swiss law.

Our dividends, if any, will be due and payable after the shareholders resolution authorizing the payment of such dividends has been passed or at a later date as determined by the shareholders dividend resolution. Under Swiss law, the statute of limitations in respect of dividend payments is five years. All of our shares rank *pari passu* in relation to the right to dividends.

Dividends, if any, paid in respect of our shares are subject to a deduction of Swiss withholding tax, which currently is at a rate of 35%. A Swiss resident may be entitled to a full refund of such withholding if such resident is the beneficial owner of the payment and duly reports the dividend received on his personal tax return or, as the case may be, recognizes the distribution as earnings in its income statement. Non-Swiss-resident holders of our shares may be entitled to a full or partial refund of such withholding tax under the terms and conditions of an applicable double taxation treaty.

We pay our dividends, if any, in Swiss francs.

The table below presents our historical dividends paid in 2002, 2003 and 2004 with respect to the years ended December 31, 2001, 2002 and 2003 as paid in Swiss francs in the aggregate and per share.

Year ended December 31,	Total dividend paid to shareholders	Dividend per share
	CHF in millions	CHF
2001		
2002	39.8	1.00
2003	59.8	1.50

The Offered Shares in the Global Offering and the Rights Offering will be eligible to receive dividends declared for the year ending December 31, 2004, if any. Notwithstanding our historical payments of dividends, we cannot assure you that we will be able to pay dividends for the year ending December 31, 2004.

Capitalization and indebtedness

The tables below set forth the unaudited consolidated capitalization and indebtedness of Converium Holding AG as of June 30, 2004 on a historical basis and on an as adjusted basis to give effect to the Offering and the reduction of the nominal value of our shares from CHF 10 to CHF 5. You should read these tables together with our 2004 consolidated interim financial statements and the notes to those financial statements, as well as the information under Management s discussion and analysis of financial condition and results of operations Liquidity and capital resources.

Converium Holding AG ($ in millions, except per share data)	**As of June 30, 2004**	
	Actual	**As adjusted[1]**
Cash and cash equivalents:	$ 80.2	$ 480.2
Debt:		
Non-convertible, unsecured, unsubordinated senior notes	$ 197.0	$ 197.0
8.25% guaranteed subordinated notes	193.7	193.7
Total debt	390.7	390.7
Shareholders equity:		
Ordinary (nominal) share capital (40,006,217 shares issued, CHF10 nominal value, actual, 146,689,462 shares issued, CHF 5 nominal value, as adjusted)[2]	253.0	549.8
Additional paid-in capital[3]	1,331.8	1,436.9
Treasury stock[3]	(8.8)	(10.7)
Total share capital	1,576.0	1,976.0
Unearned stock compensation	(7.7)	(7.7)
Accumulated other comprehensive income:		
Net unrealized gains on investments, net of taxes	59.3	59.3
Cumulative translation adjustments	109.4	109.4
Retained deficit	(387.8)	(387.8)
Total shareholders equity	1,349.2	1,749.2
Total capitalization and indebtedness	**$1,739.9**	**$2,139.9**
Book value per share	**33.90**	**11.97[4])**

(1) For purposes of calculating the as adjusted measurements, we have used an exchange rate of 1.256 CHF per U.S. dollar unless otherwise stated.

(2) The nominal value of each of our shares will be reduced from CHF 10 to CHF 5 on the date of the capital increase (expected to be October 13, 2004).

(3) For purposes of calculating as adjusted Additional paid-in capital and Treasury Stock, we have used an exchange rate of 1.256 CHF per U.S. dollar for the new shares issued following the Offering and an exchange rate of 1.581 CHF per U.S. dollar for the shares in existence prior to the Offering.

(4) Based on 106,683,245 shares issued in the Offering minus 369,272 Offered Shares which will be taken by us upon our exercise of Purchase Rights allocated to Existing Shares held by us. No other pro forma adjustments to historical data have been made for purposes of this calculation.

Market information

Our registered shares are listed on the SWX Swiss Exchange under the symbol CHRN. Our ADSs are listed in the United States on the New York Stock Exchange, or NYSE, under the symbol CHR . The NYSE is the only trading market for our ADSs in the United States. Each of our ADSs represents one-half of one of our registered shares. We expect that the SWX Swiss Exchange will remain the principal trading market for our registered shares.

Market price information

The table below presents the highest and lowest reported sale price for our registered shares on the SWX Swiss Exchange for the periods indicated, expressed in Swiss francs. On September 29, 2004, the last reported sale price of our registered shares on the SWX Swiss Exchange was CHF 17.20 per registered share.

	High	Low
	CHF	CHF
Calendar Year 2001 (from December 11, 2001)	82.10	79.00
Calendar Year 2002	89.75	54.85
First Quarter	88.45	75.00
Second Quarter	89.75	72.40
Third Quarter	79.00	56.15
Fourth Quarter	69.60	54.85
Calendar Year 2003	74.50	49.60
First Quarter	69.85	49.60
Second Quarter	74.50	55.45
Third Quarter	67.00	59.10
Fourth Quarter	69.10	60.05
Calendar Year 2004 (through September 29)	73.75	16.25
First Quarter	73.75	60.25
Second Quarter	68.95	60.50
Third Quarter (through September 29)	65.05	16.25
Last 6 Months	68.95	16.25
April 2004	68.95	61.00
May 2004	68.70	60.50
June 2004	65.95	63.05
July 2004	65.05	26.75
August 2004	29.00	23.10
September 2004 (through September 29)	25.60	16.25

Selected consolidated and historical combined financial and other data of Converium Holding AG

We have prepared our consolidated and historical combined financial statements included in this document in accordance with U.S. GAAP. The following selected financial data highlights selected information derived from our consolidated and historical combined financial statements that can be found later in this document for the years ended December 31, 2003, 2002 and 2001. The selected financial data and other financial information presented for the six months ended June 30, 2004 and 2003 have been derived from our unaudited consolidated interim financial statements that can be found later in this document and include all adjustments which are, in our opinion, necessary for a fair statement of our financial position at such dates and results of operations for such periods. The results of operations for the six months ended June 30, 2004 are not necessarily indicative of the results that may be expected for the full year. As a result of our revised strategy described elsewhere in this document, our historical financial data presented herein may not be indicative of our future financial condition or results of operations.

This selected financial data may not contain all the information that is important to you. For a complete picture, you should read it in conjunction with our consolidated and historical combined financial statements and the related notes to those financial statements contained in this document.

The consolidated and historical combined financial statements are presented as if we had been a separate entity for all periods presented. For the period ended December 31, 2001, these financial statements include estimates related to the allocations to Converium of costs of Zurich Financial Services corporate infrastructure. We believe that these allocations are reasonable.

	Six months ended June 30,		Year ended December 31,		
($ in millions, except per share information)	**2004**	**2003**	**2003**	**2002**	**2001**
Income statement data:					
Revenues:					
Gross premiums written	$ 2,411.2	$ 2,212.5	$ 4,223.9	$ 3,535.8	$ 2,881.2
Less ceded premiums written	(163.8)	(128.6)	(396.9)	(213.6)	(398.6)
Net premiums written	2,247.4	2,083.9	3,827.0	3,322.2	2,482.6
Net change in unearned premiums	(244.5)	(287.1)	(150.5)	(156.7)	(187.4)
Net premiums earned	2,002.9	1,796.8	3,676.5	3,165.5	2,295.2
Net investment income	147.8	123.0	233.0	251.8	228.7
Net realized capital gains (losses)	21.7	7.5	18.4	(10.3)	(18.4)
Other income (loss)	2.9	(4.4)	2.7	(1.2)	(5.8)
Total revenues	2,175.3	1,922.9	3,930.6	3,405.8	2,499.7
Benefits, losses and expenses:					
Losses, loss adjustment expenses and life benefits	(1,824.7)	(1,332.7)	(2,674.2)	(2,492.0)	(2,300.5)
Total costs and expenses	(552.1)	(494.4)	(1,032.0)	(856.4)	(678.7)
Impairment of goodwill(1)	(94.0)	-	-	-	-
Amortization of goodwill(1)	-	-	-	-	(7.8)
Restructuring costs	-	-	-	-	(50.0)
Total benefits, losses and expenses	(2,470.8)	(1,827.1)	(3,706.2)	(3,348.4)	(3,037.0)
(Loss) income before taxes	(295.5)	95.8	224.4	57.4	(537.3)
Income tax (expense) benefit	(298.8)	(11.2)	(39.3)	49.4	169.9
Net (loss) income	$ (594.3)	$ 84.6	$ 185.1	$ 106.8	$ (367.4)
(Loss) earnings per share:					
Average number of shares (millions)(2)	39.8	39.9	39.8	39.9	40.0
Basic (loss) earnings per share	$ (14.92)	$ 2.12	$ 4.65	$ 2.68	$ (9.18)
Diluted (loss) earnings per share	(14.69)	2.10	4.59	2.64	(9.18)
Pro forma (loss) earnings per share:					
Average number of shares (millions)(3)	81.9	82.0	81.9	82.1	82.3
Basic (loss) earnings per share(3)	$ (7.26)	$ 1.03	$ 2.26	$ 1.30	$ (4.46)
Diluted (loss) earnings per share(3)	(7.20)	1.03	2.25	1.29	(4.46)

($ in millions, except per share information)	As of June 30, 2004	As of December 31, 2003	2002	2001
Balance sheet data:				
Total invested assets	$ 7,846.2	$ 7,528.7	$ 6,117.3	$4,915.9
Total assets	14,610.5	14,354.6	12,051.0	9,706.5
Insurance liabilities	12,444.0	11,410.8	9,454.8	7,677.9
Debt	390.7	390.6	390.4	197.0
Total liabilities	13,261.3	12,271.3	10,313.0	8,135.7
Total equity	1,349.2	2,083.3	1,738.0	1,570.8
Book value per share(2)	33.90	52.38	43.55	39.27

($ in millions, except ratio information)	Six months ended June 30, 2004	2003	Year ended December 31, 2003	2002	2001
Other data:					
Net premiums written by segment:					
Standard Property & Casualty Reinsurance	$ 988.5	$ 940.7	$1,645.6	$1,452.2	$1,280.0
Specialty Lines	1,015.6	930.9	1,811.9	1,555.3	968.4
Life & Health Reinsurance	243.3	212.3	369.5	314.7	234.2
Total net premiums written	$2,247.4	$2,083.9	$3,827.0	$3,322.2	$2,482.6
Non-life combined ratio	118.3% (4)	98.7%	97.9%	103.7%	129.3% (5)
Ratio of earnings to fixed charges (6)	(7)	5.9	7.2	3.7	(8)

(1) For a discussion of goodwill and our compliance with SFAS 142, see Notes 2(k) and 7 to our 2003 consolidated financial statements and Note 3 to our June 30, 2004 consolidated interim financials statements.

(2) Immediately following our initial public offering, we had 40,000,000 with a nominal value of CHF 10 each shares outstanding. Therefore, these shares are considered outstanding for all periods prior to December 11, 2001.

(3) Based on 106,683,245 shares issued in the Offering minus, in the case of Basic (loss) earnings per share, 369,272 shares which will be taken by us upon our exercise of purchase rights allocated to existing shares held by us. No other pro forma adjustments to historical data have been made for purposes of this calculation.

(4) The impact on the non-life combined ratio of the 2004 reserve development was 24.1%.

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

(6) The ratio of earnings to fixed charges is calculated by dividing earnings by fixed charges. Fixed charges consist of interests expense and the interest portion of rental expense.

(7) Due to our loss for the six months ended June 30, 2004, the coverage ratio was less than 1:1. We would have needed to generate additional earnings of $295.5 million to achieve coverage of 1:1.

(8) Due to our loss in 2001, the coverage ratio was less than 1:1. We would have needed to generate additional earnings of $537.3 million to achieve coverage of 1:1.

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

You should read the following discussion and analysis in conjunction with our consolidated financial statements including the related notes to those financial statements. Our consolidated financial statements have been prepared in accordance with U.S. GAAP. 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. You should read the information under Risk factors for information about material risks and uncertainties that affect our business and Cautionary note regarding forward-looking statements for information about our presentation of forward-looking information.

Overview

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

The recent adverse developments with respect to reserves and our ratings require that we re-evaluate our global strategy to maximize shareholder value. Going forward, we will focus on markets in which we believe our franchise remains strong, i.e., Europe, Asia-Pacific and Latin America. Within these markets we will focus on small to medium-sized clients that depend on reinsurance generally and on our services in particular. We also intend to further reinforce and develop our joint venture relationships. We believe we can rely on certain credit enhancement techniques to preserve our ability to write business in rating-sensitive specialty lines.

We offer a broad range of traditional non-life and life reinsurance products as well as innovative non-traditional solutions to help our target clients to efficiently manage capital and risks. In non-life reinsurance, our lines of business are general third party liability, motor, personal accident (assumed from non-life insurers), property, agribusiness, aviation & space, credit & surety, engineering, marine & energy, professional liability & other special liability and workers compensation. In Life & Health Reinsurance, our lines of business are life & disability reinsurance, including quota share, surplus coverage and financing contracts, and accident & health.

Converium was formed in 2001 through the restructuring and integration of the third party reinsurance business of Zurich Financial Services through a series of transactions (that we refer to as the Formation Transactions). On December 1, 2001, Converium entered into a Master Agreement with Zurich Financial Services (the Master Agreement), which set forth the terms of the separation from Zurich Financial Services. See Formation transactions and relationship with Zurich Financial Services and the notes to our consolidated financial statements.

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

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

We derive our revenues principally from:

- premiums from our non-life and life reinsurance and insurance businesses;
- investment income and investment gains from our portfolio of invested assets, net of investment expenses; and
- interest on premium and loss deposits withheld by our clients.

Our costs and expenses principally consist of:

- losses and loss adjustment expenses, which include:
  - non-life reinsurance and insurance losses and loss adjustment expenses;
  - death and other life reinsurance benefits;
- operating and administration costs, which include:
  - treaty and individual risk underwriting acquisition costs, commonly referred to as commissions;
  - overhead costs, predominantly consisting of salaries and related costs;
  - interest expenses; and
  - income taxes.

Our profitability depends to a large extent on:

- the quality of our underwriting and pricing;
- the level of incurred losses and commissions;
- the timing of loss and benefit payments;
- our ability to earn appropriate yields on our investment portfolio;
- our ability to manage operating and administration costs; and
- our ability to efficiently and effectively manage risk, including retrocessions.

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

Future impact of recent developments

On September 1, 2004, A.M. Best downgraded our financial strength rating to B++ from A- and our credit rating to bbb from a- . On September 10, 2004, Standard & Poor s lowered both the long-term counterparty credit and insurer financial strength ratings of Converium AG to BBB from A- and Converium Rückversicherung (Deutschland) AG and Converium Insurance (UK) Ltd. to BBB- from A- .

On September 29, 2004, A.M. Best affirmed the financial strength ratings of B++ and upgraded the issuer credit rating to bbb+ from bbb of Converium AG, Converium Rückversicherung (Deutschland) AG and Converium Insurance (UK) Ltd. These ratings have been removed from under review and assigned a stable outlook. At the same time, A.M. Best downgraded the financial strength rating to B from B++ and the issuer credit rating to bb from bbb of CINA. A.M. Best also downgraded the issuer credit rating to b- from bb- of CHNA. These ratings have been removed from under review and assigned a negative outlook.

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

On September 27, 2004, Standard & Poor s revised to positive from developing its CreditWatch implications on the long-term counterparty credit and insurer financial strength ratings on Converium AG. All other ratings remain on CreditWatch with developing implications. In addition, Standard & Poor s noted that if the Offering is completed and barring any material unforeseen event, it expects to raise its long-term ratings on Converium AG to BBB+ and its long-term junior subordinated debt rating on Converium Finance S.A. to BBB- . Standard & Poor s also noted that an acceptable guarantee would allow Standard & Poor s to rate Converium Rückversicherung (Deutschland) AG and Converium Insurance (UK) Ltd. in line with Converium AG. Our revised strategy as described herein is substantially dependent upon Standard & Poor s upgrading our ratings.

As a result of these and our other recent ratings downgrades and recent events, we were required to re-evaluate our global strategy to maximize shareholder value. See Business Strategy . As of July 1, 2004, Converium estimated its total estimated annual gross premium income of in-force business from North American cedents to be in excess of $1.4 billion. The decision to place CRNA into run-off and to transfer the underwriting of all North American non-life business to Zurich and Bermuda is expected to result in a reduction of gross written premium of North American originated business of $1.0 billion or more for underwriting year 2005, predominantly in Standard Property & Casualty Reinsurance and Specialty Lines. Additionally, Converium currently intends to cease writing Accident & Health business in North America. Based on most recent feedback from non-U.S. insurers, Converium currently expects its non-U.S. premium volume for underwriting year 2005 to be reduced by up to 40% compared to 2004. Accordingly, our preliminary estimates are that in underwriting year 2005, our total gross written premiums will be on the order of half the total for 2004. We expect profitable growth to resume in 2006.

Third quarter 2004 developments

Subsequent to the issuance of our June 30, 2004 interim consolidated financial statements, there were several developments that will have an impact on our September 30, 2004 interim consolidated financial statements. These developments are as follows (pre-tax):

Additional reserve adjustments between $50 million to $100 million. Following a detailed analysis of the specific conclusions in Tillinghast s study, we will make adjustments to carried reserves in the third quarter of 2004. See Background and reasons for the Offering Recent reserve strengthening and subsequent asset impairments Reserve strengthening .

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 future cash flows, future investment income earned will decline as the assets backing those reserves are liquidated to make payments. Since June 30, 2004, we have commuted approximately $250 million in loss reserves related to prior years business assumed by our North American operation, CRNA (with a corresponding reduction in cash and invested assets). Currently, CRNA is in negotiations with several clients for additional offers of commutations, and is pursuing these diligently.

Gross losses from Hurricane Charley (estimated at less than $25 million), Hurricane Frances (estimated at less than $20 million), Hurricane Ivan (estimated at between $30 million and $45 million), Hurricane Jeanne (estimated at between $12 million and $20 million) and typhoons in Japan (estimated at approximately $5 million).

Cost of retrospective retrocession arrangement of $20 million. See Background and reasons for this Offering Recent reserve strengthening and subsequent asset impairments Reserve strengthening .

Restructuring charges related to retention plans, severance payments and the discontinuation of our North American operations currently estimated at approximately $20 million. See Background and reasons for the Offering The case for recapitalizing Converium Discontinuation of North American business .

The above charges will be partially offset by net realized capital gains of approximately $15.6 million, primarily resulting from sales of equity securities to adjust our asset allocation to reduce investment portfolio risks. These net realized capital gains will be offset by a corresponding reduction in net unrealized capital gains in shareholders equity. See Background and reasons for the Offering Concurrent measures to de-risk our business Reduce investment portfolio risk .

In addition, we expect a reduction in net premiums written and earned resulting from clients exercising their rights of special termination under various reinsurance contracts. However, such reduction in premium income will be accompanied by corresponding reductions of losses and underwriting acquisition costs.

We expect that we will enter into an agreement to terminate our $75 million GMDB reinsurance protection purchased in 2003, effective October 15, 2004, however, we may seek to renegotiate the terms of the cover. The primary purpose of this cover is to address the volatility in the United States equity markets. The cover is intended to address potential adverse deviations to other key assumptions such as mortality risk, lapse rate risks and surrenders. Although we feel that our current carried reserves for our GMDB exposure are adequate, we are currently reviewing other reinsurance and financial product solutions to address the risks associated with this business.

Second quarter 2004 developments

In the second quarter of 2004, we recorded pre-tax charges of $748.5 million, as described below.

Reserve development

The following table presents the net adverse (favorable) reserve development for each of our non-life segments:

	Six months ended June 30,	
	2004	2003
	($ in millions)	
Standard Property & Casualty Reinsurance	106.1	(34.2)
Specialty Lines	321.6	42.1
Total non-life reinsurance	427.7	7.9

We have experienced significant adverse development in our U.S. casualty reinsurance lines for the last several years. Since 2001, we have recorded a total of $668.5 million of additional provisions on our non-life business (2001: $123.6 million; 2002: $148.5 million; 2003: $(31.3) million; and first half of 2004: $427.7 million). In 2003, the positive development of $31.3 million consisted of positive development on property lines ($113.5 million) and aviation & space ($102.2 million), offset by adverse development on workers compensation and professional liability & other special liability lines ($120.3 million) and the motor and general third party liability lines ($64.1 million). The reserve releases in 2003 were primarily from the 2002 underwriting year, while the U.S. business written in 1997 to 2001 mostly saw continued strengthening.

On April 29, 2004, we announced that first quarter reported losses from prior year U.S. casualty business had exceeded expected loss emergence and that the volatility of longer-tail risks was likely to persist for some time. In the first quarter of 2004, the continuing reserve volatility of old underwriting years resulted in strengthening of prior years loss reserves of $43.0 million, consisting of $10.1 million in the Standard Property & Casualty Reinsurance segment (primarily from the Western European motor book) and $32.9 million in the Specialty Lines segment (primarily from the U.S. professional liability & other special liability lines).

As a result of the in-depth reviews, we recorded a reserve strengthening charge of $384.7 million in the second quarter of 2004, consisting of $96.0 million in the Standard Property & Casualty Reinsurance segment and $288.7 million in the Specialty Lines segment. This action was taken in response to the continued adverse loss emergence due to increased claims reporting activity from clients relating to U.S. casualty business written from 1997 to 2001. In the Standard Property & Casualty Reinsurance segment, the reserve strengthening primarily related to general third party liability lines in the United States ($99.3 million). In the Specialty Lines segment, the reserve strengthening arose primarily from the professional liability & other special liability lines, in particular umbrella, professional liability and excess & surplus lines of business in the United States ($265.2 million).

Income taxes

Our consolidated income tax expense for the three months ended June 30, 2004 reflects an additional expense of $269.8 million, related to the establishment of a full valuation allowance against the net deferred income tax balances previously carried at CRNA. CRNA is the legal entity where the majority of the reserve strengthening has occurred.

As required under SFAS 109, Accounting for Income Taxes , we are required to assess if it is more likely than not that some or all of the net deferred tax assets will not be realized. In making this assessment, reference is made to, among other things, historical losses. Therefore, a full valuation allowance has been established against CRNA s net deferred tax assets as of June 30, 2004. CRNA may offset future taxable income against the existing net operating losses carried forward, resulting in no U.S. federal tax expense on such income until such time as the net operating losses are utilized or expire.

