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EXECUTIVE COMPENSATION

This Compensation Discussion and Analysis (CD&A) provides an overview of the Company s executive compensation programs for the Company s Chief Executive Officer, Chief Financial Officer and certain other executive officers (collectively, the named executive officers (NEOs)) together with a description of the material factors underlying the decisions which resulted in the 2007 compensation provided to the NEOs as presented in the tables which follow this CD&A. The Company s executive compensation program is based on principles designed to align executive compensation with the Company s business strategy of creating wealth for its shareholders and creating long-term value for the business. The Compensation Committee believes that executive compensation tied to the execution of a sound business strategy achieves stockholder value. It is the Company s philosophy to evaluate its executive compensation structure with other companies of comparative size, type and geographic scope. The Company s compensation policy for executives is intended to further the interests of the Company and its stockholders by encouraging growth of its business through securing, retaining, and motivating management employees of high caliber who possess the skills necessary to the development and growth of the Company.

Objective of Compensation Policy

The objective of the Company s compensation policy is to provide a total compensation package that will enable us to:

- attract, motivate and retain outstanding individual named executive officers;
- align the financial interests of each named executive officer with the interests of our stockholders;
- reward named executive officers for attaining desired levels of profit and shareholder value; and
- encourage each named executive officer s stake in our long-term performance and success.

What Our Compensation Program is Designed to Reward

Overall, our compensation program is designed to reward individual and Company short-term and long-term performance. As discussed further below, a significant portion (typically between 30 and 50% of total compensation), of named executive officer compensation is comprised of a combination of annual cash bonuses, which reward annual Company and executive performance, and equity compensation, which rewards long-term Company performance. We believe that by making the bonus and long-term incentive components a significant portion of our total compensation program, we appropriately reward individual achievement while at the same time providing incentives to promote Company performance. We also believe that salary levels should be reflective of individual performance and therefore factor this into the adjustment of base salary levels each year.

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REPORT OF THE COMPENSATION COMMITTEE

Role of the Compensation Committee

The Compensation Committee of the Board of Directors establishes, oversees and directs the Company's executive compensation programs and policies and administers the Company's equity compensation plans. The Compensation Committee seeks to align executive compensation with Company objectives and strategies, management programs and business financial performance in order to enhance shareholder value. The Compensation Committee annually evaluates the performance of and determines and reports to the full board, the compensation of the Chief Executive Officer (CEO) and our other executive officers based upon a combination of the achievement of corporate goals and individual performances. The Compensation Committee consists of two non-employee directors. In 2007, the Compensation Committee consisted of Robert Mannarino and Gregory Chandler.

Compensation Consultant

The Compensation Committee has the authority under its charter to engage the services of outside advisors, experts and others to assist the Compensation Committee. In accordance with this authority, the Compensation Committee engages Compensation Resources, Inc. (the Compensation Consultant) as independent compensation consulting firm to advise the Compensation Committee on matters related to director, chief executive officer and other executive compensation. The Company's named executive officers did not participate in the selection of the compensation consultant. The compensation consultant also assists with, among other things, structuring our various compensation programs and guiding the Committee and us in the development of short-term and long-term individual performance objectives necessary to achieve long-term profitability. The Compensation Consultant is engaged by, and reports directly to, the Compensation Committee. The Compensation Consultant does not advise our management, and receives no other compensation from us.

Compensation Committee Interlocks and Insider Participation

No member of the Compensation Committee during fiscal year 2007 was an officer or employee of the Company, or any of its subsidiaries, or was formerly an officer of the Company or any of its subsidiaries. No member of the Compensation Committee had any relationship requiring disclosure by the Company under any paragraph of Item 404 of Regulation S-K. Furthermore, none of the other executive officers, directors or Compensation Committee members of the Company currently serve, or have in the past served, on the Compensation Committee of any other company whose directors and executive officers have served on the Company's Compensation Committee.

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis section of the Company's proxy with management, and based on the Compensation Committee's review and discussion with management, the Compensation Committee recommended to the Company's Board of Directors that the Compensation Discussion and Analysis section be included in the Company's proxy for fiscal year 2007.

COMPENSATION COMMITTEE
ROBERT J. MANNARINO, CHAIRMAN
GREGORY CHANDLER

General Compensation Policies

Benchmarking

The Compensation Committee annually determines the appropriate combination of cash and equity-based compensation for named executive officers, and weighs the competitiveness of our overall compensation arrangements in relation to a group of comparable information technology companies and publicly traded companies. The relevant peer group for compensation and benefit programs consists primarily of companies of comparative size, similar businesses, similar financial strength, and geographic scope. These are the firms with which the Company competes for talent. The comparator group was chosen to include companies with similar market capitalization, similar revenue size (\$101,000,000 – \$539,000,000), and/or certain direct competitors. Additionally, the NEO positions were compared to published survey data from nationally recognized sources to ensure the accuracy and validity of the proxy peer group. The companies from this peer analysis (the Peer Group) are listed below:

Analex Corporation	Kanbay International Inc.
Computer Horizons Corp.	Lionbridge Technologies, Inc.
Computer Task Group Inc.	Manchester Technologies, Inc.
Datatec Systems, Inc.	MTM Technologies, Inc.
Digital River, Inc.	PFSWeb, Inc.
En Pointe Technologies, Inc.	Programmer s Paradise, Inc.
ePlus Inc.	SED International Holdings, Inc.
iGate Corporation	TechTeam Global, Inc.
Indus International, Inc.	Tier Technologies, Inc.
Intelligroup Inc.	Tyler Technologies, Inc.
INX, Inc.	

In order to compare the levels of compensation of our NEOs with our Peer Group, a market analysis for each of the NEOs was completed and reviewed by the Compensation Committee. Dollar amounts were affixed to all components of the NEO s 2007 compensation, including current pay (salary and bonus), equity awards, benefits and perquisites.

Based on the review of Peer Group compensation, the Compensation Committee sought to target total fiscal year 2007 salary, target bonus levels and equity award values around the 50th percentile of total compensation paid to executives holding equivalent positions in the Peer Group. The Compensation Committee believed this level of compensation to be consistent with our financial performance and reasonable in its totality.

Process for Setting Total Compensation

The Compensation Committee sets actual base salaries, cash bonuses, and equity-based awards for each NEO within the range described above, but considering each NEO s annual review, awards given to the named executive officer in past years, and progress toward or attainment of previously set personal and corporate goals and objectives, including Company financial performance, shareholder return and such other factors as the Compensation Committee deems appropriate and in our best interests and the best interests of our shareholders. The Compensation Committee does not rely on predetermined formulas or a limited set of criteria when it evaluates the performance of our NEOs. The Committee may accord different weight at different times to different factors for each NEO.

The Compensation Committee also considers recommendations from the Chief Executive Officer regarding total compensation for NEOs. Our Chief Executive Officer presents the Compensation Committee with historical breakdowns of the components of compensation for each NEO, and may make recommendations for each other NEO s overall compensation package for the following fiscal year. The Compensation Committee reviews the recommendations of the Chief Executive Officer carefully in light of his proximity to the other executives and

knowledge of their contribution to the Company.

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Elements of Compensation

Our compensation program for NEOs consists of the following elements of compensation, each described in greater depth below:

Base salaries.

Annual bonus compensation.

Equity-based incentive compensation.

Other Compensation and Perquisites.

Base Salary

We pay base salaries because salaries are essential to recruiting and retaining qualified employees. Base salaries also create a performance incentive in the form of potential salary increases. We strive to set base salary at levels commensurate with the companies in our Peer Group, however, consistent with our philosophy of linking pay to performance, base salaries for our NEOs tend to be slightly below the 50th percentile of persons holding comparable positions at the companies within our Peer Group. Base salaries are initially set by the Compensation Committee and, in certain cases, incorporated into employment contracts entered into with our NEOs. These salary levels are set based on the NEO's experience and performance with previous employers, pay levels for similar positions in our Peer Group and negotiations with individual named executive officers. Thereafter, the Compensation Committee reviews base salaries each year based on its subjective assessment of our overall performance over the preceding year, as well as NEO performance and experience, length of service, changes in responsibilities and the level of pay compared to our Peer Group. Included in this subjective determination is the Compensation Committee's evaluation of the development and execution of strategic plans, the exercise of leadership, and involvement in industry groups. The weight given such factors by the Compensation Committee may vary from one named executive officer to another.

There was no change in salary between fiscal year 2006 and 2007 with respect to Messrs. Desai, Donnelly and McAdams as the Company restructured its compensation program. Additionally, as part of the Company's compensation restructuring, Mr. Seitz's annual base salary was increased from \$230,000 to \$250,000 in connection with his execution of a new employment agreement in February 2007 and Mr. Grabel's salary was reduced from \$300,000 to \$250,000 in connection with his execution of a new employment agreement in February 2007. These changes in base salary were designed to more closely align the Company with its Peer Group and to reflect internal changes within the organization.

Annual Bonus Compensation

In line with our strategy of rewarding performance, a significant part of the Company's executive compensation philosophy is the payment of cash bonuses to NEOs based on an annual evaluation of individual and Company performance, considering several factors as discussed below. The Compensation Committee makes recommendations for target bonuses (the amount each Executive may receive if performance goals and objectives are met) to the Board who approves the recommendations and communicates bonus opportunities and performance goals to each named executive officer near the beginning of the fiscal year. The target bonuses are intended to create an incentive for NEOs to achieve the objectives established by the Compensation Committee. At the end of the fiscal year, the Compensation Committee determines in its discretion whether and how much cash bonus to pay each NEO based on its review of

Company and individual performance. Depending on the Compensation Committee's assessment, bonuses may be equal, more or less than the previously established target amounts.

Senior Management Annual Incentive Plan. In November 2006, with the assistance of the Compensation Consultant and upon the recommendation of the Compensation Committee, the Board approved the Senior Management Annual Incentive Plan (the Incentive Plan) to pay annual bonuses to certain full-time management employees of the Company and its subsidiaries based on the Company's achievement of annual performance goals and, if applicable, a participant's achievement of individual performance goals. The Company's performance goals for any fiscal year will be based on earnings before interest, taxes, depreciation and amortization (EBITDA), earnings per share, business unit or departmental objectives, or some combination of the foregoing, as determined by the Compensation Committee. In particular, EBITDA and earnings per

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share have been determined by the Compensation Committee to be the most appropriate measures of Company performance because they directly take into account the Company's earnings and are consistent with the Compensation Committee's compensation philosophy of aligning executive performance with the Company's financial performance.

Unless the Compensation Committee determines otherwise, the NEOs will be eligible to receive a bonus under the Incentive Plan, provided they have been employed by the Company for at least six months. The Compensation Committee will annually designate a percentage of each participant's base salary (ranging from 10% to 50%) or dollar amount as such participant's bonus opportunity if target performance is achieved. The threshold, or minimum, bonus that may be earned by a participant is 25% of such participant's bonus opportunity and the target bonus that may be earned is 100% of such bonus opportunity. Subject to the discretion of the Compensation Committee, no bonus is paid unless the performance goals are achieved at the threshold level or above. A straight line sliding scale is used for calculating the percentage of bonus opportunity earned between the threshold and target levels. Participants may receive additional bonuses if performance exceeds the target level, with a maximum bonus opportunity of 200% of the Executive's target bonus award being paid if the Company achieves 130% of its financial performance objectives.

Bonuses for 2007 were to be paid to participants who remain employed on the date of payment in a combination of cash (70%) and restricted stock (30%), upon the Committee's determination and certification that performance goals were achieved for the fiscal year. The Committee believes that in providing for a portion of each NEO's bonus in restricted stock serves as a retention tool and better aligns the long term interests of the NEOs with the Company. Restricted stock awards will be granted under the Equity Plan (described below), and vest on the first anniversary of the date of grant. Subject to the prior approval of the Compensation Committee, participants may elect to have all or a portion of the cash bonus paid in immediately vested stock options.

Bonus opportunities for each NEO were based on tiers established in the Incentive Plan. Under the terms of the Incentive Plan, participants are divided into various tiers by level of function and scope of position within the Company with the CEO and senior business line executives being offered the highest bonus opportunities of up to 50%. Final slotting of participants within the various tiers is done by the CEO in conjunction with the Compensation Committee.

Bonus targets for 2007 were based on the Company's attainment of specified levels of EBITDA and earnings per share and the Compensation Committee approved the following bonus opportunities for the NEOs:

Name	2007 Bonus Opportunity	% Cash	% Restricted Stock
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Dinesh Desai, Chairman, President and Chief Executive Officer	50% Base Salary	35.0	%	15.0	%
Brian McAdams, Vice Chairman	30% Base Salary	21.0	%	9.0	%
Stephen Donnelly, Chief Financial Officer	30% Base Salary	21.0	%	9.0	%
Ronald Seitz, President Emtec Operations	50% Base Salary	35.0	%	15.0	%
Keith Grabel, President Sales and Marketing	\$ 75,000	\$ 52,500		\$ 22,500	

For the 2007 fiscal year, neither the Company's EBITDA nor its earnings per share met the targets set forth in the Incentive Plan and, accordingly, no bonuses were paid to our NEOs under the Incentive Plan. The Company estimated EBITDA and earnings per share targets in 2007 that it knew would be a challenge to achieve and which were, in part, based on the Company's goal of completing additional acquisitions. Separately, the Company paid bonuses in the amount of \$60,000 to Mr. Seitz as a signing bonus in connection with the execution of his amended and restated employment agreement and in the amount of \$220,000 to Mr. Grabel under the terms of his previous employment agreement.

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Because the Compensation Committee determines whether and how much cash bonus to pay each NEO based on a discretionary review of Company and individual performance, NEOs' bonuses are not considered to be performance based under Section 162(m) of the Internal Revenue Code. Therefore, the Company may not be able to deduct, on its corporate tax return, all of a NEO's base salary and bonus if the total amount of such base salary and bonus (and other compensation considered under Section 162(m) of the Code) exceeds \$1,000,000 in that fiscal year.

Equity Compensation

In General. The Compensation Committee believes that NEOs should be compensated in part with equity interests in the Company in order to more closely align the long-term interests of stockholders and executives. The Committee also believes that equity awards are an important means of attracting and retaining qualified executives. Accordingly, the Committee provides long-term incentives to its NEOs by means of periodic grants of stock options and restricted stock awards under the Company's 2006 Stock-Based Incentive Compensation Plan (the "Equity Plan") which, consistent with its overall compensation philosophy, are generally above the 50th percentile of persons holding comparable positions within its Peer Group. Stock awards available under the Equity Plan include restricted stock, stock options and deferred stock.

All grants of equity compensation to NEOs are made by the Compensation Committee. Whether grants are made and the type and size of any grants are based upon Company and individual performance, position held, years of service, level of experience and potential of future contribution to the Company's success. The Committee may also consider long-term incentive grants previously awarded to the NEOs, long-term incentive grants given to other executive officers throughout the Company's history and grant practices at Peer Group companies.

We do not have a program, plan or practice to time option grants in coordination with the release of material, non-public information, nor do we plan to time, nor have timed, our release of material, non-public information for the purpose of affecting the value of executive compensation.

2007 Equity Grants. On November 3, 2006, the Compensation Committee approved grants of restricted shares of the Company's common stock to each of our NEOs, based on the closing price of the Company's common stock on November 3, 2006 of \$1.24 per share. As a result, Mr. Desai received 114,919 shares, Mr. Donnelly received 43,548 shares, Mr. McAdams received 80,465 shares and Messrs. Grabel and Seitz were each awarded 100,806 shares.

These awards were granted both as an incentive to these executives and in particular for their performance in implementing the Company's merger with Darr Westwood Technology Corporation in 2005. The restricted share grants to each of Messrs. Desai, Donnelly and McAdams were completed on November 3, 2006 and the restricted share grants to Messrs. Grabel and Seitz, while approved by the Compensation Committee on November 3, 2006, were not awarded until February 5, 2007 in connection with the execution by each Executive of an amended employment agreement. In addition, prior to the granting of this award, Mr. Donnelly, our Chief Financial Officer, did not have significant holdings in the Company.

The restricted shares will vest, and the restrictions will cease to apply, in four equal tranches, on the first, second, third and fourth anniversaries of the grant date. The Compensation Committee believes that this vesting schedule serves to motivate and retain the recipients, providing continuing benefits to the Company beyond those achieved in the year of grant.

Stock Ownership/Retention Guidelines. The Company does not require its NEOs to maintain a minimum ownership interest in the Company.

Other Compensation and Perquisites

The Company provides few personal benefits to NEOs, and what personal benefits are provided are generally considered related to each NEO's performance of his duties with the Company. NEOs participate in the Company's 401(k) savings plans, health and benefit plans, and are entitled to paid time off based on the Company's general paid time off policies. In 2007, in addition to the principal categories of compensation described above, the Company provides its NEOs with coverage under its broad-based health and welfare benefits plans as well as certain personal-benefit perquisites to NEOs as summarized below. The aggregate

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incremental cost to the Company of the perquisites received by each of the NEOs in 2007 is included in the Summary Compensation Table above and described in the accompanying footnotes.

The Company provides a car allowance of \$15,000 per year to Mr. Seitz and a vehicle for Mr. Grabel's use, as well as other automobile benefits such as fuel, maintenance and insurance costs, under the terms of their respective employment agreements. Because of their positions within the Company and need to travel in connection with the Company's business, the Company believes that the provision of a vehicle is appropriate for each executive's performance of his duties. In addition, as reported in footnote (a) to the Summary Compensation Table, the Company paid \$5,769 in home office expenses to Mr. McAdams, an \$18,000 cash allowance to Mr. Seitz and \$5,778 in club dues to Mr. Grabel, all under the terms of their existing employment agreements.

The following are standard benefits offered to all eligible Company employees, including named executive officers.

Retirement Benefits. Two of the Company's subsidiaries, Emtec, Inc., a New Jersey corporation (Emtec NJ), and Emtec Federal, Inc. (Emtec Federal), maintain tax-qualified 401(k) savings plans for all of their eligible employees, including the NEOs.

Emtec NJ sponsors a 401(k) plan for all employees who are at least 20 years of age with at least 6 months of service. Eligible employees may contribute 2% to 75% of their annual compensation to the plan. Emtec NJ matches 25% of the first 6% of employee plan contributions. Participants are vested in employer contributions 20% after 2 years of service and vested an additional 20% after each subsequent year of service and are fully vested after 6 years. Each the Company's NEOs other than Mr. Grabel participate in this plan.

Emtec Federal maintains a defined contribution 401(k) pension plan for all employees who are at least 21 years of age with at least 12 months of service. Eligible employees may contribute 1% to 15% of their annual compensation to the plan. Emtec Federal matches 20% of the first 5% of employee plan contributions and may contribute additional amounts at its discretion. Participants are vested in employer contributions 100% after 3 years of service. Mr. Grabel participates in this plan.

Medical, Dental, Life Insurance and Disability Coverage. Active employee benefits such as medical, dental, life insurance and disability coverage are available to all eligible employees. The Company believes that these benefits are in line with those offered by similarly-situated companies and also believes it is essential to provide these benefits to NEOs, as well as the Company's other employees, in order to defray the rising costs of health care. The value of these benefits is not required to be included in the Summary Compensation Table since they are made available on a Company-wide basis to all eligible employees.

Other Paid Time-Off Benefits. We also provide paid time off and other paid holidays to all employees, including the NEOs, which are comparable to those provided at other large companies.

Policy with Respect to Employment Agreements

The Compensation Committee believes that it is important for the Company to enter into employment agreements with its NEOs for a number of reasons, including the ability to include non-competition and non-solicitation covenants in such employment agreements in order to reduce the risk that a key member of management is recruited by a competitor and the increased certainty resulting from negotiated employment agreements reduces that distraction caused by ongoing negotiations over compensation matters.

The Company currently has employment agreements with each NEO other than Mr. Desai and Mr. Donnelly, which are described further under the caption "Employment Agreements" below. Mr. Desai and Mr. Donnelly are currently paid a salary of \$285,000 and \$180,000, respectively, on an annual basis. The Board of Directors intends to put employment contracts in place in 2008 for these two executives.

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2007 Summary Compensation Table

The following table sets forth the aggregate compensation that we paid for services rendered by our Chief Executive Officer and our four most highly paid executive officers other than our Chief Executive Officer, during the fiscal year ended August 31, 2007.

(1) Amounts shown are the dollar amounts recognized as compensation expense for financial reporting purposes in 2006 under Statement of Financial Accounting Standard No. 123 (revised 2004), "Share-Based Payment" (FAS

123(R)), (excluding amounts for forfeitures) for shares of restricted stock granted in 2007. The fair market value of all the awards is equal to the market price of our Common Stock on the date of grant. Although the amounts included in the table do not reflect estimated forfeitures, the amounts actually recognized in our consolidated financial statements are reduced, in accordance with FAS 123(R), for estimated forfeitures. There were no named executive forfeitures in 2007. More information on the awards can be found in the 2007 Grant of Plan-Based Awards table on page 18.

(2) The amounts reported for each of the named executive officers in All Other Compensation are shown below:

Name	Year	Perquisites and Other Personal Benefits (\$) ^(a)	Promissory Notes (\$)	Company Contributions to 401(k) Plan (\$)	Total (\$)
Dinesh R. Desai	2007		250,913 ^(b)	1,151	252,064
Stephen C. Donnelly	2007			1,558	1,558
Ronald A. Seitz	2007	33,000		2,084	35,084
Keith Grabel	2007	14,838	163,519	3,138	181,495
Brian McAdams	2007	5,769		3,087	8,856

(a) Amounts shown in this column include the following for each named executive officer:

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Name	Year	Company Provided Automobile (\$) ^(c)	Automobile Allowance (\$)	Home Office (\$)	Club Dues (\$)	Cash Allowance (\$)	Total (\$)
Dinesh R. Desai	2007						
Stephen C. Donnelly	2007						
Ronald A. Seitz	2007		15,000			18,000	33,000
Keith Grabel	2007	9,060			5,778		14,838
Brian McAdams	2007			5,769			5,769

Amounts shown in this column includes the payment of \$104,165 under the terms of a management agreement to DARR Global Holdings, Inc., a management company controlled by Mr. Desai. The management agreement was (b)terminated on February 5, 2007 in connection with the issuance of a promissory note. See Certain Relationships and Related Transactions 5% Subordinated Promissory Note payable to DARR Global Holdings, Inc. for more information.

(c) The value of Mr. Grabel's company-provided automobile is calculated based on 100% of the annual lease value of the automobile.

2007 Grants of Plan-Based Awards Table

The table below sets forth information regarding grants of plan-based awards made to each of the named executive officers during 2007.

