CONVERIUM HOLDING AG
Form 20-F
June 14, 2007

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

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

OR

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

For the fiscal year ended December 31, 2006.

OR

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

OR

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

Date of current requiring this shell company report __________

Commission file number: 333-14106
CONVERIUM HOLDING AG
(Exact name of Registrant as specified in its charter)
Not Applicable
(Translation of Registrant s name into English)
Switzerland
(Jurisdiction of incorporation or organization)
General Guisan-Quai 26
CH-8002 Zürich
Switzerland
(Address of principal executive offices)
Securities registered or to be registered pursuant to Section 12(b) of the Act.

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

* Not for trading, but only in connection with

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

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

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

None

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

None

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

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

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

Yes þ No o

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

Yes o No þ

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

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

Yes þ No o

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

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

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

Item 17 o **Item 18** þ

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

Yes o No þ

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PRESENTATION OF INFORMATION

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

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

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

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

- certain statements in Item 4. Information on the Company B. Business Overview with regard to strategy and management objectives, trends in market conditions, prices, market standing and product volumes, investment results, litigation and the effects of changes or prospective changes in regulation.
- certain statements in Item 5. Operating and Financial Review and Prospects with regard to trends in results, prices, volumes, operations, investment results, margins, overall market trends, risk management and exchange rates and with regard to our internal review and related Restatement.
- certain statements in Item 11. Quantitative and Qualitative Disclosures About Market Risk with regard to sensitivity analyses for invested assets.
- certain statements in Item 15. Controls and Procedures with regard to our actions to remediate the material weaknesses identified in our financial accounting and reporting function.

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

- our ability to refinance our outstanding indebtedness and increase our use of hybrid capital;
- uncertainties of assumptions used in our reserving process;
- risk associated with implementing our business strategies and our capital improvement measures;
- cyclical nature of the reinsurance industry;

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- the occurrence of natural and man-made catastrophic events with a frequency or severity exceeding our estimates;
- acts of terrorism and acts of war;
- changes in economic conditions, including interest and currency rate conditions that could affect our investment portfolio;
- actions of competitors, including industry consolidation and development of competing financial products;
- a decrease in the level of demand for our reinsurance or increased competition in our industries or markets;
- our ability to expand into emerging markets;
- our ability to enter into strategic investment partnerships;
- a loss of our key employees or executive officers without suitable replacements being recruited within a suitable period of time;
- political risks in the countries in which we operate or in which we reinsure risks;
- the passage of additional legislation or the promulgation of new regulation in a jurisdiction in which we or our clients operate or where our subsidiaries are organized;
- the effect on us and the insurance industry as a result of the investigations being carried out by the US Securities and Exchange Commission (SEC) and New York s Attorney and other governmental authorities;
- timing and outcome of class action lawsuits;
- our ability to regain past customers following the rating upgrade;
- our ability to retain employees and certain business we write prior to and following the consummation of the SCOR Tender Offer (as defined below);
- our ability to successfully integrate our business with that of SCOR s following the consummation of the SCOR Tender Offer and retain joint ventures in which we are a party;
- the resolution of the investigations being carried out by the SEC, New York s Attorney General and other governmental authorities;
- changes in our investment results due to the changed composition of our invested assets or changes in our investment policy;
- failure of our retrocessional reinsurers to honor their obligations or changes in the credit worthiness of our reinsurers;
- our failure to prevail in any current or future arbitration or litigation; and
- extraordinary events affecting our clients, such as bankruptcies and liquidations.

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

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

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL AND OTHER DATA

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

The selected financial and other data should be read in conjunction with the Consolidated Financial Statements and related notes and with Management s Discussion and Analysis of Financial Condition and Results of Operations .