As of June 30, 2004, our valuation allowance was $455.6 million, comprising net operating losses carried forward ($313.1 million), loss reserve discount ($133.9 million) and other temporary differences, net ($8.6 million). As of December 31, 2003, the valuation allowance was $47.9 million, all of which related to net operating losses carried forward.

As of June 30, 2004, we had total net operating losses carried forward of $959.1 million available to offset future taxable income of certain branches and subsidiaries. The majority of these net operating losses carried forward relate to CRNA and expire in the years 2020 through 2024.

We will continue to monitor our tax position and reassess the need for a full valuation allowance on our 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.

Goodwill and other intangible assets

SFAS 142, Goodwill and Other Intangible Assets , requires impairment testing of goodwill annually or more regularly if any event or change in business circumstances occurs which would indicate that the carrying value of goodwill may be impaired. Due to the reserving actions taken in the second quarter of 2004 in respect of prior year development in the Specialty Lines segment s business written in North America, and a subsequent decision to take a full valuation allowance against the net deferred tax asset at CRNA, a goodwill impairment test has been conducted to assess the fair value of the reporting units at that date. As a result of this assessment, an impairment charge of $94.0 million has been recorded in the second quarter of 2004.

SFAS 142 also requires that useful lives for intangible assets other than goodwill be reassessed and the remaining amortization periods be adjusted accordingly. There are no intangible assets recorded on the CRNA balance sheet as of June 30, 2004 in respect of any business segment or reporting unit; therefore there is no requirement to perform impairment testing on intangible assets.

The remaining balance of goodwill and other intangible assets as of June 30, 2004 was $76.8 million, which relates to Converium AG s strategic investments in GAUM and MDU Services Ltd. Both of these companies have continued to perform in line with management s expectations. However, we will be evaluating our investment in GAUM as part of our normal impairment testing procedures.

Formation transactions and consolidated financial statements

We prepare our financial statements on a U.S. GAAP basis. For periods prior to December 11, 2001, we derived the financial information in this document from the historical financial statements of Zurich Financial Services. These statements present the financial condition, results of operations and cash flows of the businesses which, prior to the Formation Transactions, were owned by Zurich Financial Services and now comprise Converium. See Formation transactions and relationship with Zurich Financial Services.

Critical accounting policies

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

Non-life loss and loss adjustment reserves

We are required by applicable insurance laws and regulations, as well as U.S. GAAP, to establish reserves for payment of losses and loss adjustment expenses that arise from our non-life reinsurance and insurance businesses. Loss and loss adjustment reserves are based on estimates of future payments to settle claims, including legal and other expenses. The liability for unpaid losses and loss adjustment expenses for property and casualty business includes amounts determined from loss reports on individual cases and amounts for losses incurred but not reported. If a contract is commuted, we reduce loss and loss adjustment expense carried on our balance sheet and record a gain or loss for the difference between loss and loss adjustment expense carried on our balance sheet and the commutation payment. We estimate our loss and loss adjustment reserves on the basis of facts reported to us by ceding companies, and in conjunction with actuarial estimates and methodologies for instances where we have not received reports from ceding companies. Our estimates of losses and loss adjustment expenses are subject to assumptions reflecting economic and other factors such as inflation rates, changes in legislation, court rulings, case law and prevailing concepts of liability, which can change over time. In addition, if ceding company data is not provided to us on a timely basis, this could potentially impact the accuracy of our estimates. We review and update our estimates and record changes to our loss and loss adjustment reserves in current income. See Business Loss and loss adjustment expense reserves.

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

Premiums

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

In a typical reporting period, we generally earn a portion of the premiums written during that period together with premiums that were written during earlier periods. Likewise, some part of our premiums written will not be earned until future periods. We allocate premiums written but not yet earned to an unearned premium reserve, which represents a liability on our balance sheet. As time passes, the unearned premium reserve is gradually reduced and the corresponding amount is released through the income statement as premiums earned. Premiums are typically earned on a pro rata basis over the period that the coverage is in effect. Our premium earned and written estimates are regularly reviewed and enhanced as information is reported to us by our clients and we are able to refine our estimates and assumptions. Our estimation procedures are also affected by the timeliness and comprehensiveness of the information our clients provide to us. If a contract is terminated, we reduce unearned premiums carried on our balance sheet for unexpired risk relating to that contract.

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

Reinsurance recoverables

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

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

Foreign currency translation

In view of our international scale and the fact that more of our business is transacted in U.S. dollars than in any other currency, we report our financial information in U.S. dollars.

However, a large portion of our revenues and expenses are denominated in other currencies including the Euro, British pound, Swiss franc and Japanese yen. Since these currencies are functional currencies for our business units, translation differences are recorded directly in shareholders equity. Exchange rate differences arising from holding assets, other than investment assets, and liabilities denominated in non-functional currencies are recorded as income or expense, as the case may be, in our income statement.

Invested assets

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

When declines in values of securities below cost or amortized cost are considered to be other than temporary, an impairment charge is recorded as a realized capital loss in the statement of income for the difference between cost or amortized cost and estimated fair value. Other than temporary declines are declines in value of the security that exceed 20% over a period of six months, or that exceed 50% regardless of the period of decline. To continue to adhere to emerging asset impairment standards, beginning in the second quarter of 2003, we revised our impairment policy to also record as realized capital losses any declines in value of equity securities over a period of more than twelve months. The same policy applies to fixed maturity securities when the decline in value is attributable to the deteriorating credit-worthiness of the issuer. At management s judgment, we impair additional securities based on prevailing market conditions by considering various factors such as the financial condition of the issuer, the market value and the expected future cash flows of the security.

Income taxes

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

Investment results

Investment results are an important part of our overall profitability. Our net investment income for the six months ended June 30, 2004 was $147.8 million, an increase of $24.8 million, or 20.2% as compared to the same period of 2003. The increase largely resulted from growth in invested assets over 2003, 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. Our net investment income was $233.0 million for the year ended December 31, 2003, representing a decrease of $18.8 million, or 7.5% as compared to the same period of 2002. The decrease reflects lower investment income yields offset by an increase in invested assets from operating cash flows. Our net investment income increased $23.1 million, or 10.1% for 2002 as compared to 2001. The increase is primarily from an increase in invested assets due to our additional capitalization in late 2001 and the investment of cash flows from operating activities during 2002.

We had net realized capital gains of $21.7 million and $7.5 million for the six months ended June 30, 2004 and 2003, respectively. The increase is due to lower impairment charges in 2004. We had net realized capital gains for the year ended December 31, 2003 of $18.4 million, compared to net realized capital losses of $10.3 million and $18.4 million in 2002 and 2001, respectively. Included in the 2002 realized amounts were gains on the restructuring of the fixed maturities portfolio of $62.9 million, offset by losses on the restructuring of the equity portfolio of $48.2 million, and losses realized on the sale of WorldCom fixed income investments of $15.8 million.

For the six months ended June 30, 2004, $2.6 million in impairment charges were recorded, compared to $21.9 million for the same period of 2003. Included in the impairment charges in the six months ended June 30, 2003 were $19.5 million related to our equity securities portfolio and $2.4 million related to our real estate portfolio. We recorded $27.4 million, $48.3 million and $82.5 million of impairment charges for the years ended December 31, 2003, 2002 and 2001, respectively, primarily on our equity portfolio. To continue to adhere to emerging asset impairment standards, beginning in the second quarter of 2003, we revised our impairment policy to also record as realized capital losses any declines in value of equity securities over a period of more than twelve months. The same policy applies to fixed maturities securities when the decline in value is attributable to the deteriorating credit-worthiness of the issuer. This resulted in additional impairment charges of $3.4 million in 2003.

The following table shows the average pre-tax yields and investment results on our investment portfolio for the six months ended June 30, 2004 and 2003 and the years ended December 31, 2003, 2002 and 2001.

Net investment income and net realized capital gains (losses)

	Six months ended June 30,					
	2004			2003		
	Net investment income	Pre-tax yield	Realized gains (losses)	Net investment income	Pre-tax yield	Realized gains (losses)
	($ in millions, except for percentages)					
Fixed maturities securities	$ 94.0	3.7%	$ 1.2	$ 65.9	3.5%	$ 22.3
Equity securities	9.2	2.2	23.9	7.8	2.6	(14.4)
Funds Withheld Asset	39.3	5.4	-	43.8	5.4	-
Short-term and other	11.5	5.2	(3.4)	13.7	3.7	(0.4)
Less investment expenses	(6.2)	-		(8.2)	-	
Total	147.8	3.8		123.0	3.6	
Net realized capital gains	21.7			7.5		
Net investment income and net realized capital gains	169.5	4.3		130.5	3.8	
Change in net unrealized (losses) gains	(76.9)			105.0		
Total investment return	$ 92.6	2.4%		$235.5	6.9%	

Since June 30, 2004, we have adjusted our asset allocation and lowered our exposure to investments in equity securities by nearly $500 million. This will reduce our equity exposure to below 4% of total invested assets from approximately 10% as of June 30, 2004. These sales generated net realized capital gains of approximately $17.6 million (pre-tax), which will be recorded in the third quarter of 2004. The proceeds of this divestiture will be invested in highly liquid and highly rated fixed income instruments. As equity securities generally have a greater volatility associated with them when compared to other assets such as highly rated fixed income instruments, they require a higher capital charge.

In order to protect shareholders equity from potential future interest rate increases, we have lowered the modified duration of our fixed income portfolio from 3.8 as of June 30, 2004 to 3.6. Sales relating to this reduction generated net realized capital losses of less than $2.0 million. Fixed income securities with a lower duration generally exhibit lower interest rate sensitivity than longer-term bonds. Furthermore, since June 30, 2004, we have increased our OECD government held-to-maturity portfolio by approximately $300 million.

These actions may have the effect of increasing our net investment income while potentially reducing our total investment return.

Net investment income and net realized and unrealized capital gains (losses)

	Year ended December 31,								
	2003			2002			2001		
($ in millions, except for percentages)	Net investment income	Pre-tax yield	Realized gains (losses)	Net investment income	Pre-tax yield	Realized gains (losses)	Net investment income	Pre-tax yield	Realized gains (losses)
Fixed maturities securities	$ 121.0	3.0%	$ 34.5	$ 132.7	4.6%	$ 88.0	$ 130.0	5.7%	$ 45.9
Equity securities	11.4	1.7	(16.1)	14.5	2.4	(101.2)	9.7	1.5	(64.6)
Funds Withheld Asset/Zurich Financing Agreement	85.6	5.4	-	81.1	5.3	-	75.7	5.2	-
Short-term and other	26.0	3.8	-	35.4	4.5	2.9	18.1	3.6	0.3
Less investment expenses	(11.0)	-		(11.9)	-		(4.8)	-	
Total	233.0	3.3		251.8	4.3		228.7	4.7	
Net realized capital (losses) gains	18.4			(10.3)			(18.4)		
Net investment income and net realized capital (losses) gains	251.4	3.5		241.5	4.1		210.3	4.3	
Change in net unrealized (losses) gains	154.2			(109.0)			14.4		
Total investment return	$ 405.6	5.7%		$ 132.5	2.2%		$ 224.7	4.6%	

Our average annualized net investment income yield (pre-tax) was 3.8% for the six months ended June 30, 2004 as compared to 3.6% for the same period of 2003. For the years ended December 31, 2003, 2002 and 2001, our average net investment income yield (pre-tax) was 3.3%, 4.3% and 4.7%, respectively. Yields are calculated based on the average of beginning and ending investment balances (including cash and cash equivalents).

Our average annualized total investment income yield (pre-tax) was 4.3% for the six months ended June 30, 2004 as compared to 3.8% for the same period of 2003. The total investment income yield was positively impacted by the results of our equity portfolio in the first half of 2004 and the results of our bond portfolio in 2003. For the years ended December 31, 2003, 2002 and 2001, our average total investment income yield (pre-tax) was 3.5%, 4.1% and 4.3%, respectively. The decrease in yield in 2003 is due to sustained lower interest rates worldwide. In addition, we positioned our fixed income portfolios to a shorter duration in anticipation of a potential interest rate increase.

Our average annualized total investment return (pre-tax) was 2.4% for the six months ended June 30, 2004 as compared to 6.9% for the same period of 2003. The return for the six months ended June 30, 2004 was negatively affected by changes in net unrealized gain positions on bonds resulting from an interest rate increase during the second quarter of 2004, whereas the impact was opposite for 2003, as interest rate declines increased the net unrealized capital gain positions. For the years ended December 31, 2003, 2002 and 2001, our average total investment return (pre-tax) was 5.7%, 2.2% and 4.6%, respectively. The increase in the return in 2003 resulted from a recovery in the global capital markets, which positively impacted changes to the unrealized capital positions of both our fixed income and equity instruments. The average total investment return in 2002 and 2001 included the effect of foreign currency on the change in net unrealized capital gains and losses of $(50.3) million and $(1.2) million, respectively. While the effect was fairly insignificant for 2001, in 2002 this lowered the average total investment return by 0.8%. As of 2003, the currency effect on the change in net unrealized capital gains and losses is directly booked to cumulative currency translation adjustments, and therefore no longer affects the investment return. This approach is also consistent with our aim to match the currency of our assets with our liabilities, which implies that any currency impact on the assets is essentially offset by the impact on the corresponding liability.

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

See Background and reasons for the Offering Concurrent measures to de-risk our business Reduce investment portfolio risk.

Restructuring charge

In connection with the Formation Transactions, we incurred $50.0 million in restructuring costs during 2001. Any restructuring costs relating to the Formation Transactions in excess of this amount were borne by Zurich Financial Services. The restructuring costs, according to the Master Agreement, included the costs and expenses of the Formation Transactions, including advisors fees, retention plan costs expensed in 2001 and stamp duty taxes. We did not incur any restructuring costs during 2003 or 2002.

We expect to incur approximately $20 million in restructuring charges in 2004 related to the reorganization of our North American operations.

Income tax

We are subject to local income tax requirements in the jurisdictions in which we operate. The income tax expense reflected in our financial statements therefore reflects a number of different local tax rates, and as a result may change from one period to the next depending on both the amount and the geographic contribution of our taxable income. In addition, the income tax we pay is based on local tax statements in which our reported income and expenses may differ from that reported in our financial statements.

As a result of changes in our geographic contribution of taxable income as well as changes in the amount of our non-taxable income and expense and changes in our valuation allowance, the relationship between our reported income before tax and our income tax expense may change significantly from one period to the next. For more information about our income tax expenses, see Second quarter 2004 developments and Note 11 to our 2003 consolidated financial statements.

Regulatory and legislative environment

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

Results of operations

The table below presents summary income statement data for the six months ended June 30, 2004 and 2003 and for the years ended December 31, 2003, 2002 and 2001.

	Six months ended June 30,		Year ended December 31,		
	2004	2003	2003	2002	2001
			($ in millions)		
Revenues:					
Gross premiums written	$ 2,411.2	$ 2,212.5	$ 4,223.9	$ 3,535.8	$ 2,881.2
Net premiums written	$ 2,247.4	$ 2,083.9	$ 3,827.0	$ 3,322.2	$ 2,482.6
Net premiums earned	$ 2,002.9	$ 1,796.8	$ 3,676.5	$ 3,165.5	$ 2,295.2
Net investment income and net realized capital gains (losses)	169.5	130.5	251.4	241.5	210.3
Other income (loss)	2.9	(4.4)	2.7	(1.2)	(5.8)
Total revenues	2,175.3	1,922.9	3,930.6	3,405.8	2,499.7
Benefits, losses and expenses:					
Losses, loss adjustment expenses and life benefits	(1,824.7)	(1,332.7)	(2,674.2)	(2,492.0)	(2,300.5)
Underwriting acquisition costs	(431.2)	(380.5)	(803.2)	(666.7)	(508.1)
Other operating and administration expenses	(104.3)	(96.9)	(197.8)	(173.3)	(146.4)
Interest expense	(16.6)	(17.0)	(31.0)	(16.4)	(24.2)
Impairment of goodwill	(94.0)	-	-	-	-
Amortization of goodwill and restructuring costs	-	-	-	-	(57.8)
Total benefits, losses and expenses	(2,470.8)	(1,827.1)	(3,706.2)	(3,348.4)	(3,037.0)
(Loss) income before taxes	(295.5)	95.8	224.4	57.4	(537.3)
Income tax (expense) benefit	(298.8)	(11.2)	(39.3)	49.4	169.9
Net (loss) income	$ (594.3)	$ 84.6	$ 185.1	$ 106.8	$ (367.4)

During the second quarter of 2004, we recorded pre-tax charges of $748.5 million that resulted in measurable effects on its financial results. These charges include the net strengthening of prior years loss reserves ($384.7 million), the establishment of a full valuation allowance against its net deferred tax assets related to its North American operations (second quarter expense of $269.8 million) and an impairment of goodwill ($94.0 million).

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

47

Pre-tax operating (loss) income

	Six months ended June 30,		Year ended December 31,		
	2004	2003	2003	2002	2001
			($ in millions)		
(Loss) income before taxes	$(295.5)	$95.8	$224.4	$ 57.4	$(537.3)
Net realized capital gains (losses)	21.7	7.5	18.4	(10.3)	(18.4)
Impairment of goodwill	(94.0)	-	-	-	-
Amortization of goodwill and restructuring costs	-	-	-	-	(57.8)
Pre-tax operating (loss) income	$(223.2)	$88.3	$206.0	$ 67.7	$(461.1)
Net (loss) income	$(594.3)	$84.6	$185.1	$106.8	$(367.4)

Six months ended June 30, 2004 compared to six months ended June 30, 2003

Converium consolidated net (loss) income

Net loss was $594.3 million for the six months ended June 30, 2004 compared to net income of $84.6 million in the same period in 2003. The decline is primarily due to the net strengthening of prior years loss reserves, and a related increase in income tax expense due to the establishment of a full valuation allowance against the net deferred tax assets from our North American operations and an impairment of goodwill.

We also reported a decrease in pre-tax operating results (defined as pre-tax income or loss excluding pre-tax net realized capital gains or losses and impairment of goodwill) for the six months ended June 30, 2004 as compared to the same period in 2003.

For the six months ended June 30, 2004, gross premiums written increased 9.0%, net premiums written increased 7.8% and net premiums earned increased 11.5%. See Results of operations by operating segment for further discussion.

Our non-life combined ratio was 118.3% for the six months ended June 30, 2004 as compared to 98.7% for the same period of 2003. Reserve actions in 2004 increased the combined ratio by 24.1 points for the six months ended June 30, 2004.

We had net realized capital gains of $21.7 million and $7.5 million for the six months ended June 30, 2004 and 2003, respectively. For the six months ended June 30, 2004, $2.6 million in impairment charges were recorded, compared to $21.9 million for the same period of 2003. Included in the impairment charges in the six months ended June 30, 2003 were $19.5 million related to our equity securities portfolio and $2.4 million related to our real estate portfolio.

Impairment of goodwill was $94.0 million for the six months ended June 30, 2004, versus nil in 2003. See Converium consolidated impairment of goodwill.

Our consolidated income tax expense was $298.8 million for the six months ended June 30, 2004, compared to $11.2 million for the same period in 2003. Our 2004 consolidated income tax expense reflects an expense of $269.8 million, related to the establishment of a full valuation allowance against the net deferred income tax balances previously carried at CRNA.

Converium consolidated premiums

Net premiums written grew by $163.5 million, or 7.8% in the six months ended June 30, 2004 over the same period in 2003, and were largely due to the market conditions and new client relationships in certain key markets. For the six months ended June 30, 2004, Standard Property & Casualty Reinsurance grew by $47.8 million, or 5.1%, Specialty Lines grew by $84.7 million, or 9.1% and Life & Health Reinsurance grew by $31.0 million, or 14.6%. We retained 93.2% and 94.2% of our gross premiums written for the six months ended June 30, 2004 and 2003, respectively. See Results of operations by operating segment for further information by line of business.

For the six months ended June 30, 2004, based on stable exchange rates, gross premiums written increased by 3.8%, net premiums written increased by 2.6% and net premiums earned increased by 6.3%.

Net premiums earned for the six months ended June 30, 2004 increased at a higher rate compared to the corresponding net premiums written due to a large proportion of business written on January 1 in the German and Austrian market, that is earned throughout the year.

Converium consolidated net investment income and net realized capital gains

Investment results are an important part of our overall profitability. Our net investment income was $147.8 million for the six months ended June 30, 2004 as compared to $123.0 million in the same period of 2003, an increase of 20.2%. The increase largely resulted from growth in invested assets over 2003, 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.

Our average annualized net investment income yield (pre-tax) was 3.8% for the six months ended June 30, 2004 as compared to 3.6% for the same period of 2003. Yields are calculated based on the average of beginning and ending investment balances (including cash and cash equivalents).

Our net realized capital gains were $21.7 million for the six months ended June 30, 2004 as compared to $7.5 million in the same period of 2003, an increase of $14.2 million. The increase largely resulted from $19.3 million lower impairment charges in 2004 compared to 2003. Our average annualized total investment income yield (pre-tax) was 4.3% for the six months ended June 30, 2004 as compared to 3.8% for the same period of 2003. The total investment income yields were positively impacted by the results of our equity portfolio in the first half of 2004 and the results of our bond portfolio in 2003.

Converium consolidated other (loss) income

Other income for the six months ended June 30, 2004 was $2.9 million as compared to a loss of $4.4 million for the same period of 2003. Other (loss) income includes interest income on reinsurance deposits, interest expense on funds held under reinsurance contracts, fee income, write-off of uncollectible balances and results from private equity funds.

Converium consolidated losses, loss adjustment expenses and life benefits

Our losses, loss adjustment expenses and life benefits incurred and non-life loss ratio increased for the six months ended June 30, 2004 as compared to the same period of 2003, mainly due to reserve development charges of $427.7 million for the six months ended June 30, 2004. See Overview Second quarter 2004 developments.

Guaranteed Minimum Death Benefit (GMDB) Business. In the first half of 2003, there was reserve strengthening for the GMDB business in the Life & Health Reinsurance segment, which negatively impacted our results by $12.5 million, while there was no action required in the first half of 2004.

September 11th Terrorist Attacks. Our net reserves for the September 11th terrorist attacks are capped at $289.2 million by Zurich Financial Services.