Represents the number of shares of Common Stock issuable upon vesting of restricted stock awards granted in November 2006 under our 2006 Stock-Based Incentive Compensation Plan. All of the restricted stock awards were approved by the Board of Directors on November 3, 2006 at a per share price of \$1.24. The restricted shares were (1) issued to Messrs. Desai, Donnelly and McAdams at the same time as the Board of Directors approval, while the grant of the restricted stock to Messrs. Grabel and Seitz were conditioned upon each officer executing an amended employment agreement and not issued until February 5, 2007.

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Outstanding Equity Awards at Fiscal Year-End 2007 Table

The table below sets forth the number of securities underlying outstanding plan awards for each named executive officer as of August 31, 2007.

Represents shares of restricted stock authorized for grant to each NEO on November 3, 2006 under our 2006 Stock-Based Incentive Compensation Plan. The restricted share grants to each of Messrs. Desai, Donnelly and McAdams were completed on November 3, 2006 while the restricted share grants to Messrs. Grabel and Seitz were (1) not completed until February 5, 2007 in connection with the execution by each officer of an amended employment agreement. One-quarter of the shares of restricted stock for Messrs. Desai, Donnelly and McAdams will vest on each of 11/3/07, 11/3/08, 11/3/09 and 11/3/10 and for Messrs. Grabel and Seitz will vest on each of 2/5/08, 2/5/09, 2/5/10 and 2/5/11. All restricted stock shares shown above were invested as of August 31, 2007.

Director Compensation

Our policy is not to pay director compensation to directors who are also our employees. Each outside director received an annual retainer of \$15,600. In addition, non-employee directors receive a fee for each regular meeting of the Board of Directors attended in person and a fee for each regular meeting of the Board of Directors attended telephonically and are also entitled to a fee for each special meeting of the Board of Directors attended. These meeting fees range from \$100 a meeting to \$1,000 per day per meeting. In connection with the agreement by Messrs. Chandler and Mannarino to serve as directors, each received a grant of 20,000 stock options. Additionally, each non-employee director receives an annual grant of 10,000 stock options. The stock options were immediately exercisable. Our non-employee directors are also reimbursed for out-of-pocket expenses incurred for each Board meeting or committee meeting attended and any other expenses incurred while working in his capacity as a Board member.

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The table below summarizes the compensation paid by the Company to each non-employee director for the year ended August 31, 2007.

Name	Fees Earned or Paid	Stock Awards (\$)	Option Awards (\$) ⁽¹⁾	Non-Equity Incentive Plan	Change in Pension Value and	All Other Compensation (\$)	Total
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	in Cash (\$)	Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)
Gregory P. Chandler	31,700	39,476	71,176
Robert Mannarino	31,650	29,520	61,170

Amounts shown are the dollar amounts recognized as compensation expense for financial reporting purposes in 2007 under FAS 123(R) (excluding amounts for forfeitures) for stock options granted in 2007. The fair value of all the awards were estimated using the Black-Scholes option-pricing model. We use the Black-Scholes formula to (1) calculate an assumed value of the options for compensation expense purposes; because the formula uses assumptions, the fair values calculated are not necessarily indicative of the actual values of the stock options. The assumptions used were a dividend yield of 0%; a risk-free interest rate of 4.43%; an expected life of five years; and a stock price volatility of 109.23%.

Potential Payments on Termination or Change in Control

The Company has entered into certain agreements that will require us to provide compensation to certain of our NEOs in the event of a termination of employment. A summary of these agreements follows.

Ronald Seitz. On February 5, 2007, the Company entered an amended and restated employment agreement with Ronald Seitz pursuant to which Mr. Seitz will serve as the Company's President of Emtec Systems Group for an initial period commencing on February 5, 2007, and terminating on August 31, 2008. This term may be extended annually for additional one-year periods with the mutual consent of Mr. Seitz and the Company. Under the terms of this agreement, Mr. Seitz is entitled to receive a base salary of \$250,000, increasing by 5% on the 5th day of August each year during the initial period, and during the initial period beginning with the fiscal year ended August 31, 2007, he will participate in the Company's Annual Incentive Plan as maintained by the Company for the benefit of senior executives. In addition, Mr. Seitz received a bonus of \$60,000 in connection with the execution of the agreement.

Mr. Seitz's employment is subject to early termination in the event of his death or disability or in the event that either he or the Company elects to terminate his employment. In the event his employment is terminated for any reason during the term of the agreement, Mr. Seitz will be entitled to any earned but unpaid base salary through the date of termination and to all amounts payable and benefits accrued under any applicable plan, policy, program, or practice of the Company in which he was a participant during his employment with the Company in accordance with the terms of the employment agreement. If Mr. Seitz's employment is terminated by the Company without cause or his employment terminates in the event of his death or disability, he will be entitled to his base salary for the entire initial term of employment and a pro-rata bonus payment for the year of his termination, as set forth in the employment agreement.

Keith Grabel. On February 5, 2007, Emtec Federal (formerly Westwood Computer Corporation) (Emtec Federal) entered an amended and restated employment agreement with Mr. Grabel pursuant to which Mr. Grabel will serve as Emtec Federal's President Sales and Marketing for an initial period commencing on February 5, 2007, and terminating on April 15, 2009. The term will automatically be extended for one (1) additional year at the end of the initial term, and again each successive year thereafter. Such annual extensions may cease by either party delivering written notice of such cessation to the other party with at least sixty (60) days notice. Under the terms of the agreement, Mr. Grabel is entitled to receive an annual base salary of \$250,000 in each of the first three years of the agreement term. Mr. Grabel's base salary for each year will be increased to \$275,000 in the event that Emtec Federal terminates its employment agreement with Mary Margaret Grabel.

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Mr. Grabel's employment is subject to early termination in the event of his death or disability or in the event that either he or Westwood elects to terminate his employment under certain circumstances. In the event that Mr. Grabel terminates his employment by resigning without good reason, he will be entitled to any earned but unpaid base salary through the date of termination. If Mr. Grabel otherwise terminates his employment during the term of the agreement, Mr. Grabel will be entitled to (i) any earned but unpaid base salary through the date of termination, (ii) a pro rata portion of his termination salary, which shall be (a) \$150,000 for the first year of the term of employment, (b) \$200,000 for the second year of the term of employment and (c) \$250,000 for the third year of the term of employment, (iii) payment for accrued vacation days, (iv) all amounts payable and benefits accrued under any applicable plan or arrangements of the company, and (v) payments due under the terms of a note (the Grabel Note) made by Emtec Federal in favor of Mr. Grabel on February 5, 2007 in the principal amount of \$671,300. If Westwood terminates Mr. Grabel's employment for any reason, Mr. Grabel will be entitled to (i) any earned but unpaid base salary through the date of termination, (ii) base salary for the balance of the agreement term, (iii) payment for accrued vacation days, (iv) all amounts payable and benefits accrued under any applicable plan or arrangements of the company, (v) all amounts due under the Grabel Note and (vi) all amounts due under the note in the amount of \$750,000 made by Emtec Federal in favor of Four Kings Management LLC.

Brian McAdams. On June 21, 2006, the Company entered into an employment agreement with Mr. Brian McAdams, our Vice Chairman, pursuant to which Mr. McAdams will continue to serve as Vice Chairman. The Agreement's original expiration date was August 31, 2007, although it may be extended annually for one-year periods at the discretion of the Company. Under the terms of the Agreement, Mr. McAdams is entitled to receive a base salary of \$200,000, payable in accordance with our normal payroll practices. In addition, beginning with the fiscal year ending August 31, 2006, Mr. McAdams is eligible to participate in our bonus compensation plan for executives.

Mr. McAdams's employment is subject to early termination in the event of his death or disability or in the event that either he or the Company elect to terminate his employment. In the event his employment is terminated for any reason during the term of the Agreement, Mr. McAdams will be entitled to any earned or accrued but unpaid base salary through the date of termination and to all amounts payable and benefits accrued under any applicable plan, policy, program, or practice of the Company in which he was a participant during his employment with the Company in accordance with the terms of the Agreement. In the case that Mr. McAdams's employment is terminated by the Company without cause, he will be entitled to his base salary payable in installments on regular payroll dates through the then current expiration date of the Agreement.

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MANAGEMENT

The following table sets forth certain information as to each of our executive officers:

Name	Age	Positions and Offices Presently Held
Dinesh R. Desai	57	Chairman of the Board, Chief Executive Officer and President
Brian McAdams	65	Director and Vice Chairman
Keith Grabel	55	Director and President - Sales and Marketing
Stephen C. Donnelly	49	Chief Financial Officer
John P. Howlett	63	Vice Chairman of Corporate Development
Ronald A. Seitz	60	President - Emtec Operations

Frank Blaul	42	Executive Vice President	Sales and Marketing
Sam Bhatt	40	Vice President of Finance and Secretary	

Dinesh R. Desai. Described as a director above.

Brian McAdams. Described as a director above.

Keith Grabel. Described as a director nominee above.

Stephen Donnelly. Since August 2005, Mr. Donnelly has served as the Chief Financial Officer of the Company. From 2002 to August 2005, Mr. Donnelly was the Chief Financial Officer of DARR Global Holdings, Inc. a management consulting firm. Since 2004, he has also served as an officer for Emtec Federal, Inc. (formerly Westwood Computer Corporation). Between 1993 and 2002, Mr. Donnelly worked as a Manager and Managing Director for Acquisition Management Services, Inc., a merger and acquisition advisory firm. Prior to that, he has worked as a Director of Operations for a privately-held human resource and employee benefits software developer and as a Financial Manager for a healthcare organization. Mr. Donnelly began his career with the accounting firm of PriceWaterhouse. He is a Certified Public Accountant with a Bachelor's degree in Accounting from Villanova University.

John P. Howlett. Since January 2006, John P. Howlett has served as the Vice Chairman of Corporate Development for the Company. From August 2005 to January 2006, Mr. Howlett served as President of Emtec Northeast Operations. He was the Company's Chairman of the Board and Chief Executive Officer from January 2001 to August 2005, the Chief Executive Officer of Emtec-NJ since August 1997 and the Chairman of Emtec-NJ since August 1998. He has also been a director of Emtec-NJ since October 1996. In 1983, Mr. Howlett founded the Cranford, New Jersey-based Comprehensive Business Systems, Inc. (CBSI). CBSI primarily provided microcomputer systems, network integration, training, and data communications to mid-size and Fortune 1000 corporations. In October 1996, CBSI merged into Emtec-NJ. Prior to founding CBSI, Mr. Howlett was with the AT&T Long Lines Division for twelve years. He earned a Bachelor of Science degree in Electrical Engineering from Rose Hulman Institute of Technology in Terre Haute, Indiana, and a Master of Business Administration degree from Fairleigh Dickinson University in New Jersey. A Vietnam veteran, Mr. Howlett served in the U.S. Army for four years.

Ronald A. Seitz. Since March 2006, Ronald A. Seitz has served as the President of Emtec Operations. From August 2005 to March 2006, Mr. Seitz was President of Emtec Southeast Operations. Prior to that time, he served in a variety of positions with the Company and its subsidiaries, including President and Chief Operating Officer from February 2003 to August 2005, Executive Vice-President and director from January 2001 and Executive Vice President of Emtec-NJ from March 1996. He has also been a director of Emtec-NJ since April 1995. In 1980, Mr. Seitz founded the Charleston, South Carolina-based Computer Source, Inc. (CSI). CSI primarily provided microcomputer systems, network integration, and data communications to mid-size and Fortune 1000 corporations. In April 1995, CSI merged with Landress Information Systems of Mt. Laurel, New Jersey to become Emtec-NJ. Prior to founding CSI, Mr. Seitz was employed for six years as an engineer with the U.S. government in Washington, DC. He graduated from North Carolina State University with a Bachelor of Science degree and from George Washington University with an MBA in computer science. Mr. Seitz also holds a DMD degree from the Dental School at the Medical University of South Carolina.

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Frank Blaul. Since July 15, 2007, Frank R. Blaul has served as Executive Vice President of Sales and Marketing. Prior to joining the Company, Mr. Blaul served as the Vice President of Global Government Sales and Marketing for the global centralized-computing-solutions provider Clear Cube Technologies. From 1997 to 2006, Mr. Blaul held various senior sales, marketing, and business development leadership positions with EDS, IBM, and ViON Corporation, an exclusive US Federal, state and local marketing arm for Hitachi Data Systems. From 1991-1997, Mr.

Blaul was the President and General Manager of a Mid-Atlantic regional office-products master distributor, a value-added reseller of microcomputer and network-integration solutions serving a broad range of Fortune 500, Government, and SMB customer segments. Prior to 1986, Mr. Blaul spent five years with Ruben H. Donnelley Corporation. Mr. Blaul attended Frostburg State University, where he studied Business and Computer Science.

Sam Bhatt. Since August 2005, Sam Bhatt has served as Vice President of Finance and Secretary for the Company. From January 2001 to August 2005, he was the Vice President of Finance and Treasurer of the Company and served in a similar role for Emtec-NJ since July 2000. From July 1997 to July 2000, he served as Director of Accounting for Emtec-NJ. He also held the positions of Accounting Manager (from 1994 to July 1997) and of Senior Accountant (from 1992 to 1994) at Emtec-NJ. Mr. Bhatt holds a Bachelor of Science Degree in business administration from Drexel University and a Diploma in Hotel Management from the Institute of Hotel Management and Catering Technology in Mumbai, India.

STOCK OWNERSHIP

Stock Ownership of Certain Beneficial Owners and Management

The following table sets forth, as of December 26, 2007, based on information obtained from the persons named below, with respect to the beneficial ownership of our common stock held by:

each person known by us to be the owner of more than 5% of our outstanding shares;
each director;
each executive officer named in the Summary Compensation Table; and
all executive officers and directors as a group.

Name and Address of Beneficial Owner ⁽¹⁾	Amount and Nature of Beneficial Ownership ⁽²⁾	Percent of Class
Dinesh R. Desai	8,456,452 (3)	54.4 %
Brian McAdams	680,645 (9)	4.6 %
Keith Grabel	2,006,428 (4)	13.5 %
Stephen C. Donnelly	43,548 (12)	0.3 %
John P. and Rosemary A. Howlett	595,759 (5)	4.0 %
Ronald A. Seitz	453,571 (6)	3.1 %
Gregory Chandler	50,000 (10)	0.3 %
Mary Margaret Grabel	2,235,383 (7)	14.7 %
Robert Mannarino	40,000 (11)	0.3 %
Carla Seitz		
P.O. Box 2243	332,858 (8)	2.2 %
Mt. Pleasant, SC 29465		
All executive officers and directors as a group (8 persons)	10,420,781	64.1 %

(1) Each stockholder's address is c/o Emtec, 525 Lincoln Drive, 5 Greentree Center, Suite 117, Marlton, New Jersey 08053, unless otherwise indicated.

(2) As used herein, beneficial ownership means the sole or shared power to vote, or direct the voting of, a security, or the sole or shared power to invest or dispose, or direct the investment or disposition, of a security. Except as otherwise indicated, all persons named herein have (i) sole voting power and investment power with respect to

their shares, except to the extent that authority is shared by spouses under applicable law and (ii) record and beneficial ownership with respect to their shares; also includes any shares issuable upon exercise of options or warrants that are currently exercisable or will become exercisable within 60 days of August 31, 2005.

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- 7,741,533 shares, including 1,319,045 shares issuable upon exercise of a warrant equal to 8% of the Company's outstanding common stock, are held by Mr. Desai through DARR Westwood LLC in which he is the sole member. 600,000 shares are held by DARR Westwood LLC through DARR Emtec LLC. Mr. Desai is the sole member of
- (3) DARR Westwood LLC and may be deemed to have beneficial ownership over the shares in DARR Emtec LLC beneficially owned by DARR Westwood LLC, however, Mr. Desai disclaims beneficial ownership of the shares except to the extent of his pecuniary interest. Also includes 114,919 shares of restricted stock granted on November 3, 2006 which vest over a four year period.
- Includes 1,905,622 shares owned by Margaret Mary Grabel, Mr. Grabel's spouse. Mr. Grabel disclaims any
- (4) beneficial ownership in these shares. Also includes 100,806 shares of restricted stock granted on February 5, 2007 which vest over a four year period.
- (5) Owned jointly with Rosemary Howlett, Mr. Howlett's spouse.
- Excludes 332,858 shares owned by Carla Seitz, Mr. Seitz's spouse. Mr. Seitz disclaims any beneficial interest in
- (6) these shares. Also includes 100,806 shares of restricted stock granted on February 5, 2007 which vest over a four year period.
- (7) Includes 329,761 shares issuable upon exercise of a warrant equal to 2% of outstanding common stock of the Company.
- (8) Excludes 453,571 shares owned by Ronald A. Seitz, Mrs. Seitz's spouse. Mrs. Seitz disclaims any beneficial ownership in these shares.
- (9) Includes 600,000 shares held by DARR Emtec LLC in which Mr. McAdams is a member and 80,645 shares of restricted stock granted on November 3, 2006 which vest over a four year period.
- (10) Includes 50,000 shares issuable upon exercise of options.
- (11) Includes 40,000 shares issuable upon exercise of options.
- (12) Includes 43,548 shares of restricted stock granted on November 3, 2006 which vest over a four year period.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company has a policy that the Audit Committee review any transaction in which the Company and its directors, executive officers or their immediate family members are participants to determine whether a related person has a direct or indirect material interest. The Audit Committee is responsible for reviewing and, if appropriate, approving or ratifying any such related party transaction. This policy is evidenced in the Audit Committee's written charter and has been further communicated orally by the Board.

In determining whether to approve, disapprove or ratify a related party transaction, the Audit Committee will take into account, among other factors it deems appropriate, (i) whether the transaction is on terms no less favorable to the Company than terms that would otherwise be generally available to the Company if the transaction was entered into under the same or similar circumstances with a party unaffiliated with the Company and (ii) the extent of the interest of the related party in the transaction.

Below are the related party transactions which occurred during the fiscal year ended August 31, 2007. All such related party transactions have been approved or ratified by the Company's Audit Committee or are pursuant to contractual arrangements entered into by Darr Westwood Technology Corporation (Darr) prior to its merger with the Company in 2005.

We occupy approximately 43,000 square feet of office and warehouse space in Springfield, New Jersey. This space is leased from Westwood Property Holdings, LLC, in which Mr. Keith Grabel, one of our directors and an executive officer, Mrs. Mary Margaret Grabel, spouse of our director and an officer, and Mr. David Micales, our Vice President of Operations are members. The lease term is through April 2009 with monthly base rent of \$15,000.

We occupy approximately 21,000 square feet of office and warehouse space in a 70,000 square foot building in Suwanee, Georgia. This space is leased from GS&T Properties, LLC, in which Messrs. John Howlett and Ronald Seitz, each an executive officer of our company, are passive investors, each owning an approximate 10% equity interest. The lease term is through November 2009 with monthly base rent of \$12,500.

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Other Agreements

Subordinated Note held by Darr Westwood LLC. Emtec Federal issued a promissory note dated April 16, 2004 to Darr Westwood LLC, a Delaware limited liability company, of which Mr. Desai is the sole member, or permitted assigns, whereby Emtec Federal promises to pay to the holder of such note the principal sum of \$750,000. Interest on the unpaid balance of the principal amount of the note is calculated at a floating rate per month equal to the prime rate as published in the Wall Street Journal under Money Rates plus four percent (4%), up to a maximum of ten percent (10%). The note reaches maturity on April 16, 2009. Until that date, Emtec Federal must pay to the holder of the note (i) \$194,482 on April 16, 2007, (ii) \$323,859 on April 16, 2008, and (iii) \$231,659 on April 16, 2009, the date the note matures. Accrued interest from April 16, 2004, until March 28, 2007, was due on March 28, 2007. Accrued interest from March 28, 2007 until March 28, 2008 is due on March 28, 2008. Accrued interest from March 28, 2008 until April 16, 2009 is due on April 16, 2009. In addition, the holder of the note is entitled to a quarterly revenue participation fee of 0.0875% of the gross revenue of Emtec Federal, subject to annual adjustments, total payments are capped at \$120,000 per year.

Subordinated Note held by Four Kings Management LLC. Emtec Federal issued a promissory note dated April 16, 2004 to Four Kings Management LLC, a Delaware limited liability company, which is an affiliate of Keith Grabel, or permitted assigns, whereby it promises to pay to the holder of such note the principal sum of \$750,000. Interest on the unpaid balance of the principal amount of the note is calculated at a floating rate per month equal to the prime rate as published in the Wall Street Journal under Money Rates plus four percent (4%), up to a maximum of ten percent (10%). The note reaches maturity on April 16, 2009. Until that date, Emtec Federal must pay to the holder of the note a principal monthly repayment beginning on May 16, 2005 of \$9,000 until the note has matured. Interest is payable on the last business day of each month beginning on April 30, 2004. In addition, the holder of the note is entitled to a quarterly revenue participation fee of 0.0875% of the gross revenue of Emtec Federal, subject to annual adjustments, total payments are capped at \$120,000 per year.

8% Subordinated Promissory Note held by Darr Westwood LLC. In connection with our 2005 merger with Darr and in exchange for certain preferred stock in Darr held by Darr Westwood LLC, Darr issued a promissory note dated August 5, 2005 to Darr Westwood LLC whereby it promises to pay to the holder of such note the principal sum of \$1,102,794. Interest on the unpaid balance of the principal amount of the note is payable at a rate of eight percent (8%) per annum. The note matures on April 16, 2009. Principal on the note is due in a single payment on the maturity date. Interest is payable annually beginning on August 5, 2008.

5% Subordinated Note payable to Keith Grabel. On February 5, 2007 in connection with the entry into an amended and restated employment agreement with Mr. Grabel, Emtec Federal issued a subordinated promissory note to Keith Grabel in the principal amount of \$671,300. Interest on the unpaid principal balance of the note is payable at a rate of

five percent (5%) per annum. The note reaches maturity on April 16, 2009. Until that date, Emtec Federal must monthly pay to Mr. Grabel 3.70% of the principal amount and all interest then accrued and unpaid on the note. The Company has guaranteed payment of all amounts due under the note pursuant to a guaranty dated February 5, 2007.

5% Subordinated Note payable to Mary Margaret Grabel. On February 5, 2007 in connection with the entry into an amended and restated employment agreement with Ms. Grabel, Emtec Federal issued a subordinated promissory note to Mary Margaret Grabel in the principal amount of \$655,600. Interest on the unpaid principal balance of the note is payable at a rate of five percent (5%) per annum. The note reaches maturity on April 16, 2009. Until that date, Emtec Federal must monthly pay to Ms. Grabel 3.70% of the principal amount and all interest then accrued and unpaid on the note. The Company has guaranteed payment of all amounts due under the note pursuant to a guaranty dated February 5, 2007.

