CONVERIUM HOLDING AG
Form 6-K
October 06, 2004

Form 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

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

of the Securities Exchange Act of 1934

For the month of October, 2004

CONVERIUM HOLDING AG

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

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

Form 20-F þ Form 40-F o

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

Yes o No þ

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

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

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

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

Cautionary note regarding forward-looking statements

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

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

- certain statements in Background and reasons for the Offering with regard to capital improvement measures, strategy and management objectives, market conditions, market standing and premium volume;
- certain statements in Management s discussion and analysis of financial condition and results of operation with regard to trends in results, prices, rates, volumes, operations, investment results, margins, overall market trends, risk management and exchange rates;
- certain statements in Business with regard to strategy and management objectives, trends in market conditions, prices, rates, market standing and premium volumes, investment results, litigation and the effects of changes or prospective changes in regulation; and
- certain statements in Regulation with regard to the effects of changes or prospective changes in regulation.

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

- the impact of the recent ratings downgrades and the further lowering or loss of one of our financial strength ratings or the failure of Standard & Poor s to raise our ratings upon completion of the Offering;
- uncertainties in our reserving process;
- risks associated with implementing our revised business strategy and our capital improvement measures and the run-off of our North American business;
- cyclicality of the reinsurance industry;

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

acts of terrorism and acts of war;

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

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

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

a loss of our key employees or executive officers;

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

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

changes in our investment results, including as a result of the changed composition of our invested assets or changes in our investment policy;

failure of our retrocessional reinsurers to honor their obligations;

failure to prevail in any current or future arbitration or litigation;

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

extraordinary events affecting our clients, such as bankruptcies and liquidations.

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

Risk factors

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

Risks relating to Converium and the reinsurance industry

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

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

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

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

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

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

On September 1, 2004, A.M. Best downgraded our financial strength rating to B++ from A and our issuer credit rating to bbb from a . These ratings remain under review with negative implications pending the successful completion of this Offering. At the same time, A.M. Best downgraded the financial strength rating to B from A and the issuer credit

rating to bb from a of CRNA following our announcement of our intention to place CRNA into run-off. This rating has been assigned a negative outlook by A.M. Best.

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

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

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

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

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

cedents less inclined to renegotiate the contracts at all, and has led to an increased rate of terminations.

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

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

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

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

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

Our loss reserves may not adequately cover future losses and benefits

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

of a letter of credit our obligations under the business written by the pool in our name prior to our termination. Currently, the amount that would need to be collateralized is $77.0 million and the current annual cost of providing such security is likely to be approximately $0.5 million. The amount of the collateral and the cost of providing it may fluctuate depending on, among other things, market conditions and the performance of the pool business.

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

We are subject to the cyclicality of the reinsurance industry

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

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

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

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

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

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

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

the effects of inflation will increase the severity of claims from catastrophic events in the future.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Even if we are able to successfully implement the run-off of our North American business, there can be no assurance that CINA will in the future become an accepted carrier for our

clients. A failure of CINA to become so recognized could impair our ability to return to the North American market in the future.

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

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

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

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

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

Capital market fluctuations may adversely impact the value of our investments

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

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

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

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

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

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

We may face competitive disadvantages in the reinsurance industry

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

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

Transatlantic Reinsurance Company; and

SCOR.

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

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

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

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

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

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

Regulatory or legal changes could adversely affect our business

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

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

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

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

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

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

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

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

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

Our reliance on reinsurance brokers exposes us to their credit risk

In 2003, approximately 58.0% of our gross premiums written were written through brokers. In accordance with industry practice, we frequently pay amounts owed on claims under our policies to reinsurance brokers, and these brokers, in turn, pay these amounts over to the insurers that have reinsured a portion of their liabilities with us. We refer to these insurers as

ceding insurers. In some jurisdictions, or pursuant to some contractual arrangements, if a broker fails to make such a payment, we may remain liable to the ceding insurer for the deficiency. Conversely, in certain jurisdictions, when the ceding insurer pays premiums for these policies to reinsurance brokers for payment over to us, these premiums are considered to have been paid and the ceding insurer will no longer be liable to us for those amounts, whether or not we have actually received the premiums. Consequently, in connection with the settlement of reinsurance balances, we assume a degree of credit risk associated with reinsurance brokers around the world.

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

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

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

See Formation transactions and relationship with Zurich Financial Services.

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

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

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

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

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

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

Background and reasons for the Offering

Recent reserve strengthening and subsequent asset impairments

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

Reserve strengthening

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

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

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

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

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

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

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

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

Deferred tax asset impairment

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

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

Goodwill impairment

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

Ratings actions and special termination clauses

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

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

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

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

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

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

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

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

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

The pool members agreement with respect to GAUM provides that if a member of the pool has its financial strength rating downgraded below BBB+ by Standard & Poors Rating Service it may be served with a notice terminating its membership in the pool upon approval by the committee of representatives of the pool. We believe that no formal action has been taken by the pool membership committee to serve a notice terminating our membership on us. However, the committee has discussed our downgrade and sought to take action to limit our

rights to dispute the validity of any notice served on us. We expect that continuation of our membership at our current rating is likely to be conditional upon our entering fronting arrangements acceptable to other pool members in a timely fashion and thereafter maintaining such arrangements. We expect to enter into formal written fronting arrangements that would prevent our termination of membership in the pool, however there is no assurance that such an arrangement can be effectuated. We further expect that such fronting arrangements would require us to post collateral to secure our reinsurance obligations under the fronting arrangements. If our membership were terminated, would not be permitted to participate in future pool business and would have to collateralize by way of a letter of credit our obligations under the business written by the pool in our name prior to our termination. Currently, the amount that would need to be collateralized is $77 million and the current annual cost of providing such security is likely to be approximately $0.5 million. The amount of the collateral and the cost of providing it may fluctuate depending on, among other things, market conditions and the performance of the pool business. If our membership were terminated, we also may be required to sell our shares in GAUM at a substantial discount.

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

The case for recapitalizing Converium

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

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

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

Net premiums written(1)

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

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

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

Gross technical combined ratio, non-life(1)

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

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

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

Our future shape and priorities

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

Going forward, we will focus on markets where we believe our franchise remains strong, i.e. Europe, Asia and Latin America. We will seek to capitalize on our successful record of building

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

Further development and reinforcement of strategic alliances

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

Discontinuation of North American business

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

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

U.S. legacy issues addressed

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

Investment results expected to remain strong

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

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

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

Active management of capital base

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

Employee Retention Plan

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

Restoration of total tangible equity

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

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

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

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

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

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

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

Impact of our revised strategy

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

A strong capitalization is necessary to protect the Converium franchise

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

Improve our financial strength rating

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

Protect our book of business

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