Converium consolidated underwriting acquisition costs

Underwriting acquisition costs primarily relate to commissions on treaty and individual risk business. Our underwriting acquisition costs increased $50.7 million, or 13.3% for the six months ended June 30, 2004 as compared to the same period in 2003. This increase is mainly related to the growth in earned premiums. During 2003, there was new business production in the Continental European markets which was produced on a direct basis as opposed to through brokers, which resulted in lower underwriting acquisition costs in 2003 as compared to 2004. Our non-life underwriting acquisition expense ratio was stable at 21.4% and 21.2% for the six months ended June 30, 2004 and 2003, respectively.

Converium consolidated operating and administration expenses

Operating and administration expenses increased for the six months ended June 30, 2004 over the same period in 2003 due to increased expenditures to support the growth in operations, and the weakening of the U.S. dollar. As a result of our premium growth and strong expense management, the non-life administration expense ratio declined by 0.2 points for the six months ended June 30, 2004 as compared to the same period in 2003.

Converium consolidated interest expense

Interest expense remained relatively stable for the six months ended June 30, 2004 ($16.6 million) as compared to the same period in 2003 ($17.0 million).

Converium consolidated impairment of goodwill

Impairment of goodwill was $94.0 million for the six months ended June 30, 2004, versus nil in 2003. See Overview Second quarter 2004 developments.

Converium consolidated income tax expense

Our consolidated income tax expense was $298.8 million for the six months ended June 30, 2004, compared to $11.2 million for the same period in 2003.

Our consolidated income tax expense for the six months ended June 30, 2004 reflects an expense of $269.8 million, related to the establishment of a full valuation allowance against the net deferred income tax balances previously carried at CRNA. See Overview Second quarter 2004 developments.

Year ended December 31, 2003 compared to year ended December 31, 2002

Converium consolidated net income

We reported net income of $185.1 million for the year ended December 31, 2003, an improvement of $78.3 million as compared to net income of $106.8 million for 2002. The increase is due to continued improvements in the non-life underwriting results, as well as pre-tax net realized capital gains in 2003 versus pre-tax net realized capital losses in 2002.

Developments on our GMDB book were offset by an overall improved non-life combined ratio.

We reported pre-tax operating income (defined as pre-tax income or loss excluding pre-tax net realized capital gains or losses, amortization of goodwill and restructuring costs) of $206.0 million for the year ended December 31, 2003, an improvement of $138.3 million as compared to pre-tax operating income of $67.7 million for 2002. The improvement in pre-tax operating income was due to significant premium growth and an overall improved non-life combined ratio.

For the year ended December 31, 2003, gross premiums written increased 19.5%, net premiums written increased 15.2% and net premiums earned increased 16.1%. The growth was spread across most lines of business and resulted from increased rates and increasing the share of clients business upon renewing existing business or writing new business.

In 2003, we recorded $31.3 million of net positive development on prior years loss reserves. In 2002, our results were impacted by losses from the European floods of $51.1 million (net of reinstatement premiums of $3.1 million) and the recognition of a $148.5 million provision for net adverse development on prior years reserves. Our non-life combined ratio was 97.9% for the year ended December 31, 2003 as compared to 103.7% in the same period of 2002.

We recorded pre-tax net realized capital gains of $18.4 million for the year ended December 31, 2003 as compared to pre-tax net realized capital losses of $10.3 million for the same period of 2002. The pre-tax net realized capital gains in 2003 included $27.4 million of impairment charges on our equity portfolio as compared to $48.3 million of impairment charges in 2002.

Our effective tax rate was 17.5% for the year ended December 31, 2003, compared to a benefit of 86.1% in 2002. The 2002 consolidated tax benefit reflects a one-time benefit of $21.3 million as the result of a ruling received from the Swiss tax authorities regarding the tax effective depreciation of goodwill.

Converium consolidated premiums

Gross premiums written for the year ended December 31, 2003 increased $688.1 million, or 19.5% compared to the same period of 2002. Net premiums written for 2003 increased $504.8 million, or 15.2% compared to 2002. For the year ended December 31, 2003, we retained 90.6% of our gross premiums written, compared to 94.0% in 2002. Our net retention ratio decreased principally due to the purchase of increased retrocessions to reduce peak exposures associated with our increased participation in the GAUM pool.

The increases in non-life net premiums written predominately reflect the continued improved market conditions, new client relationships in certain key markets and the expansion of shares of business with existing clients. During 2003, we took advantage of growth opportunities in the Standard Property & Casualty Reinsurance segment, where net premiums written grew by $193.4 million, or 13.3% for the year. This was due to increased penetration in all lines of business, but predominantly within property and motor. At December 31, 2003, the Specialty Lines segment grew by $256.6 million, or 16.5%, driven by strong growth in agribusiness, workers compensation, credit & surety and professional liability & other special liability lines. The Life & Health Reinsurance segment grew by $54.8 million, or 17.4%, driven by growth in accident & health business in North America and in Continental Europe.

Net premiums earned for the year ended December 31, 2003 increased $511.0 million, or 16.1% compared to 2002. Net premiums earned increased at a higher rate than net premiums written due to the seasonality of certain business within our portfolio.

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

Investment results are an important part of our overall profitability. Our net investment income was $233.0 million for the year ended December 31, 2003, representing a decrease of $18.8 million, or 7.5% as compared to the same period of 2002. The decrease reflects lower investment income yields offset by an increase in invested assets from operating cash flows.

Our average total investment income yield (pre-tax) was 3.5% for the year ended December 31, 2003, as compared to 4.1% for the same period in 2002. Yields are calculated based on the average of beginning and ending investment balances (including cash and cash equivalents). The decrease in yield in 2003 is due to sustained lower interest rates worldwide. In addition, we positioned our fixed income portfolios to a shorter duration in anticipation of a potential interest rate increase. We paid fees in the amount of $8.0 million and $6.1 million to our asset managers and custodians in 2003 and 2002, respectively, including other investment related costs.

We had net realized capital gains for the year ended December 31, 2003 of $18.4 million, compared to net realized capital losses of $10.3 million for the year ended December 31, 2002. Included in the 2002 realized amounts were gains on the restructuring of the fixed maturities portfolio of $62.9 million, offset by losses on the restructuring of the equity portfolio of $48.2 million, and losses realized on the sale of WorldCom fixed income investments of $15.8 million.

We recorded $27.4 million and $48.3 million of impairment charges during 2003 and 2002, respectively, primarily on our equity portfolio. To continue to adhere to emerging asset impairment standards, beginning in the second quarter of 2003, we revised our impairment policy to also record as realized capital losses any declines in value of equity securities over a period of more than twelve months. The same policy applies to fixed maturities securities when the decline in value is attributable to the deteriorating credit-worthiness of the issuer. This resulted in additional impairment charges of $3.4 million in 2003.

Converium consolidated other income (loss)

Other income for the year ended December 31, 2003 was $2.7 million as compared to other losses of $1.2 million for the year ended December 31, 2002. Other (loss) income includes interest income on reinsurance deposits, interest expense on funds held under reinsurance contracts, fee income, write-off of uncollectible balances and results from private equity funds.

Converium consolidated losses, loss adjustment expenses and life benefits

Our losses, loss adjustment expenses and life benefits incurred increased $182.2 million, or 7.3% in 2003 versus an increase of $191.5 million or 8.3% in 2002. The non-life loss and loss adjustment expense ratio was 71.5% in 2003 as compared to 78.2% in 2002. Our reported losses, loss adjustment expenses and life benefits have been impacted by the following loss events:

Net reserve development. In 2003, there was $31.3 million net positive development on prior years loss reserves, consisting of positive development of $49.4 million in the Standard Property & Casualty Reinsurance segment, offset by $18.1 million of adverse development in the Specialty Lines segment. Risk diversification is a basic risk management tool in the insurance and reinsurance industry; as a multi-line reinsurer there are always likely to be reserve adjustments at the line of business level. Our book of business is broadly diversified by line of business as well as balanced by region and by the expected duration of its claims obligations.

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

GMDB Business. In addition to the non-life reserve development described above, the Life & Health Reinsurance segment strengthened reserves on a closed block of variable annuity business by $20.5 million (to net $56.0 million) and $15.6 million in 2003 and 2002, respectively. As a result of the strong performance of the U.S. stock markets, the GMDB s net amount at risk further decreased to $809.7 million and $1,243.0 million at December 31, 2003 and 2002, respectively. Although we believe that our currently carried reserves for our GMDB exposure are adequate, we exercised the call option we negotiated in the third quarter of 2003 to access additional reinsurance protection of up to $75.0 million. This decision was made in light of the volatility and the valuation of the equity markets in the United States at that time. The annual expense associated with this protection is expected to be less than $0.5 million per year. This additional reinsurance protection adequately addresses potential adverse deviations to the key assumptions i.e., mortality risks, lapse rate risks, surrenders and investment risks, such as equity market performance and volatility, incorporated in our models. See Management s discussion and analysis of financial condition and results of operations Third quarter 2004 developments.

Impact of aviation & space business. Our aviation & space business contributes substantially to the profitability of the Specialty Lines segment. Related to this business, we had net premiums written of $341.8 million and $365.3 million and a net non-life technical result (defined as net premiums earned minus losses and loss adjustment expenses and underwriting acquisition costs) of $126.0 million and $61.5 million in 2003 and 2002, respectively. There were no large losses, defined as those in excess of $10.0 million or more of net incurred losses to us, in either 2003 or 2002.

Impact of property catastrophe business. A substantial portion of our property catastrophe business is written on an excess of loss basis. Related to this business, we had gross premiums written of $194.7 million and $172.9 million and a net non-life technical result (defined as net premiums earned minus losses and loss adjustment expenses and underwriting acquisition costs) of $74.4 million and $60.4 million in 2003 and 2002, respectively. Included in the net technical results are the following large natural catastrophe losses, defined as those in excess of $10.0 million or more of net incurred losses to us: Typhoon Maemi ($15.4 million) and the Algerian Earthquake ($10.6 million) in 2003 and the European floods in 2002 ($51.1 million).

Asbestos and environmental exposures. As of December 31, 2003 and 2002, we had reserves for environmental impairment liability and asbestos-related claims of $45.8 million and $44.6 million, respectively. Our survival ratio (calculated as the ratio of reserves held, including IBNR, over claims paid over the average of the last three years) for asbestos and environmental reserves was 13.6 years at December 31, 2003, compared to 13.5 years at December 31, 2002.

During 2003 and 2002, there was no additional development in net reserves for the September 11th terrorist attacks (as losses are capped at $289.2 million by Zurich Financial Services). In 2003 and 2002, the ultimate losses related to Enron declined $17.2 million and $5.2 million, respectively.

Converium consolidated underwriting acquisition costs

Underwriting acquisition costs primarily relate to commissions on treaty and individual risk business. Our underwriting acquisition costs increased $136.5 million or 20.5% in 2003 versus an increase of $158.6 million or 31.2% in 2002. This increase is mainly related to the increase in net premiums earned. The non-life underwriting expense ratio for the years ended December 31, 2003 and 2002 was 22.0% and 21.1%, respectively.

Converium consolidated operating and administration expenses

Operating and administration expenses increased 14.1% in 2003 and 18.4% in 2002. These increases primarily arose from expenditures to support the growth in operations. Operating and administration expenses were also impacted in 2003 and 2002 by the decrease of the U.S. dollar against the hardening European currencies. Despite the increase in operating and administration expenses, the non-life administration expense ratio remained stable at 4.4% in 2003 and 2002. This was due to continued strong premium growth relative to the growth in expenses.

We fully charge the cost of options to operating expense under the fair value approach of SFAS 123, Accounting for Stock Based Compensation , and recorded compensation expense of $6.1 million and $5.8 million for 2003 and 2002, respectively, in connection with our stock option plans.

Converium consolidated interest expense

Interest expense for the year ended December 31, 2003 was $31.0 million compared to $16.4 million in 2002. Interest expense on our Senior Notes was $14.2 million in each year. The increase in 2003 was mainly due to $16.5 million in interest expense on our $200.0 million 8.25% guaranteed subordinated notes issued in December 2002.

Converium consolidated income tax (expense) benefit

Our income tax (expense) benefit was $(39.3) million and $49.4 million for the years ended December 31, 2003 and 2002, respectively. Our effective tax rate for 2003 was 17.5%, compared to a benefit of 86.1% in 2002. The 2002 consolidated tax benefit reflects a one-time benefit of $21.3 million as the result of a ruling received from the Swiss tax authorities regarding the tax effective depreciation of goodwill.

Year ended December 31, 2002 compared to year ended December 31, 2001

Converium consolidated net income (loss)

We reported pre-tax operating income of $67.7 million for the year ended December 31, 2002, an improvement of $528.8 million as compared to the pre-tax operating loss of $461.1 million in 2001. Net income improved $474.2 million to $106.8 million for the year ended December 31, 2002.

Our 2002 results were impacted by the recognition of a $148.5 million provision for net reserve development on prior years business, representing a movement of 3.6% of the net non-life reserves at December 31, 2001. In the Standard Property & Casualty Reinsurance segment, there were additional provisions of $62.2 million for the liability, motor and property lines. In the Specialty Lines segment, there were additional provisions of $86.3 million, primarily related to the commercial umbrella and medical errors and omissions liability lines of business. In addition, our results were also impacted by losses from the August 2002 European floods of $51.1 million (net of reinstatement premiums of $3.1 million), primarily from reinsurance contracts written in Germany, the Czech Republic, Austria and Italy.

Our 2001 results were impacted by pre-tax losses of $289.2 million related to the September 11th terrorist attacks, net adverse development on prior years loss reserves of $123.6 million, $67.0 million in losses related to the Enron Chapter 11 reorganization and $28.5 million in ceded premiums for September 11th terrorist attacks and other coverages from Zurich Financial Services.

Our net investment income increased 10.1% to $251.8 million for the year ended December 31, 2002 as compared to the same period for 2001. We recorded $10.3 million of pre-tax net realized capital losses on our investment portfolio, which included $48.3 million of impairment charges on our equity portfolio, as compared to $18.4 million of pre-tax net realized capital losses, including $82.5 million of impairment charges in 2001.

The above results were affected by a tax benefit of $49.4 million in 2002 compared to a benefit of $169.9 million in 2001. The 2002 consolidated tax benefit reflects a one-time benefit of $21.3 million as the result of a ruling received from the Swiss tax authorities regarding a tax effective depreciation of goodwill. The 2001 consolidated tax benefit results from pre-tax losses.

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

Converium consolidated premiums

Gross premiums written for the year ended December 31, 2002 increased $654.6 million, or 22.7% compared to the same period for 2001. Net premiums written for 2002 increased $839.6 million, or 33.8% compared to 2001. The growth in net premiums written exceeded the growth in gross premiums written due to an increased retention rate in 2002 compared to 2001, and a ceded premiums charge in 2001 of $28.5 million related to coverage from Zurich Financial Services for the September 11th terrorist attacks. For the year ended December 31, 2002, we retained 94.0% of our gross premiums written, compared to 86.2% in 2001.

The increase in net premiums written reflects the hardening market conditions that emerged during 2002. As described in the following discussion of results by business segment, Specialty Lines experienced the largest premium growth, with net premiums written increasing $586.9 million, or 60.6% over 2001. Standard Property & Casualty Reinsurance grew by

$172.2 million, or 13.5%, and Life & Health Reinsurance grew by $80.5 million, or 34.4% in 2002 compared to 2001.

Net premiums earned for the year ended December 31, 2002 increased $870.3 million, or 37.9% compared to 2001. Net premiums earned increased at a higher rate than net premiums written due to the growth and seasonality of certain business within our portfolio.

Converium consolidated net investment income and net realized capital losses

Investment results are an important part of our overall profitability. Our net investment income was $251.8 million for the year ended December 31, 2002, representing an increase of $23.1 million, or 10.1% as compared to the same period for 2001.

The increase is primarily from an increase in invested assets due to our additional capitalization in late 2001 and the investment of cash flows from operating activities during 2002. Our average total investment income yield (pre-tax) was 4.1% for the year ended December 31, 2002 as compared to 4.3% in 2001. The decline in 2002 reflects lower interest rates worldwide relative to 2001. Yields are calculated based on the average of beginning and ending investment balances (including cash and cash equivalents). We paid fees in the amount of $6.1 million and $4.7 million to our asset managers and custodians in 2002 and 2001, respectively.

Our average total investment return (pre-tax) was 2.2% for the year ended December 31, 2002 as compared to 4.6% for 2001. The average total investment return in 2002 and 2001 included the effect of foreign currency on the change in net unrealized capital gains and losses of $(50.3) million and $(1.2) million, respectively. While the effect was fairly insignificant for 2001, in 2002, this lowered the average total investment return by 0.8%.

We had net realized capital losses for the year ended December 31, 2002 of $10.3 million, compared to net realized capital losses of $18.4 million in 2001. Included in the 2002 realized amounts were gains on the restructuring of the fixed maturities portfolio of $62.9 million, offset by losses on the restructuring of the equity portfolio of $48.2 million and losses realized on the sale of WorldCom fixed income investments of $15.8 million.

We recorded $48.3 million of impairment charges on our equity portfolio for the year ended December 31, 2002, compared to $82.5 million for 2001. The decline in 2002 reflects the restructuring of our portfolios, whereby certain unrealized losses were realized.

Converium consolidated other loss

Other loss for the years ended December 31, 2002 and 2001 was $1.2 million and $5.8 million, respectively. The other loss in 2002 represents write-offs of certain uncollectible reinsurance recoverables, offset by interest income on reinsurance deposits and interest relating to a dispute settlement. The other loss in 2001 is primarily due to interest expense on funds held under reinsurance contracts and losses from investments in private equity funds.

Converium consolidated losses, loss adjustment expenses and life benefits

Our losses, loss adjustment expenses and life benefits incurred increased $191.5 million, or 8.3% in 2002 as compared to 2001. The non-life loss and loss adjustment expense ratio was 78.2% in 2002, compared to 99.9% in 2001. Our reported losses, loss adjustment expenses and life benefits have been impacted by the following loss events:

Net reserve development. In 2002, we strengthened reserves for prior years by $148.5 million. Throughout the year, increased loss experience related to prior years continued to emerge, which resulted in an in-depth actuarial reserve analysis of certain lines of business. This resulted in an additional $148.5 million provision for losses, primarily related to underwriting years 1997 through 2000. In the Standard Property & Casualty Reinsurance segment, there were additional provisions of $62.2 million for the liability, motor and property lines. In the Specialty Lines segment, there were additional provisions of $86.3 million, primarily related to the commercial umbrella and medical errors and omissions liability lines of business.

In 2001, we strengthened reserves for prior years by $123.6 million. We retained an actuarial consulting firm to perform an independent review of non-life net reserves as of December 31, 2000. This review reflected certain information that became available after the issuance of the December 31, 2000 financial statements, including most fourth quarter 2000 and some first quarter 2001 reports from ceding companies, who typically report on a one-quarter lag. Based on the independent review and our own evaluations of these new developments, additional provisions of $123.6 million, net of reinsurance, were recorded in 2001, principally related to accident years 2000 and prior at Converium Reinsurance (North America) Inc. In the Standard Property & Casualty Reinsurance segment, there were additional net provisions of $46.6 million, primarily for the motor and property lines of business. In the Specialty Lines segment, there were additional net provisions of $77.0 million, primarily related to the excess & surplus, commercial umbrella and marine & energy lines of business, offset by positive development in aviation & space.

GMDB Business. In 2002, following a continuing downturn of the international equity markets, our Life & Health Reinsurance segment reported losses of $6.5 million, including paid claims of $12.5 million and reserve strengthening of $15.6 million for a closed block of variable annuity business in order to align the reserves to the expected future life benefits. In 2001, our Life & Health Reinsurance segment reported losses of $17.7 million, including reserve strengthening of $13.4 million on this business.

Impact of aviation & space business. Our aviation & space business contributes substantially to the profitability of the Specialty Lines segment. Related to this business, we had net premiums written of $365.3 million and $182.8 million and a net non-life technical result (defined as net premiums earned minus losses and loss adjustment expenses and underwriting acquisition costs) of $61.5 million and $(127.6) million in 2002 and 2001, respectively. Included in the 2001 net technical result are net losses from the September 11th terrorist attacks of $168.7 million. There were no large losses, defined as those in excess of $10.0 million or more of net incurred losses to us, in 2002.

Impact of property catastrophe business. A substantial portion of our property catastrophe business is written on an excess of loss basis. Related to this business, we had gross premiums written of $172.9 million and $148.1 million and a net non-life technical result (defined as net premiums earned minus losses and loss adjustment expenses and underwriting acquisition costs) of $60.4 million and $29.8 million in 2002 and 2001, respectively. Included in the net technical results are the following large natural catastrophe losses, defined as those in excess of $10.0 million or more of net incurred losses to us: the European floods in 2002 ($51.1 million) and the El Salvador earthquake in 2001 ($14.2 million).

September 11th terrorist attacks. The September 11th terrorist attacks in the United States represented the largest loss event in the insurance industry s history. In 2001, we recorded gross losses and loss adjustment expenses of $692.9 million arising out of the terrorist attacks.

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

During 2002, there was no additional development in net reserves for the September 11th terrorist attacks (as losses are capped at $289.2 million by Zurich Financial Services).

Enron Chapter 11 Reorganization. In December 2001, Enron Corp. announced that it and certain of its subsidiaries had filed voluntary petitions for Chapter 11 reorganization in the United States. Converium recorded incurred losses of $67.0 million pre-tax ($48.0 million after-tax) for the year ended December 31, 2001, representing Converium s aggregate limits under existing reinsurance contracts in connection with Enron. These exposures result principally from credit & surety and, to a lesser extent, liability lines of business. The losses Converium may ultimately incur, and the timing of any loss payment, will be affected by numerous factors including the actions of third parties, possible judicial rulings and other contingencies. In 2002, the ultimate losses related to Enron declined $5.2 million.

Asbestos and environmental exposures. As of December 31, 2002 and 2001, we had reserves for environmental impairment liability and asbestos-related claims of $44.6 million for both years. Our survival ratio (calculated as the ratio of reserves held, including IBNR, over claims paid over the average of the last three years) for asbestos and environmental reserves was 13.5 years at December 31, 2002, compared to 13.8 years at December 31, 2001.

Converium consolidated underwriting acquisition costs

Underwriting acquisition costs primarily relate to commissions on treaty and individual risk business. Our underwriting acquisition costs increased 31.2% in 2002 over 2001. This increase is mainly related to the increase in net premiums earned. The non-life underwriting expense ratio for the years ended December 31, 2002 and 2001 was 21.1% and 23.4%, respectively.