5% Subordinated Note payable to DARR Global Holdings, Inc. On February 5, 2007 in connection with the termination of a Management Services Agreement between it and DARR Global Holdings, Inc. (DARR Global), Emtec Federal issued a subordinated promissory note to DARR Global. The principal amount of the note is \$1,002,900, and interest on the unpaid principal amount is payable at a rate of five percent (5%) per annum. Emtec Federal must repay the note at a rate of \$250,000 per annum in monthly principal payments of

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\$20,833 and all interest then accrued and unpaid on the note. However, if either (i) the Company achieves a defined EBITDA target or (ii) all amounts due under the notes issued to Mr. Grabel, Ms. Grabel and Four Kings Management LLC are paid in full, then Emtec Federal must repay the note at a rate of \$350,000 per annum. The Company has guaranteed payment of all amounts due under the note pursuant to a guaranty dated February 5, 2007.

Family Relationships

Mary Margaret Grabel, the spouse of Keith Grabel, is an employee of Emtec Federal and is the owner of approximately fifteen percent (15%) of our outstanding Common Stock. There are no other family relationships among our director or officers.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

The rules of the Securities and Exchange Commission require the Company to disclose late filings of stock transaction reports by its executive officers and directors and by certain beneficial owners of the Company's common stock. Based on our records and other information, except as provided below, we believe that each of our executive officers, directors and certain beneficial owners of the Company's common stock complied with all Section 16(a) filing requirements applicable to them during fiscal 2007. Messrs. Desai, Donnelly, McAdams, Seitz, Grabel and Bhatt each filed one late Form 4 during the fiscal year ended August 31, 2007.

STOCKHOLDER PROPOSALS FOR THE 2009 ANNUAL MEETING

Under SEC rules, qualified stockholders intending to present a proposal at the 2008 Annual Meeting and have it included in our proxy statement must submit the proposal in writing to Stephen C. Donnelly, Chief Financial Officer, Emtec, Inc., 525 Lincoln Drive, 5 Greentree Center, Suite 117, Marlton, New Jersey 08053. We must receive the proposal no later than October 15, 2008, and the proposal must comply in all other respects with applicable rules and regulations of the SEC relating to such inclusion.

HOUSEHOLDING

Some banks, brokers and other nominee record holders may be participating in the practice of householding proxy statements and annual reports. This means that only one copy of the Company's proxy statement or annual report may have been sent to multiple stockholders in your household. The Company will promptly deliver a separate copy of either document to you if you request one by writing as follows: Secretary, 525 Lincoln Drive, 5 Greentree Center, Suite 117, Marlton, New Jersey 08619; Telephone: 856-304-4030. If you want to receive separate copies of the annual report and proxy statement in the future, or if you are receiving multiple copies and would like to receive only one copy for your household, you should contact your bank, broker or other nominee record holder, or you may contact the Company at the above address and phone number.

OTHER MATTERS

The Board of Directors knows of no other matter that may be presented for Stockholders' action at the Annual Meeting, but if other matters do properly come before the Annual Meeting, or if any of the persons named above to serve as Directors are unable to serve, it is intended that the persons named in the proxy statement or their substitutes will vote on such matters and for other nominees in accordance with their best judgment.

The Company filed its Annual Report on Form 10-K for the year ended August 31, 2007 with the Securities and Exchange Commission on November 29, 2007. A copy of the Annual Report, including the financial statements and schedules thereto and a list describing all the exhibits not contained therein, may be obtained without charge by any Stockholder. Requests for copies of the Annual Report should be sent to: Sam Bhatt, Secretary, 525 Lincoln Drive, 5 Greentree Center, Suite 117, Marlton, New Jersey 08619.

By Order of the Board of Directors

/s/ Sam Bhatt
 Sam Bhatt
 Corporate Secretary

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 As of December 31

Reinsurance assets	underwriting	
reserves		
65.5	61.5 39.4	647.2 65033.2 ¹

OTHER MATTERS

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Losses and loss expenses, gross	284.8	291.4	272.3	6,348.6	6,104.6	6,347.5 ²
Future life benefits, gross	510.7	405.6	407.1	510.7	405.6	407.1

Ratios

Loss ratio (Losses divided by net premiums earned)

Acquisition costs ratio (Acquisition costs divided by net premiums earned)

30.1% 29.3% 22.7%

Administration expense ratio (Other operating and administration expenses divided by net premiums written)

3.8% 5.1% 3.7%

Combined ratio (Sum of the loss, underwriting expense and administration expense ratios)

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Converium Holding AG and Subsidiaries

Notes to the consolidated financial statements

1. Basis of preparation and significant accounting policies

(a) Basis of preparation

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.

Converium's financial statements have been prepared on the basis of accounting principles generally accepted in the United States (US GAAP) and comply with Swiss law and are stated in US dollars (USD).

The consolidated financial statements include all companies which Converium, directly or indirectly controls (more than 50% of voting rights). Investments in associated companies and joint ventures are accounted for by using the equity method with Converium recording its share of the associated company's net income and shareholders' equity.

Discontinued operations

On December 13, 2006, the Company sold all of its outstanding shares of capital stock in Converium Holdings (North America) Inc, to National Indemnity Company, a Berkshire Hathaway company, and accordingly, the operating results related to the North American operations including prior period amounts have been reclassified to discontinued operations. Prior year consolidated balance sheets and consolidated statements of cash flows have not been adjusted.

Restatement

An adjustment has been made to restate January 1, 2004 shareholders' equity components related to a specific reinsurance transaction, such that retained earnings increased and additional paid-in capital decreased by USD 58.6 million as at December 31, 2002. There is no net effect on shareholders' equity.

Segment presentation

Converium currently provides its services through three segments, Standard Property & Casualty Reinsurance, Specialty Lines and the Life & Health segment. Our North American operations were previously reported as the principal component of a separate segment, the Run-Off segment. 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. 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. Certain reclassifications have been made to prior year financial information to conform to the current year presentation.

(b) Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Therefore, actual results could differ from those estimates.

The most significant estimates include those used in determining reserves for non-life loss and loss adjustment expenses, premium accruals and deferred policy acquisition costs, reinsurance recoverables, impairments, income taxes and commitments and contingencies.

(c) Foreign currency

Converium's main functional currencies include the Euro, the UK pound, the Swiss franc, the US dollar and the Japanese yen. Assets and liabilities of all of Converium's branches and subsidiaries expressed in currencies other than US dollars are translated at the end of period exchange rates, whereas statements of income and cash flows are translated at average exchange rates for the period. Translation differences on functional currencies are recorded directly in shareholders' equity as cumulative translation adjustments, net of any related deferred taxes, if applicable. Any outstanding balances in foreign currencies arising from foreign currency transactions other than the functional currencies are translated at end of period exchange rates. Revenues and expenses are translated using the exchange rate at the date of the transaction. The resulting exchange differences are recorded in the statements of income.

(d) Non-life insurance and reinsurance

Premiums: Premiums from short-duration insurance and reinsurance contracts are recorded as written and are earned primarily on a pro-rata basis over the period that the related insurance or reinsurance coverage is in effect. However, for those contracts for which the period of risk differs significantly from the contract period, premiums are earned over

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the period of risk in proportion to the amount of insurance or reinsurance protection provided. The unearned premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage. Such reserves are computed by pro-rata methods based on statistical data or reports received from ceding companies.

In a typical reporting period, Convergium generally earns a portion of the premiums written during that period together with premiums that were written during earlier periods. Likewise, some part of Convergium's premiums written will not be earned until future periods. Convergium allocates premiums written but not yet earned to an unearned premium reserve, which represents a liability on Convergium's balance sheet. As time passes, the unearned premium reserve is gradually reduced and the corresponding amount is released through the income statement as premiums earned.

Convergium's premium earned and written estimates are regularly reviewed and enhanced as information is reported by clients and Convergium is able to refine estimates and assumptions. Convergium's estimation procedures are also affected by the timeliness and comprehensiveness of the information its clients provide to us. Premium for a retroactive reinsurance contract is recognized as earned at the inception of the contract.

Deferred policy acquisition costs: Acquisition costs, principally representing commissions and brokerage expenses, premium taxes and other underwriting expenses, net of allowances from retrocessionaires, which vary with and are directly related to the production of new business, are deferred and amortized over the period in which the related written premiums are earned.

Losses: Losses and loss expenses are charged as incurred. Unpaid losses and loss expenses represent the accumulation of estimates for ultimate losses based on reports and individual case estimates received from ceding companies. An amount is included for losses and loss expenses incurred but not reported (the IBNR) on the basis of past experience of Convergium and its ceding companies. Convergium does not discount its loss reserves, other than for settled claims with fixed payment terms.

The methods of determining such loss and loss expense estimates and establishing the resulting reserves are continually reviewed and updated and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Resulting adjustments are reflected as current expense in the period in which they become known. Since the reserves are based on estimates, the ultimate settlement may vary from the amount provided.

Deferred charges reinsurance assumed: The excess of the estimated ultimate claims payable over the premiums received with respect to retroactive property and casualty reinsurance contracts is established as a deferred charge which is subsequently amortized over the expected claim payment period. The timing and amount of expected future losses are re-estimated periodically. Deferred charge balances are adjusted accordingly on a retrospective basis via a cumulative adjustment with the net effect included in the amortization expense in the period of change, which is reflected in losses and loss adjustment expenses. Deferred charge balances are included in other assets in the balance sheet.

Participations at Lloyd's: Participations in syndicates operating at Lloyd's of London are accounted for using the periodic method. Convergium recognizes its proportionate share of the syndicates insurance and reinsurance premiums as revenue over the policy term, and claims, including an estimate of claims incurred but not reported, are recognized as they occur. On the closure of an underwriting year, typically three years after its inception, syndicates reinsure all remaining unsettled liabilities into the following underwriting year, a mechanism known as reinsurance to close (RITC). If Convergium has increased its participation from one year of account to the next, RITC paid is eliminated, as a result of this offset, leaving an element of the RITC received. This reflects the fact that the Company has assumed a greater proportion of the business of the syndicates. If the Company has reduced its participation from one year of account to the next, the RITC received is eliminated, leaving an element of RITC paid. This reflects the reduction in the Company's exposure to risks previously written by the syndicates.

(e) Life reinsurance

Recognition of reinsurance revenue and related expenses: Premiums from short-duration life reinsurance contracts are recognized as revenue over the remaining contract period in proportion to the amount of reinsurance protection provided. Premiums from long-duration life reinsurance contracts are recognized as revenue in a manner consistent with the underlying reinsured contracts. Benefits and commissions are provided against such revenue to recognize profits over the estimated life of the reinsurance contract.

Deferred policy acquisition costs: Acquisition and commission costs incurred in acquiring new business are deferred. Deferred policy acquisition costs are amortized over the expected life of the contracts as a constant percentage of expected premiums. Expected premiums are estimated at the effective date of the contract and are consistently applied throughout the life of the contract unless a premium deficiency occurs.

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Converium Holding AG and Subsidiaries

Notes to the consolidated financial statements

Deferred policy acquisition costs are subject to recoverability testing at the time of contract issue and at the end of each reporting period.

Future life benefits reserves and contract deposits: Liabilities for future life benefit reserves and contract deposits are estimated on bases consistent with those used for the original policies issued and with the terms of the reinsurance contracts.

(f) Retrocessions

Converium cedes reinsurance to retrocessionaires in the normal course of business. The cost of short-duration retrocessional contracts is amortized over the contract period in proportion to the amount of reinsurance protection provided consistent with the underlying assumed contracts. The cost of long-duration retrocessional contracts is amortized over the estimated life of the underlying assumed contracts. The difference, if any, between the amounts paid for the retrocessional contract and the amount of the liability for contract benefits relating to the underlying reinsured contracts is part of the estimated cost to be amortized. Reinsurance is recorded gross in the balance sheet. Reinsurance assets include the balances due from retrocessionaires for paid and unpaid losses and loss expenses, ceded unearned premiums and ceded future life benefits. Amounts recoverable from retrocessionaires are estimated in a manner consistent with the liabilities associated with the reinsured contract.

As part of Converium's risk management process Converium regularly evaluates the recoverability of its reinsurance assets taking into account all public domain information including the current rating of its retrocessionaires.

Converium establishes an allowance for potentially uncollectible reinsurance recoverables from retrocessionaires.

Converium immediately charges operations for any recoverable balances that are deemed to be uncollectible.

Collateral and other offsets are considered in determining the size of the allowance or expense.

(g) Deposit accounting transactions

In accordance with SFAS 113 and SOP 98-7 reinsurance contracts are assessed to determine if underwriting risk, defined as the reasonable possibility of a significant variation in the amount of payments and the reasonable possibility that the reinsurer will realize a significant loss and timing risk, defined as the reasonable possibility of a significant variation in the timing of cash flows, is transferred by the ceding company. In the event that a transaction does not meet the risk transfer requirements, the transaction will be accounted for under deposit accounting. A deposit asset or liability is recognized based on the consideration paid or received less any explicitly identified fees to be retained by the ceding or assuming company. Deposits for contracts that transfer only significant underwriting risk are subsequently measured based on the period of coverage until a loss is incurred, after which the present value of expected future cash flows under the contract is also accrued. Deposits for contracts that transfer only timing risk, or deposits for contracts that transfer neither significant timing nor underwriting risk, are accounted for using the interest method. Future cash flows are estimated to calculate the effective yield and revenue and expense are recorded as interest income or expense. The effect of contracts with indeterminate risk is not included in the determination of net income until sufficient information becomes available to reasonably estimate the impact. Any fee is recognized as other income/expense over the coverage period of the policy and is not recorded as a deposit asset/liability. Changes in the deposit amount are recorded in the statement of income as a loss or loss expense.

(h) Invested assets

The majority of Converium's fixed maturities and equity securities are classified as available-for-sale; these investments are carried at fair value. Fixed maturities for which Converium has the intent and ability to hold to maturity are classified as held-to-maturity. Held-to-maturity securities are carried at amortized cost, if purchased, or carrying value, if transferred from the available-for-sale category to the held-to-maturity category. The difference between the fair value and amortized cost at the date of transfer of such securities is amortized over the life of the respective securities. The carrying value of transferred securities is the fair value at the date of transfer less amortized net unrealized gains.

Investments in which the Company has significant influence over the operating and financial policies of the investee are accounted for under the equity method of accounting. Under this method, the Company records its proportionate share of income or loss from such investments in its results for the period. Any decline in value of equity method

investments considered by management to be other than temporary is charged to income in the period in which it is determined.

Unrealized gains or losses on investments carried at fair value are recorded in other comprehensive income, net of deferred income taxes.

When declines in values of securities below cost or amortized cost are considered to be other than temporary, an impairment charge is recorded as a realized capital loss in the statement of income for the difference between cost or amortized cost and estimated fair value.

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Realized gain or loss on disposals is based on the difference between the net proceeds received and the cost or amortized cost of the investment using the specific identification method. The amortization of premium and accretion of discount on investments in fixed maturities is computed using the effective interest method and is recorded in current period income. Dividends on equity securities are recorded as revenue on the ex-dividend date, the date that the dividends become payable to the holders of record.

Real estate held for investment, which is included in the balance sheet under the caption, "Other investments", is recorded at depreciated cost and is depreciated on a straight-line basis over thirty years. The gain or loss on disposal is based on the difference between the proceeds received and the carrying value of the investment.

Converium has an interest in certain partnerships which are engaged exclusively in making investments in direct private equity, private equity funds and hedge funds. These investments are carried at fair value as determined by the fund manager, with changes in fair value being recorded as other income or loss. Investments in hedge funds are recorded at fair value with changes in net asset value flowing through other comprehensive income as a separate component in shareholders' equity.

Short-term and other investments are recorded at cost which approximates fair value. Short-term investments are those with a maturity of greater than three months but less than one year from date of purchase.

The Funds Withheld Asset is carried at the principal balance plus accrued interest.

(i) Other-than-temporary impairments

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

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

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

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

Converium has outsourced investment management to recognized and experienced professional funds managers that also operate within the specific investment guidelines of the Company.

(j) Derivative instruments

Derivative financial instruments include swaps, futures, forwards and option contracts, which all derive their value from underlying interest, foreign exchange rates, commodity values or equity prices. Derivatives are subject to various risks similar to those related to the underlying financial instruments, including market, credit and liquidity risk.

Derivative instruments are recognized on the balance sheet at fair value with fair values based on quoted market prices or pricing models using current market rates. The recognition of changes in the fair value of a derivative depends on its intended use. Derivatives and other financial instruments are used to hedge exposures or modify exposures to interest rate and foreign currency risks. Changes in the fair value of derivatives used in hedging activities are, depending on the nature of the hedge, either recognized in earnings together with the change in fair value of the hedged item attributable to the risk being hedged, or recognized in other comprehensive income until the hedged item affects earnings. For all hedging activities, the ineffective portion of a derivative's change in fair value is immediately recognized through earnings. Derivatives not used in hedging activities are adjusted to fair value through earnings. Embedded derivatives in insurance contracts and investment contracts are separated from their host contracts and accounted for as derivative instruments under SFAS No.133, *Accounting for Derivative Instruments and Hedging Activities*.

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Converium utilizes foreign exchange swaps as part of its overall currency risk management. The objective is to manage the liquidity situation of Converium's entities in various currencies.

(k) Obligation to repurchase securities

Sales of securities under agreements to repurchase are accounted for as collateralized transactions and are recorded at their contracted repurchase amount plus accrued interest. Converium minimizes the credit risk that counterparties to transactions might be unable to fulfill their contractual obligations by monitoring customer credit exposure and collateral value and generally requiring additional collateral to be deposited with Converium when deemed necessary.

(l) Cash and cash equivalents

Cash amounts represent cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments with original maturities of three months or less.

(m) Fixed assets

Fixed assets, which are included in the balance sheet under the caption "Other assets", are carried at cost less accumulated depreciation and any necessary write-downs for impairment. The costs of fixed assets are depreciated principally on a straight-line basis over the following estimated useful economic lives: furniture and fixtures five to ten years; computer equipment and software three to five years. Maintenance and repair costs are charged to income as incurred; costs incurred for major improvements are capitalized and depreciated. Gains and losses on disposal of fixed assets are based upon their carrying volume.

(n) Goodwill and intangible assets

Identifiable intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives. The Company evaluates both the expected useful life and the recoverability of its intangible assets whenever changes in circumstances warrant. In accordance with SFAS 142, the Company reviews the carrying value of goodwill related to all of its investments for any impairment on at least an annual basis. If it is determined that an impairment exists, the excess of the unamortized balance over the fair value of the intangible asset will be charged to income at that time. If it has been determined that the estimated useful life of the intangible asset has changed the remaining unamortized balance of the intangible asset will be amortized on a straight-line basis over the newly determined expected useful life of the asset.

(o) Recognition and measurement of long-lived assets

Converium periodically reviews its long-lived assets to determine potential impairment. If the recoverable amount is less than the carrying amount of the asset, an impairment loss is recognized. The recoverable amount is measured using the sum of the asset's undiscounted estimated future cash flows expected to arise from the use of the asset and from its disposal at the end of its useful life. The impairment loss is measured as the difference between the carrying amount of the asset and its fair value. Fair value is defined as the market price less cost of disposal. If the market price is not available, fair value is estimated based on the present value of future cash flows.

(p) Income taxes

Taxes on income are accrued in the same period as the revenues and expenses to which they relate. Deferred income taxes are provided for all temporary differences that are based on the difference between financial statement carrying amounts and the income tax bases of assets and liabilities, tax effected using the enacted local income tax rates. The income tax basis of an asset or liability is calculated in accordance with the rules for determining taxable income established by the local taxation authorities. For a particular asset or liability, this may result in a deferred tax asset in one country but a deferred tax liability in another. In addition, a deferred tax asset is established for net operating loss carryforwards.

As required under SFAS No.109, *Accounting for Income Taxes* (SFAS No.109) Converium is required to assess if it is more likely than not that some or all of the net deferred tax assets will not be realized. A valuation allowance is recorded to reduce net deferred tax assets to the amount that is expected to be realized. Historical losses are considered among other factors in making this assessment. As a result of significant historical losses, a full valuation allowance was established against Converium AG's net deferred tax assets to reflect the continued net loss position of the Company. Converium AG may offset future taxable income against the existing net operating losses carried forward,

resulting in no tax expense on such income until such time as the net operating losses are utilized or expire, or the valuation allowance is released.

The Company does not affirmatively apply the exception to the recognition of deferred taxes under Accounting Principles Board Opinions No.23 (APB23), *Accounting for Income Taxes Special Areas* and therefore is required under SFAS No.109 to provide for taxes on the undistributed earnings of its foreign subsidiaries and foreign corporate joint ventures. However, due to various factors, including no positive undistributed earnings in any foreign subsidiaries or joint ventures and the availability of the participation exemption, no provision for taxes is made on earnings or other outside basis differences of the foreign subsidiaries and joint ventures.

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

(q) Employee benefits

Converium provides defined benefit plans for its European employees. The assets of these plans are principally held separately from Converium's general assets in trustee-administered funds.

In September 2006, the FASB issued *SFAS 158 Employers Accounting for Defined Benefit Pension and Other Post Retirement Plans* (SFAS 158). The Company adopted SFAS 158 prospectively on December 31, 2006. In accordance with the requirements of SFAS 158, the funded status of plans was determined as of the end of the fiscal year. Any over-funded or under-funded status relating to defined benefit plans is recognized as an asset or liability respectively. Contributions to defined contribution pension plans are charged to income as they become due. See Note 13 for further information on the impact of SFAS 158 on the Company.

Converium recognizes the expense related to incentive plans over the relevant performance period.

(r) Stock option accounting

On January 1, 2006, Converium adopted SFAS 123 (revised 2004), *Share-Based Payment* (SFAS 123(R)). In accordance with the requirements of SFAS 123(R), Converium uses the modified prospective method, and recognizes grants of employee stock options at the fair value of the award on the grant date. The fair values of all stock options granted by the Company are determined using the Black-Scholes-Merton model (B-S-M Model). The adoption of SFAS 123(R) did not have a material impact on the financial position or results of operations.

(s) Restructuring costs

Restructuring costs relating to employee service termination are measured initially at the communication date based on the fair value of the liability as of the termination date. Converium recognizes the liability ratably over the future service period of employees. Restructuring costs associated with changing the provisions of an existing lease are recognized and measured at fair value in the period in which the liability occurs.

(t) Contingencies

In accordance with SFAS No. 5 *Accounting for Contingencies*, management evaluates each contingent matter separately. A loss is recorded if probable and reasonably estimable. Management establishes reserves for these contingencies at its best estimate, or, if no one number within the range of possible losses is more probable than any other, the Company records an estimated reserve at the low end of the range of losses.

(u) New accounting pronouncements

The following new standards have been or will be required to be adopted by Converium in the future:

SFAS 155, Accounting for Certain Hybrid Instruments

In February 2006, the FASB issued SFAS 155, *Accounting for Certain Hybrid Instruments* (SFAS 155). This statement amends SFAS 133, *Accounting for Derivative Instruments and Hedging Activities* and SFAS 140,

Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities. The standard allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host contract) if the holder elects to account for the investment on a fair value basis. SFAS 155 also clarifies and amends certain other provisions in SFAS 133 and SFAS 140. This statement is effective for all financial instruments acquired or issued in fiscal years beginning after September 15, 2006. This guidance is currently not expected to have a material impact on the Company's results of operations and financial position.