Converium currently manages its business around three operating segments: Standard Property & Casualty Reinsurance, Specialty Lines and Life & Health Reinsurance, which are based principally on global lines of business. In addition to the three segments financial results, the Corporate Center carries certain administration expenses, such as costs of the Board of Directors, the Global Executive Committee and other corporate functions as well as expenses not allocated to the operating segments. In addition to reporting segment results individually, management also aggregates results for Standard Property & Casualty Reinsurance and Specialty Lines into non-life business, as management considers this aggregation meaningful in understanding the performance of Converium.

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

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

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

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

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

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

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

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

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

Combined Ratio Analysis	Net premiums written	Net premiums earned	Losses and loss expenses	Acquisition costs	Other operating and administration expenses	Loss ratio (1)	Acquisition costs ratio (2)	Administration expense ratio (3)	Combined ratio (4)
	(USD millions)					(%)			
2006									
Standard Property & Casualty Reinsurance	816.9	775.6	-441.1	-195.6	-43.9	56.9	25.2	5.4	87.5
Specialty lines	729.4	723.7	-534.3	-192.4	-38.6	73.8	26.6	5.3	105.7
Total Non-life consolidated	1,546.3	1,499.3	-975.4	-388.0	-82.5	65.1	25.9	5.3	96.3
2005									
Standard Property & Casualty Reinsurance	739.0	880.8	-729.6	-181.3	-43.9	82.8	20.6	5.9	109.3
Specialty lines	737.7	1,059.2	-772.5	-263.8	-54.5	72.9	24.9	7.4	105.2
Total Non-life consolidated	1,476.7	1,940.0	-1,502.1	-445.1	-98.4	77.4	22.9	6.7	107.0
2004									
Standard Property & Casualty Reinsurance	1,377.4	1,392.2	-1,003.0	-353.3	-52.0	72.0	25.4	3.8	101.2
Specialty lines	1,565.3	1,387.6	-1,154.7	-328.1	-53.3	83.2	23.6	3.4	110.2
Total Non-life consolidated	2,942.7	2,779.8	-2,157.7	-681.4	-105.3	77.6	24.5	3.6	105.7
2003									
Standard Property & Casualty Reinsurance	1,299.9	1,285.2	-838.8	-266.4	-48.0	65.3	20.7	3.7	89.7
Specialty lines	1,119.0	1,038.1	-713.0	-228.0	-39.6	68.7	22.0	3.5	94.2
Total Non-life consolidated	2,418.9	2,323.3	-1,551.8	-494.4	-87.6	66.8	21.3	3.6	91.7
2002									
Standard Property & Casualty Reinsurance	974.2	942.1	-668.4	-234.2	-38.5	70.9	24.9	4.0	99.8
Specialty lines	962.4	885.5	-709.6	-157.4	-34.3	80.1	17.8	3.6	101.5
Total Non-life consolidated	1,936.6	1,827.6	-1,378.0	-391.6	-72.8	75.4	21.4	3.8	100.6

(1)

Losses divided by net premiums earned

(2) Acquisition costs divided by net premiums earned

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

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

Dividends

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

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

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D. RISK FACTORS

Risks relating to Converium and the reinsurance industry

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our loss reserves may not adequately cover future losses and benefits

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

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

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

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

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

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

Facility and other bilateral letter of credit arrangements. Investments of USD 1,973.5 million were pledged as collateral related to the Syndicated Letter of Credit Facility and other irrevocable letters of credit of USD 769.1 million (to secure certain assumed reinsurance contracts). Converium must comply with various financial covenants in order to avoid default under the agreement. In an event of default, the majority lenders may cancel the total commitment and/or may declare that all amounts outstanding may be immediately due and payable and that full cash cover in respect of each letter of credit is immediately due and payable.

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

We are subject to the cyclical nature of the reinsurance industry

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

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

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

Securitization trend could disadvantage medium-sized players

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

We may face competitive disadvantages in the reinsurance industry

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

- Munich Reinsurance Company;
- Swiss Reinsurance Company;
- Hannover Re Group;
- SCOR;

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PartnerRe Group; and

Lloyd s syndicates active in the London market.