Converium consolidated operating and administration expenses

Operating and administration expenses increased 18.4% in 2002 over 2001. This increase primarily arose from increases due to additional headcount and related overhead costs, including information technology, needed to support business growth, as well as an increased cost level required for new functions and departments required as an independent company. Operating and administration expenses were also impacted in 2002 by the decrease of the U.S. dollar against the hardening European currencies. Various costs related to the initial public offering increased operating and administration expenses in 2001. Despite the increase in operating and administration expenses, the non-life administration expense ratio declined to 4.4% in 2002, compared to 6.0% in 2001. This decline was due to strong premium growth.

We fully charge the cost of options to operating expense under the fair value approach of SFAS 123, Accounting for Stock-Based Compensation , and recorded compensation expense of $5.8 million and $3.5 million in 2002 and 2001, respectively, in connection with our stock option plans.

Converium consolidated interest expense, amortization of goodwill and restructuring costs

Our interest expense for the year ended December 31, 2002 was $16.4 million compared to $24.2 million in 2001. Interest expense on our Senior Notes was $14.2 million in each year. The decrease in 2002 versus 2001 is principally due to short-term borrowings from Zurich Financial Services, which had a high average amount outstanding during 2001.

At January 1, 2002 we adopted SFAS 142, Goodwill and Other Intangible Assets, which prohibits the amortization of goodwill. Amortization of goodwill in 2001 was $7.8 million. Restructuring costs were $50.0 million in 2001 and were incurred relating to our initial public offering and related Formation Transactions. No restructuring costs were incurred during 2002.

Converium consolidated income tax benefit

Our income tax benefit was $49.4 million and $169.9 million for the years ended December 31, 2002 and 2001, respectively. Our effective tax rate for 2002 was a benefit of 86.1%, compared to an expected weighted average tax benefit rate of 24.9%. This rate was derived by calculating the weighted average of the expected statutory income tax in relation to the (loss) income generated in the various territories in which we operate. Our 2002 taxes reflect a one-time benefit of $21.3 million as the result of a ruling received from the Swiss tax authorities regarding the tax effective depreciation of goodwill. Other differences include the impact from currency translation adjustments and changes in tax rates. Our effective tax rate was 31.6% in 2001.

Results of operations by operating segment

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

Our principal lines of non-life reinsurance include general third party liability, motor, personal accident, property, agribusiness, aviation & space, credit & surety, engineering, marine & energy, professional liability & other special liability and workers compensation. The principal life reinsurance products are ordinary life & disability reinsurance, including quota share, surplus coverage and financing contracts, and accident & health.

To measure the financial performance of our operating segments, we define segment income as income before other (loss) income, interest expense, impairment/ amortization of goodwill, restructuring costs and income taxes.

Our financial results for the first half of 2004 have been considerably affected by the recording of additional net strengthening of prior years loss reserves ($427.7 million). Our financial results for 2003 were primarily driven by profitable growth in Standard Property & Casualty

Reinsurance and Specialty Lines, the continued solid performance in non-life underwriting as well as the current conditions in the capital markets. The following table compares our segment results for the six months ended June 30, 2004 and 2003 and for the years ended December 31, 2003, 2002 and 2001 and reconciles segment results to (loss) income before taxes.

	Six months ended June 30,		Year ended December 31,		
	2004	**2003**	**2003**	**2002**	**2001**
			($ in millions)		
Segment (loss) income:					
Standard Property & Casualty Reinsurance	$ 8.9	$ 109.8	$ 183.7	$ 55.8	$ (147.3)
Specialty Lines	(185.7)	22.2	115.2	56.0	(277.2)
Life & Health Reinsurance	5.9	1.4	(11.9)	(6.5)	(17.7)
Corporate center	(16.9)	(16.2)	(34.3)	(30.3)	(7.3)
Total segment (loss) income	(187.8)	117.2	252.7	75.0	(449.5)
Other income (loss)	2.9	(4.4)	2.7	(1.2)	(5.8)
Interest expense	(16.6)	(17.0)	(31.0)	(16.4)	(24.2)
Impairment of goodwill	(94.0)	-	-	-	-
Amortization of goodwill and restructuring costs	-	-	-	-	(57.8)
Net (loss) income before taxes	(295.5)	95.8	224.4	57.4	(537.3)
Income tax (expense) benefit	(298.8)	(11.2)	(39.3)	49.4	169.9
Net (loss) income	$ (594.3)	$ 84.6	$ 185.1	$ 106.8	$ (367.4)

The table below presents information regarding results of operations of our non-life business for the six months ended June 30, 2004 and 2003 and for the years ended December 31, 2003, 2002 and 2001. This information is further discussed on a segment basis below.

	Six months ended June 30,		Year ended December 31,		
	2004	2003	2003	2002	2001
	($ in millions, except ratios)				
Revenues:					
Gross premiums written	$ 2,146.5	$ 1,989.7	$ 3,817.4	$ 3,192.6	$ 2,624.7
Net premiums written	$ 2,004.1	$ 1,871.6	$ 3,457.5	$ 3,007.5	$ 2,248.4
Net premiums earned	$ 1,777.1	$ 1,610.7	$ 3,293.5	$ 2,854.7	$ 2,078.1
Net investment income and net realized capital gains (losses)	157.3	120.7	233.9	223.4	194.5
Total revenues	1,934.4	1,731.4	3,527.4	3,078.1	2,272.6
Losses and expenses:					
Losses and loss adjustment expenses	(1,654.9)	(1,184.5)	(2,354.6)	(2,231.9)	(2,076.6)
Underwriting acquisition costs	(379.7)	(340.7)	(723.2)	(602.7)	(486.3)
Other operating and administration expenses	(76.6)	(74.2)	(150.7)	(131.7)	(134.2)
Total losses and expenses	(2,111.2)	(1,599.4)	(3,228.5)	(2,996.3)	(2,697.1)
Segment (loss) income	$ (176.8)	$ 132.0	$ 298.9	$ 111.8	$ (424.5)
Ratios:					
Loss ratio	93.1% (1)	73.5%	71.5%	78.2%	99.9% (2)
Underwriting expense ratio	21.4%	21.2%	22.0%	21.1%	23.4%
Administration expense ratio	3.8%	4.0%	4.4%	4.4%	6.0%
Combined ratio	118.3% (1)	98.7%	97.9%	103.7%	129.3% (2)

(1) The impact on the non-life loss ratio and combined ratio of the 2004 reserve development was 24.1%.

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

Standard Property & Casualty Reinsurance

The table below presents information regarding the results of operations of our Standard Property & Casualty Reinsurance segment for the six months ended June 30, 2004 and 2003 and for the years ended December 31, 2003, 2002 and 2001.

	Six months ended June 30,		Year ended December 31,		
	2004	2003	2003	2002	2001
	($ in millions, except ratios)				
Revenues:					
Gross premiums written	$1,076.1	$1,000.9	$ 1,795.4	$ 1,542.3	$ 1,495.6
Net premiums written	$ 988.5	$ 940.7	$ 1,645.6	$ 1,452.2	$ 1,280.0
Net premiums earned	$ 860.2	$ 787.2	$ 1,629.9	$ 1,396.7	$ 1,220.5
Net investment income and net realized capital gains (losses)	67.2	52.2	101.5	98.1	86.2
Total revenues	927.4	839.4	1,731.4	1,494.8	1,306.7
Losses and expenses:					
Losses and loss adjustment expenses	(685.0)	(518.6)	(1,113.6)	(1,065.0)	(1,137.9)
Underwriting acquisition costs	(191.3)	(173.7)	(363.1)	(310.4)	(239.6)
Other operating and administration expenses	(42.2)	(37.3)	(71.0)	(63.6)	(76.5)
Total losses and expenses	(918.5)	(729.6)	(1,547.7)	(1,439.0)	(1,454.0)
Segment income (loss)	$ 8.9	$ 109.8	$ 183.7	$ 55.8	$ (147.3)
Ratios:					
Loss ratio	79.6%	65.9%	68.3%	76.3%	93.2%
Underwriting expense ratio	22.2%	22.1%	22.3%	22.2%	19.6%
Administration expense ratio	4.3%	4.0%	4.3%	4.4%	6.0%
Combined ratio	106.1%	92.0%	94.9%	102.9%	118.8%

Six months ended June 30, 2004 compared to six months ended June 30, 2003

Standard Property & Casualty Reinsurance segment income

For the six months ended June 30, 2004, Standard Property & Casualty Reinsurance reported segment income of $8.9 million, a decrease of $100.9 million as compared to the same period in 2003. The decrease in 2004 was primarily attributable to the following:

During the second quarter of 2004, $96.0 million of reserve strengthening was recorded. This development was in addition to net strengthening of prior years loss reserves of $10.1 million, primarily from the Western European motor book, that was recorded during the first quarter of 2004. For the six months ended June 30, 2004, reserve strengthening of $106.1 million added 12.3 points to the loss ratio; and

Slightly offsetting this was improved investment results.

Standard Property & Casualty Reinsurance premiums

For the six months ended June 30, 2004, gross premiums written increased 7.5% to $1,076.1 million, net premiums written increased 5.1% to $988.5 million and net premiums earned increased 9.3% to $860.2 million.

For the six months ended June 30, 2004, net premiums written growth in the Standard Property & Casualty Reinsurance segment by line of business included:

- Motor (increased by 28.2% or $80.8 million to $367.3 million), which grew as a result of the expansion of motor business within the Western European region; and

- Personal accident (non-life) (increased by 35.8% or $6.8 million to $25.8 million), which grew due to new or extended relationships with cedents in Italy and Germany**.**

These increases were offset by a decrease in net written premiums within the Property line of business. The Property line of business decreased by 12.3% or $53.0 million to $377.2 million, which was primarily driven by the softening of property rates and a consequent non-renewal of several large contracts in North America, and reduced premium writings with cedents in Asia and Latin America.

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

Standard Property & Casualty Reinsurance reported net investment income and net realized capital gains of $67.2 million for the six months ended June 30, 2004, an increase of $15.0 million, or 28.7%, compared to net investment income and net realized capital gains of $52.2 million for the same period of 2003. The increase for the six months ended June 30, 2004 largely resulted from growth in invested assets over 2003, 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. In addition, impairment charges were lower in 2004 compared to 2003.

Standard Property & Casualty Reinsurance losses and loss adjustment expenses

Standard Property & Casualty Reinsurance had losses and loss adjustment expenses incurred of $685.0 million for the six months ended June 30, 2004, an increase of $166.4 million, or 32.1% over the same period in 2003. The non-life loss and loss adjustment expense ratio was 79.6% for the six months ended June 30, 2004 as compared to 65.9% for the same period in 2003, an increase of 13.7 percentage points. This increase primarily resulted from strengthening of prior years loss reserves of $ 96.0 million.

In the six months ended June 30, 2004, the Standard Property & Casualty Reinsurance segment experienced reserve strengthening primarily related to general third party liability lines in the U.S. ($99.3 million). In the six months ended June 30, 2003, segment income was increased by $34.2 million from positive developments of prior years reserves as net positive development on property lines was partially offset by net adverse development on motor lines.

Standard Property & Casualty Reinsurance underwriting acquisition costs

Underwriting acquisition costs increased $17.6 million or 10.1% in the six months ended June 30, 2004 compared to the same period in 2003. This increase is mainly related to the increase in net premiums earned. The non-life underwriting expense ratio was 22.2% in the first half of 2004 as compared to 22.1% for the same period in 2003.

Standard Property & Casualty Reinsurance operating and administration expenses

Operating and administration expenses increased $4.9 million or 13.1% in the six months ended June 30, 2004 compared to the same period in 2003. The increase primarily arose from increased expenditures to support the growth in operations and the weakening of the U.S. dollar. The non-life administration expense ratio was 4.3% for the six months ended June 30, 2004, compared to 4.0% for the same period in 2003.

Standard Property & Casualty Reinsurance combined ratios

Standard Property & Casualty Reinsurance s combined ratio was 106.1% for the six months ended June 30, 2004 compared to 92.0% in the same period of 2003. The increase in the combined ratio was largely the result of prior years reserve development.

Year ended December 31, 2003 compared to year ended December 31, 2002

Standard Property & Casualty Reinsurance segment income

Standard Property & Casualty Reinsurance reported a segment income of $183.7 million in 2003 compared to a segment income of $55.8 million in 2002. The increase in segment income was primarily attributable to:

The non-life loss ratio improved by 8.0 percentage points for the year ended December 31, 2003, versus the same period in 2002. This improvement resulted from overall solid results in the property line of business, as 2003 was absent any major catastrophe activity; and

The investment results and return for 2003 were positively impacted by the recovery of the global capital markets.

Standard Property & Casualty Reinsurance premiums

For the year ended December 31, 2003, gross premiums written increased 16.4% to $1,795.4 million, net premiums written increased 13.3% to $1,645.6 million and net premiums earned increased 16.7% to $1,629.9 million.

For the year ended December 31, 2003, premium growth in Standard Property & Casualty Reinsurance by line of business included:

Property (net premiums written in 2003 increased by 25.7% or $161.0 million to $787.0 million); and

Motor (net premiums written in 2003 increased by 7.7% or $35.0 million to $488.5 million).

The above increases reflect strong market conditions and were offset by a decrease in net premiums written in other miscellaneous standard lines.

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

Standard Property & Casualty Reinsurance reported net investment income and net realized capital gains of $101.5 million for the year ended December 31, 2003, which was higher by $3.4 million, or 3.5%, compared to net investment income and net realized capital losses of

$98.1 million for the same period of 2002. The investment results and return for 2003 were positively impacted by the recovery of the global capital markets.

Standard Property & Casualty Reinsurance losses and loss adjustment expenses

Standard Property & Casualty Reinsurance had losses and loss adjustment expenses incurred of $1,113.6 million in 2003, an increase of $48.6 million, or 4.6% over 2002. The non-life loss and loss adjustment expense ratio was 68.3% in 2003 as compared to 76.3% in 2002. This improvement resulted from overall solid results in the property line of business, as 2003 was absent any major catastrophe activity.

In 2003, segment income was increased by $49.4 million from positive developments of prior years reserves. Net positive development of prior years loss reserves on property lines of $113.5 million (primarily from the 2002 year) was partially offset by net adverse development of the motor and general third party liability lines of $64.1 million (primarily from 2001 and prior years). The Standard Property & Casualty Reinsurance segment s book of business is broadly diversified by line of business as well as balanced by region and by the expected duration of its claims obligations.

In 2002, Standard Property & Casualty Reinsurance experienced $51.1 million (net of reinstatement premiums of $3.1 million) in losses from the European floods and $62.2 million in net adverse loss development on prior years business, primarily from the motor, general third party liability and property lines of business.

Standard Property & Casualty Reinsurance underwriting acquisition costs

Underwriting acquisition costs increased $52.7 million or 17.0% in 2003. This increase is mainly related to the increase in net premiums earned. The non-life underwriting expense ratio was 22.3% in 2003 as compared to 22.2% in 2002.

Standard Property & Casualty Reinsurance operating and administration expenses

Operating and administration expenses increased 11.6% in 2003. The increase primarily arose from expenditures to support the growth in operations. Operating and administration expenses were also impacted in 2003 and 2002 by the decrease of the U.S. dollar against the hardening European currencies. Despite the increase in operating and administration expenses, the non-life administration expense ratio was 4.3% in 2003, compared to 4.4% in 2002. This was due to continued strong premium growth relative to the growth in expenses.

Standard Property & Casualty Reinsurance combined ratios

Standard Property & Casualty Reinsurance s combined ratio was 94.9% in 2003 and 102.9% in 2002. The improvement in the combined ratio was largely the result of overall solid results in the property line of business, as 2003 was absent of any major catastrophe activity.

Year ended December 31, 2002 compared to year ended December 31, 2001

Standard Property & Casualty Reinsurance segment income (loss)

Standard Property & Casualty Reinsurance reported segment income of $55.8 million in 2002 as compared to a segment loss of $147.3 million in 2001. The increase in segment income was primarily attributable to an improvement in the non-life loss ratio by 16.9 percentage points in

2002 over 2001. Losses in 2001 were primarily attributable to the September 11th terrorist attacks, with net losses in the amount of $108.5 million.

Standard Property & Casualty Reinsurance premiums

For the year ended December 31, 2002, gross premiums written increased 3.1% to $1,542.3 million, net premiums written increased 13.5% to $1,452.2 million and net premiums earned increased 14.4% to $1,396.7 million.

For the year ended December 31, 2002, premium growth in Standard Property & Casualty Reinsurance by line of business included:

Property (net premiums written in 2002 increased by 13.7% or $75.6 million to $626.0 million); and

General third party liability (net premiums written in 2002 increased by 24.3% or $66.1 million to $337.7 million).

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

Standard Property & Casualty Reinsurance reported net investment income and net realized capital losses of $98.1 million for the year ended December 31, 2002, which was higher by $11.9 million, or 13.8%, compared to net investment income and net realized capital losses of $86.2 million for the same period of 2001. The increase is primarily from an increase in net investment income on higher invested assets due to our additional capitalization in late 2001 and the investment of cash flows from operating activities during 2002.

Standard Property & Casualty Reinsurance losses and loss adjustment expenses

Standard Property & Casualty Reinsurance s losses and loss adjustment expenses incurred decreased $72.9 million, or 6.4% in 2002. The non-life loss and loss adjustment expense ratio was 76.3% in 2002 as compared to 93.2% in 2001. The decrease of 16.9 percentage points for the year ended December 31, 2002 was largely attributable to the losses reported in 2001 related to the September 11th terrorist attacks, with net losses of $108.5 million.

In 2002, Standard Property & Casualty Reinsurance experienced $51.1 million (net of reinstatement premiums of $3.1 million) in losses from the European floods and $62.2 million in net adverse loss development on prior years business, primarily from the motor, general third party liability and property lines of business.

In 2001, Standard Property & Casualty Reinsurance strengthened reserves for prior years by $46.6 million, primarily for the motor and property lines of business. The strengthening was principally related to accident years 2000 and prior.

Standard Property & Casualty Reinsurance underwriting acquisition costs

Underwriting acquisition costs increased $70.8 million or 29.5% in 2002. This increase is mainly related to the increase in net premiums earned. The non-life underwriting expense ratio was 22.2% in 2002 as compared to 19.6% in 2001.

Standard Property & Casualty Reinsurance operating and administration expenses

Operating and administration expenses decreased 16.9% in 2002. The decrease was primarily due to relatively small growth in premium in 2002 compared to 2001, as well as more functions and services were allocated to the Corporate Center in 2002. The non-life administration expense ratio was 4.4% in 2002, compared to 6.0% in 2001, reflecting this decrease.

Standard Property & Casualty Reinsurance combined ratios

Standard Property & Casualty Reinsurance s combined ratio was 102.9% in 2002 compared to 118.8% in 2001. The higher combined ratio in 2001 primarily resulted from losses related to the September 11th terrorist attacks.

Specialty lines

The table below presents information regarding the results of operations of our Specialty Lines segment for the six months ended June 30, 2004 and 2003 and for the years ended December 31, 2003, 2002 and 2001.

	Six months ended June 30,		Year ended December 31,		
	2004	**2003**	**2003**	**2002**	**2001**
	($ in millions, except ratios)				
Revenues:					
Gross premiums written	$ 1,070.4	$ 988.8	$ 2,022.0	$ 1,650.3	$ 1,129.1
Net premiums written	$ 1,015.6	$ 930.9	$ 1,811.9	$ 1,555.3	$ 968.4
Net premiums earned	$ 916.9	$ 823.5	$ 1,663.6	$ 1,458.0	$ 857.6
Net investment income and net realized capital gains (losses)	90.1	68.5	132.4	125.3	108.3
Total revenues	1,007.0	892.0	1,796.0	1,583.3	965.9
Losses and expenses:					
Losses and loss adjustment expenses	(969.9)	(665.9)	(1,241.0)	(1,166.9)	(938.7)
Underwriting acquisition costs	(188.4)	(167.0)	(360.1)	(292.3)	(246.7)
Other operating and administration expenses	(34.4)	(36.9)	(79.7)	(68.1)	(57.7)
Total losses and expenses	(1,192.7)	(869.8)	(1,680.8)	(1,527.3)	(1,243.1)
Segment (loss) income	$ (185.7)	$ 22.2	$ 115.2	$ 56.0	$ (277.2)
Ratios:					
Loss ratio	105.8%	80.9%	74.6%	80.0%	109.5%
Underwriting expense ratio	20.5%	20.3%	21.6%	20.0%	28.8%
Administration expense ratio	3.4%	4.0%	4.4%	4.4%	6.0%
Combined ratio	129.7%	105.2%	100.6%	104.4%	144.3%

Six months ended June 30, 2004 compared to six months ended June 30, 2003

Specialty Lines segment (loss) income

For the six months ended June 30, 2004, Specialty Lines reported a segment loss of $185.7 million as compared to segment income of $22.2 million for the same period in 2003. The segment loss in 2004 was primarily attributable to the following:

During the second quarter of 2004, $288.7 million of reserve strengthening was recorded. This development was in addition to net strengthening of prior years loss reserves of $32.9 million, primarily from the U.S. professional liability & other special liability lines, that was recorded during the first quarter of 2004. For the six months ended June 30, 2004, reserve strengthening of $321.6 million added 35.1 points to the loss ratio; and

Slightly offsetting this was improved investment results.

Specialty Lines premiums

For the six months ended June 30, 2004, gross premiums written increased 8.3% to $1,070.4 million, net premiums written increased 9.1% to $1,015.6 million and net premiums earned increased 11.3% to $916.9 million.

For the six months ended June 30, 2004, the Specialty Lines segment included net premiums written growth within:

Professional liability & other special liability (increased by 27.9% or $79.9 million to $366.2 million), which grew as a result of new business written in Western Europe, offset by reduced writings in the U.S.;

Agribusiness (increased by 37.8% or $15.6 million to $56.9 million), which grew due to new business written as well as return premium received on a specific contract due to favorable underwriting results;

Aviation & space (increased by 13.0% or $21.8 million to $189.7 million), which grew due to the increase share in the pools managed by GAUM and a switch in the structure of inuring protections for the pool from proportional to excess of loss reinsurance; and

Credit & surety (increased by 15.0% or $16.4 million to $125.7 million), which grew as a result of new business written and increased shares on existing business.