SFAS 157 Fair Value Measurements

In September 2006, the FASB issued SFAS 157 *Fair Value Measurements* (SFAS 157). This standard provides enhanced guidance for using fair value to measure assets and liabilities. SFAS 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently in the process of evaluating the effect that the adoption of SFAS 157 will have on its results of operations and financial position.

The Company adopted SFAS 158 on December 31, 2006. See (q) Employee benefits.

SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued SFAS 159 The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). The fair value option established by SFAS 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A company shall report unrealized

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gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option may generally be applied instrument by instrument, is irrevocable, and, is applied only to entire instruments and not to portions of instruments. SFAS 159 becomes effective for financial years beginning after November 15, 2007. Converium is in the process of determining the impact of SFAS 159.

FASB Interpretation No. FIN 48, Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No.109

In June 2006, the FASB issued FASB Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes*, which clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with SFAS No.109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation requires that the impact of a tax position is recognized and measured in the consolidated financial statements, if that position is more likely than not of being sustained in an audit, based on the technical merits of the position. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods and disclosure. The new guidance is applicable for periods beginning after December 15, 2006 and is not expected to have a material impact on the Company's financial condition.

FASB Staff Position (FSP) FAS 123(R)-5 Amendment of FASB Staff Position SFAS 123(R)-1

In October 2006, the FASB issued FSB SFAS 123(R)-5, *Amendment of FASB Staff Position SFAS 123(R)-1*, which addresses whether a modification of an instrument in connection with an equity restructuring should be considered a modification for the purposes of applying SFAS 123(R)-1. This FSP becomes effective for fiscal years beginning after October 10, 2006 and is currently not expected to have a material impact on the Company's results of operations and financial position.

FASB Staff Position (FSP) FIN 46(R)-6 Determining the Variability to be Considered in Applying FASB Interpretation No. 46(R)

In April 2006, the FASB issued FSP FIN 46(R)-6 *Determining the Variability to be Considered in Applying FASB Interpretation No. 46(R)*. This FSP addresses how an entity should determine the variability when applying FIN 46(R). The variability will determine if an entity is a variable interest entity as well as the amounts of any expected losses or residual returns. This FSP is effective for reporting periods commencing after July 15, 2006. The Company is currently in the process of evaluating the impact that this FSP will have on its results of operations and financial position.

SEC Staff Accounting Bulletin 108 (SAB 108) Considering the Effects of Prior Year Misstatements when Qualifying Misstatements in Current Year Financial Statements

In September 2006, the SEC staff issued SAB 108 *Considering the Effects of Prior Year Misstatements when Qualifying Misstatements in Current Year Financial Statements*. SAB 108 was issued to eliminate the diversity of practice surrounding how public companies quantify financial statement misstatements. At December 31, 2006, the date of required adoption, this new guidance did not have a material impact on the results of operations and financial positions.

2. Discontinued operations

On December 13, 2006, the Company sold all of its outstanding shares of capital stock of Converium Holdings (North America) Inc. representing its North American operations to National Indemnity Company, a Berkshire Hathaway company for a total consideration of USD 295.0 million, including the Senior Note with a principal amount of USD 200.0 million and total cash proceeds of USD 95.0 million.

The Surplus Contribution Note between Converium Holding AG, Switzerland and Converium Reinsurance (North America) Inc. with a principal amount of USD 150.0 million and accrued interest amounting to USD 33.3 million has been sold and assigned to the buyer for a consideration of one US dollar.

As outlined in the transition service agreement, the Company will provide certain services to National Indemnity Company, however; estimated revenue is considered not material.

The Company reflects the sale of its North American operations as discontinued operations in accordance with Statement of Financial Accounting Standard No.144, Accounting for the Impairment or Disposal of Long-lived Assets . In the fourth quarter of 2006, a total loss on the transaction of USD 190.1 million, including transaction costs, was recognized.

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Table 2.1 summarizes total discontinued operations as presented in the statements of income comprising of the following components:

Table 2.1

(USD million)

Year ended December 31	2006	2005	2004
Income (loss) from operations of discontinued business	32.2	34.6	608.1
Loss on sale	190.1		
(Loss) income from discontinued operations, net of tax	157.9	34.6	608.1

Table 2.2 summarizes the components of the loss on sale:

Table 2.2

(USD million)

Year ended December 31	2006
Total consideration	295.0
Assumed Senior Note debt	200.0
Proceeds from sale received in cash	95.0
Interest receivable on Senior Note	21.0
Carrying value of North American operations	51.2
Transaction cost, and other items	11.0
Loss on sale of surplus note, including interest	183.3
Loss before realization of other comprehensive income (OCI) positions, including taxes	171.5
Realization of OCI items (foreign exchange, net unrealized losses on available-for-sale securities)	2.6
Tax impact, net (OCI)	16.0
Loss on sale	190.1

Table 2.3 summarizes the results of operations from discontinued business:

Table 2.3

(USD million)

Year ended December 31	2006	2005	2004
Total revenue	69.6	198.2	880.7
Total expenses	37.2	164.1	1,282.9
Income (loss) before taxes from discontinued operations	32.4	34.1	402.2
Income tax (expense) benefit	0.2	0.5	205.9
Income (loss) from operations of discontinued business	32.2	34.6	608.1

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3. Restructuring costs

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

4. Foreign currency translation and transactions

Table 4.1 summarizes the principal exchange rates, which have been used for translation purposes (US dollar per foreign currency unit). Net realized (losses) gains on foreign currency transactions, which are included in the other (loss) income line of the consolidated statements of income (loss), were USD (1.7) million, USD (0.5) million and USD (5.8) million for the years ended December 31, 2006, 2005 and 2004, respectively.

Table 4.1

Exchange rates against USD	Balance Sheets		Statements of income (loss)		
	2006	2005	2006	2005	2004
UK pound	1.9579	1.7167	1.8436	1.8195	1.8324
Euro	1.3198	1.1795	1.2564	1.2446	1.2439
100 Japanese yen	0.8399	0.8472	0.8601	0.9099	0.9254
Swiss franc	0.8205	0.7587	0.7986	0.8038	0.8059

5. Segment information

The primary measure of segment information, is segment income (loss), defined as income (loss) before other income (loss), interest expense, impairment of goodwill, amortization of intangible assets, restructuring costs and income taxes.

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. The lines of business by operating segment are as follows:

Standard Property & Casualty Reinsurance: General Third Party Liability, Motor, Personal Accident (assumed from non-life insurers) and Property.

Specialty Lines: Agribusiness, Aviation & Space, Credit & Surety, Engineering, Marine & Energy, Professional Liability and other Special Liability and Workers' Compensation.

Life & Health Reinsurance: Life & Disability and Accident & Health.

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 other expenses not allocated to the operating segments.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Converium accounts for inter-segment revenues and transfers as if the transactions were with third parties at current market prices.

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Table 5.1 below shows net premiums written by line of business.

Table 5.1

Net premiums written by line of business

(USD million)

Year ended December 31	2006	2005	2004
Standard Property & Casualty Reinsurance			
General Third Party Liability	229.7	146.7	379.1
Motor	143.1	188.4	437.4
Personal Accident (assumed from non-life insurers)	12.4	13.3	34.5
Property	431.7	390.6	526.4
Total Standard Property & Casualty Reinsurance	816.9	739.0	1,377.4
Specialty Lines			
Agribusiness	37.1	36.7	11.4
Aviation & Space	237.1	241.8	404.5
Credit & Surety	42.2	58.4	204.3
Engineering	61.7	65.5	112.2
Marine & Energy	58.1	64.0	82.5
Professional Liability and other Special Liability	297.6	282.8	436.5
Workers Compensation	4.4	11.5	313.9
Total Specialty Lines	729.4	737.7	1,565.3
Total non-life reinsurance	1,546.3	1,476.7	2,942.7
Life & Health Reinsurance			
Life & Disability	247.5	235.2	234.9
Accident & Health	58.2	71.2	78.3
Total Life & Health Reinsurance	305.7	306.4	313.2
Total	1,852.0	1,783.1	3,255.9

Table 5.2 below shows gross premiums written by geographic area of ceding company. Gross premiums written reflect the markets where the business is originally produced.

Table 5.2

Gross premiums written by geographic area of ceding company

(USD million)

Year ended December 31	2006	2005	2004
United Kingdom ¹	539.3	481.2	1,156.9

Germany	399.9	395.1	389.6
France	71.1	86.1	158.2
Italy	87.5	107.1	162.3
Rest of Europe	298.2	251.1	379.7
Far East	120.5	132.1	238.5
Near and Middle East	132.2	103.1	124.3
North America	235.7	306.7	752.7
Central and South America	96.5	92.5	130.0
Total	1,980.9	1,955.0	3,492.2

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.

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6. Invested assets and investment income

Table 6.1

Net investment income

(USD million)

Year ended December 31	2006	2005	2004
Investment income			
Fixed maturities	152.5	153.8	112.9
Equity securities	5.6	5.8	13.2
Short-term investments and cash and cash equivalents	28.6	11.6	7.1
Real estate	6.7	8.4	9.4
Other investments	25.2	24.7	20.3
Funds Withheld Asset	52.1	62.6	75.1
Total investment income	270.7	266.9	238.0
Investment expenses	8.2	6.9	8.8
Real estate expenses	2.1	2.2	1.7
Net investment income	260.4	257.8	227.5

The Funds Withheld Asset (see Note 16) was USD 940.7 million and USD 1,020.1 million as of December 31, 2006 and 2005, respectively. Net investment income on the Funds Withheld Asset is based on a weighted average interest rate similar to that of a bond portfolio.

Table 6.2

Net realized capital gains (losses)

(USD million)

Year ended December 31	2006	2005	2004
Fixed maturities:			
Realized capital gains	4.1	6.7	11.5
Realized capital losses	14.4	11.5	9.5
Equity securities:			
Realized capital gains	24.3	44.8	43.7
Realized capital losses	0.1	2.0	6.0
Write-down of impaired investments	11.7	9.2	6.2
Other	16.7	2.5	2.3
Net realized capital gains (losses)	18.9	31.3	31.2

In 2006, Converium's net realized capital gains decreased by USD 12.4 million to USD 18.9 million. Net realized gains from the sale of equity securities, largely related to the sale of PSP Swiss Property AG securities were largely offset by realized losses on fixed maturities securities and write-downs on impaired investments. Additionally, the sale of Swiss direct real estate holdings generated a USD 18.7 million realized gain and is reflected within the other realized gains line.

In 2005, Converium's net realized capital gains increased by USD 0.1 million to USD 31.3 million, primarily resulting from higher realized capital gains on the sale of equity securities offset by higher realized losses on fixed maturity securities in connection with ordinary trading activity.

In 2004, Converium's net realized capital gains were USD 31.2 million, primarily resulting from sales of equity securities to adjust its asset allocation to reduce investment portfolio risk.

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Table 6.3

Unrealized investment gains (losses) (included in other comprehensive income)

(USD million)	Net change for the year year ended December 31			Total as of December 31	
	2006	2005	2004	2006	2005
Fixed maturities held-to-maturity	2.5	3.0	4.3	4.3	6.8
Fixed maturities available-for-sale	21.8	46.5	0.9	41.6	19.8
Equity securities available-for-sale	45.2	4.6	24.2	120.1	74.9
Hedge funds and others	14.7	6.5	2.5	23.7	9.0
Less amounts of net unrealized investment gains (losses) attributable to:					
Net deferred income taxes	19.7	24.1	15.3	8.5	28.2
Total	55.3	62.5	40.4	98.0	42.7

Table 6.4

Investments in fixed maturities and equity securities

(USD million)	Cost or amortized cost		Gross unrealized gains		Gross unrealized losses		Estimated fair value	
	2006	2005	2006	2005	2006	2005	2006	2005
Year ended December 31								
Held-to-maturity								
Fixed maturities:								
US government	288.5	389.1	17.1		11.5	16.7	294.1	372.4
Other governments	14.6	13.1		0.7			14.6	13.8
Newly invested:								
US government	167.9	169.1			22.6	3.1	145.3	166.0
Other governments	247.3	222.3	0.1	4.3	2.1		245.3	226.6
Total held-to-maturity	718.3	793.6	17.2	5.0	36.2	19.8	699.3	778.8
Available-for-sale								
Fixed maturities:								
US government	852.1	1,166.3	0.4	2.9	12.3	21.5	840.2	1,147.7
Other governments	1,548.0	1,566.6	0.7	14.6	16.8	6.0	1,531.9	1,575.2
Corporate and other debt securities	757.7	888.6	1.3	6.4	14.8	9.5	744.2	885.5
Mortgage and asset-backed securities	6.3	568.1		0.3	0.1	7.0	6.2	561.4
Total	3,164.1	4,189.6	2.4	24.2	44.0	44.0	3,122.5	4,169.8

Equity securities	614.6	287.7	121.8	76.0	1.7	1.1	734.7	362.6
Total available-for-sale	3,778.7	4,477.3	124.2	100.2	45.7	45.1	3,857.2	4,532.4

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The following table presents the continuous periods during which investment positions were carried at an unrealized loss as of December 31, 2006:

Table 6.5

Maturities of unrealized investment losses on fixed maturities and equity securities

(USD million)	Estimated fair value	Less than one year	Greater than one year	Gross unrealized losses Total gross unrealized losses
As of December 31				
Held-to-maturity				
Fixed maturities	620.2	34.7	1.5	36.2
Available-for-sale				
Fixed maturities	2,916.5	23.1	20.9	44.0
Equity securities	58.3	1.4	0.3	1.7
Total available-for-sale	2,974.8	24.5	21.2	45.7

The estimated fair values and carrying values of fixed maturities are shown by contractual maturity below. Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

If the decline in fair value is judged to be other-than-temporary, and management has the intent and ability to hold the investments until recovery, no write-down is recognized.

Table 6.6

Fixed maturity schedule by maturity

(USD million)	Estimated fair value	% of total	Carrying value	% of total
	Available-for-sale (AFS)	AFS	Held-to-maturity (HTM)	HTM
As of December 31				
Less than one year	249.9	8.0		
One year through five years	1,931.6	61.8	599.4	83.4
Five years through ten years	689.6	22.1	118.9	16.6
Over ten years	53.1	1.7		
Subtotal	2,924.2	93.6	718.3	100.0
Mortgage and asset-backed securities	6.2	0.2		
Unit trust bonds	192.1	6.2		
Total	3,122.5	100.0	718.3	100.0

At December 31, 2005 real estate held for investment of USD 144.6 million, net of accumulated depreciation of USD 9.7 million, consisted primarily of investments in residential and commercial rental properties located in Switzerland, acquired in late 2001 from subsidiaries of Zurich Financial Services (ZFS). These properties were sold in the second half of 2006. The fire insurance value of Converium s fixed assets totaled USD 35.6 million at December 31, 2006 as compared with USD 128.2 million at December 31, 2005, which also included fire insurance values of real estate held for investments.

There are no investments in any entity in excess of 10% of shareholders equity at December 31, 2006 and 2005, other than investments issued or guaranteed by the US or sovereign governments or their agencies.

Converium utilizes foreign exchange swaps as part of its overall currency risk management. The objective is to manage the liquidity situation of Converium s entities in various currencies. There were no foreign exchange swaps outstanding at December 31, 2006 or 2005.

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7. Goodwill and other intangible assets

Included in other assets was goodwill of USD 49.2 million and USD 49.5 million at December 31, 2006, and 2005, respectively. At December 31, 2006 and 2005 the value of the amortizable intangible asset was nil.

Investment in GAUM

In March 2003, upon receipt of all regulatory approvals, Converium finalized an agreement to acquire a 25% stake in GAUM, a leading international commercial and general aviation underwriting agency, as a part of its strategy to strengthen its long-term position in the aviation and space line of business. Under the terms of the sale and purchase agreement, Converium paid an initial consideration of GBP 14.2 million (USD 22.4 million) and is additionally obligated to pay deferred consideration associated with the underlying performance of GAUM's in force business. In view of a capped limit on deferred consideration, the maximum amount payable by Converium for the 25% stake in GAUM is GBP 20.8 million (USD 32.7 million). In February 2004, Converium AG finalized a Sale and Purchase Agreement with Royal and Sun Alliance (RSA) to acquire a further 5.1% stake in GAUM, which increased its overall stake in GAUM to 30.1%.

An annual goodwill impairment test was carried out at December 31, 2006, and 2005 in respect of the 30.1% investment in GAUM and no impairment was required. At December 31, 2006 and 2005, the carrying value of goodwill associated with the 30.1% stake in GAUM was GBP 13.1 million (USD 23.4 million) and GBP 13.2 million (USD 23.6 million), respectively.

Converium will continue to reassess whether any impairment of goodwill is warranted as and when there is a change in current business circumstances, including termination and extension of the current fronting arrangements with Munich Re and National Indemnity which is due in 2007.

In the light of the S & P rating downgrade in 2004 and the need for subsequent fronting agreements with Munich Re and National Indemnity in order to sustain the aviation business from GAUM, Converium's management reassessed the remaining useful life of the other intangible asset. The remaining useful life was determined to be less than one year, and the other intangible asset balance as at December 31, 2004 of GBP 11.2 million (USD 20.6 million) was fully amortized in 2005 giving rise to a USD 21.5 million charge for the year ended December 31, 2005. The intangible asset related to established customer relationships of GAUM and was initially intended to be amortized over a useful life of ten years.

MDUSL Investment

As of December 31, 2006 and December 31, 2005, goodwill was USD 20.0 million related to Converium AG's 49.9% strategic investment in the Medical Defence Union Services Ltd (MDUSL). Converium conducts a yearly impairment test of the MDUSL investment. This business continues to perform in line with management's expectations. No impairment was recognized for the years ended December 31, 2006 and 2005.

See Note 17 and 25 for additional information on GAUM and the Medical Defence Union (the MDU).

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8. Losses and loss expenses

Significant delays occur in the notification of claims and a substantial measure of experience and judgment is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty as of the balance sheet date. The reserve for losses and loss expenses is determined on the basis of information currently available; however, it is inherent to the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

Table 8.1

Reserves for losses and loss expenses

(USD million)

Year ended December 31	2006	2005	2004
As of January 1			
Gross reserves for losses and loss expenses	7,568.9	8,908.3	7,879.7
Less reinsurance recoverable	761.0	914.5	1,041.3
Less net reserves for losses and loss expenses for discontinued operations	1,309.7		
Net reserves for losses and loss expenses	5,498.2	7,993.8	6,838.4
Loss and loss expenses incurred^{1, 2}			
Current year	1,234.2	1,922.3	2,881.9
Prior years	145.2	186.1	350.2
Total	1,089.0	1,736.2	3,232.1
Losses and loss expenses paid²			
Current year	229.8	451.0	541.4
Prior years	1,016.7	1,995.3	1,938.9
Total	1,246.5	2,446.3	2,480.3
Foreign currency translation effects	403.0	475.8	403.6
As of December 31			
Net reserves for losses and loss expenses	5,743.7	6,807.9	7,993.8
Reinsurance recoverable	604.9	761.0	914.5
Gross reserves for losses and loss expenses	6,348.6	7,568.9	8,908.3

¹ The loss and loss expenses incurred includes USD 114.2 million, USD 178.3 million and

USD
128.0 million of
loss and loss
expenses
included in the
Life & Health
Reinsurance
segment for the
years ended
December 31,
2006, 2005 and
2004,
respectively.

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

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

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.

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

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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 reserves for certain losses and loss expenses, such as those for settled claims with fixed payment terms, represent the present value estimates of the ultimate cost of all losses incurred but not paid through December 31 of each year. Deferred charges relating to retrospective reinsurance and structured settlements totaling USD 24.8 million, USD 31.2 million and USD 38.0 million as of December 31, 2006, 2005 and 2004, respectively, are as a result included in other assets.

Impact of property catastrophe losses

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

This was in contrast to the year ended December 31, 2005, which exhibited significant natural catastrophe large losses totaling USD 149.2 million: Winter Storm Erwin (USD 32.5 million), Continental European Floods (USD 24.8 million), Hurricane Katrina (USD 33.2 million), Hurricane Rita (USD 14.1 million) and Hurricane Wilma (USD 44.6 million). In 2004, Converium's large natural catastrophe losses included hurricanes in the US and the Caribbean, the Japanese typhoons and the tsunami in the Indian Ocean, with a total net impact of USD 98.4 million.

September 11th terrorist attacks

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

As of December 31, 2006, Converium recorded gross and net incurred losses and loss expenses related to the September 11th terrorist attacks as follows:

Table 8.2

September 11th incurred losses and loss expenses by segment

(USD million)	Gross losses	Retrocessional Reinsurance recoveries	Net losses
---------------	-----------------	---	---------------

Standard Property & Casualty Reinsurance	159.8	112.4	47.4
Specialty Lines	299.2	127.6	171.6
Life & Health Reinsurance	28.3	16.3	12.0
Total	487.3	256.3	231.0

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Included in the reinsurance recoveries above are USD 23.4 million due from ZFS and subsidiaries.

Certain arrangements with ZFS as described herein provide protection against potential adverse loss development on the September 11th terrorist attacks for Converium AG and Converium Rückversicherung (Deutschland) AG above the initial loss amounts recorded of USD 231.0 million, net of retrocessional reinsurance recoveries.

Converium AG's exposure under the Quota Share Retrocession Agreement (see Note 16) is limited for Extraordinary Events. The agreement limits Converium AG's losses arising out of any Extraordinary Event to USD 220.0 million and the parties have agreed that the September 11th terrorist attacks are an Extraordinary Event and that the USD 220.0 million limit applies to losses arising out of the September 11th terrorist attacks. Because Zurich Insurance Company (ZIC) and Zurich International Bermuda Ltd (ZIB), wholly owned subsidiaries of ZFS, retain losses in excess of the limit, ZFS will be responsible for non-payment, if any, by the retrocessionaires with regard to losses arising out of the September 11th terrorist attacks in excess of the USD 220.0 million limit.

ZIC will indemnify Converium Rückversicherung (Deutschland) AG for losses arising out of the September 11th terrorist attacks in excess of USD 11.0 million, net of retrocessional reinsurance recoveries.

Asbestos and environmental exposures

As of December 31, 2006 and 2005, Converium had reserves for environmental impairment liability and asbestos-related claims of USD 49.2 million, respectively, for each year. Converium's survival ratio (calculated as the ratio of reserves held, including IBNR, over claims paid over the average of the last three years) for asbestos and environmental reserves was 13.8 years at December 31, 2006 and 14.1 years at December 31, 2005.