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

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

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

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

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

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

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

As discussed in greater detail below, the Company is a defendant in a securities law class action case arising out of the Company s announcement on July 20, 2004 that second quarter 2004 results would fall short of expectations due to higher than modeled U.S. casualty loss emergence primarily related to the underwriting years 1996 to 2001. The consolidated actions are in the discovery phase; thus, the timing and outcome of these matters are not currently predictable. The costs of defending the class actions may have a material impact on our operating results in future reporting periods and an unfavorable outcome could have a materially adverse effect on the Company s financial condition, results of operations and cash flows.

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Regulatory or legal changes could adversely affect our business

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

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

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

See Item 4. B. Business Overview Regulation .

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 4. INFORMATION ON THE COMPANY

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

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A. HISTORY AND DEVELOPMENT OF THE COMPANY

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

The Formation Transactions consisted of the following principal steps:

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

- Our reinsurance of this business through quota share retrocession agreements with two units of Zurich Financial Services, (the Quota Share Retrocession Agreement);

- The establishment of funds withheld balances in our favor by the applicable units of Zurich Financial Services (the Funds Withheld Asset), on which we will be paid investment returns by the Zurich Financial Services units;

- The transfer of assets including cash, marketable securities and participations by Zurich Financial Services and its subsidiaries to Converium, together with the assumption of liabilities;

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

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

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

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

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

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

The operating assets of the Zurich reinsurance business; and

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

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

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

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

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

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

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

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

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

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

On April 5, 2007, SCOR formally launched an unsolicited tender offer pursuant to which each of Converium s registered share were to be exchanged for 0.5 ordinary shares of SCOR and CHF 4, the cash portion of which was to be reduced by the gross amount of any dilutive effects in respect of Converium s registered shares prior to the consummation of the SCOR Tender Offer. On May 9, 2007, Converium and SCOR entered into the SCOR Transaction Agreement pursuant to which SCOR agreed to offer holders of Converium s registered shares 0.5 new SCOR shares and CHF 5.50 in cash in exchange for each Converium registered share tendered and Converium agreed that its Board of Directors would recommend the SCOR Tender Offer to Converium shareholders. SCOR has further agreed to not to reduce the cash portion of the offer consideration by the Company s gross dividend of 0.20 CHF per share for the fiscal year ended December 31, 2006. The SCOR Tender Offer is governed by the laws of Switzerland and is extended to all holders of the Company s registered shares located outside of the United States and Japan and is not extended to holders of the Company s American Depositary Shares, regardless of whether such American Depositary Shares are held by persons outside of the United States or Japan. The SCOR Tender Offer commenced on June 12, 2007 and will remain open for acceptances for a period of 20 business days.

B. BUSINESS OVERVIEW

Overview

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

Converium currently manages its business around three operating segments: Standard Property & Casualty Reinsurance, Specialty Lines and Life & Health Reinsurance, which are based principally on global lines of business. In addition to the three segments

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

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

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

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

In 2004, Converium s North American operations were placed into orderly run-off and reported as the Run-Off segment to monitor this business on a stand-alone basis. On December 13, 2006, Converium sold its North American operations to National Indemnity Company, a Berkshire Hathaway company. Our North American operations were previously reported as the principal component of a separate segment, the Run-Off segment. Converium s financial results of the North American business, including prior period amounts, have been reclassified to discontinued operations. For further details regarding the sale of the North American operations, see Note 2 to our 2006 consolidated financial statements.

Our vision

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

Our mission

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

- sustainable value growth for our shareholders;
- excellent service for our customers and intermediaries; and
- a fulfilling work environment for our employees.