These increases were offset by a decrease of $66.9 million in net premiums written in the workers compensation line of business. This mainly resulted from lower premium accruals related to the 2003 underwriting year based on revised estimated premiums received from a large cedent, who reports on a lag, as well as a decrease in run-off premiums from older underwriting years. In addition, there was a reduction of participation on premiums written through the involuntary market with one of our ceding companies.

Specialty Lines net investment income and net realized capital gains

Specialty Lines reported net investment income and net realized capital gains of $90.1 million for the six months ended June 30, 2004, an increase of $21.6 million, or 31.5%, compared to net investment income and net realized capital gains of $68.5 million for the same period of 2003. The increase for the six months ended June 30, 2004 largely resulted from growth in invested assets over 2003, 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. In addition, impairment charges were lower in 2004 compared to 2003.

Specialty Lines losses and loss adjustment expenses

Specialty Lines had losses and loss adjustment expenses incurred of $969.9 million for the six months ended June 30, 2004, an increase of $304.0 million, or 45.7% over the same period in 2003. The non-life loss and loss adjustment expense ratio was 105.8% for the six months ended

June 30, 2004 as compared to 80.9% for the same period in 2003, an increase of 24.9 percentage points. This increase primarily resulted from strengthening of prior years loss reserves of $321.6 million.

In the six months ended June 30, 2004 the Specialty Lines segment experienced reserve strengthening primarily from the professional liability & other special liability lines, in particular umbrella, professional liability and excess & surplus lines of business in the U.S. ($265.2 million), related to accident years 1997 through 2001. In the six months ended June 30, 2003, segment income was decreased by $42.1 million from net adverse developments on workers compensation and professional liability & other special liability lines offset by net positive development on aviation & space.

Specialty Lines underwriting acquisition costs

Underwriting acquisition costs increased $21.4 million or 12.8% for the six months ended June 30, 2004 compared to the same period in 2003. This increase is mainly related to the increase in net premiums earned. The non-life underwriting expense ratio was 20.5% in the first half of 2004 as compared to 20.3% for the same period in 2003.

Specialty Lines operating and administration expenses

Operating and administration expenses decreased $2.5 million or 6.8% for the six months ended June 30, 2004 compared to the same period in 2003. The decrease was primarily due to reduced expense allocations in 2004 compared to 2003. The non-life administration expense ratio was 3.4% for the six months ended June 30, 2004, compared to 4.0% for the same period in 2003, reflecting this decrease.

Specialty Lines combined ratios

Specialty Lines combined ratio was 129.7% for the six months ended June 30, 2004 compared to 105.2% in the same period of 2003. The increase in the combined ratio was largely the result of prior years reserve development.

Year ended December 31, 2003 compared to year ended December 31, 2002

Specialty Lines segment income

Specialty Lines reported segment income of $115.2 million in 2003 compared to a segment income of $56.0 million in 2002. In addition to the positive results for 2003, the cash flow generated by the continuing growth in longer tail lines increased total invested assets. Therefore, a substantial part of this segment s expected profitability will emerge as investment income in future periods. The increase in segment income was primarily attributable to:

- The non-life loss ratio improved by 5.4 percentage points for the year ended December 31, 2003, versus the same period in 2002; and

- The investment results and return for 2003 were positively impacted by the recovery of the global capital markets.

These improvements were somewhat offset by an increase of 1.6 percentage points in the underwriting expense ratio in 2003, from 20.0% in 2002 to 21.6% in 2003. The 2002 ratio was lowered as a result of a cumulative catch-up on one of our retrocessionaires and certain aviation business.

Specialty Lines premiums

For the year ended December 31, 2003, gross premiums written increased 22.5% to $2,022.0 million, net premiums written increased 16.5% to $1,811.9 million and net premiums earned increased 14.1% to $1,663.6 million.

Specialty Lines growth was spread across most lines and primarily resulted from increased rates, increasing the share of clients business upon renewing existing business or writing new business.

For the year ended December 31, 2003, premium growth in Specialty Lines included:

- Professional liability & other special liability (net premiums written in 2003 increased by 11.4% or $61.1 million to $598.0 million), which grew as a result of the improving directors and officers market in the United States and new business written in North America and sourced through the London broker market;

- Workers compensation (net premiums written in 2003 increased by 40.9% or $90.3 million to $310.9 million), which grew as a result of the renewal of a large program in 2003;

- Credit & surety (net premiums written in 2003 increased by 17.9% or $35.9 million to $236.0 million); and

- Agribusiness (net premiums written in 2003 increased by 309.1% or $68.0 million to $90.0 million), whose growth reflects the hardening market which resulted from the exit of several insurers and reinsurers in mid-to-late 2002.

The above increases were offset by a decrease in net premiums written in the aviation & space line of business resulting from an increase in ceded premiums for external reinsurance protection, principally associated with Converium s increased participation in the GAUM pool, and softening markets as a result of recent low loss activity.

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

Specialty Lines reported net investment income and net realized capital gains of $132.4 million for the year ended December 31, 2003, an increase of $7.1 million, or 5.7%, compared to net investment income and net realized capital losses of $125.3 million for the same period of 2002. The investment results and return for 2003 were positively impacted by the recovery of the global capital markets.

Specialty Lines losses and loss adjustment expenses

Specialty Lines losses and loss adjustment expenses incurred increased $74.1 million, or 6.4% in 2003. The non-life loss and loss adjustment expense ratio was 74.6% in 2003 as compared to 80.0% in 2002, a decrease of 5.4 percentage points. This decrease was mostly due to lower reserve development in 2003.

In 2003, segment income was decreased by $18.1 million from net adverse developments of prior years loss reserves. Adverse development on workers compensation and professional liability & other special liability lines of $120.3 million (primarily from 2000 and prior years) was largely offset by net positive development of prior years loss reserves on aviation & space of $102.2 million (primarily from the 2002 year). As a multi-line reinsurer, there are always likely to be reserve adjustments at the line of business level. The Specialty Lines segment s book of business is broadly diversified by line of business as well as balanced by region and by the expected duration of its claims obligations.

In 2002, Specialty Lines experienced $86.3 million in net adverse loss development on prior years business, primarily from the commercial umbrella and medical errors and omissions liability lines of business.

Specialty Lines underwriting acquisition costs

Underwriting acquisition costs increased $67.8 million or 23.2% in 2003. This increase is mainly related to the increase in net premiums earned. The non-life underwriting expense ratio was 21.6% in 2003 as compared to 20.0% in 2002.

Specialty Lines operating and administration expenses

Operating and administration expenses increased $11.6 million or 17.0% in 2003. The increase primarily arose from expenditures to support the growth in operations. Operating and administration expenses were also impacted in 2003 and 2002 by the decrease of the U.S. dollar against the hardening European currencies. Despite the increase in operating and administration expenses, the non-life administration expense ratio was 4.4% in 2003, compared to 4.4% in 2002. This was due to continued strong premium growth relative to the growth in expenses.

Specialty Lines combined ratios

Specialty Lines combined ratio was 100.6% in 2003 and 104.4% in 2002. The non-life loss ratio improved by 5.4 percentage points for the year ended December 31, 2003, versus the same period in 2002. This improvement was somewhat offset by an increase of 1.6 percentage points in the underwriting expense ratio in 2003.

Year ended December 31, 2002 compared to year ended December 31, 2001

Specialty Lines segment income (loss)

Specialty Lines reported segment income of $56.0 million in 2002 as compared to a segment loss of $277.2 million in 2001. The increase in segment income was primarily attributable to an improvement in the non-life loss ratio of 29.5 percentage points for the year ended December 31, 2002. Losses in 2001 were primarily attributable to the September 11th terrorist attacks, with net losses in the amount of $168.7 million, as well as losses related to the Enron Chapter 11 reorganization of $67.0 million.

Specialty Lines premiums

For the year ended December 31, 2002, gross premiums written increased 46.2% to $1,650.3 million, net premiums written increased 60.6% to $1,555.3 million and net premiums earned increased 70.0% to $1,458.0 million.

Specialty Lines growth was spread across most lines and primarily resulted from increased rates, increasing the share of clients business upon renewing existing business or writing new business.

For the year ended December 31, 2002, premium growth in Specialty Lines included:

- Professional liability & other special liability (net premiums written in 2002 increased by 122.6% or $295.7 million to $536.9 million);
- Aviation & space (net premiums written in 2002 increased by 99.8% or $182.5 million to $365.3 million);
- Workers compensation (net premiums written in 2002 increased by 23.4% or $41.8 million to $220.6 million); and
- Engineering (net premiums written in 2002 increased by 42.5% or $34.6 million to $116.1 million).

Specialty Lines net investment income and net realized capital losses

Specialty Lines reported net investment income and net realized capital losses of $125.3 million for the year ended December 31, 2002, an increase of $17.0 million, or 15.7%, compared to net investment income and net realized capital losses of $108.3 million for the same period of 2001. The increase is primarily from an increase in net investment income on higher invested assets due to our additional capitalization in late 2001 and the investment of cash flows from operating activities during 2002.

Specialty Lines losses and loss adjustment expenses

Specialty Lines losses and loss adjustment expenses incurred increased $228.2 million, or 24.3% in 2002. The non-life loss and loss adjustment expense ratio was 80.0% in 2002 as compared to 109.5% in 2001. The decrease of 29.5 percentage points for the year ended December 31, 2002 was largely attributable to the losses reported in 2001 related to the September 11th terrorist attacks, with net losses in the amount of $168.7 million, as well as losses related to the Enron Chapter 11 reorganization of $67.0 million.

In 2002, Specialty Lines experienced $86.3 million in net adverse loss development on prior years business, primarily from the commercial umbrella and medical errors and omissions liability lines of business. In 2001, Specialty Lines strengthened reserves for prior years by $77.0 million, primarily related to the excess & surplus, commercial umbrella and marine & energy lines of business, offset by positive development in aviation & space. The strengthening was principally related to accident years 2000 and prior.

Specialty Lines underwriting acquisition costs

Underwriting acquisition costs increased $45.6 million or 18.5% in 2002. This increase is mainly related to the increase in net premiums earned. The non-life underwriting expense ratio was 20.0% in 2002 as compared to 28.8% in 2001.

Specialty Lines operating and administration expenses

Operating and administration expenses increased 18.0% in 2002. This increase was driven by the large growth in premiums. The non-life administration expense ratio was 4.4% in 2002, compared to 6.0% in 2001, reflecting this premium growth.

Specialty Lines combined ratios

Specialty Lines combined ratio was 104.4% in 2002 compared to 144.3% in 2001. The higher combined ratio in 2001 primarily resulted from losses related to the September 11th terrorist attacks and the Enron Chapter 11 reorganization.

Life & Health Reinsurance

The table below presents information regarding results of operations of our Life & Health Reinsurance segment for the six months ended June 30, 2004 and 2003 and for the years ended December 31, 2003, 2002 and 2001.

	Six months ended June 30,		Year ended December 31,		
	2004	2003	2003	2002	2001
	($ in millions, except ratios)				
Revenues:					
Gross premiums written	$264.7	$222.8	$406.5	$343.2	$256.5
Net premiums written	$243.3	$212.3	$369.5	$314.7	$234.2
Net premiums earned	$225.8	$186.1	$383.0	$310.8	$217.1
Net investment income and net realized capital gains (losses)	12.2	9.8	17.5	18.1	15.8
Total revenues	238.0	195.9	400.5	328.9	232.9
Losses and expenses:					
Losses, loss adjustment expenses and life benefits	(169.8)	(148.2)	(319.6)	(260.1)	(223.9)
Underwriting acquisition costs	(51.5)	(39.8)	(80.0)	(64.0)	(21.8)
Other operating and administration expenses	(10.8)	(6.5)	(12.8)	(11.3)	(4.9)
Total benefits, losses and expenses	(232.1)	(194.5)	(412.4)	(335.4)	(250.6)
Segment income (loss)	$ 5.9	$ 1.4	$ (11.9)	$ (6.5)	$ (17.7)
Ratios:					
Underwriting expense ratio	22.8%	21.4%	20.9%	20.6%	10.0%
Administration expense ratio	4.4%	3.1%	3.5%	3.6%	2.1%

Six months ended June 30, 2004 compared to six months ended June 30, 2003

Life & Health Reinsurance segment income

Life & Health Reinsurance reported an increase in segment income for the six months ended June 30, 2004 as compared to the same period in 2003. Technical result increased from $1.5 million to $8.5 million for the same period. Technical result is defined as net premiums earned minus losses, loss adjustment expenses and life benefits minus underwriting acquisition costs plus technical interest. The increase in 2004 was primarily attributable to:

The investment results for the six months ended June 30, 2004 were positively impacted by the continuing recovery of the global capital markets;

Strong growth in premium volume driven by the expansion of existing financing reinsurance transactions in Continental Europe and increased shares of current business; and

The development of our GMDB book during the first half of 2004 as compared to 2003. In the first half of 2003 reserves were strengthened by $12.5 million, while no actions were required for the first half of 2004.

Life & Health Reinsurance premiums

For the six months ended June 30, 2004, gross premiums written increased 18.8% to $264.7 million, net premiums written increased 14.6% to $243.3 million and net premiums earned increased 21.3% to $225.8 million.

Life & Health Reinsurance net investment income and net realized capital gains

Life & Health Reinsurance reported net investment income and net realized capital gains of $12.2 million for the six months ended June 30, 2004, an increase of $2.4 million, or 24.5%, compared to net investment income and net realized capital gains of $9.8 million for the same period of 2003. The investment results for the six months ended June 30, 2004 were positively impacted by the continuing recovery of the global capital markets.

Life & Health Reinsurance losses, loss adjustment expenses and life benefits

Life & Health Reinsurance had losses, loss adjustment expenses and life benefits incurred of $169.8 million, an increase of $21.6 million, or 14.6% in the six months ended June 30, 2004 compared to the same period in 2003. This increase mainly reflects the growth in the underlying business.

In the first half of 2003, there was reserve strengthening of $12.5 million for the GMDB business, which negatively impacted our results, while no actions were required in the first half of 2004.

Life & Health Reinsurance underwriting acquisition costs

Underwriting acquisition costs increased $11.7 million or 29.4% in the first half of 2004 compared to the same period in 2003. This increase is mainly related to the increase in net premiums earned. The underwriting expense ratio was 22.8% in the six months ended June 30, 2004 as compared to 21.4% in the same period of 2003.

Life & Health Reinsurance operating and administration expenses

Operating and administration expenses increased $4.3 million or 66.2% in six months ended June 30, 2004 compared to the same period in 2003. The increase primarily arose from increased expenditures to support the growth in operations and the weakening of the U.S. dollar. The administration expense ratio was 4.4% for the six months ended June 30, 2004, compared to 3.1% for the same period in 2003.

Year ended December 31, 2003 compared to year ended December 31, 2002

Life & Health Reinsurance segment loss

Life & Health Reinsurance reported segment loss of $11.9 million in 2003 compared to $6.5 million in 2002. The decrease in segment results in 2003 was primarily attributable to the development on a closed block of GMDB business.

The Life & Health Reinsurance segment strengthened reserves on a closed block of variable annuity business by $20.5 million (to net $56.0 million) in 2003 and $15.6 million in 2002. As a result of the strong performance of the U.S. stock markets, the GMDB s net amount at risk further decreased to $809.7 million and $1,243.0 million at December 31, 2003 and 2002, respectively. Although we believed that our currently carried reserves for our GMDB exposure are adequate, we exercised the call option we negotiated in the third quarter of 2003 to access additional reinsurance protection of up to $75.0 million. This decision was made in light of the current volatility and the valuation of the equity markets in the United States. The annual expense associated with this protection is expected to be less than $0.5 million per year. This additional reinsurance protection adequately addresses potential adverse deviations to the key assumptions i.e., mortality risks, lapse rate risks, surrenders and investment risks, such as equity market performance and volatility, incorporated in Converium s models. See Management s discussion and analysis of financial condition and results of operations Third quarter 2004 developments .

Life & Health Reinsurance premiums

For the year ended December 31, 2003, gross premiums written increased 18.4% to $406.5 million, net premiums written increased 17.4% to $369.5 million and net premiums earned increased 23.2% to $383.0 million.

For the year ended December 31, 2003, premium growth in the Life & Health Reinsurance segment included accident & health (net premiums written in 2003 increased by 29.6% or $47.4 million to $207.4 million). This growth primarily resulted from the further development of this line of business, which Converium began to underwrite in North America in 2001, as well as growth of business written in Continental Europe.

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

Life & Health Reinsurance reported net investment income and net realized capital gains of $17.5 million for the year ended December 31, 2003, which was lower by $0.6 million, or 3.3%, compared to net investment income and net realized capital losses of $18.1 million for the same period of 2002.

Life & Health Reinsurance losses, loss adjustment expenses and life benefits

Life & Health Reinsurance had losses, loss adjustment expenses and life benefits incurred of $319.6 million, an increase of $59.5 million, or 22.9% in 2003. This increase mainly reflects the growth in the underlying business. The Life & Health Reinsurance segment strengthened reserves on a closed block of variable annuity business by $20.5 million (to net $56.0 million) and $15.6 million in 2003 and 2002, respectively.

Life & Health Reinsurance underwriting acquisition costs

Underwriting acquisition costs increased $16.0 million or 25.0% in 2003. This increase is mainly related to the increase in net premiums earned. The underwriting expense ratio was 20.9% in 2003 as compared to 20.6% in 2002.

Life & Health Reinsurance operating and administration expenses

Operating and administration expenses increased $1.5 million or 13.3% in 2003. The increase primarily arose from expenditures to support the growth in operations. Operating and administration expenses were also impacted in 2003 and 2002 by the decrease of the U.S. dollar against the hardening European currencies. Despite the increase in operating and administration expenses, the non-life administration expense ratio was 3.5% in 2003, compared to 3.6% in 2002. This was due to continued strong premium growth relative to the growth in expenses.

Year ended December 31, 2002 compared to year ended December 31, 2001

Life & Health Reinsurance segment loss

Life & Health Reinsurance reported segment loss of $6.5 million in 2002 as compared to a loss of $17.7 million in 2001. The results included net losses related to the September 11th terrorist attacks of $12.0 million in 2001 and net development on a closed block of variable annuity business of $15.6 million in 2002 and $13.4 million in 2001.

Life & Health Reinsurance premiums

For the year ended December 31, 2002, gross premiums written increased 33.8% to $343.2 million, net premiums written increased 34.4% to $314.7 million and net premiums earned increased 43.2% to $310.8 million.

For the year ended December 31, 2002, premium growth in the Life & Health Reinsurance segment included accident & health (net premiums written in 2002 increased by 63.6% or $62.2 million to $160.0 million). This growth primarily resulted from the further development of this line of business, which Converium began to underwrite in North America in 2001, as well as growth of business written in Continental Europe.

Life & Health Reinsurance net investment income and net realized capital losses

Life & Health Reinsurance reported net investment income and net realized capital losses of $18.1 million for the year ended December 31, 2002 which was higher by $2.3 million, or 14.6%, compared to net investment income and net realized capital losses of $15.8 million for the same period of 2001. The increase is primarily from an increase in net investment income on higher invested assets due to our additional capitalization in late 2001 and the investment of cash flows from operating activities during 2002.

Life & Health Reinsurance losses, loss adjustment expenses and life benefits

Life & Health Reinsurance s losses, loss adjustment expenses and life benefits incurred increased $36.2 million, or 16.2% in 2002. This increase mainly reflects the growth in the underlying business. The results included net losses related to the September 11th terrorist attacks of $12.0 million in 2001 and net development on a closed block of variable annuity business of $15.6 million in 2002 and $13.4 million in 2001.

Life & Health Reinsurance underwriting acquisition costs

Underwriting acquisition costs increased $42.2 million or 193.6% in 2002. The underwriting expense ration was 20.6% in 2002 as compared to 10.0% in 2001. In 2001, $10.6 million in commission benefits were recorded from the commutation of a large contract and a refunding of commissions from our strategic retrocessions, reducing the underwriting expense ratio by 4.9%.

Life & Health Reinsurance operating and administration expenses

Operating and administration expenses increased 130.6% in 2002. The increase was primarily due to the hiring of staff to support the growth in business. The administration expense ratio was 3.6% in 2002, compared to 2.1% in 2001.

Corporate Center

The table below presents information regarding results of operations of our Corporate Center for the six months ended June 30, 2004 and 2003 and the years ended December 31, 2003, 2002 and 2001. The Corporate Center carries certain administration expenses, such as costs of the Board, the GEC and other global functions.

	Six months ended June 30,		Year ended December 31,		
	2004	**2003**	**2003**	**2002**	**2001**
			($ in millions)		
Other operating and administration expenses	$(16.9)	$(16.2)	$(34.3)	$(30.3)	$(7.3)
Segment loss	$(16.9)	$(16.2)	$(34.3)	$(30.3)	$(7.3)

Six months ended June 30, 2004 compared to six months ended June 30, 2003

Corporate Center operating and administration expenses

The Corporate Center reported operating and administration expenses of $16.9 million for the six months ended June 30, 2004, compared to $16.2 million for the same period in 2003. The increases primarily arose from expenditures to support the growth in operations and the weakening of the U.S. dollar.

Year ended December 31, 2003 compared to year ended December 31, 2002

Corporate Center operating and administration expenses

The Corporate Center reported operating and administration expenses of $34.3 million in 2003, compared to $30.3 million in 2002. The increases primarily arose from expenditures to support the growth in operations and the weakening of the U.S. dollar.

Year ended December 31, 2002 compared to year ended December 31, 2001

Corporate Center operating and administration expenses

The Corporate Center reported operating and administration expenses of $30.3 million in 2002, compared to $7.3 million in 2001. Corporate Center charges in 2001 were low as global functions were just being established to prepare for the IPO in late 2001.

Liquidity and capital resources

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

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

Liquidity requirements

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

Interest on debt and short-term borrowings was $16.6 million for the first half of 2004, $31.0 million in 2003, $16.4 million in 2002 and $24.2 million in 2001. We had no scheduled debt repayments in 2003, 2002 or 2001. The carrying value of our outstanding debt was $390.7 million at June 30, 2004, $390.6 million at December 31, 2003, $390.4 million at December 31, 2002 and $197.0 million at December 31, 2001.