9. Guaranteed Minimum Death Benefit (GMDB)

Converium assumed certain retrocession liability with regard to Guaranteed Minimum Death Benefit (GMDB) features attached to variable annuity policies written in the United States. These treaties are all in run-off and cover in total 1.1 million policies that were issued mainly in the late 1990s and that incorporate various benefit types originating from different primary insurers. Claims occur in the event of death if a policy is in-the-money, which means that the GMDB exceeds the account balance. Under these circumstances, the difference between the GMDB and the account balance or the GMDB and the cash surrender value becomes due, depending on the definition of the underlying reinsurance agreements.

The following types of Guaranteed Minimum Death Benefits are covered:

Return of premium: The GMDB is the amount of total deposits adjusted for partial withdrawals, if any.

Ratchet: After a given number of years, the GMDB is adjusted to the current account balance, if greater. Most common is a 1-year ratchet, meaning that the GMDB is adjusted annually on the policy's anniversary date.

Rollup: The GMDB increases each year from the initial premium adjusted for later deposits and partial withdrawals by a fixed percentage. Rollup guarantees reinsured under Converium's agreements grant an annual accumulation percentage between 3% and 7%. In many products, especially for higher rollup percentages, an upper limit applies (e.g. 200% of the paid policyholder premium adjusted for later deposits and partial withdrawals).

Reset: After a given number of years, the GMDB is adjusted to the current account balance. This means that the GMDB can be reduced but often not below the paid-up premium (adjusted for later deposits and partial withdrawals).

Combinations of the above.

Guarantees that increase over the time are, for a majority of the assumed business, only applied up to a certain age (e.g. 85). For the majority of the portfolio, a maximum death benefit age exists and as a consequence, Converium will be off the risk afterwards.

Converium does not hold any contract holder funds. These assets remain with the originating ceding companies.

The GMDB liability is determined each period based on the information provided by Converium's ceding companies. The current account value, the guaranteed death benefit and details of the covered benefit types are taken into consideration for the evaluation of the net amount at risk (NAR) and the expected future liability. The liability according to SOP 03-1 is estimated at the end of the reporting period.

For the evaluation of the liabilities, Converium uses an actuarial model that considers 1,000 stochastically generated investment performance scenarios. The mean performance assumed for equities is 9.6% and the mean performance for other investment types such as bonds and cash deposits varies between 4.8% and 5.7%. The corresponding volatility assumptions are 18.3% and 1.5% to 2.2%, respectively. The discount rate used in the model is stochastically generated in

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line with the other investment scenarios and takes into consideration the current yield level. It is assumed to be an average of 5.7% over the long run. The mortality assumption is 100% of the Annuity 2000 table. Lapse rates vary by duration and range from 6.5% to 20%. Partial withdrawals, either applied pro-rata or on a dollar-for-dollar basis according to the policy conditions, are also considered in the modeling.

The corresponding parameter, reflecting the on-average withdrawn amount of the account value, varies by duration and is assumed to range from 2.4% to 7.5% per annum.

As of December 31, 2006, the following values were estimated as described above:

Table 9.1

(USD million)	Average	GMDB	Account	NAR	Gross SOP 03-1 Reserve
Guarantee type	age		value		
Ratchet	67.4	1,520.4	1,398.1	193.3	26.3
Rollup	72.3	497.8	357.2	145.5	28.0
Rollup & ratchet	67.9	17.7	14.6	4.6	0.6
Return of premium	64.2	16.1	19.0	1.0	0.1
Reset	61.3	231.4	280.1	7.7	1.2
Reset & return of premium	63.1	95.9	112.4	1.8	0.3
Total	69.2	2,379.3	2,181.4	353.9	56.5

The table below shows the cash flow and claim reserves balances for the periods shown:

Table 9.2

(USD million)	2006	2005	2004
Year ended December 31			
Received reinsurance premium, net of commission and brokerage	4.0	3.3	5.1
Paid losses	10.4	12.1	13.3
As of December 31	2006	2005	
Claim reserves (including case reserves and IBNR)	4.0	5.4	

10. Retrocessional reinsurance and catastrophe protection

Retrocessional reinsurance

Retrocessional reinsurance arrangements generally do not relieve Converium from its direct obligations to its reinsureds. Thus, a credit exposure exists with respect to reinsurance ceded to the extent that any retrocessionaire is unable or unwilling to meet the obligations assumed under the retrocessional agreements. At December 31, 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. Converium is able to access outside capacity for both traditional and non-traditional coverage and therefore is not dependent upon any single retrocessional market.

As of December 31, 2006 recoverables, including insurance and reinsurance balances receivable, from subsidiaries of ZFS totaled USD 12.5 million, or 0.7% of shareholders' equity. There were no recoverables from any retrocessionaire that exceeded 10% of shareholders' equity as at December 31, 2006 or 2005. 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.
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National Indemnity Cover

In 2004, Converium acquired a retroactive high level stop-loss retrocession cover from National Indemnity Company, a Standard & Poor's AAA-rated member of the Berkshire Hathaway group. This contract provided excess of loss coverage protecting Converium AG and our North American operations against potential adverse reserve development on the underwriting years 1987 through 2003. In preparation for the sale of our North American operations and after a review of coverage requirements in December 2006, it was decided to commute this contract. This released USD 131.8 million of cash to Converium and due to a timing discount resulted in a charge of USD 11.5 million both of which were incurred 63% for Converium AG and 37% for our former North American operations.

Table 10.1

Underwriting reserves and reserves for unearned premium

(USD million)		Gross		Reinsurance assets		Net of reinsurance	
Year ended December 31	2006	2005	2006	2005	2006	2005	
Non-life loss reserves	6,348.6	7,568.9	604.9	761.0	5,743.7	6,807.9	
Future life benefits	510.7	405.6	42.3	44.1	468.4	361.5	
Total loss reserves	6,859.3	7,974.5	647.2	805.1	6,212.1	7,169.4	
Unearned premiums	682.3	610.8	31.1	37.8	651.2	573.0	

Table 10.2

Net premiums written and earned

(USD million)		Net premiums written			Net premiums earned	
Year ended December 31	2006	2005	2004	2006	2005	2004
Direct premiums	520.8	497.3	476.4	486.3	544.2	494.6
Assumed premiums	1,460.1	1,457.7	3,015.8	1,465.4	1,895.2	2,896.1
Ceded premiums	128.9	171.9	236.3	140.0	184.6	292.2
Total	1,852.0	1,783.1	3,255.9	1,811.7	2,254.8	3,098.5

Table 10.3

Benefits, losses and expenses

(USD million)		2006	2005	2004
Losses, loss expenses and life benefits				
Direct		-427.0	-451.5	-419.2
Assumed		-837.7	-1,432.4	-2,110.4
Ceded		76.9	163.8	134.6
Total		1,187.8	1,720.1	2,395.0
Acquisition costs				
Direct		-81.1	-71.4	-45.5
Assumed		-405.5	-477.6	-753.7
Ceded		4.5	11.6	45.3
Total		482.1	537.4	753.9

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Catastrophe protection

On June 15, 2004, Converium AG announced the successful private placement of USD 100.0 million of floating rate notes issued by Helix 04 Limited (Helix 04), a Bermuda special purpose exempted company. By means of a counter-party contract with the issuer, the transaction provides Converium with fully collateralized second and subsequent event protection for North Atlantic hurricane, US earthquake, Japanese earthquake and European windstorm property catastrophe exposures. The notes are triggered only by second and subsequent events in any of the four peril regions during the five-year term of the transaction.

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). The amount of losses that must be incurred before coverage applies relates to the type of loss event (e.g. earthquake, hurricane or windstorm).

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.

11. Debt

In December 2002, Converium Finance S.A. issued USD 200.0 million principal amount of non-convertible, unsecured, guaranteed subordinated notes (the Guaranteed Subordinated Notes). The Guaranteed Subordinated Notes are irrevocably and unconditionally guaranteed on a subordinated basis by both Converium Holding AG and Converium AG. The Guaranteed Subordinated Notes mature in full on December 23, 2032 and bear interest at the rate of 8.25% paid quarterly in arrears on March 15, June 15, September 15 and December 15. As of December 31, 2006, the carrying value of the Guaranteed Subordinated Notes was USD 194.1 million. The first call date is December 24, 2007.

Converium Holdings (North America) Inc. assumed USD 200.0 million principal amount of non-convertible, unsecured, unsubordinated Senior Notes (the Senior Notes) originally issued during October 1993 with a maturity date of October 15, 2023 and bearing an interest rate of 7.125%. The semi-annual interest payments were funded by Converium AG due to dividend restrictions of Converium Reinsurance (North America) Inc. The Senior Note was transferred to the National Indemnity company upon the sale of the North American operations (see Note 2).

Debt issuance costs and discounts were USD 5.9 million and USD 6.2 million at December 31, 2006 and 2005, respectively. Such costs are being amortized over the term of the related debt.

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12. Income taxes

Table 12.1 below illustrates the current and deferred income tax expense (benefit) for Converium.

Table 12.1

Current and deferred income tax expense (benefit)

(USD million)

Year ended December 31	2006	2005	2004
Current			
Switzerland	3.1	1.1	1.8
Non-Switzerland	7.2	13.1	13.0
Total current	10.3	12.0	11.2
Deferred			
Switzerland	0.6	0.1	20.1
Non-Switzerland	29.6	4.0	4.3
Total deferred	30.2	4.1	15.8
Total income tax expense (benefit)	40.5	16.1	4.6

Table 12.2 below provides a summary of items accounting for the difference between the Swiss federal income tax expense (benefit) computed at the statutory rate and the provision for income taxes reported in the consolidated financial statements. The statutory tax rate reflects the Swiss income tax rate for Converium AG before any income allocation to its branches.

Table 12.2

Expected and actual income tax expense (benefit)

(USD million)

Year ended December 31	2006	2005	2004
Income from continuing operations before tax	255.5	50.2	21.0
Statutory average tax rate	21.4%	21.4%	21.4%
Expected income tax expense (benefit)	54.7	10.7	4.5
Increase (reduction) in taxes resulting from:			
Change in valuation allowance	49.4	0.6	137.3
Foreign tax-rate differential	13.3	21.0	150.0
Tax exempt realized gains (losses) from equity securities	1.5	5.2	3.3
Changes in applicable tax rate			1.2
Prior year adjustments	3.1	2.7	3.0
Change in net operating loss			6.0
Hedge agreement (permanent difference due to ruling with tax authorities)	4.8	6.1	2.3
Forgiveness of debt	12.3		
Other reconciling items	3.2	2.2	11.0
Actual income tax expense (benefit)	40.5	16.1	4.6

Effective tax rate	15.9%	32.1%	21.9%
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For the year ended December 31, 2006, Converium's consolidated income tax expense of USD 40.5 million is comprised of USD 10.3 million of current income tax expense and USD 30.2 million of deferred income tax expense. The current portion reflects the net tax paying position of some affiliates and the financial statement benefit recognized for net operating loss utilization. Due to the establishment of a full valuation allowance on the net deferred tax position for certain

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other affiliates, no deferred income tax expense has been reported for these entities.

Due to the reorganization of the Company the profit allocation from Switzerland to Bermuda had to be reduced. This change resulted in an increase of net deferred tax assets and the valuation allowance on net deferred tax assets respectively. Both developments have been presented in the table prior as changes in applicable tax rate and change in valuation allowance. In addition to the described development, the change in valuation allowance was impacted by movements in temporary differences and net operating losses in all jurisdictions.

Converium's consolidated income tax expense for the year ended December 31, 2004 reflects an expense of USD 126.1 million related to the establishment of a valuation allowance against the net deferred tax assets at Converium AG. The effect was partially offset by an increase in deferred tax assets due to additional net operating losses related to the impairment of the carrying value of Converium AG's participation in the former North American operations and general reserve strengthening.

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

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

Converium's deferred income tax assets and liabilities are reflected in table 12.3 below:

Table 12.3

Deferred income taxes

(USD million)

As of December 31, 2006	2006	2005
Deferred income tax assets		
Loss reserve discount	3.1	3.4
Other technical adjustments	8.6	27.0
Accruals not currently deductible	14.2	0.7
Loss and benefits reserves	8.9	23.2
Net operating loss carryforwards	235.3	219.7
Goodwill		4.9
Investments	12.5	
Unrealized currency losses	17.6	33.1
Other	0.1	7.3
Total deferred income tax assets	300.3	319.3
Valuation allowance	120.2	157.0
Net deferred income tax assets	180.1	162.3
Deferred income tax liabilities		
Equalization reserves	89.2	59.4
Deferred policy acquisition costs	53.1	38.6
Unrealized appreciation of investments	24.3	35.1
Unrealized currency gains	45.1	10.7
Investments		8.8

Other technical adjustments		10.5
Other	9.3	6.3
Total deferred income tax liabilities	221.0	169.4
Net deferred income taxes as of December 31	40.9	7.1

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Included in the change in valuation allowance as of December 31, 2006 is a decrease of USD 8.8 million as a result of the fluctuation in foreign currency rates.

The current net income tax payable as of December 31, 2006 was USD 7.3 million. The current net income tax payable as of December 31, 2005 was USD 9.1 million as compared with a current net income tax receivable of USD 1.0 million at December 31, 2004.

13. Employee benefits

Personnel costs incurred for 2006, 2005 and 2004 were USD 82.8 million, USD 89.9 million and USD 87.4 million, respectively. The 2005 and 2004 amount includes costs related to the retention plans rolled out in September 2004 (see Note 14).

Defined benefit pension plans

Converium has defined benefit plans for its European employees. The employees of the North American operations which were sold in December 2006 participated in defined contribution plans which provided benefits equal solely to contributions paid plus investment returns. As at December 31, 2006 Converium no longer has defined contribution plans.

Employees of certain of Converium's entities are covered under various defined benefit pension plans. Eligibility for participation in these plans is either based on completion of a specified period of continuous service or date of hire. Benefits are generally based on the employees' years of credited service and average compensation in the years preceding retirement. Annual funding requirements are determined based on actuarial cost methods. The transition obligation (asset) was fully amortized at the end of 2003.

The Pension Fund of Converium AG (the Fund) is a foundation whose objective is to insure the personnel of Converium AG against the economic consequences of retirement, disability and death as provided by the statutory provisions of the plan rules. The Fund is a pension fund providing mandatory insurance as required by Swiss Federal Law and is supervised by the Canton of Zurich. The Fund's pension plan is a defined contribution plan in accordance with Swiss Federal Law, but it does not meet the definition of a defined contribution plan pursuant to SFAS No. 87,

Employers' Accounting for Pensions, because of certain defined benefit elements required by Swiss Federal Law. The overall goal of the plan is to maximize total investment returns to provide sufficient funding for present and anticipated future benefit obligations within the constraints of a prudent level of portfolio risk and diversification. Risk tolerance is established through careful consideration of plan liabilities, plan funded status and corporate financial condition. The investment portfolio contains primarily a diversified blend of equity and fixed income investments together with other asset classes, including real estate which are used to enhance long-term returns, while improving portfolio diversification. Investment risk is measured and monitored on a regular basis.

The assumptions about long-term rates of return on plan assets are based on the historical difference in performance between equities and government bonds. Historical markets are studied and long-term historical relationships between equities and fixed income securities are observed, consistent with the widely accepted capital market principle that assets with higher volatility generate a greater return over the long run. Current market factors such as inflation and interest rates are evaluated before long-term capital market assumptions are determined. The long-term portfolio return is established via a building block approach with proper consideration of diversification and rebalancing. Peer data and historical performance reviews are conducted as part of this process. See Table 13.7 for more information on the asset allocation mix in respect of the years ended December 31, 2006 and 2005.

The participants' contributions to the Fund typically amount to between 7% and 11.5% of the coordinated annual salary (defined as base salary minus coordination amount of 30%) depending on the insured participant's age and 7% of the annual incentive-based salary. By law, the employer's contribution must at least equal the contribution of the participant. Converium AG's contribution typically amounts to between 9% and 16% of the coordinated annual salary and 9% of the incentive-based salary. Converium AG's contributions to the Fund amounted to CHF 4.2 million (USD 3.4 million) in 2006 and CHF 6.3 million (USD 5.1 million) in 2005.

In addition, Converium's German operations Converium Rückversicherung (Deutschland) AG have a defined benefit scheme which is fully unfunded in accordance with German statutory law.

Converium uses a December 31 measurement date for all of its defined benefit plans. Based on the funded status of defined benefit and other post retirement benefit plans as of December 31, 2006, the Company reported an increase in pension liability of USD 6.6 million, a reduction in other comprehensive income, net of tax of USD 4.9 million and a decrease of deferred income taxes of USD 1.7 million.

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Participants may purchase pension benefits at their own cost at any time within certain limits defined by the plan rules or pre-finance their pension benefits reductions in case of early retirement.

The principal actuarial weighted average assumptions used to determine net periodic benefit cost for the years ended December 31, 2006, 2005 and 2004 are as follows:

Table 13.1

Weighted average assumptions

	2006	2005	2004
Discount rate	3.26%	3.02%	3.46%
Expected long-term rate of return on assets	5.00%	5.50%	5.50%
Future salary increases	2.00%	2.00%	2.00%
Future pension increases	0.70%	0.65%	0.89%

The amounts recognized in the balance sheet were as follows:

Table 13.2

(USD million)	2006	2005	2004
Change in projected benefit obligation			
Projected benefit obligation as of January 1	89.0	109.4	80.3
Service cost	7.3	7.3	7.4
Interest cost	2.8	3.1	3.2
Settlements/curtailments		19.7	
Actuarial losses (gains)	4.6	5.2	10.1
Benefits paid	1.7	2.3	0.9
Foreign currency translation effects	7.2	14.0	9.3
Projected benefit obligation as of December 31	100.0	89.0	109.4
Change in fair value of plan assets			
Fair value of plan assets as of January 1	55.5	68.2	50.6
Actual return on plan assets	2.0	4.4	2.5
Employee contributions	2.4	2.6	3.1
Employer contributions	3.8	5.6	7.1
Settlements/curtailments		13.8	
Benefits paid	1.7	2.3	0.9
Foreign currency translation effects	4.7	9.2	5.8
Fair value of plan assets as of December 31	66.7	55.5	68.2
Reconciliation of funded status			
Projected benefit obligation	100.0	89.0	109.4
Fair value of plan assets as of December 31	66.7	55.5	68.2
Funded status	33.3	33.5	41.2

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Table 13.3

(USD million)	2006	2005	2004
Amounts recognized in the consolidated balance sheets			
Accrued benefit liability	33.3	26.3	31.7
Amounts recognized in Accumulated Other Comprehensive Income (AOCI)			
Actuarial loss(gain)	9.0		
Past service cost	0.8		
Additional minimum pension liability		3.8	7.7
Total pension asset/liability recognized	8.2	3.8	7.7
Assets/liabilities recognized in the consolidated balance sheets			
Current liabilities	0.6		
Non-current liabilities	32.7		
Total assets/liabilities recognized	33.3		

At December 31, 2006, 2005 and 2004 the accumulated benefit obligation with respect to all of the Company's defined benefit plans is USD 91.4 million, USD 82.4 million and USD 100.7 million, respectively.

Service costs include participant contributions of USD 2.4 million, USD 2.6 million and USD 3.1 million for the years ended December 31, 2006, 2005 and 2004, respectively.

The net periodic benefit expense in the income statement consists of the following components:

Table 13.4

Net periodic benefit expense

(USD million)	2006	2005	2004
Year ended December 31			
Service cost	7.3	7.3	7.4
Interest cost	2.8	3.1	3.2
Expected return on plan assets	3.0	3.6	3.1
Employee contributions	2.4	2.6	3.1
Amortization of transition obligation			
Amortization of actuarial (gains) losses	0.2	0.7	
Amortization of past service cost	0.2	0.2	0.2
Loss on settlements/curtailments		2.2	
Net periodic benefit expense	4.7	6.9	4.2

The movement in the accrued benefit liability was as follows:

Table 13.5

Accrued benefit liability

(USD million)			
As of December 31	2006	2005	2004
Balance at January 1	26.3	31.7	26.0
Current year expense	4.7	6.9	4.2
Contributions paid	3.8	5.6	7.1
Change in additional liabilities	4.1	2.8	6.5
Foreign currency translation effects	2.0	3.9	2.1
Balance at December 31	33.3	26.3	31.7

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The expected future cash flows to be paid by Converium in respect of pension plans at December 31, 2006 was as follows:

Table 13.6

Expected future cash flows

(USD million)

Employer contributions

2007 (estimate) 4.9

Expected future benefit payments

2007 3.7

2008 3.8

2009 3.8

2010 3.9

2011 3.9

2012 2016 21.6

The weighted average assets allocation of funded defined benefit plans at December 31, 2006 was as follows:

Table 13.7

Weighted average assets allocation of defined benefit plans

Year ended December 31	Long-term target		2006	2005
Equity securities	19%	33%	32%	24%
Debt securities	46%	70%	51%	55%
Real estate	14%	20%	16%	17%
Cash and other investments	0%	8%	1%	4%
Total			100%	100%

The following table summarizes the effect of required changes in the additional minimum pension liabilities (AML) as of December 31, 2006, prior to adoption of FAS 158 as well as the impact of the initial adoption of FAS 158.

Table 13.8

Initial adoption impact of SFAS 158

(USD million)	Pre-FAS 158 with AML adjustments	Adjustment to initially apply FAS 158	Post AML and FAS 158 Adjustments
Other liabilities	26.7	6.6	33.3
Accumulated other comprehensive income	1.6	6.6	8.2
Accumulated other comprehensive income, net of tax	1.0	4.9	5.9

14. Share compensation and incentive plans

Converium has various incentive- and share-based compensation plans to attract, retain and motivate management and employees, to reward them for their contributions to Converium's performance and to encourage employee share ownership.

(a) Cash-based incentive plans

Converium operates a short-term incentive program (Annual Incentive Plan or AIP) for all employees. Awards are made in cash based on the accomplishment of both organizational and individual performance objectives. The compensation expense incurred in 2006, 2005 and 2004 in connection with these plans was USD 8.7 million, USD 12.1 million and USD 0.9 million, respectively.

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Employee retention plan

In September 2004, Converium adopted a retention plan for certain of its key employees in order to ensure the successful continuation of business operations and the orderly run-off of its formerly owned North American operations. The total cost of the program was USD 28.8 million, over a three year period with the last installment paid in January 2006. The continuing operations portion was USD 7.1 million and USD 11.6 million for 2005 and 2004, respectively. Included in the results for discontinued operations for 2006 is an accrual of USD 0.8 million for payments to certain North American employees following the finalization of the sale of the North American operations in December 2006. No further amounts are expected to arise.

(b) Share-based incentive plans

Share-based compensation plans include all plans under which shares or options to purchase shares are awarded. The grant of shares and options to purchase shares in Converium Holding AG is at the discretion of the Nomination and Remuneration Committee of the Board of Directors. The most significant of these are described in the following plans.