Our strategy

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

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

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

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

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

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

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

Our core business

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

Standard Property & Casualty Reinsurance

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

Specialty Lines

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

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

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

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

Life & Health Reinsurance

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

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

Guiding principles for our business

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Capital management. Our main capital management objectives focus on:

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

an optimized and appropriately leveraged balance sheet;

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

Our business

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

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

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

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

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

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

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

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

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

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

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

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

(1) Premiums from the United Kingdom include business assumed

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

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

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

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

Types of reinsurance

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

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

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

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

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

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

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

Proportional and non-proportional

We offer traditional reinsurance products on both a proportional and non-proportional basis in all our lines of business. Our business is predominantly proportional, comprising approximately 85.7% of gross premiums written during 2006. Our non-proportional business includes Property, Motor, Aviation & Space and Professional Liability and other Special Liability lines, to complement our established market position in non-proportional liability.

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

Structured/finite

Structured/finite reinsurance business is contained within our Standard Property & Casualty Reinsurance, Specialty Lines and Life & Health Reinsurance segments. Whether working directly with the client or through a broker, our structured/finite business focuses on developing client-specific solutions after spending time with the client to understand its business needs. These client-specific solutions include such products as loss portfolio transfers and adverse loss development covers. Loss portfolio transfers involve the transfer of liability of discontinued or expired insurance programs from one company to another company for a fee. Coverage under adverse development covers is provided on an excess basis and amounts of indemnification are generally subject to specific aggregate limits.

Structured/finite products have several features that differ from traditional reinsurance products and may typically include (i) premium refunds based on actual loss experience; (ii) loss sharing provisions; (iii) additional premiums based on actual loss experience, (iv) sliding scale commission rates, (v) non-refundable reinsurer s margins; and (vi) underwriting terms that limit the maximum aggregate exposure. Structured/finite business is classified as proportional or non-proportional, depending on its characteristics.

Non-life operations

Overview

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

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

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

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

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

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

Financial Review and Prospects A. Operating Results .

Standard Property & Casualty Reinsurance

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

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

General Third Party Liability

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

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Motor

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

Personal Accident (assumed from non-life insurers)

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

Property

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

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

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

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

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

(assumed from non-life insurers)									
Property	46.4%	24.7%	71.1%	71.9%	26.7%	98.6%	50.6%	27.6%	78.2%
Total Standard Property & Casualty Reinsurance	**56.9%**	**25.2%**	**82.1%**	**82.8%**	**20.6%**	**103.4%**	**72.0%**	**25.4%**	**97.4%**

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

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

Specialty Lines

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

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

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

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

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

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

Agribusiness

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

Aviation & Space

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

Credit & Surety

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

Engineering

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

Marine & Energy

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

Professional Liability and other Special Liability

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

Workers Compensation

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

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

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

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

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

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

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

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

Life & Health Reinsurance

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

- Life & Disability; and
- Accident & Health.

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

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

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

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

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

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

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

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

- demutualizations of life insurance companies;
- aging of the population;
- privatization of benefits that used to be provided by governments;

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- deregulation and increased competition among primary insurance companies from new entrants, such as banks and other financial services companies; and
- the increasing need for products that reduce the volatility of earnings following the increasing adoption of international accounting standards in many of the markets we serve.

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

Competition

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

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

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

- Munich Reinsurance Company;
- Swiss Reinsurance Company;
- Hannover Re Group;
- SCOR;
- PartnerRe Group; and
- Lloyd s syndicates active in the London market.

Non-life underwriting, pricing/structuring and accumulation control

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Non-life claims management

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

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

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

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

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

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

Life operations underwriting and claims

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

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

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

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

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

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

Catastrophe risk management and protection

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Retrocessional reinsurance

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

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

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

- catastrophe coverage for property business;

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

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

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

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

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

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

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

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

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

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

Our recorded losses and loss expenses, net of retrocessional recoveries and the cap from ZFS through its subsidiaries, were reduced from USD 289.2 million to USD 231.0 million, following the sale of our North American operations.

In order to provide additional comfort in regards to our reserve position, in August of 2004 we acquired a retrospective stop-loss retrocession cover from National Indemnity Company, a Standard & Poor s AAA-rated member of the Berkshire Hathaway group of insurance companies. The retrospective stop-loss retrocession cover was commuted in December 2006 in preparation for the sale of our North American Operations and after a review of coverage requirements. See Note 10 to our 2006 consolidated financial statements for additional information on this cover and for further information on retrocessional risk management.