Liquidity sources

Our principal liquidity sources consist of premiums, fees, investment income, proceeds from the sale and maturity of investment securities and borrowings. Our business units pay reinsurance and insurance claims and benefits and operating expenses predominantly from their own cash resources. Most of our debt is funded by our businesses from their own cash resources. We have generated combined net cash inflows from operating activities over the last three years. As a reinsurer, our future cash flows are inherently difficult to predict. We do not expect the Funds Withheld Asset to have a material impact on our liquidity, as we will not be required to access our own liquidity sources for claims under the Quota Share Retrocession Agreement. Under the Quota Share Retrocession Agreement, Zurich Insurance Company (ZIC) and Zurich International Bermuda Ltd. (ZIB) have the right to prepay to us, in whole or in part, the balance of the Funds Withheld Asset. For more detail on cash flows see Capital requirements.

Dividends from subsidiaries

As a holding company, Converium 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 it may pay to its shareholders. Converium is subject to legal restrictions on the amount of dividends it may pay to its shareholders. Similarly, the company laws of countries in which our entities operate may restrict the amount of dividends payable by such entities to their parent companies. In addition, the ability of our entities to pay dividends may be restricted or influenced by minimum capital and solvency requirements that are imposed by regulators in the countries in which the entities operate. We do not consider current legal and regulatory dividend constraints to be a material limitation on the ability of Converium AG to pay dividends to Converium Holding AG.

In Switzerland, insurance supervisory regulations require entities to fund their statutory reserves at a minimum level of 20% of net profits until the statutory reserve fund reaches an amount equal to 50% of the statutory share capital, including freely disposable reserves, if any. For regulations applicable to Converium Holding AG, see Regulation.

In the United States, restrictions on payment of dividends are imposed by the Insurance Commissioner of the state of domicile. As to CRNA, dividends are payable only with prior approval of the Insurance Commissioner of the state of domicile.

In Germany, the minimum amount of statutory capital reserves required is 10% of the nominal value of the common stock. If the 10% criterion is met, dividends of up to 100% of current year s surplus can be paid. If the 10% criterion is not met, dividends are limited to a maximum of 95% of current year s surplus less the prior year loss carryover. Under German law, an entity s executive board in consent with the supervisory board have the authority to reclassify up to 100% of the current year surplus to retained earnings, thereby not allowing dividends to be paid.

Debt outstanding

As of June 30, 2004, we had total debt outstanding with a principal amount of $400.0 million and a carrying amount of $390.7 million. We had no scheduled debt repayments in 2003, 2002 or 2001.

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

In July 2003, Converium AG and certain subsidiaries obtained a $900 million unsecured syndicated letter of credit facility from various banks led by ABN AMRO Bank N.V., Barclays Capital and Commerzbank Aktiengesellschaft. The facility is guaranteed by Converium AG and will be used primarily to collateralize third-party claims related to our underwriting business. As of June 30, 2004, we had outstanding letters of credit of $583.2 million under the facility. In addition to the letter of credit facility other irrevocable letters of credit of $416.1 million were outstanding at June 30, 2004 to secure certain assumed reinsurance contracts. Investments of $451.7 million are pledged as collateral related to certain of these letters of credit.

As a result of the second quarter 2004 developments, our shareholders equity declined significantly. The letter of credit facility contains financial covenants that, among other things, require us to maintain a ratio of debt to equity below specified levels. We are currently compliant with the financial covenants contained in the letter of credit facility.

The letter of credit facility also contains ratings triggers which, as a result of the ratings downgrade by Standard & Poor s, has required us to post collateral in order to secure total commitments under the credit facility. The collateral, consisting of interests in certain of our securities accounts valued in the aggregate at approximately $1.1 billion, was pledged pursuant to a Deed of Pledge Agreement on September 17, 2004. In order to meet expected additional requirements to post collateral we intend to enter into a new letter of credit facility; however, there can be no assurance that we will be able to enter into a new facility on reasonable terms if at all. Our current letter of credit facility contains restrictions with respect to posting additional collateral.

See Background and reasons for the Offering.

Capital requirements

As of June 30, 2004, we had total shareholders equity of $1,349.2 million ($33.90 per share) compared to $2,083.3 million ($52.38 per share) as of December 31, 2003, a decrease of

$734.1 million ($18.48 per share). This decrease is mainly comprised of the 2004 net loss of $594.3 million, a reduction in net unrealized gains on investments, net of taxes of $86.0 million, due to an increase in interest rates, and $47.9 million of dividends to shareholders paid in the second quarter of 2004.

See Background and reasons for the Offering for a discussion of the capital management measures we intend to implement to strengthen our capitalization.

As of December 31, 2003, we had total shareholders equity of $2,083.3 million ($52.38 per share) compared to $1,738.0 million ($43.55 per share) as of December 31, 2002, an increase of $345.3 million ($8.83 per share). This increase is mainly comprised of net income of $185.1 million and an increase in net unrealized gains on investments, net of taxes, of $198.6 million, offset by dividends to shareholders of $29.9 million.

Cash flows

The following table shows our cash flows for the six months ended June 30, 2004 and 2003 and for the years ended December 31, 2003, 2002 and 2001.

	Six months ended June 30,		Year ended December 31,		
	2004	**2003**	**2003**	**2002**	**2001**
			($ in millions)		
Cash flow data:					
Cash provided by operating activities	$ 442.5	$ 572.6	$ 1,265.3	$ 870.4	$ 311.5
Net cash used in investing activities	(592.9)	(628.4)	(1,327.8)	(1,093.3)	(627.3)
Net cash (used in) provided by financing activities	(52.8)	(36.2)	(47.2)	179.0	627.8
Effect of exchange rate changes on cash and cash equivalents	2.6	9.9	29.0	(15.1)	(13.4)
Change in cash and cash equivalents	(200.6)	(82.1)	(80.7)	(59.0)	298.6
Cash and cash equivalents, beginning of period	280.8	361.5	361.5	420.5	121.9
Cash and cash equivalents, end of period	$ 80.2	$ 279.4	$ 280.8	$ 361.5	$ 420.5

Six months ended June 30, 2004 and 2003

We had cash and cash equivalents of $80.2 million as of June 30, 2004 compared to $280.8 million as of December 31, 2003. Our cash position at June 30, 2004 decreased due to the deployment of a substantial portion of cash into investments in fixed maturity securities.

Our cash flows from operating activities result principally from premiums, collections on losses recoverable and investment income, net of paid losses, acquisition costs and underwriting expenses. Our cash provided by operating activities was $442.5 million for the six months ended June 30, 2004 compared to $572.6 million for the six months ended June 30, 2003, a decrease of $130.1 million, or 22.7%. This decrease was due to the slowing down of new business growth as a result of active cycle management. This decrease also reflects increased claims payment activity.

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

Years ended December 31, 2003, 2002 and 2001

We held cash and cash equivalents of $280.8 million at December 31, 2003 compared to $361.5 million at December 31, 2002, representing a decrease of $80.7 million. Our cash balances at the end of both periods include a relatively high level of cash held by our investment managers for duration matching purposes.

Our cash flows from operating activities result principally from premiums, collections on losses recoverable and investment income, net of paid losses, acquisition costs and underwriting expenses. Our cash provided by operating activities was $1,265.3 million for the year ended December 31, 2003 compared to $870.4 million and $311.5 million for the years ended December 31, 2002 and 2001, respectively. This represented increases of $394.9 million, or 45.4% in 2003 and $558.9 million, or 179.4% in 2002. The increase in 2003 was driven by improved operating performance, including strong premium growth. The 2002 cash flow reflects a $136.7 million reimbursement of reinsurance recoverables in dispute received in the second quarter of 2002. Cash provided by financing activities in 2002 was primarily due to the issuance of our guaranteed subordinated notes. Cash provided by financing activities in 2001 was primarily due to a capital contribution we received from Zurich Financial Services.

As a reinsurer, our future cash flows are inherently difficult to predict. This uncertainty is particularly pronounced with respect to some coverage we provide, such as long-tail lines, where claims information emerges over a relatively long period of time, and property catastrophe coverage, which generally produces losses of low frequency but high severity. Accordingly, it is not possible to predict our future cash flows from operating activities with precision. As a consequence, our cash flows from operating activities may fluctuate, perhaps significantly, from quarter to quarter and from year to year. For example, our cash flows were adversely affected by the events of September 11th. We expect that a significant portion of the cash outflows relating to these events will occur over a period of several years, mainly because of the time involved to determine with accuracy the losses of the primary insurance companies and reporting these losses to reinsurers. Accordingly, our cash flow and investment income will be impacted gradually over the next few years.

We believe that our capital, liquidity and borrowing ability are sufficient to support our business and meet our present liquidity requirements.

New accounting standards

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

Statement of Position (SOP) 03-1, Accounting and Reporting by Insurance Enterprises for Certain Non-Traditional Long-Duration Contracts and for Separate Accounts

In July 2003, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued SOP 03-1, Accounting and Reporting by Insurance Enterprises for Certain Non-Traditional Long-Duration Contracts and for Separate Accounts . The SOP is effective for financial statements for fiscal years beginning after December 15, 2003, with earlier adoption encouraged. The SOP may not be applied retroactively to prior years financial statements, and initial application should be as of the beginning of an entity s fiscal year. This SOP did not have a material impact on Converium s consolidated financial condition or results of operations. See Note 6 to our June 30, 2004 consolidated interim financial statements for additional information.

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

In December 2003, the FASB issued SFAS 132 (revised 2003), Employers Disclosures about Pensions and other Postretirement Benefits an amendment of FASB Statements No. 87, 88 and 106 . This Statement retains the disclosures required by SFAS 132, Employers Disclosure about Pensions and Other Postretirement Benefits an amendment of FASB Statements No. 87, 88, and 106 , which standardized the disclosure requirements for pensions and other postretirement benefits to the extent practicable and requires additional information on changes in the benefit obligations and fair values of plan assets. Additional disclosures have been added in response to concerns expressed by users of financial statements; those disclosures include information describing the types of plan assets, investment strategy, measurement date(s), plan obligations, cash flows and components of net periodic benefit cost recognized during interim periods. This statement is effective for financial statements with fiscal years ending after December 15, 2003, with interim-period disclosures effective for interim periods beginning after December 15, 2003. See Note 8 to our June 30, 2004 consolidated interim financial statements for additional information.

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

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities an interpretation of ARB No. 51 (FIN 46), which requires an enterprise to assess whether consolidation of an entity is appropriate based upon its interests in a variable interest entity (VIE). A VIE is an entity in which the equity investors do not have the characteristics of a controlling financial interest, or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The initial determination of whether an entity is a VIE shall be made on the date at which an enterprise becomes involved with the entity. An enterprise shall consolidate a VIE if it has a variable interest that will absorb a majority of the VIE s expected losses if they occur, receive a majority of the entity s expected residual returns if they occur, or both. FIN 46 was effective immediately for new VIEs established or purchased subsequent to January 31, 2003. The adoption of FIN 46 did not have a material impact on Converium s consolidated financial condition or results of operations, as there were no VIEs identified which required consolidation.

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

Converium has performed an evaluation of the catastrophic protection counterparty agreement with Helix 04 Limited, issued in the second quarter of 2004, to establish whether Converium is the primary beneficiary of the VIE which issued the securities. Management has concluded that

Converium is not the primary beneficiary of the VIE. See Note 7 to our June 30, 2004 consolidated interim financial statements.

Tabular disclosure of contractual obligations

The following table shows our contractual obligations due by period as of December 31, 2003.

	Payment due by period				
($ thousands)	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Long-Term Debt Obligations Principal	$ 400,000	-	-	-	$ 400,000
Long-Term Debt Obligations Interest	763,500	30,750	61,500	61,500	609,750
Operating Lease Obligations	93,200	12,600	24,800	24,600	31,200
Total	$ 1,256,700	$ 43,350	$ 86,300	$ 86,100	$ 1,040,950

The above table excludes estimated future cash flows for losses and loss adjustment expenses, as there is typically no minimum contractual obligation associated with insurance and reinsurance contracts, and the amount and timing of the cash outflows are uncertain. For further detail on our long-term debt principal and interest payments, see Note 10 of our 2003 consolidated financial statements. For further detail on our operating lease payments, see Note 19 of our 2003 consolidated financial statements.

Quantitative and qualitative disclosures about market risk

Overview

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

We consider our market risk to consist primarily of our exposure to adverse market value changes in our assets, across both short and long-term periods. Our market risk includes multiple sources of market price fluctuations, including 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 (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. 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 generated by our investment assets. 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.

Sensitivity analyses

As of June 30, 2004, approximately 89.7% of our investment securities were 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, U.S. GAAP accounting practices typically result in more volatile assets than liabilities. This, in turn, may lead us to report more volatile shareholders equity on our balance sheet than we believe may economically be the case.

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

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

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

Equity market risk

As of June 30, 2004, we held approximately 9.9% of our invested assets in equity securities which are subject to equity market risk (excluding our investment of $82.7 million in PSP Swiss Property AG, an indirect real estate investment included in equity securities). 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 June 30, 2004, would be a pre-tax reduction in net assets of $78.0 million, which represents approximately 5.8% of our total shareholders equity as of June 30, 2004. We have taken steps in order to reduce our sensitivity to equity market risk which would reduce our exposure in a 10% decline by nearly $50.0 million. See Background and reasons for the Offering Concurrent measures to de-risk our business Reduce investment portfolio risk.

Our strategic asset allocation combines a large percentage of investments in high-quality bonds with investments in equity securities. This allocation seeks to generate strong positive returns with acceptable risks over the long term, while protecting against excessive risks in periods of severe market distress. During a severe stock market correction associated with a weak economy, recession or depression, losses in the fair market value of equity securities tend to be partially offset by gains on high-quality bonds arising from falling interest rates. We seek to match our investments with our underlying liabilities in the countries and territories in which we operate. Consequently, we strive to keep our equity portfolio diversified so as to provide a broad exposure across major sectors of individual stock markets. We restrict our maximum investment in any one equity security or equity sector by reference to local benchmarks and insurance regulations.

Interest rate risk

Our investments are subject to interest rate risks. Our interest rate risk is concentrated in the United States and Europe and is highly sensitive to many factors, including governmental monetary policies and domestic and international economic and political conditions. The estimated potential exposure of our consolidated net assets to a one percentage point increase of the yield curve would be a pre-tax reduction in net assets of $180.0 million, which represents approximately 13.3% of our total shareholders equity as of June 30, 2004. This reduction would be offset by higher investment income earned on newly invested funds. We have taken steps in order to reduce our sensitivity to interest rate risk. See Background and reasons for the Offering Concurrent measures to re-risk our business Reduce investment portfolio risk.

To protect our balance sheet from a possible rise of the yield curves, we stabilized the modified duration of our bond portfolio, excluding held-to-maturity securities, at 3.8. Additionally, we created a portfolio of held-to-maturity government bonds totalling $585.6 million (11.0% of our fixed maturities portfolio, excluding the Funds Withheld Asset).

As of June 30, 2004, all of our debt outstanding was at fixed interest rates. Because we account for debt at amortized cost, not fair value, an increase in interest rates would have no effect on our reported interest expense or carrying amount of indebtedness.

Foreign exchange risk

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

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

The table below shows the approximate effect on shareholders equity of instantaneous adverse movements in currency exchange rates of 10% on our major currency exposures at December 31, 2003 against the U.S. dollar.

	Adverse exchange rate movement against the U.S. dollar	Approximate decline in shareholders equity
Euro	10%	$ 42 million
Swiss franc	10%	$ 35 million
British pound	10%	$ 3 million

As of June 30, 2004 and December 31, 2003, we had unrealized cumulative translation gains of $109.4 million and $116.1 million, respectively.

Our reported premiums, losses and expenses are also affected by exchange rate fluctuations. Business written in currencies other than the U.S. 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 U.S. 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, 2003:

	U.S. Dollar	Euro	U.K. pound	Swiss franc	Japanese yen	Other	Total
Income statement							
Net premiums written	52%	22%	13%	1%	2%	10%	100%
Net investment income	71%	14%	12%	1%	-	2%	100%
Losses, loss adjustment expenses and life benefits	58%	20%	13%	-	1%	8%	100%
Underwriting acquisition costs	50%	23%	14%	-	3%	10%	100%
Other operating and administration expenses	39%	11%	4%	45%	-	1%	100%
Interest expense	100%	-	-	-	-	-	100%
Balance sheet							
Total invested assets	66%	15%	13%	3%	-	3%	100%
Reinsurance assets	84%	6%	8%	2%	-	-	100%
Loss and loss adjustment expenses, gross	61%	17%	16%	1%	1%	4%	100%
Unearned premiums, gross	60%	12%	19%	1%	1%	7%	100%
Future life benefits, gross	49%	47%	-	2%	-	2%	100%
Debt	100%	-	-	-	-	-	100%

Business

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

Overview

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

We offer a broad range of traditional non-life and life reinsurance products as well as innovative non-traditional solutions to help our target clients to efficiently manage capital and risks. In non-life reinsurance, our lines of business are general third party liability, motor, personal accident (assumed from non-life insurers), property, agribusiness, aviation & space, credit & surety, engineering, marine & energy, professional liability & other special liability and workers compensation. In Life & Health Reinsurance, our lines of business are life & disability reinsurance, including quota share, surplus coverage and financing contracts, and accident & health.

We underwrite reinsurance both directly with ceding companies and through intermediaries, giving us the flexibility to pursue business in accordance with our ceding companies preferred reinsurance purchasing method. In 2003, 58% of our gross premiums written were written through intermediaries and 42% were written on a direct basis.

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

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

In order to secure the strong capitalization needed to successfully execute our strategy and protect the interests of our shareholders, we have taken steps to de-risk our business. See Background and reasons for the Offering Concurrent measures to de-risk our business and Discontinuation of North American business.

Strategy

Our revised strategy

The recent adverse developments with respect to reserves and our ratings require that we re-evaluate our global strategy to maximize shareholder value. Going forward, we will focus on markets in which we believe our franchise remains strong, i.e., Europe, Asia-Pacific and Latin America. In general, we will focus on small to medium-sized clients who have limited access to capital markets and rely on additional services from their reinsurers, such as reinsurance structuring advice and risk modelling capabilities. We will seek to reinforce and develop our joint venture relationships such as GAUM in global aviation insurance, Satec in global space insurance, MDU in U.K. medical malpractice insurance and our corporate name at Lloyd s. In addition, we will adjust our cost base to reduced top-line in order to remain cost-competitive. See Background and Reasons for the Offering The case for recapitalizing Converium.

Our vision

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

Our mission

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

- Sustainable value growth for our shareholders;
- Excellent service for our customers and intermediaries;
- A fulfilling work environment for our employees; and
- A spirit of shared responsibility within our community.

Our core business

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

Standard Property & Casualty Reinsurance

The Standard Property & Casualty Reinsurance segment comprises the general third party liability, motor, personal accident (assumed from non-life insurers) and property lines of business. The Standard Property & Casualty Reinsurance segments s strategy is to continue to establish Converium as a core player in the international reinsurance marketplace. It is intended that this will provide the market presence necessary to gain access to new and profitable business, to establish broad geographical diversification of assumed risks and to continue to contribute to earnings and cash flows. In doing so, we remain committed to underwriting discipline to achieve the best possible shareholder return, which is only possible through cycle management.

Specialty Lines

The Specialty Lines segment includes the agribusiness, aviation & space, credit & surety, engineering, marine & energy, professional liability & other specialty liability and workers compensation lines of business. The Specialty Lines segment s strategy is to develop specialty businesses in which Converium can position itself as a market leader and can effectively leverage its intellectual assets in risk analysis, structuring, product design and risk modeling. We focus on specialty businesses because we believe that Converium possesses superior underwriting and structuring capabilities in certain areas, which is both a key driver of profitability as well as an effective barrier to entry in certain business lines. Wherever possible, Converium seeks to develop preferred access to specialty lines through strong relationships, joint ventures or participations in entities that enjoy a unique position: very often such entities have strong control over the origination of their businesses, and do not have to compete for it in annual insurance or reinsurance auctions.

Examples of the approach by which we seek to develop preferred access to these businesses are our joint venture with MDU in the U.K., our participation in GAUM and our shares in its pools and our participation in Satec and our share in its pool, as well as many strong relationships with specialized monoline insurers. Also, Converium Underwriting Ltd., a Lloyd s Corporate Member, has successfully provided third-party capacity to certain specialist Lloyd s syndicates. Some specialty lines are subject to cyclical pricing fluctuations. In these, Converium remains committed to underwriting discipline to achieve the best possible shareholder return, which is only possible through cycle management.

Life & Health Reinsurance

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

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

Guiding principles for our business

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

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

To optimize our overall risk profile, our business portfolio is balanced and diversified by line of business, by region and by duration;

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

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

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

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

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

Risk management. We continue to maintain, develop and implement a risk management culture, including underwriting, pricing, reserving, asset & liability management and operational risk management, by efficiently balancing upside and downside potentials, based on appropriate capital allocation.

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

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

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

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

Our business

We are an international professional reinsurer, which offers a broad range of traditional non-life and life reinsurance products as well as innovative non-traditional solutions to help our clients manage capital and risk. Our principal lines of non-life reinsurance include general third party liability, motor, personal accident, property, agribusiness, aviation & space, credit & surety, engineering, marine & energy, professional liability & other special liability and workers compensation. The principal life reinsurance products are ordinary life & disability reinsurance, including quota share, surplus coverage and financing contracts, and accident & health.

In addition to our offices in Cologne, New York, Zug and Zurich, we have branch offices in Bermuda, Labuan, London, Milan, Paris, Singapore and Sydney, as well as marketing offices in Buenos Aires, Kuala Lumpur, London, Mexico City, Sao Paulo and Tokyo. In addition, we have administrative offices in Stamford, Connecticut. We have a sub-holding company in London and a finance subsidiary in Luxembourg.

Our business is organized around three operating segments: Standard Property & Casualty Reinsurance, Specialty Lines and Life & Health Reinsurance, which are based principally on lines of business. In addition to the three segments financial results, the Corporate Center carries certain administration expenses, such as costs of the Board, the GEC and other global functions. To measure the financial performance of our operating segments, we define segment income as income before other income (loss), interest expense, impairment/ amortization of goodwill, restructuring costs and income taxes.

The table below presents, by segment, the distribution of our premiums written and income (loss) for the six months ended June 30, 2004 and for the year ended December 31, 2003. For additional information regarding the results of our operating segments, see Management s discussion and analysis of financial condition and results of operations and the Schedule of Segment Data on pages F-6 and F-28 of the financial statements.