Employee Stock Purchase Plan

Converium adopted an Employee Stock Purchase Plan (the ESPP) on January 1, 2002. The ESPP has two offering periods beginning January 1 and July 1 of each year. Substantially all employees meeting specified service requirements are eligible to participate in the ESPP. Participants may contribute between 1% and 15% of base salary towards the purchase of Converium Holding AG shares, up to certain limits. Employees who enroll in the ESPP purchase Converium Holding AG shares at 85% of the lower of the stock's fair market value on the first or last day of the offering period.

Annual Incentive Share Plan

Certain executives receive a minimum of 25% of their Annual Incentive Plan in the form of Converium shares. All employees may elect to receive up to 50% of their AIP in Converium shares. If these AIP shares are held for a three-year period, employees receive an additional share award equal to 25% of their AIP shares.

Table 14.1 summarizes the status of Converium's share plans for 2006, 2005 and 2004.

Table 14.1

Status of unvested shares

	2006	2005	2004
Unvested shares at beginning of year	427,376	457,182	160,859
Shares granted	385,827	262,158	438,795
Shares vested	216,104	220,109	30,288
Shares forfeited	68,637	71,855	112,185
Unvested shares at end of year	528,462	427,376	457,181

The total fair value of shares vested during the years ended December 31, 2006 and 2005, was USD 2.6 million and USD 2.8 million, respectively.

Long-Term Incentive Plan (LTIP)

The LTIP is designed to align the interests of management closely with those of shareholders and to encourage share ownership. LTIP awards are made to senior employees and are awarded in a combination of 50% Converium shares and 50% options to purchase shares in Converium Holding AG. Shares vest ratably over three years.

(c) Option-based incentive plans

Options are issued with an exercise price equal to the market value of the shares or ADSs on the grant date. 25% of the options vest immediately on the grant date and 25% vest each year thereafter or upon retirement. The options expire 10.5 years after the date of grant. Due to the sale of the North American operations as of December 13, 2006, un-vested grants for active North American employees forfeited as of the sale date. Any unexercised options will forfeit as of March 13, 2007.

Executive IPO option plan

In connection with the Transactions, Converium granted certain executives options to purchase shares in Converium Holding AG (the Executive IPO Option Plan). Under the Executive IPO Option Plan, 420,000 options to purchase shares in Converium Holding AG were awarded. The exercise prices were equal to the market value of the shares or ADSs on the grant date. Executive IPO Options are now fully vested and expire 10.5 years after the date of grant. Table 14.2 summarizes the status of Converium s outstanding stock options for 2006, 2005 and 2004.

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Table 14.2
Outstanding stock options

	Options	2006 Weighted average exercise price	Options	2005 Weighted average exercise price	Options	2004 Weighted average exercise price
Outstanding at beginning of year	2,607,792	CHF 14.95	2,359,954	CHF 45.88	1,728,744	CHF 71.17
Granted	786,495	15.38	760,325	12.87	1,238,640	17.75
Exercised	541,296	10.31	123,637	9.59	39,806	68.64
Forfeited	409,539	19.63	388,850	14.59	567,624	59.90
Outstanding at end of year	2,443,452	14.71	2,607,792	14.95	2,359,954	45.88
Options exercisable at end of year	1,432,933	15.40	1,709,400	16.73	1,311,491	61.38

On December 31, 2006, the aggregate intrinsic value of the options outstanding and options exercisable was USD 5.9 million and USD 3.5 million, respectively. The total intrinsic value of options exercised during the years ended December 31, 2006 and 2005 was USD 2.4 million and USD 0.4 million, respectively.

The fair value of options granted was estimated on the date of grant using the Black-Scholes-Merton option pricing model. The expected dividend yield reflects Converium's long-term dividend policy. Expected volatilities are based on implied volatilities from publicly traded options on Converium shares. The expected life of the options is based on the longest vesting period of the grants made. The risk-free rate for periods within the contractual life of the option is based on Swiss franc interest rates of Swiss Government bonds at the time of grant.

Table 14.3 shows the weighted average assumptions for employee options with an exercise price equal to the market price of the stock on the grant date.

Table 14.3
Weighted average

	2006	2005	2004
Risk-free rate	2.44%	2.21%	2.11%
Expected life	3 years	3 years	3 years
Expected volatility	28.66%	31.08%	31.79%
Dividend yield	1.50%	1.50%	2.05%
	USD	USD	USD
Fair value of options granted	2.48	3.19	3.33

Table 14.4 shows the weighted average assumptions for Board of Director options whose exercise price is less than the market price of the stock on the grant date.

Table 14.4
Weighted average

	2006	2005	2004
Risk-free rate	2.50%	n/a	n/a
Expected life	3 years	n/a	n/a
Expected volatility	28.00%	n/a	n/a

Dividend yield		1.50%	n/a	n/a
		USD		
Fair value of options granted		4.19	n/a	n/a

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Table 14.5 shows the weighted average assumptions for Board of Director options with an exercise price higher than the market price of the stock on the grant date.

Table 14.5

Weighted average

	2006	2005	2004
Risk-free rate	n/a	2.00%	1.17%
Expected life	n/a	3 years	3 years
Expected volatility	n/a	32.00%	21.84%
Dividend yield	n/a	1.50%	2.21%
		USD	USD
Fair value of options granted	n/a	0.10	9.65

Table 14.6 summarizes information about stock options outstanding at December 31, 2006:

Table 14.6

Weighted average of options outstanding/exercisable

Range of exercise prices	Number outstanding	Options outstanding		Options exercisable	
		Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
CHF 8.64 13.94	1,116,708	8.23	CHF 11.36	676,105	CHF 11.40
CHF 14.80 18.60	1,151,946	8.56	CHF 16.00	582,030	CHF 16.37
CHF 26.50 33.22	174,798	4.54	CHF 27.61	174,798	CHF 27.61
CHF 8.64 33.22	2,443,452	8.12	CHF 14.71	1,432,933	CHF 15.40

(d) Compensation expense

The compensation expense charged to income under the share-based incentive plans was USD 4.2 million, USD 5.0 million and USD 5.7 million in 2006, 2005 and 2004, respectively. As of December 31, 2006, there was USD 4.9 million of total unrecognized compensation cost related to non-vested shares and options; that cost is expected to be recognized over a period of 1.3 years.

(e) Cash used / received

Cash received from option exercise under all share-based payment arrangements for the years ended December 31, 2006 and 2005 was USD 4.5 million and USD 0.9 million, respectively. In order to fulfill its obligations under the various employee share plans Converium has repurchased shares on the open market. In 2007, Converium plans to continue repurchasing its own shares on the open market with an expected number between 500,000 and 700,000 shares. Cash used for this activity in years ended December 31, 2006, 2005 and 2004 amounts to USD 16.7 million, USD 1.5 million, and USD 6.5 million, respectively.

15. Shareholders equity

(a) Issued share capital

Upon incorporation on June 19, 2001, Converium Holding AG had share capital of CHF 100,000 divided into 10,000 fully paid registered shares with a nominal value of CHF 10 each, all of which were entitled to receive dividends. On September 24, 2001, the Extraordinary General Meeting of the shareholders passed two resolutions to increase the share capital to CHF 400 million, divided into 40 million fully paid registered shares with a nominal value of CHF 10 each, all of which were entitled to receive dividends.

In October 2004, Converium's share capital was increased by CHF 533,416,225 by issuing 106,683,245 shares at CHF 5 each. The additional shares were issued and Converium's corresponding capital increase (and reduction of the nominal value) were recorded, in the Commercial Register of the Canton of Zug, Switzerland on October 12, 2004.

After the registration of the shares in the Commercial Register of the Canton of Zug, Converium's issued, outstanding share capital was CHF 733,447,310, divided into 146,689,462 shares with a nominal value of CHF 5.

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(b) Authorized share capital

At the Annual General Meeting on April 27, 2004, the shareholders resolved to create authorized share capital and amended the Articles of Incorporation, which provides that the Board of Directors is authorized, on or before April 27, 2006, to increase the share capital by the issuance of up to a maximum of four million fully paid-up registered shares each of CHF 10 nominal value amounting to a maximum of CHF 40 million. Subsequent to the reduction of the nominal value of each of Converium's shares from CHF 10 to CHF 5 as a result of the resolution by the shareholders at the EGM of September 28, 2004, Converium's authorized capital is now CHF 20,000,000 with the Board being authorized to issue up to four million shares.

At the Annual General Meeting on April 11, 2006 the shareholders resolved to extend the authority of the Board of Directors to increase the share capital until April 11, 2008.

At December 31, 2006, no shares were issued from the authorized share capital.

(c) Contingent share capital

At the Annual General Meeting on April 27, 2004, Converium Holding AG amended its Articles of Incorporation to state that the previously available conditional share capital for use in conjunction with the employee participation plans has been replaced by a conditional share capital for option rights and/or conversion rights for a number of four million shares or CHF 40,000,000 in nominal share capital.

Subsequent to the reduction of the nominal value of each of Converium's shares in October 2004, its conditional capital is now for a number of four million shares of CHF 5 nominal value each, amounting to a maximum of CHF 20,000,000 pursuant to which up to four million shares can be issued upon exercise of conversion or option rights allotted in connection with bonds and other financial market instruments.

At December 31, 2006, no shares were issued from the contingent share capital.

(d) Dividend restrictions, reductions in the registered shares nominal value and capital and solvency requirements

Converium Holding AG is subject to legal restrictions on the amount of dividends it may pay to its shareholders under the Swiss Code of Obligations. The Swiss Code of Obligations provides that 5% of the annual profit must be allocated to the general reserve until such reserve in the aggregate has reached 20% of the paid-in share capital. Similarly, the Company laws of countries in which Converium entities operate may restrict the amount of dividends payable by such entities to their parent companies.

As of December 31, 2006, Converium Holding AG had 146,689,462 registered shares with a nominal value of CHF 5 each issued. Based on Swiss company law, Converium Holding AG is entitled to reduce the nominal value of its registered shares down to CHF 0.01 by a respective payment per share to its shareholders. Other than by operation of the restrictions mentioned above, the ability of Converium entities to pay dividends may be restricted or, while dividend payments per se may be legally permitted, may be indirectly influenced by minimum capital and solvency requirements that are imposed by insurance, bank and other regulators in the countries in which the entities operate as well as by other limitations existing in certain of these countries (e.g. foreign exchange control restrictions).

In Switzerland, insurance supervisory regulations require entities to fund their statutory reserves at a minimum level of 20% of net profits until the statutory reserve fund reaches an amount equal to 50% of the statutory share capital, including freely disposable reserves, if any. In the United States, restrictions on payment of dividends are imposed by the Insurance Commissioner of the state of domicile. In Germany, the minimum amount of statutory capital reserves required is 10% of the nominal value of the common stock. If the 10% criterion is met, dividends of up to 100% of current years' surplus can be paid. If the 10% criterion is not met, dividends are limited to a maximum of 95% of current years' surplus less the prior year loss carryover. Under German law, an entity's executive board in consent with the supervisory board establishes the annual accounts and proposes on the distribution of the profits. The shareholders meeting (AGM) decides on this proposal.

16. Transactions with Zurich Financial Services

Quota Share Retrocession Agreement

In connection with the Transactions, the transfer of certain historical reinsurance business to Converium AG by ZIC and ZIB was affected by means of the Quota Share Retrocession Agreement effective July 1, 2001. The covered business consists of the business historically managed by Converium, which has an inception or renewal date on or

after January 1, 1987 and consists of substantially all of the third party assumed reinsurance business written by ZIC and ZIB, under the Zurich Re brand name. The liabilities Converium AG assumed include all net unearned premiums, net losses and loss expenses and experience account balances relating to this business.

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The Quota Share Retrocession Agreement provides for the payment of premiums to Converium AG by ZIC as consideration for assuming the covered liabilities. The Quota Share Retrocession Agreement provides that these premiums are on a funds withheld basis, whereby the premium is not immediately paid, but is rather retained by ZIC and credited to a funds withheld account, which is referred to as the Funds Withheld Asset.

Because the business subject to the Quota Share Retrocession Agreement consists of business that was historically managed by Converium, this business is already reflected in the financial statements. Any reinsurance business written by ZIC or ZIB that is not part of the historically managed and operated third-party reinsurance business of Converium is not covered by the Quota Share Retrocession Agreement and all related legal rights and obligations of this business have been retained by ZIC and ZIB. Accordingly, this business is excluded from the financial statements. Therefore, execution of the Quota Share Retrocession Agreement has no impact on results of operations as reported. Converium AG will receive the surplus remaining with respect to the Funds Withheld Asset, if any, after all liabilities have been discharged. In case the Funds Withheld Asset is not sufficient to cover the respective liabilities under the Funds Withheld Quota Share Retrocession Agreement with ZFS, Converium would have to meet those liabilities. Any surplus or any additional cash flows will be recorded in the financial statements in the period when realized. Any additional liabilities will be recorded in the financial statements when probable and reasonably estimatable.

Additionally, ZFS has the right to prepay to Converium AG the full amount or a portion thereof of the Funds Withheld Asset prior to the termination of the agreement.

On December 23, 2005, an Amendment was agreed by the parties to the Quota Share Retrocession Agreements by way of which Section 7.01 FW Cash Calls was amended, with immediate effect, to provide, that Converium has the right, by giving sixty days prior written notice to ZFS, to ask for payment in cash on January 1 and July 1 of each calendar year, for the first time on July 1, 2006, of up to 25% of the total funds withheld sub-account balances, as per the most recent quarterly statements, under the respective agreements with ZFS. Furthermore, Converium has the right, at any time upon giving sixty days prior written notice, to ask for the residual balance of the funds withheld account falling below USD 100.0 million, to be paid in cash and in case Converium's insurers financial strength rating as assigned by Standard & Poor's is A or higher the latter amount is increased to USD 200.0 million.

Converium AG continues to administer the transferred business on behalf of ZIC and ZIB, which remain liable to the original cedents of the business. Additionally, Converium AG manages third-party retrocessions related to the business transferred. Converium bears the credit risk for uncollectible reinsurance balances excluding those related to the September 11th terrorist attacks. Converium AG has a broad right of offset under the Quota Share Retrocession Agreement so that reinsurance balances owed to ZIC and ZIB may be offset against the Funds Withheld Asset account directly.

The Quota Share Retrocession Agreement provides for commutation and termination for special reasons, such as insolvency of a party or loss of its authorization to do business or a change of control of Converium AG or Converium Holding AG. Each of the parties agrees to indemnify the other against liability or expense incurred by reason of its conduct or failure to act in appropriate circumstances. The Quota Share Retrocession Agreement contains other provisions that are customary for an agreement of this nature.

See Notes 6, 8, 17 and 20 for other transactions with ZFS and Note 25 for additional information.

17. Related party transactions

GAUM

In 2003, Converium finalized an agreement to acquire a 25% stake in GAUM, a leading international commercial and general aviation underwriting agency, as a part of its strategy to strengthen its long-term position in the Aviation & Space line of business. At that same time, Converium entered into a pool members agreement under which it became a member of the aviation and aerospace pools run by GAUM and its subsidiary, Associated Aviation Underwriters Inc. In February 2004, Converium AG acquired a further 5.1% stake in GAUM from RSA increasing its overall stake to 30.1%.

For the 2006, 2005 and 2004 underwriting years, Converium has committed 27.25% of the overall pool's capacity of the aviation risks managed by GAUM. Gross premiums assumed through the pools managed by GAUM were USD

230.8 million, USD 206.2 million and USD 289.0 million for 2006, 2005 and 2004 respectively.

In the light of changing business circumstances associated with Converium's S & P rating downgrade in the third quarter of 2004, Converium entered into fronting agreements with Munich Re and National Indemnity in order to support and sustain the aviation business from GAUM. These fronting

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agreements initially extended to September 30, 2005, however Converium has subsequently entered into a further series of fronting agreements with National Indemnity Company and Munich Re under similar terms and conditions which ensured Converium's continued participation in the pool of GAUM through December 31, 2006. Converium also entered into a further agreement to extend the fronting agreement with the two counterparties until December 31, 2007 in respect of United States and Canadian sourced business and until June 30, 2007 in respect of business sourced from the rest of the world.

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. Converium expects that continuation of its membership at its current rating is likely to be conditional upon its entering fronting arrangements acceptable to other pool members in a timely fashion and thereafter maintaining such arrangements. If Converium's membership were to be reduced to less than a 5% share, it would not be permitted to participate in future pool business and would have to collateralize by way of a letter 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 may also be required to sell its 30.1% stake in GAUM.

At December 31, 2006 and December 31, 2005, the current carried value of goodwill associated with the 30.1% stake in GAUM was GBP 13.1 million (USD 23.4 million) and GBP 13.2 million (USD 23.6 million).

See Note 7 for additional information on GAUM goodwill and intangible assets.

At December 31, 2006 and December 31, 2005 Converium had an outstanding shareholder loan to GAUM of GBP 15.2 million (USD 29.8 million) and GBP 15.2 million (USD 26.1 million) at the respective balance sheet dates.

MDU

Converium entered into a strategic alliance with the MDU that resulted in a 49.9% participation in MDUSL. MDUSL distributes medical malpractice insurance policies to the members of the MDU. As a result of the initial FSA approval in respect of general liability business, insurance policies underwritten by Converium Insurance (UK) Ltd were issued to members of the MDU beginning July 1, 2003. These insurance policies replaced policies formerly issued in the United Kingdom by ZFS entities, the majority of which were reinsured by Converium. Gross premiums written from MDU were USD 187.6 million, USD 178.6 million and USD 170.9 million for 2006, 2005 and 2004, respectively.

The MDU Shareholders' Agreement provides that if Converium's credit rating is lowered by more than seven points, from its initial A+ rating, by a recognized credit ratings agency, the MDU may serve Converium with a Termination Notice. Within sixty days after service of such termination notice, MDU has the right to purchase Converium's 49.9% shareholding in MDU Services Ltd. at a price to be mutually agreed upon by the parties, or to be determined by a valuation expert. See Note 7 for additional information on MDU.

The current terms of the MDU Shareholders' Agreement require that Converium will provide a price concession, starting in 2010 and annually thereafter based upon a predetermined formula under which a price concession, which will be equal to 50% of the amount by which the present value profit, of a particular underwriting year, as calculated 10 years after that underwriting year has expired, exceeds a pre-agreed target expected present value profit.

Converium has recognized a charge of USD 7.7 million and USD 9.0 million for 2006 and 2005 respectively in other (loss) income reflecting the current view of how the Company will settle this obligation.

At December 31, 2006 and December 31, 2005, the balance sheet obligation included in other liabilities was USD 16.7 million and USD 9.0 million respectively.

See Note 25 for additional information.

18. Supplemental cash flow disclosures

Table 18.1

Supplemental cash flow disclosures

(USD million)

Year ended December 31	2006	2005	2004
Income taxes paid	13.2	6.2	9.7

Interest expense paid	F-42	16.7	17.2	18.7
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19. Fair value of financial instruments

The methods and assumptions used by Converium in estimating the fair value of financial instruments are:

Fixed maturities securities: fair values are generally based upon quoted market prices. Where market prices are not readily available, fair values are estimated using either values obtained from independent pricing services or quoted market prices of comparable investments.

Equity securities: fair values are based on quoted market prices.

Funds Withheld Asset: carrying value of the Funds Withheld Asset approximates fair value.

Other investments: for which quoted market prices are not readily available are not fair valued or are not significant to Converium.

Cash and short-term investments: carrying amounts approximate fair value.

Debt: fair values are generally based upon quoted market prices.

Table 19.1 lists the estimated fair values and carrying values of Converium's financial instruments as of December 31, 2006 and 2005.

Table 19.1

Fair value of financial instruments

(USD million)	Total fair value 2006	Total carrying value 2006	Total fair value 2005	Total carrying value 2005
As of December 31				
Fixed maturities	3,821.8	3,840.8	4,948.6	4,963.4
Equity securities	734.7	734.7	362.6	362.6
Other investments (excluding direct real estate)	173.3	173.3	108.5	108.5
Short-term investments	44.9	44.9	35.1	35.1
Funds Withheld Asset	940.7	940.7	1,020.1	1,020.1
Cash and cash equivalents	633.1	633.1	647.3	647.3
Debt	202.9	194.1	377.0	391.2

20. Commitments and contingencies

Letters of credit

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

Table 20.1

Letters of credit

(USD million)	Date of agreement	Duration	Capacity	Utilized	Assets pledged
Syndicated Letter of Credit Facility	Nov 29, 2004	3 years	1,600.0	1,053.2	1,074.7
Bilateral letters of credit	various	various	1,120.0	844.8	898.8
Unsecured letters of credit		1 year	250.0	76.5	

Aug 11,
2006

Total letters of credit	2,970.0	1,974.5	1,973.5
Other pledges:			
Deposit account for cedents			282.5
Internal trust			486.6
Total other pledges			769.1

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There are financial covenants attached to the syndicated letter of credit facility including restrictions on total borrowing up to 35% of tangible net worth (shareholders' equity less goodwill) and tangible net worth must remain greater than USD 1,237.5 million at all times. Converium pays commission fees on outstanding letters of credit, which are distributed to the facility banks and can only be impacted by a change in the Company's credit rating. The maximum amount of this fee is 0.50%.

On August 11, 2006, Converium has secured an uncollateralized USD 250.0 million letter of credit facility from a leading European banking group, at market conditions. It will be primarily used to support third party claims related to the underwriting business. As of December 31, 2006, the total outstanding letter of credit under this facility was USD 76.5 million.

As of December 31, 2006, Converium reported total investments including cash and cash equivalents and excluding the Funds Withheld Asset of USD 5,457.7 million. Of this total, USD 1,973.5 million was pledged as collateral relating to outstanding letters of credit.

Operating leases

Converium has entered into various operating leases as lessee for office space and certain computer and other equipment. Rental expenses for these items totaled USD 10.6 million, USD 10.3 million and USD 11.3 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Table 20.2 lists minimum future payments under operating leases with terms in excess of one year.

Table 20.2

Minimum future payments under operating leases

(USD million)	Rental payments
2007	10.1
2008	10.0
2009	8.8
2010	8.3
2011	7.8
2012 and thereafter	
Total	45.0

Converium AG leases office space from ZFS. The lease term is fixed until 2011, with two renewal options for three-year terms each. The lease payments are fixed with annual rent escalations based on a cost of living index.

Converium Rückversicherung (Deutschland) AG leases office space from Openheim Immobilien Kapitalanlagegesellschaft mbH (Zürich Lebensversicherung Aktiengesellschaft (Deutschland) before the sale of the building). The lease term is for a period of ten years ending in 2008, with an option to renew for up to two additional ten-year terms. Lease payments have bi-annual rent escalations based on changes in local real estate price indices.