Loss and loss expense reserves

Establishment of loss and loss expense reserves

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

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

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

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

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

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

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

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

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

Core reserving methodology

Expected loss/expected loss ratio

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

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

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

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

- underlying risk (e.g. line of business), geographic region or treaty type (i.e. proportional or non-proportional); and
- the time period at which losses are expected to be paid and reported (i.e. expected paid loss development factors and expected reported development factors).

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

- statistics developed by pricing actuaries, or
- actual paid loss and reported loss (of the reinsurance contracts assigned to a given REC) aggregated into underwriting year triangles.

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

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

- Expected Loss Method (normally derived from pricing as described above);
- Paid Loss Bornhuetter Ferguson Method;
- Incurred Loss Bornhuetter Ferguson Method;
- Paid Loss Development Method;
- Incurred Loss Development Method.

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

- select a different actuarial method (i.e. to be more responsive to actual loss experience);
- revise the expected loss (see expected loss / expected loss ratio above);
- revise the expected paid loss and / or expected reporting loss patterns.

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

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

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

Adequacy of reserves

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

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

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

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

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

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

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

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

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

Effects of currency fluctuations

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

Loss reserve development

The first table below presents changes in the historical non-life loss and loss adjustment expense reserves that we established in 1996 and subsequent years. The top lines of the tables show the estimated loss and loss adjustment reserves, gross and net of reinsurance, for unpaid losses and loss expenses as of each balance sheet date, which represent the estimated amount of future payments for all losses occurring prior to that date. The upper, or paid, portion of the first table presents the cumulative amount of payments of the loss and loss adjustment expense amounts through each subsequent year in respect of the reserves established at each initial year-end. Losses paid in currencies other than the US dollar are translated at consolidation into US dollars using the average foreign exchange rates for periods in which they are paid. The lower, or reserve re-estimated portion, gross and net of reinsurance, of the first table shows the re-estimate of the initially recorded loss and loss adjustment expense reserve as of each succeeding period-end, including claims paid, but recalculated using the foreign exchange rates for each subsequent period-end. The reserve estimates change as more information becomes known about the actual losses for which the initial reserves were established. The cumulative redundancy/(deficiency) lines at the bottom of the table are equal to the initial reserves less the liability re-estimated as of December 31, 2006.

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

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

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	As of December 31,									
lions, except percentages)	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
erves for losses and loss	2,245.3	2,636.4	2,987.6	3,482.3	4,504.1	5,642.3	6,876.9	7,879.7	8,908.3	7,568.9
ice recoverable	106.9	290.1	457.3	640.9	892.3	1,099.2	1,085.7	1,041.3	914.5	761.0
reserves for losses and loss	2,138.4	2,346.3	2,530.3	2,841.4	3,611.8	4,543.1	5,791.2	6,838.4	7,993.8	6,807.9
ve paid as of:										
later	466.0	514.5	610.0	850.6	890.6	1,171.0	1,504.4	1,938.9	1,995.3	2,303.7
s later	721.2	843.0	968.8	1,339.2	1,575.8	2,119.4	2,760.8	3,321.3	3,885.0	
rs later	921.7	1,064.4	1,250.7	1,670.1	2,180.9	3,027.2	3,755.0	4,835.8		
s later	1,062.2	1,261.7	1,438.6	2,029.2	2,749.6	3,726.4	4,974.5			
s later	1,178.3	1,336.5	1,622.3	2,312.8	3,210.1	4,719.3				
later	1,197.5	1,436.7	1,772.9	2,594.4	3,956.1					
ars later	1,249.3	1,545.8	1,930.5	3,085.5						
rs later	1,319.4	1,638.1	2,243.1							
s later	1,374.0	1,836.1								
later	1,434.2									
ves re-estimated as of:							&nb			