	Six months ended June 30, 2004					Year ended December 31, 2003				
	Gross premiums written		Net premiums written		Segment income (loss)	Gross premiums written		Net premiums written		Segment income (loss)
	$ in millions	% of total	$ in millions	% of total	$ in millions	$ in millions	% of total	$ in millions	% of total	$ in millions
Business segment:										
Standard Property & Casualty Reinsurance	$1,076.1	44.6%	$ 988.5	44.0%	$ 8.9	$1,795.4	42.5%	$1,645.6	43.0%	$183.7
Specialty Lines	1,070.4	44.4	1,015.6	45.2	(185.7)	2,022.0	47.9	1,811.9	47.3	115.2
Life & Health Reinsurance	264.7	11.0	243.3	10.8	5.9	406.5	9.6	369.5	9.7	(11.9)
Corporate Center	-	-	-	-	(16.9)	-	-	-	-	(34.3)
Total	$2,411.2	100.0%	$2,247.4	100.0%	(187.8)	$4,223.9	100.0%	$3,827.0	100.0%	252.7
Other income					2.9					2.7
Interest expense					(16.6)					(31.0)
Impairment of goodwill					(94.0)					-
Income tax expense					(298.8)					(39.3)
Net (loss) income					$(594.3)					$185.1

The table below presents the geographic distribution of our gross premiums written for the six months ended June 30, 2004 and for the years ended December 31, 2003, 2002 and 2001, based on the location of the ceding companies.

	Six months ended June 30,		Year ended December 31,					
	2004		2003		2002		2001	
	$ in millions	% of total	$ in millions	% of total	$ in millions	% of total	$ in millions	% of total
United Kingdom*	$ 589.9	24.5%	$1,083.0	25.6%	$ 910.4	25.8%	$ 560.1	19.4%
Germany	245.3	10.2	286.9	6.8	176.1	5.0	179.4	6.2
France	90.3	3.7	160.5	3.8	106.9	3.0	89.8	3.1
Italy	88.4	3.7	131.2	3.1	84.0	2.4	62.7	2.2
Rest of Europe	287.2	11.9	338.8	8.0	224.0	6.3	199.5	6.9
Far East	134.1	5.6	266.4	6.3	191.9	5.4	113.7	4.0
Near and Middle East	73.2	3.0	134.3	3.2	124.3	3.5	99.8	3.5
North America	822.2	34.1	1,671.1	39.6	1,553.2	43.9	1,431.5	49.7
Latin America	80.6	3.3	151.7	3.6	165.0	4.7	144.7	5.0
Total	$2,411.2	100.0%	$4,223.9	100.0%	$3,535.8	100.0%	$2,881.2	100.0%

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

The table below presents the distribution of our net premiums written by line of business for the six months ended June 30, 2004 and the years ended December 31, 2003, 2002 and 2001.

	Six months ended June 30,		Year ended December 31,					
	2004		2003		2002		2001	
	$ in millions	% of total	$ in millions	% of total	$ in millions	% of total	$ in millions	% of total
Standard Property & Casualty Reinsurance								
General third party liability	$ 218.2	9.7%	$ 335.0	8.8%	$ 337.7	10.2%	$ 271.6	10.9%
Motor	367.3	16.3	488.5	12.8	453.5	13.7	436.9	17.6
Personal accident (assumed from non-life insurers)	25.8	1.2	35.1	0.9	35.0	1.1	21.1	0.8
Property	377.2	16.8	787.0	20.5	626.0	18.7	550.4	22.3
Total Standard Property & Casualty Reinsurance	988.5	44.0	1,645.6	43.0	1,452.2	43.7	1,280.0	51.6
Specialty Lines								
Agribusiness	56.9	2.5	90.0	2.4	22.0	0.7	32.0	1.3
Aviation & space	189.7	8.4	341.8	8.9	365.3	11.0	182.8	7.4
Credit & surety	125.7	5.6	236.0	6.2	200.1	6.0	178.5	7.2
Engineering	74.8	3.3	139.9	3.7	116.1	3.5	81.5	3.3
Marine & energy	56.6	2.5	95.3	2.5	94.3	2.8	73.6	3.0
Professional liability & other special liability	366.2	16.3	598.0	15.5	536.9	16.2	241.2	9.6

Workers compensation	145.7	6.5	310.9	8.1	220.6	6.6	178.8	7.2
Total Specialty Lines	1,015.6	45.1	1,811.9	47.3	1,555.3	46.8	968.4	39.0
Total non-life reinsurance	2,004.1	89.1	3,457.5	90.3	3,007.5	90.5	2,248.4	90.6
Life & Health Reinsurance								
Life & disability	121.9	5.5	162.1	4.2	154.7	4.7	136.4	5.5
Accident & health	121.4	5.4	207.4	5.5	160.0	4.8	97.8	3.9
Total Life & Health Reinsurance	243.3	10.9	369.5	9.7	314.7	9.5	234.2	9.4
Total	$2,247.4	100.0%	$3,827.0	100.0%	$3,322.2	100.0%	$2,482.6	100.0%

Types of reinsurance

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

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

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

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

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

Non-traditional reinsurance involves structured reinsurance solutions tailored to meet individual client strategic and financial objectives. Both non-life reinsurance and life reinsurance can be written on a structured/ finite basis. Often these reinsurance solutions provide reinsurance protection across a company s entire insurance portfolio. Because of the constantly changing industry and regulatory framework, as well as the changing market demands facing insurance companies, the approaches utilized in structured/ finite programs are constantly evolving and will continue to do so.

We underwrite our product lines on a non-proportional and proportional basis, as well as on a structured/ finite basis. We integrate our facultative specialists with our underwriting professionals with treaty expertise, organizing them as focused teams around client relationship management and lines of business. We do not distinguish between treaty and facultative reinsurance, but rather between proportional and non-proportional underwriting and lines of business.

The table below presents the distribution of our gross premiums written by type of reinsurance for the six months ended June 30, 2004 and the years ended December 31, 2003, 2002 and 2001.

	Six months ended June 30,		**Year ended December 31,**					
	2004		**2003**		**2002**		**2001**	
	$ millions	**% of total**	**$ millions**	**% of total**	**$ millions**	**% of total**	**$ millions**	**% of total**
Proportional	$1,805.9	74.9%	$2,609.6	61.8%	$2,107.2	59.6%	$1,757.2	61.0%
Non-proportional	378.5	15.7	1,155.5	27.3	925.2	26.2	798.6	27.7
Structured/ finite	226.8	9.4	458.8	10.9	503.4	14.2	325.4	11.3
Total	$2,411.2	100.0%	$4,223.9	100.0%	$3,535.8	100.0%	$2,881.2	100.0%

Proportional and non-proportional

We offer traditional reinsurance products on both a proportional and non-proportional basis in all our lines of business. Our non-proportional business includes property, motor, aviation & space and professional liability & other special liability lines, to complement our established market position in non-proportional liability. The growth in our proportional business has been mainly due to an increase in proportional property, aviation & space and motor as well as opportunities in proportional agribusiness. In 2004, we saw increased premium writings from proportional business, especially in general third party liability and professional liability & other special liability.

We believe that clients and brokers actively seek our input in the evaluation and structuring of businesses with unique or difficult risk characteristics. We believe this is a result of our innovative approach, organizational resources and financial strength. We have developed integrated teams of professionals with significant treaty and individual risk, or facultative, expertise which support the professionals we have in our branch network. We offer facultative products to a limited extent and only to a selected number of clients on a proportional and non-proportional basis. We deploy our international specialty lines experts and local specialists to design solutions to address our clients risk management needs.

Structured/ finite

Structured/ finite reinsurance solutions are marketed by our Standard Property & Casualty Reinsurance, Specialty Lines and Life & Health Reinsurance segments. Our structured/ finite specialists focus on providing clients with innovative financial solutions for their risk management and other financial needs, primarily through reinsurance products. Whether working directly with the client or through a broker, we seek to develop client-specific solutions after spending time with the client to understand its business needs.

We believe that to succeed in providing our clients with the solutions they need, we must take a comprehensive, iterative approach in our analysis. To accomplish this goal, we deploy teams that include underwriting, tax, accounting, actuarial and banking experts who can effectively address all aspects of the solution. We believe this multi-disciplinary approach distinguishes us from our peers and enables us to craft solutions that are both creative and viable in light of the specific needs of the ceding company. Furthermore, our Risk Strategies personnel draw upon our international capabilities to marshal the necessary expertise and resources in any market.

Some structured/finite reinsurance markets are rating-sensitive, and due to our recent downgrades we expect written premium volume in this area to reduce significantly. However, we believe that our clients will continue to value our advice in structuring and developing structured/finite reinsurance solutions to complement their traditional reinsurance programs.

Non-life operations

Overview

We operate our non-life reinsurance business through our two non-life segments: Standard Property & Casualty Reinsurance and Specialty Lines. Our non-life operations represent approximately 90% of our total gross premiums written.

The following table sets forth our non-life reinsurance gross premiums written by type and line of business for the six months ended June 30, 2004 and the years ended December 31, 2003, 2002 and 2001:

	Six months ended June 30,		Year ended December 31,					
	2004		2003		2002		2001	
	$ millions	% of total	$ millions	% of total	$ millions	% of total	$ millions	% of total
Proportional								
General third party liability	$ 154.3	9.9%	$ 217.9	9.7%	$ 194.5	11.0%	$ 251.2	16.8%
Motor	291.1	18.7	373.6	16.6	251.2	14.2	345.6	23.2
Personal accident (assumed from non-life insurers)	22.2	1.4	27.3	1.2	31.9	1.8	19.6	1.3
Property	317.5	20.3	503.0	22.4	423.5	24.0	288.5	19.3
Agribusiness	48.2	3.1	83.6	3.7	3.5	0.2	11.4	0.8
Aviation & space	217.4	13.9	417.7	18.6	310.8	17.6	176.3	11.8
Credit & surety	105.1	6.7	181.8	8.1	133.7	7.6	114.0	7.6
Engineering	75.9	4.9	141.5	6.3	118.8	6.7	82.8	5.6
Marine & energy	50.5	3.2	78.5	3.5	81.5	4.6	56.3	3.8
Professional liability & other special liability	238.9	15.3	193.6	8.6	194.7	11.0	111.6	7.5
Workers compensation	40.6	2.6	29.3	1.3	22.6	1.3	34.0	2.3
Total Proportional	$1,561.7	100.0%	$2,247.8	100.0%	$1,766.7	100.0%	$1,491.3	100.0%
Non-proportional								
General third party liability	$ 44.9	12.5%	$ 137.9	12.6%	$ 136.0	15.0%	$ 115.8	14.7%
Motor	90.5	25.3	138.5	12.7	123.3	13.6	106.9	13.5
Personal accident (assumed from non-life insurers)	3.6	1.0	7.7	0.7	3.1	0.3	1.3	0.2
Property	116.7	32.6	354.6	32.4	248.2	27.6	274.8	34.6
Agribusiness	2.0	0.5	14.9	1.4	18.5	2.0	20.7	2.6
Aviation & space	11.4	3.2	67.8	6.2	97.4	10.7	49.6	6.3
Credit & surety	6.5	1.8	39.9	3.7	35.6	3.9	17.6	2.2
Engineering	1.4	0.4	3.4	0.3	2.1	0.2	2.9	0.4
Marine & energy	7.4	2.1	22.4	2.1	18.8	2.1	22.6	2.9
Professional liability & other special liability	65.7	18.4	278.9	25.5	213.5	23.5	147.4	18.7
Workers compensation	7.9	2.2	25.9	2.4	10.1	1.1	30.5	3.9
Total Non-proportional	$ 358.0	100.0%	$1,091.9	100.0%	$ 906.6	100.0%	$ 790.1	100.0%

	Six months ended June 30,		Year ended December 31,					
	2004		2003		2002		2001	
	$ millions	% of total	$ millions	% of total	$ millions	% of total	$ millions	% of total
Structured/ finite								
General third party liability	$ 31.7	14.0%	$ 33.2	6.9%	$ 28.0	5.4%	$ 69.6	20.3%
Motor	-	-	-	-	100.2	19.3	4.1	1.2
Personal accident (assumed from non-life insurers)	-	-	-	-	-	-	-	-
Property	3.7	1.6	1.6	0.3	2.5	0.5	18.2	5.3
Agribusiness	-	-	-	-	-	-	-	-
Aviation & space	-	-	-0.2	-	-	-	1.4	0.4
Credit & Surety	23.9	10.5	39.6	8.3	46.8	9.0	59.7	17.4
Engineering	-	-	-	-	-	-	-	-
Marine & energy	-	-	-	-	-	-	-	-
Professional liability & other special liability	68.5	30.2	149.7	31.3	160.0	30.8	13.1	3.8
Workers compensation	99.0	43.7	253.8	53.2	181.8	35.0	177.3	51.6
Total Structured/ finite	$ 226.8	100.0%	$ 477.7	100.0%	$ 519.3	100.0%	$ 343.4	100.0%
Total								
General third party liability	$ 230.9	10.7%	$ 389.0	10.2%	$ 358.5	11.2%	$ 436.6	16.6%
Motor	381.6	17.8	512.1	13.4	474.7	14.9	456.6	17.3
Personal accident (assumed from non-life insurers)	25.8	1.2	35.0	1.0	35.0	1.1	20.9	0.8
Property	437.9	20.4	859.2	22.5	674.2	21.1	581.5	22.2
Agribusiness	50.2	2.3	98.5	2.6	22.0	0.7	32.1	1.2
Aviation & space	228.8	10.7	485.3	12.7	408.2	12.8	227.3	8.7
Credit & Surety	135.5	6.3	261.3	6.8	216.1	6.8	191.3	7.3
Engineering	77.3	3.6	144.9	3.8	120.9	3.8	85.7	3.3
Marine & energy	57.9	2.7	100.9	2.6	100.3	3.1	78.9	3.0
Professional liability & other special liability	373.1	17.4	622.2	16.3	568.2	17.8	272.1	10.4
Workers compensation	147.5	6.9	309.0	8.1	214.5	6.7	241.8	9.2
Total	$2,146.5	100.0%	$3,817.4	100.0%	$3,192.6	100.0%	$2,624.8	100.0%

The table below presents the loss, underwriting expense and combined ratios of our non-life reinsurance business both by line of business and type of reinsurance for the six months ended June 30, 2004 and the years ended December 31, 2003, 2002 and 2001. This table represents an aggregation of line of business ratios for our two non-life segments. Subsequent tables present ratios for each non-life segment by line of business and type of reinsurance. Any prior underwriting year development (positive or negative) will affect the ratios of the calendar year in which the activity is recorded.

	Loss, expense and combined ratios											
	Six months ended June 30,			Year ended December 31,								
	2004			2003			2002			2001		
	Loss ratio %	U/W Expense ratio %	Combined ratio(1) %	Loss ratio %	U/W Expense ratio %	Combined ratio(1) %	Loss ratio %	U/W Expense ratio %	Combined ratio(1) %	Loss ratio %	U/W Expense ratio %	Combined ratio(1) %
General third party liability	128.4%	21.4%	149.8%	92.1%	22.1%	114.2%	109.4%	19.0%	128.4%	132.8%	20.0%	152.8%
Motor	96.0	17.8	113.8	86.3	18.4	104.7	84.8	22.8	107.6	83.2	21.8	105.0
Personal accident (assumed from non-life insurers)	69.8	23.8	93.6	68.9	23.1	92.0	69.4	18.1	87.5	94.6	11.2	105.8
Property	37.4	26.8	64.2	46.2	24.8	71.0	52.3	23.8	76.1	84.8	18.1	102.9
Agribusiness	73.5	8.7	82.2	87.0	8.6	95.6	100.9	4.8	105.7	57.0	8.3	65.3
Aviation & space	61.1	17.2	78.3	44.3	15.4	59.7	69.9	13.0	82.9	179.9	21.8	201.7
Credit & surety	67.9	24.7	92.6	59.8	30.2	90.0	64.8	28.8	93.6	113.3	34.2	147.5
Engineering	88.1	24.2	112.3	64.7	29.7	94.4	81.7	21.9	103.6	97.8	24.2	122.0
Marine & energy	70.4	20.8	91.2	73.5	18.6	92.1	86.3	23.3	109.6	99.6	23.0	122.6
Professional liability & other special liability	160.6	21.1	181.7	79.2	26.5	105.7	101.0	19.5	120.5	106.8	31.7	138.5
Workers compensation	92.9	24.3	117.2	114.3	13.0	127.3	61.1	24.3	85.4	73.4	34.3	107.7
Proportional	83.7	23.6	107.3	65.0	25.1	90.1	75.7	24.3	100.0	82.0	31.8	113.8
Non-proportional	133.2	12.1	145.3	84.3	13.1	97.4	80.8	15.6	96.4	121.6	16.4	138.0
Structured/ finite	102.3	18.6	120.9	74.4	27.4	101.8	82.5	19.2	101.7	136.7	-1.6	135.1
Total	93.1	21.4	114.5	71.5	22.0	93.5	78.2	21.1	99.3	99.9	23.4	123.3

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

For an explanation of ratio calculations, please refer to the Schedule of Segment Data on page F-6 of the financial statements.

For an explanation of significant loss activity, see Management s discussion and analysis of financial condition and results of operations.

Standard Property & Casualty Reinsurance

The Standard Property & Casualty Reinsurance segment s strategy is to continue to establish Converium as a core player in the international reinsurance marketplace. It is intended that this will provide the market presence necessary to gain access to new and profitable business, to establish broad geographical diversification of assumed risks, and to continue to contribute to earnings and cash flows. In doing so, we remain committed to underwriting discipline to achieve the best possible shareholder return, which is only possible through cycle management.

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

General third party liability

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

Motor

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

Personal accident (assumed from non-life insurers)

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

Property

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

The following table presents the distribution of net premiums written by our Standard Property & Casualty Reinsurance segment for the six months ended June 30, 2004 and the years ended December 31, 2003, 2002 and 2001.

	Six months ended June 30,		Year ended December 31,					
	2004		2003		2002		2001	
	$ millions	% of total	$ millions	% of total	$ millions	% of total	$ millions	% of total
Standard Property & Casualty Reinsurance								
General third party liability	$218.2	22.0%	$ 335.0	20.4%	$ 337.7	23.2%	$ 271.6	21.2%
Motor	367.3	37.2	488.5	29.7	453.5	31.2	436.9	34.1
Personal accident (assumed from non-life insurers)	25.8	2.6	35.1	2.1	35.0	2.4	21.1	1.6
Property	377.2	38.2	787.0	47.8	626.0	43.2	550.4	43.1
Total standard property & casualty reinsurance	$988.5	100.0%	$1,645.6	100.0%	$1,452.2	100.0%	$1,280.0	100.0%

The following table presents the loss, underwriting expense and combined ratios of our Standard Property & Casualty Reinsurance segment by line of business and type of reinsurance for the six months ended June 30, 2004 and the years ended December 31, 2003, 2002 and 2001.

	Loss, expense and combined ratios											
	Six months ended June 30,			Year ended December 31,								
	2004			2003			2002			2001		
	Loss ratio %	U/W Expense ratio %	Combined ratio(1) %	Loss ratio %	U/W Expense ratio %	Combined ratio(1) %	Loss ratio %	U/W Expense ratio %	Combined ratio(1) %	Loss ratio %	U/W Expense ratio %	Combined ratio(1) %
General third party liability	128.4%	21.4%	149.8%	92.1%	22.1%	114.2%	109.4%	19.0%	128.4%	132.8%	20.0%	152.8%
Motor	96.0	17.8	113.8	86.3	18.4	104.7	84.8	22.8	107.6	83.2	21.8	105.0
Personal accident (assumed from non-life insurers)	69.8	23.8	93.6	68.9	23.1	92.0	69.4	18.1	87.5	94.6	11.2	105.8
Property	37.4	26.8	64.2	46.2	24.8	71.0	52.3	23.8	76.1	84.8	18.1	102.9
Proportional	71.0	25.4	96.4	55.7	26.0	81.7	77.9	27.7	105.6	54.0	35.2	89.2
Non-Proportional	91.0	9.5	100.5	85.8	13.7	99.5	76.8	10.6	87.4	135.6	7.9	143.5
Structured/ Finite	192.4	24.2	216.6	188.2	40.2	228.4	64.0	29.9	93.9	202.5	-47.1	155.4
Total	79.6	22.2	101.8	68.3	22.3	90.6	76.3	22.2	98.5	93.2	19.6	112.8

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

For an explanation of ratio calculations, please refer to the Schedule of Segment Data on page F-6 of the financial statements.

For an explanation of significant loss activity, see Management s discussion and analysis of financial condition and results of operations.

Specialty Lines

The Specialty Lines segment s strategy is to develop specialty businesses in which Converium can position itself as a market leader and can effectively leverage its intellectual assets in risk analysis, structuring, product design and risk modeling. We focus on specialty businesses because we believe that Converium possesses superior underwriting and structuring capabilities in certain areas, which is both a key driver of profitability as well as an effective barrier to entry in certain business lines. Wherever possible, Converium seeks to develop preferred access to specialty lines through strong relationships, joint ventures or participations in entities that enjoy a unique position: very often such entities have strong control over the origination of their businesses, and do not have to compete for it in annual insurance or reinsurance auctions.

Examples of the approach by which we seek to develop preferred access to these businesses are our joint venture with MDU in the U.K., our participation in GAUM and our shares in its pools and our participation in Satec and our share in its pool, as well as many strong relationships with specialized monoline insurers. Also, Converium Underwriting Ltd., a Lloyd s Corporate Member, has successfully provided third-party capacity to certain specialist Lloyd s syndicates. Some specialty lines are subject to cyclical pricing fluctuations. In these, Converium remains committed to underwriting discipline to achieve the best possible shareholder return, which is only possible through cycle management.

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

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

Agribusiness

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

Aviation & space

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

Credit & surety

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

Engineering

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

Marine & energy

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

Professional liability & other special liability

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

Workers compensation

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

The following table presents the distribution of net premiums written by our Specialty Lines segment for the six months ended June 30, 2004 and the years ended December 31, 2003, 2002 and 2001.