Parental Guarantees

In August of 2004, in order to retain certain US business, Converium AG endorsed for a number of selected cedents of Converium Reinsurance (North America) Inc. a parental guarantee with an option to novate business written for the 2003 and 2004 underwriting years. Some of these options to novate the business to Converium AG's balance sheet were executed in the fourth quarter 2004. The remaining cedents did not execute the option and the business remained on Converium Reinsurance (North America) Inc.'s balance sheet. Due to the disposal of Converium's North American operations to National Indemnity Company, Converium AG as the guarantor received from National Indemnity Company full indemnification of the potential outstanding liabilities. As of December 31, 2006, 2005 and 2004 these liabilities were USD 146.1 million, USD 95.7 million and USD 121.4 million, respectively.

MDU Put Option

On September 2, 2002, Converium AG granted MDU Investment Ltd (MDUIL) a put option which allows MDUIL, within the framework of the contractual agreement, to request that Converium AG subscribe to up to GBP 20 million preferred shares of MDUIL. The transaction would occur in tranches of one million shares at GBP 1 per share. At the same time, Converium AG granted the Medical Defence Union a call option that allows MDU to acquire in whole or in part the MDUIL shares held by Converium AG (or one of its subsidiaries).

Converium legal proceedings, claims and litigation

Converium Holding AG and its subsidiaries are continuously involved in legal proceedings, claims and litigation arising, for the most part, in the ordinary course of its business operations as a reinsurer. The outcome of such current legal proceedings, claims and litigation could have a material effect on operating results or cash flows when resolved in a future period. However, in the opinion of management, these matters are not material to Converium s financial position, with the exception of the matters described below:

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Canada Life

On December 21, 2001, The Canada Life Assurance Company (Canada Life), brought an action against Converium Rück-versicherung (Deutschland) AG (Converium Germany) in the United States District Court of the Southern District of New York. Canada Life alleged that Converium Germany breached certain quota share retrocession agreements with Canada Life by failing to indemnify its full percentage of Canada Life's September 11th losses and by failing to post an USD 82.4 million letter of credit for its alleged liability pursuant to the ISA facilities underlying agreements. Converium Germany disputed this claim on the grounds that its liability under the pertinent contracts is limited and also raised other contract defenses. After litigation in the federal courts concerning jurisdictional issues, which Canada Life lost, Canada Life agreed to arbitration. The organizational meeting of the arbitrators took place on October 8, 2003. Since then, pursuant to an order by the arbitration panel, Converium Germany obtained a letter of credit of USD 65.97 million to be drawn down upon, if at all, should two of the three arbitrators issue an award in favor of Canada Life. A two-week hearing was conducted in July 2005. The arbitration panel since has rendered a final award in favor of Converium Germany. On May 9, 2006 (and later amended twice), Canada Life brought an action against the umpire of the arbitration panel and Converium Germany in the Ontario, Canada Superior Court of Justice seeking to set aside the final award. Canada Life alleges that the umpire was biased and unable to perform his duties. Canada Life also filed a Verified Petition against Converium Germany in the United States District Court of the District of New Jersey seeking, among other relief, to vacate the final award. Converium Germany recently filed a motion to dismiss the New Jersey action. On December 31, 2006 the letter of credit expired. The trial in the Canadian proceeding is scheduled to commence in September 2007.

Converium Germany disagrees with the factual and legal arguments of both lawsuits and contends that the final award is valid and binding. However, due to the uncertainties inherent in proceedings of this nature, Converium was unable to evaluate the likelihood of an unfavorable outcome or to estimate the amount or range of any potential loss resulting from these lawsuits.

Converium Germany has fully reserved this claim. However, arrangements entered into with ZFS provide for the claim to be covered by the agreed-to cap for September 11th related losses provided to Converium by ZFS in conjunction with Converium's Initial Public Offering.

Review of certain of Converium's reinsurance transactions

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 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), one of our former North American subsidiaries, 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 all current members of the Global Executive

Committee and the Board of Directors, as well as certain former members of senior management and other employees of Converium. The Audit Committee believes that the scope and process of the internal review has been sufficient to determine whether Converium's assumed and ceded transactions were improperly accounted for as reinsurance, rather than as deposits. After discussing the findings of Converium's extensive internal review with independent outside counsel, the Audit Committee determined that certain accounting corrections were appropriate

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and authorized the Restatement of Converium's financial statements as of and for the years ended December 31, 2004 through 1998. As part of this process, the Audit Committee has involved its independent group auditors, PricewaterhouseCoopers Ltd. Financial information for each of the quarters ended March 31, 2003 through June 30, 2005 have also been restated. For further information regarding these accounting adjustments, please refer to Converium's 2005 Annual Report (Note 3 to the 2005 consolidated financial statements for additional information on the Restatement). Previously published financial statements regarding any of the above periods should no longer be relied upon.

As noted above, Converium is fully cooperating with the governmental authorities and has shared the results of its 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 Converium's financial results in the future and could have a material adverse effect on Converium.

Class action lawsuits

Following 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, six securities law class action lawsuits were brought against the Company and several of its officers and directors in the United States District Court for the Southern District of New York between October 4, 2004 and December 2, 2004 (collectively, the Federal Actions).

On December 9, 2004, another securities law class action lawsuit, Rubin v. Converium Holding AG, et al., Index No. 04-117332, was brought against the Company and certain of its officers and directors in the Supreme Court of the State of New York for the County of New York (the Rubin Action). The Rubin Action was removed to the United States District Court for the Southern District of New York. Rubin moved to remand his action to state court.

On July 14, 2005, the Court signed an order in the Federal Actions appointing Public Employees Retirement System of Mississippi and Avalon Holdings Inc. lead plaintiffs. On September 23, 2005, the lead plaintiffs filed a consolidated amended class action complaint (the Complaint) setting forth their claims. The Complaint includes the Louisiana State Employees Retirement System as an additional named plaintiff.

The Complaint names as defendants the Company; former directors Terry G. Clarke, Peter C. Colombo, Georg F. Mehl, George G.C. Parker, Derrell J. Hendrix and Anton K. Schnyder; former officers Dirk Lohmann, Martin Kauer and Richard Smith; former director Jürgen Förterer; ZFS; UBS AG; and Merrill Lynch International. The Complaint asserts claims for violations of Section 10(b) and Section 20(a) of the Securities Exchange Act of 1934 and Sections 11, 12 and 15 of the Securities Act of 1933 and alleges, among other things, that the Company misrepresented and omitted material information in various public disclosures during the period from December 11, 2001, through September 2, 2004 because the Company did not establish adequate loss reserves to cover claims by policyholders; that the Company's announced reserve increases prior to July 20, 2004 were insufficient; and that, as a result of the foregoing, the Company's earnings and assets were materially overstated. The putative class of plaintiffs on whose behalf these lawsuits have been asserted consists of all buyers of the Company's stock from December 11, 2001, through and including September 2, 2004. Plaintiffs are seeking unspecified compensatory damages, attorney's fees, witness fees and expert fees.

On December 23, 2005, the defendants moved to dismiss the Complaint. On February 17, 2006 the lead plaintiffs submitted a memorandum of law in opposition to all defendants' motions to dismiss the Complaint.

On April 21, 2006, plaintiffs moved for leave of Court to file a proposed Consolidated Second Amended Class Action Complaint, to amend their Complaint to add, among other things, Securities Act claims based on Converium's March 1, 2006, restatement of its financial accounts from 1998 through 2005.

On November 16, 2006, the Court consolidated all of the actions, including the Rubin action. On November 27, 2006, Rubin's motion to remand his action to state court was withdrawn. On December 1, 2006, Plaintiffs submitted a proposed Consolidated Second Amended Class Action Complaint as a substitute for the previously proposed Second Amended Class Action Complaint, which made certain changes to the previously proposed Consolidated Second Amended Class Action Complaint.

On December 28, 2006, the Court issued an Opinion and Order granting in part and denying in part defendants' motions to dismiss the Complaint. The Court dismissed the claims against all defendants alleging violations of

Sections 11, 12 and 15 of the Securities Act of 1933 as well as claims asserting violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the Exchange Act) based upon allegations that the Company misrepresented and omitted material information in its December 11, 2001, initial public offering prospectus and registration statement. The Court denied the motion to dismiss those claims against the Company and

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three of its former officers alleging that those defendants violated Section 10(b) and Section 20(a) of the Exchange Act by misrepresenting and omitting material information in various public disclosures following the Company's initial public offering. Also on December 28, 2006, the Court denied plaintiffs' motion to amend their complaint. The Court further ordered that the parties who remain in the actions, including the Company, engage in settlement discussions before a Magistrate Judge. A settlement conference took place before a Magistrate Judge on February 15, 2007 but did not result in a settlement.

On January 12, 2007, plaintiffs filed a motion for reconsideration of the Court's December 28, 2006 order. The defendants filed an opposition to that motion on February 5, 2007, and plaintiffs filed a reply brief in further support of their motion on February 20, 2007. On April 9, 2007, the Court granted Plaintiffs' motion for reconsideration in part and denied it in part. The Court granted Plaintiffs' motion to reconsider its dismissal of Exchange Act claims arising out of the initial public offering. The Court indicated that it will address the other arguments Defendants made to support dismissal of those claims in a forthcoming opinion. The Court denied Plaintiffs' motion to reconsider the dismissal of the Securities Act claims, as well as denial of their motion to file a Consolidated Second Amended Class Action Complaint.

The consolidated actions are in the discovery phases; thus, the timing and outcome of these matters are not currently predictable. The costs of defending the class action 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.

Business Insurance Sector Inquiry by European Commission

Converium Rückversicherung (Deutschland) AG was selected by the European Commission as part of a sample of reinsurers for the purpose of a sector inquiry. The information request by the European Commission relates to business insurance, including reinsurance aspects, in the 25 member states of the European Union. The purpose of the inquiry is to determine whether competition in the business insurance sector works well.

21. Regulation

As a result of the developments in the latter part of 2004, various regulatory actions have occurred, the most significant of which are set forth below:

Switzerland

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

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

In December 2004, per the FOPI's request, Converium AG agreed to submit for approval the following inter-group transactions: inter-group loans and capital increases to subsidiaries exceeding USD 100.0 million; guarantees exceeding USD 10.0 million; transfer of portfolios or novations involving changes in reserves exceeding USD 25.0

million, dividends to Converium Holding AG and all inter-group reinsurance transactions that are not at arm's length. Absent consent of the FOPI, the inter-group transactions exceeding the thresholds could not be executed, which may in turn have an impact on the funding in conjunction with inter-group transactions.

Germany

On November 16, 2005, the European parliament adopted new European Union (EU) reinsurance guidance, which has to be transferred into national law by the end of 2007. This guidance basically deals with items such as solvency requirements, jurisdiction of the supervisory authorities within the EU, European passports for reinsurers, licenses and financial reinsurance.

Many of those items have already been implemented in Germany, foremost into the newly released German Insurance Supervision Act as of January 1, 2005. This law now includes solvency requirements for reinsurers based on the Solvency I standard as well as license and many jurisdictional items in great detail. The remaining items have been prepared for a white paper, which is expected to pass the German parliament in spring 2007 and to be released by end of 2007.

In addition, extensive work has been initiated by the local German supervisory authority and the German insurance association in order to prepare for a risk based solvency system

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(Solvency II), which should be similar to the Basel II requirements enacted for the banking industry. Solvency II is not expected to be released prior to 2008/2009. There are some ambitious efforts to try to harmonize those requirements with the non-EU country Switzerland, which is preparing the Swiss Solvency Test (SST) in parallel.

22. Consolidated entities

A list of operating entities and other important holdings, together with the country of incorporation, Converium's ownership interest and the share capital of each entity, is set out below.

	Country of incorporation	% of equity shares held	Currency	Share capital
Converium AG	Switzerland/Zurich	100	CHF	400,000,000
Converium IP Management AG	Switzerland/Zurich	100	CHF	100,000
Converium Rückversicherung (Deutschland) AG	Germany/Cologne	100	EUR	4,601,627
Converium Holding (UK) Ltd	United Kingdom/London	100	GBP	101
Converium Insurance (UK) Ltd	United Kingdom/London	100	GBP	60,000,000
Converium London Management Ltd	United Kingdom/London	100	GBP	1,000
Converium Underwriting Ltd	United Kingdom/London	100	GBP	2
Converium Finance S.A.	Luxembourg/Luxembourg	100	EUR	31,000
Converium Finance (Bermuda) Ltd	Bermuda/Hamilton	100	USD	12,000

23. Earnings (loss) per share

Converium Holding AG purchased 1,340,000 shares and 200,000 shares during 2006 and 2005, respectively related to share-based compensation plans.

The following table shows the average shares outstanding and basic/diluted earnings per share:

Table 23.1

(in USD million, except per share information)

For the years ended December 31	2006	2005	2004
Income (loss) from continuing operations	215.0	34.1	25.6
(Loss) income from discontinued operations	157.9	34.6	608.1
Average basic shares outstanding (millions)	146.2	146.4	63.4
Average diluted shares outstanding (millions)	148.5	148.4	64.1
Basic earnings (loss) per share:			
from continuing operations	1.47	0.23	0.40
from discontinued operations	1.08	0.24	9.59
Total basic earnings (loss) per share	0.39	0.47	9.19
Diluted earnings (loss) per share:			
from continuing operations	1.45	0.23	0.40
from discontinued operations	1.07	0.23	9.49
Total diluted earnings (loss) per share	0.38	0.46	9.09

Earnings (loss) per share and average shares outstanding for 2004 reflect the addition of the 106,683,245 new shares issued in the Rights Offering that occurred in October 2004. The earnings (loss) per share calculation is based on an adjusted number of average shares outstanding.

Diluted earnings (loss) per share is computed similar to basic earnings per share except that the weighted average shares outstanding is increased to include potential common shares, such as shares from non-vested stock grants and the assumed exercise of stock options, if dilutive.

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24. Subsidiary issuer information

Presented below are the consolidating balance sheets of Converium Holding AG (the parent guarantor), Converium AG (the subsidiary guarantor) (together the guarantor companies) and Converium Finance S.A. (the subsidiary issuer) for whom the Guaranteed Subordinated Notes are guaranteed, as of December 31, 2006 and 2005 and the related condensed consolidating statements of income and condensed consolidating statements of cash flows for each of the three years in the period ended December 31, 2006. The guarantor companies have jointly and severally guaranteed payments by the subsidiary issuer on these notes. The subsidiary issuer and subsidiary guarantor are wholly owned subsidiaries of the parent guarantor.

Investments in subsidiaries are accounted for by the guarantor companies under the equity method for purposes of supplemental consolidating presentation as of the effective date of the acquisition. Earnings of subsidiaries are reflected in the investment accounts of the guarantor companies as of the effective date of the acquisition.

Information for the parent guarantor and the subsidiary issuer is only included from the date of formation.

Condensed consolidating statements of income

(USD million)	Converium Holding AG	Converium AG	Converium Finance S.A.	Non- Guarantor Entities	Consolidating Adjustments	Consolidated
Year ended December 31, 2006						
Revenues						
Net premiums written		1,436.1		415.9		1,852.0
Net premiums earned		1,398.4		413.3		1,811.7
Net investment income	12.8	213.9	13.5	49.1	28.9	260.4
Net realized capital gains (losses)		16.1		2.8		18.9
Total revenues	12.8	1,628.4	13.5	465.2	28.9	2,091.0
Benefits, losses and expenses						
Losses, loss expenses and life benefits		773.0		414.8		1,187.8
Acquisition costs		482.4		0.8	0.5	482.1
Other operating and administration expenses	13.4	103.8	0.1	31.3		148.6
Other (loss) income	10.0	96.8	25.8	70.1	10.4	0.5
Interest expense	12.4	0.4	16.5	6.2	18.8	16.7
Restructuring costs				0.2		0.2
Total benefits, losses and expenses	35.8	1,456.4	9.2	381.2	28.7	1,835.5
(Loss) income before taxes	23.0	172.0	22.7	84.0	0.2	255.5
Income tax expense		7.3	0.1	33.1		40.5
(Loss) income from continuing operations	23.0	164.7	22.6	50.9	0.2	215.0
	190.8	32.9				157.9

(Loss) income from discontinued operations						
(Loss) income before equity in income (loss) of subsidiaries	213.8	197.6	22.6	50.9	0.2	57.1
Equity in income (loss) of subsidiaries	270.9	66.1			337.0	
Net income (loss)	57.1	263.7	22.6	50.9	337.2	57.1

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Consolidating balance sheets

(USD million)	Converium Holding AG	Converium AG	Converium Finance S.A.	Non- Guarantor Entities	Consolidating Adjustments	Consolidated
As of December 31, 2006						
Assets						
Invested assets						
Fixed maturities		2,750.2	14.1	1,076.5		3,840.8
Equity securities		578.9		155.8		734.7
Investment in subsidiaries	2,053.6	583.6			2,637.2	
Notes receivable			175.0		175.0	
Short-term and other investments		222.9		130.5	104.3	249.1
Total investments	2,053.6	4,135.6	189.1	1,362.8	2,916.5	4,824.6
Funds Withheld Asset		940.7				940.7
Total invested assets	2,053.6	5,076.3	189.1	1,362.8	2,916.5	5,765.3
Other assets						
Cash and cash equivalents	18.4	550.0	4.5	126.3	66.1	633.1
Premiums receivable		638.8		550.1	308.0	880.9
Reserves for unearned premiums, retro		12.7		266.1	247.7	31.1
Reinsurance assets		449.9		1,527.8	1,296.4	681.3
Other reinsurance receivable				1.9	1.9	
Funds held by reinsureds		1,550.0		1,053.3	663.2	1,940.1
Deposit assets				2.5		2.5
Deferred policy acquisition costs		281.8		67.8		349.6
Deferred income taxes		1.4		4.2		5.6
Other assets	4.4	147.7	57.8	129.6	106.0	233.5
Total assets	2,076.4	8,708.6	251.4	5,092.4	5,605.8	10,523.0
Liabilities and equity						
Liabilities						
Reinsurance liabilities		5,359.0		2,974.3	1,296.4	7,036.9
Reserves for unearned premiums, gross		559.7		370.3	247.7	682.3
Other reinsurance liabilities		128.5		280.9	305.7	103.7
Funds held under reinsurance contracts		224.5		606.1	663.3	167.3
Deposit liabilities		239.3		10.9		250.2
Deferred Income taxes		1.1		45.4		46.5
	76.0	227.5	0.9	167.7	276.1	196.0

Accrued expenses and other liabilities						
Notes payable	150.0			25.0	175.0	
Debt			194.1			194.1
Total liabilities	226.0	6,739.6	195.0	4,480.6	2,964.2	8,677.0
Shareholders equity						
Common stock and additional paid-in capital	1,849.6	1,873.8		478.7	2,356.8	1,845.3
Unearned stock compensation	0.9					0.9
Total accumulated other comprehensive income (loss)	281.3	262.6	6.5	44.9	314.1	281.2
Retained (deficit) earnings	281.4	167.4	49.9	88.2	29.3	281.4
Total shareholders equity	1,850.4	1,969.0	56.4	611.8	2,641.6	1,846.0
Total liabilities and shareholders equity	2,076.4	8,708.6	251.4	5,092.4	5,605.8	10,523.0

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Converium Holding AG and Subsidiaries
Notes to the consolidated financial statements
Condensed consolidating statements of cash flows

(USD million)	Converium Holding AG	Converium AG	Converium Finance S.A.	Non- Guarantor Entities	Consolidating Adjustments	Consolidated
Year ended December 31, 2006						
Cash (used in) provided by operating activities	9.3	16.5	1.2	262.6	366.4	79.2
Cash flows from investing activities						
Proceeds from sales and maturities of fixed maturities available-for-sale		1,178.7		824.0		2,002.7
Purchases of fixed maturities available-for-sale		1,047.9		695.5		1,743.4
Proceeds from sales of equity securities		48.6		111.5		160.1
Purchases of equity securities		395.3		56.2		451.5
Net increase (decrease) in short-term investments		2.2		2.7	14.2	13.7
Proceeds from sales of other assets		176.0		2.6		173.4
Purchase of other assets		56.8		0.2		57.0
Net decrease in deposit assets		133.0				133.0
Proceeds from disposal of investment in subsidiaries	1.7	74.0			346.1	273.8
Net cash (used in) provided by investing activities	1.7	112.5		178.3	331.9	42.8
Cash flows from financing activities						
Net purchases of common shares	3.7					3.7
Dividends paid to shareholders	11.7					11.7
Net decrease in deposit liabilities		76.2				76.2
Net cash used in financing activities	15.4	76.2				91.6
Effect of exchange rate changes on cash and cash equivalents	2.9	50.9	0.1	12.5	25.4	41.0
Change in cash and cash equivalents	23.5	70.7	1.3	71.8	9.1	14.2
Cash and cash equivalents as of January 1	41.9	479.3	3.2	198.1	75.2	647.3
Cash and cash equivalents as of December 31	18.4	550.0	4.5	126.3	66.1	633.1

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Condensed consolidating statements of income

(USD million)	Converium Holding AG	Converium AG	Converium Finance S.A.	Non- Guarantor Entities	Consoli- dating Adjustments	Adjustment for dis- continued operations	Consoli- dated
Year ended December 31, 2005							
Revenues							
Net premiums written		1,195.7		620.0		32.6	1,783.1
Net premiums earned		1,700.3		682.9		128.4	2,254.8
Net investment income	13.3	217.3	13.4	111.8	30.9	67.1	257.8
Net realized capital gains (losses)		42.6		10.2	57.9	5.8	31.3
Total revenues	13.3	1,875.0	13.4	804.9	27.0	189.7	2,543.9
Benefits, losses and expenses							
Losses, loss expenses and life benefits		1,323.4		452.5		55.8	1,720.1
Acquisition costs		398.1		177.5		38.2	537.4
Other operating and administration expenses	19.2	112.0	0.1	79.5		47.3	163.5
Other income (loss)	57.2	8.7	24.7	3.3	57.9	8.5	21.9
Interest expense	11.2	0.5	16.5	34.4	31.0	14.4	17.2
Amortization/impairment of intangible assets		21.5					21.5
Restructuring costs		9.3		11.2		8.4	12.1
Total benefits, losses and expenses	26.8	1,856.1	41.3	751.8	26.9	155.6	2,493.7
Income (loss) before taxes	40.1	18.9	27.9	53.1	0.1	34.1	50.2
Income tax benefit (expense)	1.5	2.5	0.1	14.5		0.5	16.1
Income (loss) from continuing operations	41.6	16.4	28.0	38.6	0.1	34.6	34.1
Income from discontinued operations						34.6	34.6
Income (loss) before equity in income (loss) of subsidiaries	41.6	16.4	28.0	38.6	0.1		68.7
Equity in income (loss) of subsidiaries	27.1	10.6			37.7		
Net income (loss)	68.7	27.0	28.0	38.6	37.6		68.7