	Six months ended June 30,		Year ended December 31,					
	2004		2003		2002		2001	
	$ in millions	% of total	$ in millions	% of total	$ in millions	% of total	$ in millions	% of total
Specialty Lines:								
Agribusiness	$ 56.9	5.6%	$ 90.0	5.0%	$ 22.0	1.4%	$ 32.0	3.3%
Aviation & space	189.7	18.7	341.8	18.8	365.3	23.4	182.8	18.9
Credit & surety	125.7	12.3	236.0	13.0	200.1	12.9	178.5	18.4
Engineering	74.8	7.4	139.9	7.7	116.1	7.5	81.5	8.4
Marine & energy	56.6	5.6	95.3	5.3	94.3	6.1	73.6	7.6
Professional liability & other special liability	366.2	36.1	598.0	33.0	536.9	34.5	241.2	24.9
Workers compensation	145.7	14.3	310.9	17.2	220.6	14.2	178.8	18.5
Total specialty lines	$1,015.6	100.0%	$1,811.9	100.0%	$1,555.3	100.0%	$968.4	100.0%

The following table presents the loss, underwriting expense and combined ratios of our Specialty Lines segment by line of business and type of reinsurance for the six months ended June 30, 2004 and the years ended December 31, 2003, 2002 and 2001.

	Loss, expense and combined ratios											
	Six months ended June 30,			Year ended December 31,								
	2004			2003			2002			2001		
	Loss ratio %	U/W Expense ratio %	Combined ratio(1)% %	Loss ratio %	U/W Expense ratio %	Combined ratio(1) %	Loss ratio %	U/W Expense ratio %	Combined ratio(1) %	Loss ratio %	U/W Expense ratio %	Combined ratio(1) %
Agribusiness	73.5%	8.7%	82.2%	87.0%	8.6%	95.6%	100.9%	4.8%	105.7%	57.0%	8.3%	65.3%
Aviation & space	61.1	17.2	78.3	44.3	15.4	59.7	69.9	13.0	82.9	179.9	21.8	201.7
Credit & surety	67.9	24.7	92.6	59.8	30.2	90.0	64.8	28.8	93.6	113.3	34.2	147.5
Engineering	88.1	24.2	112.3	64.7	29.7	94.4	81.7	21.9	103.6	97.8	24.2	122.0
Marine & energy	70.4	20.8	91.2	73.5	18.6	92.1	86.3	23.3	109.6	99.6	23.0	122.6
Professional liability & other special liability	160.6	21.1	181.7	79.2	26.5	105.7	101.0	19.5	120.5	106.8	31.7	138.5
Workers compensation	92.9	24.3	117.2	114.3	13.0	127.3	61.1	24.3	85.4	73.4	34.3	107.7
Proportional	96.4	21.8	118.2	75.6	24.1	99.7	73.5	20.9	94.4	120.1	27.2	147.3
Non-proportional	215.7	17.1	232.8	82.3	12.4	94.7	86.7	22.9	109.6	89.6	35.7	125.3
Structured/ finite	85.8	17.5	103.3	62.5	26.0	88.5	89.4	15.2	104.6	97.0	25.9	122.8
Total	105.8	20.5	126.3	74.6	21.6	96.2	80.0	20.0	100.0	109.5	28.8	138.3

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

For an explanation of ratio calculations, please refer to the Schedule of Segment Data on page F-6 of the financial statements.

For an explanation of significant loss activity, see Management s discussion and analysis of financial condition and results of operations.

Life & Health Reinsurance

Overview

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

- Life & disability; and
- Accident & health.

We offer these lines of business on an international scale. We primarily conduct our life & disability reinsurance business from Cologne, Germany. In September 1999, we implemented a strategy to substantially grow our life reinsurance business. In addition, we have established branch offices in Milan and Paris, and maintain life representatives in our Buenos Aires office to locally serve the Latin American markets. We also utilize our non-life offices in many parts of the world to facilitate direct contacts with our life and health reinsurance clients.

As a result of these initiatives, our life, disability, accident & health lines written from our European offices have grown significantly in recent years, with our net premiums written increasing from $196.0 million in 2001 to $243.7 million in 2003.

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

- maintaining underwriting discipline and pursuing business that is attractive on a risk-adjusted basis;
- pursuing growth in markets we believe offer attractive opportunities, such as Germany, Italy, France, the Middle East and Latin America;
- maintaining a low expense ratio;
- selectively providing services in certain target markets to build loyalty and attract premiums;
- providing structured/finite solutions; and
- leveraging our capital markets expertise which, among other things, provides us with additional capacity to write business.

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

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

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

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

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

- demutualizations of life insurance companies;
- the increasing importance of non-traditional and more sophisticated life products;
- aging of the population;
- privatization of benefits that used to be provided by governments;
- deregulation and increased competition among primary insurance companies from new entrants, such as banks and other financial services companies; and
- the increasing need for products that reduce the volatility of earnings following the increasing adoption of international accounting standards in many of the markets we serve.

Competition

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

- financial strength;
- expertise, reputation, experience and qualifications of employees;
- local presence;
- client relationships;
- products and services offered;
- premium levels; and
- contract terms and conditions.

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

- Munich Reinsurance Company;
- Swiss Reinsurance Company;
- General Reinsurance Company, a subsidiary of Berkshire Hathaway, Inc.;
- Employers Reinsurance Corporation, a subsidiary of General Electric Company;
- Hannover Re Group, which is majority-owned by the mutual insurance group HDI Haftpflichtverband der Deutschen Industrie;
- Lloyd s syndicates active in the London market;
- companies active in the Bermuda Market, including the PartnerRe Group, XL Capital Ltd., ACE Ltd. and RenaissanceRe Holdings Ltd.;

Everest Reinsurance Company;

Transatlantic Reinsurance Company; and

SCOR.

Non-life underwriting, pricing/ structuring and accumulation control

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

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

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

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

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

We are committed to underwriting for profit. In pricing, our after-tax target return for each line of business is 11% plus the higher of 4% or the local risk-free rate. This translates into a minimum return of 15% on allocated risk-based capital in each market. Meeting these targets requires a consequent management of the underwriting cycle including the avoidance of under-priced business.

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

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

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

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

Our models give us the capability to easily and quickly analyze a contract under numerous structures. This in turn allows us the flexibility to be creative, innovative and responsive in seeking to create a structure that satisfies our profit goals and risk appetite while simultaneously satisfying our clients objectives. Due to our modeling expertise and development of very efficient computational algorithms and simulations, we are able to price different structures promptly. We are able to access our pricing system and databases online and from anywhere around the world.

In order to fully realize the value of this ability, we seek to gain a deep and thorough understanding of the subject business being covered. For most of our business, including all large and complex contracts, actuaries and other technical experts are part of the transaction team. They visit the client, build the models and, jointly with the underwriters, price and structure the transaction. For the remainder of our business, internal actuaries or other experts including engineers, meteorologists, environmental scientists, economists, geologists, seismologists and mathematicians provide the analytic tools for the underwriters use.

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

Non-life claims management

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

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

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

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

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

Life operations underwriting and claims

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

We believe that one of our strengths is our expertise in medical underwriting. We seek to work closely with our clients and, as a value-added service, share this expertise in order to build client loyalty and better understand their risks. Additionally, we maintain a website for the German market that provides information on medical underwriting-related topics which may be accessed and utilized by our ceding companies.

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

Life, accident and disability claims generally are reported on an individual basis by the ceding company. In case of large, difficult or doubtful claims, cedents provide us with all supporting documents. We also investigate claims generally for evidence of misrepresentation in the policy application and approval process. In addition to reviewing and paying claims, we monitor both specific claims and overall claims handling procedures of ceding companies.

We monitor the loss development of our life reinsurance treaties and compare them to our expected returns on a regular basis. In the case of significant deviations, we may seek to negotiate alternative contract provisions, including increased premiums or higher retentions.

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

Catastrophe risk management and protection

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

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

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

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

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

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

Our global monitoring system models loss potentials for storm and earthquake scenarios to help us measure our accumulation of risk by type of peril and geographic region. We perform accumulation analyses continuously during renewal season. We believe that this centralized review helps us monitor and manage our natural catastrophe loss potential and to take remedial action if our accumulations reach unacceptable levels. In addition, our monitoring system serves as the basis for structuring our own reinsurance protection.

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

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

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

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

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

The lack of availability of high credit quality reinsurance protection at competitive prices for California earthquakes, U.S. hurricanes and European windstorms;

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

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

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

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

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

The following table illustrates our catastrophe protections currently in place:

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

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

(2) On a world-wide basis in excess of $100 million.

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

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

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

We estimate our gross loss for each of the recent hurricanes to be less than the Helix 04 activation threshold of $150 million for each such event and therefore we will not file a trigger event request in respect of these losses. See Management s discussion and analysis of financial condition and results of operation Third quarter 2004 developments.

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

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

Retrocessional reinsurance

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

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

- specific coverage for certain property, engineering, marine, aviation, satellite, motor and liability exposures;
- catastrophe coverage for property business;
- casualty clash coverage for potential accumulation of liability from treaties and facultative agreements covering losses arising from the same event or occurrence; and
- aggregate stop-loss protections.

We have established a control procedure whereby our Chief Executive Officer and Chief Technical Officer, along with the other members of our senior executive team, reviews the business purpose for all reinsurance purchases. Our senior executive team, generally our Chief Technical Officer, approves all purchases before they are bound.

Prior to entering into a retrocessional agreement, we analyze the financial strength and rating of each retrocessionaire.

Afterwards, the financial performance and rating status of all material retrocessionaires is monitored.

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. At June 30, 2004, we held $557.6 million in collateral as security under related retrocessional agreements in the form of deposits, securities and/or letters of credit. We are able to access outside capacity for both traditional and non-traditional coverage and therefore are not dependent upon any single retrocessional market.

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

Allowances of $54.6 million and $35.4 million have been recorded for estimated uncollectible receivables and reinsurance recoverables at June 30, 2004 and December 31, 2003, respectively.

The following table sets forth our ten largest retrocessionaires as of December 31, 2003, based on 2003 ceded premiums written, and their respective Standard & Poor s and A.M. Best financial strength rating.

Retrocessionaire	Retrocessionaire Group	Amount ceded $ in millions	% of total	S&P/A.M. Best Rating
PartnerRe U.S. Group	PartnerRe Group	$ 57.7	14.6%	AA-/A+
National Indemnity Company	Berkshire Hathaway Insurance Group	41.9	10.6	AAA/A++
Interpolis Reinsurance Services Ltd.	Rabobank	32.0	8.1	NR
Manulife Europe	Manulife Financial Corporation	23.9	6.0	NR
Helvetia Patria Versicherung	Helvetia Patria Holding	23.1	5.8	BBBpi/NR
Inter-Ocean Reinsurance Co. Ltd.	Inter-Ocean Holdings	20.2	5.1	A/A
Folksamerica Reinsurance Company	White Mountains Insurance Group	18.2	4.6	A-/A
PXRE Reinsurance Company	PXRE Group	13.3	3.3	A/A
Royal & Sun Alliance	Royal & Sun Alliance Insurance Group	12.5	3.1	A-/A-
DR Swiss	Deutsche Rück	10.0	2.5	Api/NR
Total provided by top ten retrocessionaires and percentage of total retrocessional reinsurance		$252.7	63.7%	
Total retrocessional reinsurance		$396.9	100.0%	

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

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

In order to provide additional comfort as regards our reserve position, in August 2004 we acquired a retrospective stop-loss retrocession cover from National Indemnity Company, a Standard & Poor s AAA-rated member of the Berkshire Hathaway group of insurance companies. See Background and reasons for the Offering Recent reserve strengthening and subsequent asset impairments Reserve strengthening.

Loss and loss adjustment expense reserves

Establishment of loss and loss adjustment expense reserves

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

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

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

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

The uncertainty inherent in loss estimation is particularly pronounced for long-tail lines such as umbrella, general and professional liability and motor liability, where information, such as required medical treatment and costs for bodily injury claims, will only emerge over time. In the overall reserve setting process, provisions for economic inflation and changes in the social and legal environment are considered. The uncertainty inherent in the reserving process for primary insurance companies is even greater for the reinsurer. This is because of, but not limited to, the time lag inherent in reporting information from the insurer to the reinsurer and differing reserving practices among ceding companies. As a result, actual losses and loss adjustment expenses may deviate, perhaps materially, from expected ultimate costs reflected in our current reserves.

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

We have developed a proprietary global loss reserve estimation system, which we refer to as FRAME. It applies a number of standard actuarial reserving methods on a contract-by-contract basis. This allows us to calculate estimates of IBNR for each transaction based on its own characteristics. We aggregate the reserves indicated for each transaction to arrive at the total reserve requirement (bottom-up approach).

In addition to these bottom-up approaches we utilize standard top-down analyses. For these methods we aggregate the majority of our business into a limited number of homogeneous classes and apply standard actuarial reserving techniques. These top-down analyses are normally performed outside the quarterly closing window and provide an alternative view that is less dependent on pricing information. The comparison of these different approaches, namely bottom-up and top-down, provide additional insights into the reserve process and can lead to reserve adjustments to either bottom-up or top-down approaches or both. Adjustments to the bottom-up approach are typically reflected in the quarter in which they have been identified.

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

Adequacy of reserves

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

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

We have experienced significant adverse development in our U.S. casualty reinsurance lines for the last several years. Since 2001, we have recorded a total of $668.5 million of additional provisions on our non-life business (2001: $123.6 million; 2002: $148.5 million; 2003: $(31.3) million; and first half of 2004: $427.7 million).

On April 29, 2004, we announced that first quarter reported losses from prior year U.S. casualty business had exceeded expected loss emergence that the volatility of longer-tail risks was likely to persist for some time. This adverse loss reporting trend continued and accelerated in the second quarter of 2004.

In response to the loss development observed in the first and second quarters of 2004 we initiated detailed additional reviews of our North American risk-related business from an integrated underwriting, claims and actuarial perspective in order to examine the adequacy of prior years provisions. These analyses included a comprehensive top-down reserve review of our North American risk-related business written from 1993-2004, a re-assessment of old contracts using latest information including, where available, market data for benchmarking purposes and a review of reinsurance agreements to advise on whether carried incurred but not reported reserves were viewed as adequate based on current knowledge. In addition, the Chief Executive Officer and Chief Technical Officer led a bottom-up underwriting review of 114 reinsurance covers consisting of 447 treaty accounts and lines of business with material loss experience. These actions supplemented the claims audits and actuarial reserve reviews that we conduct in the ordinary course of our business.

As a result of the in-depth reviews, we recorded a reserve strengthening charge of $384.7 million in the second quarter 2004, consisting of $96.0 million in the Standard Property & Casualty Reinsurance segment and $288.7 million in the Specialty Lines segment. This action was taken in response to the continued adverse loss emergence due to increased claims reporting activity from clients relating to the U.S. casualty business written from 1997 to 2001. In the Standard Property & Casualty Reinsurance segment, the reserve strengthening primarily related to general third party liability lines in the U.S. ($99.3 million). In the Specialty Lines segment, the reserve strengthening arose primarily from the professional liability & other special liability lines, in particular umbrella, professional liability and excess & surplus lines of business in the U.S. ($265.2 million).

In order to obtain an external review of our overall reserve position, we commissioned the actuarial consulting firm Tillinghast to perform an independent actuarial review of our non-life loss and allocated loss adjustment expense reserves as of June 30, 2004 in respect of the Zurich and New York originated businesses. These reserves amount to $6.8 billion and represent 94.9% of our total reserves. Tillinghast s analysis was based on data available at the time we issued our second quarter 2004 financial statements supplemented by recent commutations. Tillinghast relied on the accuracy and completeness of this data and information provided for its analysis. Tillinghast notes that there is inherent uncertainty with any estimation of loss reserves. Actual results may vary from the estimates. As a result of their independent review, Tillinghast has concluded that our overall net reserves as of June 30, 2004, in total, for the segments reviewed, are below their point estimate, but fall within a reasonable range of actuarial estimates. Tillinghast s point estimate for the relevant businesses exceeds our carried reserves as of June 30, 2004 by $212.9 million or by approximately 3.2%. Our equity as of June 30, 2004 was $1,349.2 million. The Tillinghast review was performed on our overall net reserves for the segments of business analyzed. Tillinghast has not expressed an opinion on the reserves at the statutory entity level.

Since June 30, 2004, we have commuted approximately $250 million in loss reserves related to prior years business assumed by our North American operation, CRNA. Certain of these commutations were reflected in the Tillinghast point estimate, however others were completed subsequent to the delivery of Tillinghast s report. Tillinghast estimates that these recent commutations would further reduce the difference between their point estimate and the reserves carried as of June 30, 2004 by $8.6 million.

Certain contracts assumed or retroceded by us have provisions whereby the premiums paid to or by us are affected by the losses under the contracts. The results of the Tillinghast study imply that we would be required to pay an additional $25.7 million of premium under a retroceded contract, and would receive additional premium under certain assumed contracts. Assuming the Tillinghast point estimate, we estimate this additional premium receivable to be $10.6 million.

We are taking Tillinghast s study under consideration and following a detailed analysis of the specific conclusions, we will make adjustments to carried reserves in the third quarter 2004 to reflect the new information received. Current estimates of anticipated adjustments indicate that a further strengthening of overall net reserves by between $50 million and $100 million will be appropriate in order to bring our carried reserves closer to Tillinghast s point estimate.

The precise amount of reserve increase and the resulting financial impact on our consolidated financial statements is dependent upon ongoing commutation discussions. Currently, CRNA is in discussion with several clients for offers of commutations, and we are pursuing these diligently. A successful conclusion of such commutations may result in a further reduction in the difference between Tillinghast s point estimate and our current level of reserves.

We did not commission Tillinghast to review the remaining businesses ($0.4 billion or 5.1% of our carried loss and loss adjustment expense reserves) as they have not experienced the type of volatility we experienced in the business originated out of North America.

In 2003, the positive development of $31.3 million consisted of positive development on property lines ($113.5 million) and aviation & space ($102.2 million), offset by adverse development on workers compensation and professional liability & other special liability lines ($120.3 million) and the motor and general third party liability lines ($64.1 million). The reserve releases in 2003 were primarily from the 2002 underwriting year, while the U.S. business written in 1997 to 2001 mostly saw continued strengthening.

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

Effects of currency fluctuations

A significant factor affecting movements in our net reserve balances has been currency exchange rate fluctuations. These fluctuations affect our reserves because we report our results in U.S. dollars. As of December 31, 2003, approximately 39% of our non-life reinsurance reserves are for liabilities that will be paid in a currency other than the U.S. dollar. We establish these reserves in original currency, and then, during our consolidation process, translate them to U.S. dollars using the exchange rates as of the balance sheet date. Any increase or decrease in reserves resulting from this translation process is recorded directly to shareholders equity and has no impact on current earnings. When new losses are incurred or adjustments to prior years reserve estimates are made, these amounts are reflected in the current year net income at the average exchange rates for the period.

Loss reserve development

The first table below presents changes in the historical non-life loss and loss adjustment expense reserves that we established in 1994 and subsequent years. The top lines of the tables show the estimated loss and loss adjustment reserves, gross and net of reinsurance, for unpaid losses and loss adjustment expenses as of each balance sheet date, which represent the estimated amount of future payments for all losses occurring prior to that date. The upper, or paid, portion of the first table presents the cumulative amount of payments of the loss and loss adjustment expense amounts through each subsequent year in respect of the reserves established at each initial year-end. Losses paid in currencies other than the U.S. dollar are translated at consolidation into U.S. dollars using the average foreign exchange rates for periods in which they are paid. The lower, or reserve re-estimated portion, gross and net of reinsurance, of the first table shows the re-estimate of the initially recorded loss and loss adjustment expense reserve as of each succeeding period-end, including claims paid, but recalculated using the foreign exchange rates for each subsequent period-end. The reserve estimates change as more information becomes known about the actual losses for which the initial reserves were established. The cumulative redundancy/(deficiency) lines at the bottom of the table are equal to the initial reserves less the liability re-estimated as of December 31, 2003.

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

Zurich Financial Services and its subsidiaries, including the entities then operating under the Zurich Re brand name, retroactively adopted International Accounting Standards (IAS) as of January 1, 1995. As a consequence, consolidated loss development data for Converium entities is not available on a consistent accounting basis prior to December 31, 1994 and is therefore not presented in this document. The inconsistencies prior to December 31, 1994 principally arise from Converium entities having used different reserving methodologies on a country-by-country basis as was allowed under generally accepted accounting principles in Switzerland. As an example, some European reserving practices have historically tended to be highly conservative, and therefore not consistent with IAS and U.S. GAAP best estimate practices. Accordingly, we have only been able to provide a consolidated loss development table commencing with December 31, 1994. As of December 31, 2003, net reserves for losses and loss adjustment expenses included approximately $181.1 million of reserves related to losses from accident years 1994 and prior, or 2.8% of net reserves as of December 31, 2003.

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

	As of December 31,									
($ in millions)	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Gross reserves for losses and loss adjustment expenses	$1,468.9	$1,891.4	$2,245.3	$2,636.4	$2,988.1	$3,545.7	$4,546.0	$5,710.5	$6,821.3	$7,842.8
Reinsurance recoverable	59.6	102.9	106.9	290.1	457.3	704.9	1,212.2	1,545.0	1,459.8	1,385.4
Initial net reserves for losses and loss adjustment expenses	$1,409.3	$1,788.5	$2,138.4	$2,346.3	$2,530.8	$2,840.8	$3,333.8	$4,165.5	$5,361.5	$6,457.4
Cumulative paid as of:										
One year later	405.9	443.9	466.0	514.5	610.0	850.6	885.2	1,101.6	1,464.7	
Two years later	611.1	669.4	721.2	843.0	968.8	1,339.2	1,501.0	2,010.2		
Three years later	736.2	803.1	921.7	1,064.4	1,250.7	1,670.1	2,066.2			
Four years later	815.4	927.0	1,062.2	1,261.7	1,438.6	2,023.5				
Five years later	896.9	1,007.7	1,178.3	1,336.5	1,622.3					
Six years later	949.9	1,093.8	1,197.5	1,436.7						
Seven years later	1,006.5	1,087.1	1,249.3							
Eight years later	986.5	1,115.7								
Nine years later	1,004.1									
Net reserves re-estimated as of:										
One year later	1,457.6	1,763.3	1,901.5	2,145.6	2,292.7	2,815.5	3,405.3	4,292.4	5,597.8	
Two years later	1,499.0	1,642.6	1,853.5	2,051.3	2,274.9	2,922.4	3,599.5	4,551.5		
Three years later	1,364.6	1,617.7	1,736.4	1,970.4	2,300.8	3,027.2	3,802.1			
Four years later	1,396.2	1,541.1	1,677.3	1,989.1	2,333.7	3,171.9	&nbs			