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Converium Holding AG and Subsidiaries Notes to the consolidated financial statements **Consolidating balance sheets**

(USD million)	Converium Holding AG	Converium AG	Converium Finance S.A.	Non- Guarantor Entities	Consolidating Adjustments	Consolidated
As of December 31, 2005						
Assets						
Invested assets						
Fixed maturities		2,773.7	14.4	2,175.3		4,963.4
Equity securities		178.8		183.8		362.6
Investment in subsidiaries	1,624.5	542.0			2,166.5	
Notes receivable	150.0		175.0		325.0	
Short-term and other investments		280.3		110.6	102.7	288.2
Total investments	1,774.5	3,774.8	189.4	2,469.7	2,594.2	5,614.2
Funds Withheld Asset		1,020.1				1,020.1
Total invested assets	1,774.5	4,794.9	189.4	2,469.7	2,594.2	6,634.3
Other assets						
Cash and cash equivalents	41.9	479.3	3.2	198.1	75.2	647.3
Premiums receivable		707.8		576.3	224.8	1,059.3
Reserves for unearned premiums, retro		12.7		201.3	176.2	37.8
Reinsurance assets		551.7		1,695.7	1,404.7	842.7
Funds held by reinsureds		1,400.5		956.5	539.6	1,817.4
Deposit assets		132.8		50.6		183.4
Deferred policy acquisition costs		251.3		53.0		304.3
Deferred income taxes		1.1		0.1		1.0
Other assets	43.0	107.0	31.6	204.5	87.7	298.4
Total assets	1,859.4	8,439.1	224.2	6,405.6	5,102.4	11,825.9
Liabilities and equity						
Liabilities						
Reinsurance liabilities		5,683.7		3,921.9	1,404.8	8,200.8
Reserves for unearned premiums, gross		487.5		299.3	176.0	610.8
Other reinsurance liabilities		96.6		257.9	226.7	127.8
Funds held under reinsurance contracts		162.0		710.5	539.6	332.9
Deposit liabilities		276.6		24.0		300.6
Deferred income taxes		0.2		7.9		8.1

Accrued expenses and other liabilities	51.9	178.0	1.0	229.1	259.7	200.3
Notes payable	150.0			175.0	325.0	
Debt			193.8	197.4		391.2
Total liabilities	201.9	6,884.6	194.8	5,823.0	2,931.8	10,172.5
Shareholders equity						
Common stock and additional paid-in capital	1,854.6	1,874.0		1,372.7	3,250.8	1,850.5
Treasury stock	1.5					1.5
Unearned stock compensation	3.5					3.5
Total accumulated other comprehensive income (loss)	134.7	111.6	2.1	22.8	90.9	134.7
Retained (deficit) earnings	326.8	431.1	27.3	767.3	1,171.1	326.8
Total shareholders equity	1,657.5	1,554.5	29.4	582.6	2,170.6	1,653.4
Total liabilities and shareholders equity	1,859.4	8,439.1	224.2	6,405.6	5,102.4	11,825.9

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Condensed consolidating statements of cash flows

(USD million)	Converium Holding AG	Converium AG	Converium Finance S.A.	Non- Guarantor Entities	Consolidating Adjustments	Consolidated
Year ended December 31, 2005						
Cash provided by (used in) operating activities	68.7	415.0	1.3	761.1	121.2	399.9
Cash flows from investing activities						
Purchases of fixed maturities held-to-maturity				4.7		4.7
Proceeds from sales and maturities of fixed maturities		929.3		3,372.1		4,301.4
Purchases of fixed maturities available-for-sale		999.3		3,064.3		4,063.6
Proceeds from sales of equity securities		96.1		90.6		186.7
Purchases of equity securities		8.2		117.6		125.8
Net increase in short-term investments	41.5	292.5		127.2	197.2	73.4
Proceeds from sales of other assets		48.2		154.0	149.4	52.8
Purchase of other assets		13.1		30.3		43.4
Net increase in deposit assets		10.6		2.4		13.0
Investment in subsidiaries	70.0	14.2			84.2	
Net cash (used in) provided by investing activities	28.5	264.3		524.6	132.0	363.8
Cash flows from financing activities						
Capital contribution				77.1	77.1	
Net purchases of common shares	1.5					1.5
Net (increase) decrease in deposit liabilities		37.7		2.4		35.3
Net cash (used in) provided by financing activities	1.5	37.7		79.5	77.1	36.8
Effect of exchange rate changes on cash and cash equivalents	1.1	21.2	0.3	25.6	8.9	39.3
Change in cash and cash equivalents	39.8	134.2	1.0	131.4	75.2	33.6
Cash and cash equivalents as of January 1	2.1	345.1	4.2	329.5		680.9
Cash and cash equivalents as of December 31	41.9	479.3	3.2	198.1	75.2	647.3

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Converium Holding AG and Subsidiaries
Notes to the consolidated financial statements
Condensed consolidating statements of income

(USD million)	Converium Holding AG	Converium AG	Converium Finance S.A.	Non- Guarantor Entities	Consoli- dating Adjustments	Adjustment for dis- continued operations	Consoli- dated
Year ended December 31, 2004							
Revenues							
Net premiums written		2,683.4		1,042.7		470.2	3,255.9
Net premiums earned		2,599.8		1,282.4		783.7	3,098.5
Net investment income	13.4	189.4	13.4	123.2	26.7	85.2	227.5
Net realized capital gains (losses)		12.6		33.9		15.3	31.2
Total revenues	13.4	2,801.8	13.4	1,439.5	26.7	884.2	3,357.2
Benefits, losses and expenses							
Losses, loss expenses and life benefits		1,988.2		1,354.3		947.5	2,395.0
Acquisition costs		651.0		261.4		158.5	753.9
Other operating and administration expenses	11.7	105.0	0.1	103.0		66.0	153.8
Other income (loss)	23.7	29.5	19.0	21.4		3.5	4.7
Interest expense	10.6	0.4	16.5	32.3	26.7	14.4	18.7
Impairment of goodwill				94.0		94.0	
Amortization/impairment of intangible assets		9.9					9.9
Restructuring costs		0.2		2.5		2.5	0.2
Total benefits, losses and expenses	1.4	2,784.2	2.4	1,868.9	26.7	1,286.4	3,336.2
Income (loss) before taxes	14.8	17.6	15.8	429.4		402.2	21.0
Income tax benefit (expense)	2.5	6.6	0.1	210.3		205.9	4.6
Income (loss) from continuing operations	17.3	24.2	15.7	639.7		608.1	25.6
Loss from discontinued operations						608.1	608.1
Income (loss) before equity in (loss) income of subsidiaries	17.3	24.2	15.7	639.7			582.5
Equity in (loss) income of subsidiaries	599.8	624.1			1,223.9		
Net (loss) income	582.5	599.9	15.7	639.7	1,223.9		582.5

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Condensed consolidating statements of cash flows

(USD million)	Converium Holding AG	Converium AG	Converium Finance S.A.	Non- Guarantor Entities	Consolidating Adjustments	Consolidated
Year ended December 31, 2004						
Cash provided by (used in) operating activities	41.6	698.9	2.1	383.9		358.7
Cash flows from investing activities						
Purchases of fixed maturities held-to-maturity		214.9		13.3		228.2
Proceeds from sales and maturities of fixed maturities		936.3		3,179.7		4,116.0
Purchases of fixed maturities available-for-sale		1,663.5		2,756.7		4,420.2
Proceeds from sales of equity securities		279.6		703.5		983.1
Purchases of equity securities		67.0		470.5		537.5
Net increase in short-term investments				55.3		55.3
Proceeds from sales of other assets		54.2		28.1		82.3
Purchase of other assets		152.0		8.0		144.0
Net increase in deposit assets		73.3		38.3		111.6
Notes receivable	46.7	49.2		135.9	231.8	
Investment in subsidiaries	355.1	108.7			463.8	
Net cash (used in) provided by investing activities	401.8	1,058.5		449.3	695.6	315.4
Cash flows from financing activities						
Capital contribution		402.9		108.7	511.6	
Issuance of notes payable	22.0	182.6		27.2	231.8	
Net purchases of common shares	6.0					6.0
Dividends to shareholders	47.8	47.8			47.8	47.8
Proceeds from Rights Offering	428.4					428.4
Rights Offering issuance costs	25.1					25.1
Net decrease (increase) in deposit liabilities		29.7		31.4		1.7
Net cash provided by (used in) financing activities	371.5	567.4		104.5	695.6	347.8
Effect of exchange rate changes on cash and cash equivalents	10.4	15.4		4.0		9.0
Change in cash and cash equivalents	0.9	223.2	2.1	173.9		400.1
Cash and cash equivalents as of January 1	1.2	121.9	2.1	155.6		280.8
Cash and cash equivalents as of December 31	2.1	345.1	4.2	329.5		680.9

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Converium Holding AG and Subsidiaries

Notes to the consolidated financial statements

25. Subsequent events

SCOR ownership

On February 26, 2007, Converium's Board of Directors publicly noted the announcement by SCOR, for a public tender offer of Converium shares at price of 0.5 SCOR share for each Converium share plus a cash payment of CHF 4 in order to purchase the remaining publicly owned share capital of Converium. After a series of discussions, on May 9, 2007, Converium and SCOR entered into a transaction agreement pursuant to which SCOR agreed to increase the consideration payable to holders of Converium's registered shares to 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 improved tender offer to Converium shareholders.

As a general practice, contracts, including contracts of reinsurance, may include change in control provisions which may allow termination of a particular contract upon a change of control situation occurring. Such clauses are subject to the law and jurisdiction of the individual contract. If exercised, such a clause could have a material adverse impact on the Company's financial condition. Material contracts which could potentially be impacted in a change of control situation include the aviation pool membership and shareholding in GAUM, the MDU business and Converium's shareholding in MDUSL as well as the ZIC and ZIB Quota Share Retrocession Agreements (see Notes 7, 16 and 17). A certain number of employment contracts as well as certain of Converium's compensation plans also have provisions governing this event.

A rating up grade

Converium announced that Standard & Poor's has raised the Company's long-term financial strength rating to A (strong) with a stable outlook. According to Standard & Poor's the ratings decision reflects the Group's strengthened management team and sound infrastructure, strong competitive position, and strong capitalization.

GAUM sales agreement

In May 2007, the Company signed a sales agreement to sell a 2.6% stake in GAUM to Münchner Rückversicherungs-Gesellschaft Aktiengesellschaft in München (Munich Re) for a purchase price of USD 2.6 million (at a fixed exchange rate of 1.86 against GBP), the right to part of the RSA Loan for GBP 1.3 million and additional Deferred Consideration of 2.6%. The transaction is subject to approval of the European antitrust authorities.

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Converium Holding AG
Report of Independent Registered Public Accounting Firm
on the financial statement schedules

To the Board of Directors and Shareholders of Converium Holding AG, Zurich

Our audits of the consolidated financial statements, of management's assessment of the effectiveness of internal control over financial reporting and of the effectiveness of internal control over financial reporting referred to in our report dated June 13, 2007 appearing in this Annual Report on Form 20-F, also included an audit of the financial statement schedules listed in the index on page F-1 of this Form 20-F.

In our opinion, these financial statement schedules present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PricewaterhouseCoopers Ltd

Andrew Hill

Zurich, Switzerland,

June 13, 2007

Martin Frei

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Schedule I

Converium Holding AG and Subsidiaries

Summary of investments other than investments in related parties as of December 31, 2006

	Cost or amortized cost	Fair value (USD millions)	Amount at which shown in the balance sheet
Fixed maturities:			
Bonds held-to-maturity:			
US government	456.4	439.4	456.4
Other government	261.9	259.9	261.9
Total fixed maturities held-to-maturity	718.3	699.3	718.3
Bonds available-for-sale:			
US government	852.1	840.2	840.2
Other government	1,548.1	1,531.9	1,531.9
Public utilities	21.0	20.6	20.6
Other corporate debt securities	540.6	531.5	531.5
Unit trust	196.1	192.1	192.1
Mortgage and asset-backed securities	6.3	6.2	6.2
Total fixed maturities available-for-sale	3,164.2	3,122.5	3,122.5
Total fixed maturities	3,882.5	3,821.8	3,840.8
Equity securities:			
Common stocks: Public utilities	12.7	16.7	16.7
Banks, trusts, and insurance companies	99.8	118.3	118.3
Industrial, miscellaneous and all other	285.8	359.1	359.1
Unit trust	216.0	240.1	240.1
Non-redeemable preferred stocks	0.3	0.5	0.5
Total equity securities	614.6	734.7	734.7
Real estate	39.5	44.7	44.7
Policyholder, collateral and other loans	0.3	0.3	0.3
Other investments	150.6	169.0	169.0
Short-term investments	44.9	44.9	44.9
Total investments	4,732.4	4,815.4	4,834.4
Funds Withheld Asset	940.7	940.7	940.7
Total invested assets	5,673.1	5,756.1	5,775.1

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Schedule II

**Converium Holding AG
Statements of income**

(USD millions)	Year ended December 31,		
	2006	2005	2004
Income			
Net investment income	12.8	13.3	13.4
Total revenues	12.8	13.3	13.4
Expenses			
Other operating and administration expenses	-13.4	-19.2	-11.7
Other (loss) income	-10.0	57.2	23.7
Interest expense	-12.4	-11.2	-10.6
Total expenses	-35.8	26.8	1.4
(Loss) income before taxes	-23.0	40.1	14.8
Income tax benefit		1.5	2.5
(Loss) income from continuing operations	-23.0	41.6	17.3
(Loss) from discontinued operations	-190.8		
(Loss) income before equity in income (loss) of subsidiaries	-213.8	41.6	17.3
Equity in income (loss) of subsidiaries	270.9	27.1	-599.8
Net income (loss)	57.1	68.7	-582.5

See the notes to our 2006 consolidated financial statements.

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Converium Holding AG Balance sheets

(USD millions)	December 31,	
	2006	2005
Assets		
Invested assets		
Investment in subsidiaries	2,053.6	1,624.5
Notes receivable		150.0
Short-term and other investments		
Total invested assets	2,053.6	1,774.5
Other assets		
Cash and cash equivalents	18.4	41.9
Other assets	4.4	43.0
Total assets	2,076.4	1,859.4
Liabilities and shareholders equity		
Liabilities		
Accrued expenses and other liabilities	76.0	51.9
Notes payable	150.0	150.0
Total liabilities	226.0	201.9
Shareholders equity		
Common stock and additional paid-in capital	1,849.6	1,853.1
Unearned stock compensation	0.9	-3.5
Total accumulated other comprehensive income	281.3	134.7
Retained deficit	-281.4	-326.8
Total shareholders equity	1,850.4	1,657.5
Total liabilities and shareholders equity	2,076.4	1,859.4

See the notes to our 2006 consolidated financial statements.

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Schedule II

**Converium Holding AG
Statements of cash flows**

(USD millions)	Year ended December 31,		
	2006	2005	2004
Cash flows from operating activities			
Cash (used in) provided by operating activities	-9.3	68.7	41.6
Cash flows from investing activities			
Notes receivable			-46.7
Investment in subsidiaries		-70.0	-355.1
Proceeds from disposal of investments in subsidiaries	-1.7		
Net increase in short-term investments		41.5	
Net cash used in investing activities	-1.7	-28.5	-401.8
Cash flows from financing activities			
Issuance of note payable			22.0
Net purchases of common shares	-3.7	-1.5	-6.0
Dividends paid to shareholders	-11.7		-47.8
Proceeds from 2004 Rights Offering			428.4
2004 Rights Offering issuance costs			-25.1
Net cash (used in) provided by financing activities	-15.4	-1.5	371.5
Effect of exchange rate changes in cash and cash equivalents	2.9	1.1	-10.4
Change in cash and cash equivalents	-23.5	39.8	0.9
Cash and cash equivalents as of January 1	41.9	2.1	1.2
Cash and cash equivalents as of December 31	18.4	41.9	2.1
See the notes to our 2006 consolidated financial statements.			

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Schedule IV

**Converium Holding AG and subsidiaries
reinsurance and insurance premiums and other considerations**

	Gross	Ceded to	Assumed from		% of
	amount	other	other	Net	amount
(USD millions)		companies	companies	amount	assumed
					to net
2006	544.9	-128.9	1,436.0	1,852.0	77.5%
2005	518.8	-171.9	1,436.2	1,783.1	80.5%
2004	478.5	-236.3	3,013.7	3,255.9	92.6%

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Glossary

Accident and Health: All types of covers that provide benefits related to an accident or to medical treatments. Accident covers provide indemnification for damages caused by an accident such as accidental death and dismemberment, disability, medical expenses and the accumulation of accident-related benefits. Medical benefits may cover hospitalization expenses and outpatient expenses caused by any reason, dental treatments or medical expenses arising while traveling abroad. Also certain types of short-term income replacements such as hospital cash benefits are considered as health business.

Agribusiness: Agribusiness (re)insurance provides comprehensive coverage against crop yield shortfalls from natural perils in the form of Multi Peril Crop Insurance (MPCI) and Named Peril Covers for specialist crops. Other main products include insurance solutions for livestock portfolios, timber plantations, aquaculture risks, algae blooms and diseases and comprehensive coverage for greenhouse portfolios including crop content. Converium also develops innovative risk solutions for target markets and has recently introduced MPCI to the Brazilian and Italian market through its global experience in all major lines of agribusiness.

Annuity: A contract that pays a periodic income benefit for the life of a person (the annuitant) or for a specified number of years, or a combination of the two, in return for a single premium payment. Immediate annuities provide income from the date the policy is taken out and deferred annuities provide income at a future specified date.

Aviation & Space: Aviation insurance covers property and liability risks related to aircraft, airlines, aviation product manufacturers, airports, and related businesses. Space insurance covers losses during the pre-launch, launch, and in-orbit phases of satellites.

Branch Office: A branch office is part of the legal entity under which it operates and has its own organization and administration. It underwrites business for its assigned territory, has its own balance sheet and is subject to local regulations. Converium Ltd has branch offices in Singapore, Labuan, Bermuda and Australia. Converium Rückversicherung (Deutschland) AG has branch offices in Paris and Milan.

Cede, Ceding Insurer, Cession: When an insurer reinsures its risk with another insurer (cession), it cedes business and is referred to as the ceding insurer.

Combined Ratio: The sum of the loss ratio and the expense ratio for a non-life insurance or a reinsurance company. A combined ratio below 100 generally indicates profitable underwriting. A combined ratio over 100 indicates unprofitable underwriting. An insurance company with a combined ratio over 100 may be profitable to the extent that net investment results exceed underwriting losses.

Credit & Surety: Credit insurance, the insurance of commercial receivables, covers financial losses to insureds arising from debts which are uncollectible due to their customers' insolvency. Surety insurance provides a guarantee to a third party, the beneficiary, that the principal – a construction company, for example – will fulfill an obligation to the beneficiary, who receives an indemnification if the principal fails to fulfill the obligation.

Cycle Management: Cycle Management is a process of dynamic and proactive assessment of the industry underwriting cycles, and our deployment of appropriate strategies to maximize Converium's positioning and profitability throughout the cycles.

Engineering: Insurance covering building projects and the insurance of machinery in operation in industrial facilities.

Expense Ratio: The ratio of non-life insurance or reinsurance operating expenses (i.e. acquisition costs and profit participation net of reinsurance commissions) to net premiums earned plus administration expenses to net premiums written.

Facultative Reinsurance: The reinsurance of part or all of the insurance provided by a single policy negotiated on a contract-by-contract basis.

Fronting: Most commonly refers to the practice of a non-admitted insurer contracting with a licensed insurer to issue an insurance policy for regulatory or certification purposes. Subsequently, the risk is transferred to a reinsurance company by way of a reinsurance contract also known as a fronting agreement. The insured receives a policy written by the licensed commercial insurer, but the economic risk of that policy resides in the reinsurance company, although the ultimate liability remains with the fronting insurer.

In some jurisdictions, it is a legal requirement for either all, or certain classes' of business, to be written by a local insurer. Hence, if the reinsurer is established in a domicile other than that where the risk resides, then fronting

arrangements are mandatory.

General Third Party Liability / Casualty: General liability business covers the (re)insurance of risks arising from commercial, product, business and personal liability.

Global Business Segments: Converium's structure comprises three global business segments, based upon which Converium pursues its financial reporting and manages its business. The three global business segments are the following: Standard Property & Casualty Reinsurance, Specialty Lines, and Life & Health Reinsurance.

Gross Premiums Written: Total premiums (whether or not earned) for insurance contracts written or assumed (including deposits for contracts with an insignificant amount of mortality or morbidity risk) during a specific period, without deduction for premiums ceded.

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Incurred But Not Reported (IBNR) Reserves: Reserves for estimated losses and loss adjustment expenses which have been incurred but not reported to the insurer or reinsurer, including future development of claims which have been reported to the insurer or reinsurer but where the established reserves may ultimately prove to be inadequate.

Liability: Liability insurance includes many classes of cover which provide indemnification for monetary amounts that an insured becomes legally obliged to pay to a third party.

Life and Disability: This includes all traditional and universal life covers, annuities, long-term care benefits, critical illness covers as well as all insurance types covering disability (long-term, short-term, permanent total, permanent partial, any/own occupation, etc.) caused by illness or accident.

Life & Health Reinsurance: Life & Health Reinsurance is one of the three global business segments Converium is based upon. This segment includes the following lines of business: Life and Disability, and Accident and Health.

Loss: An insured event that is the basis for submission or payment of a benefit under an insurance policy. Losses may be covered, limited or excluded from coverage, depending on the terms of the policy.

Loss Adjustment Expenses (LAE): The expenses of investigating and settling claims, including certain legal and other fees, and the expenses of administering the claims adjustment process.

Loss Ratio: Ratio of non-life insurance or reinsurance company's net incurred losses and loss adjustment expenses to net premiums earned.

Loss Reserves: Reserves established by an insurer or reinsurer and recorded on its balance sheet to reflect the estimated cost of future payments for claims for which the insurer or reinsurer ultimately will be required to indemnify insureds or reinsureds in the future. Reserves are held in respect of losses occurred on or prior to the balance sheet date on insurance or reinsurance written and earned. Loss reserves are generally composed of individual case reserves for reported claims and IBNR reserves.

Marine & Energy: Marine insurance includes physical damage insurance for ships, shipping, oil rigs and related activities, cargo (while being transported by land, sea or air) and related liabilities.

Motor: Motor insurance covers claims for bodily injury and property damage arising from automobile accidents.

Net Premiums Written: Gross premiums less premiums ceded for reinsurance.

Non-Proportional Reinsurance: Reinsurance under which the reinsurer's participation in a claim depends on the size of the claim. Also known as excess reinsurance.

Personal Accident: All types of benefits insured on a stand-alone basis that provide indemnification related to an accident. The covered risks include accidental death and dismemberment, disability due to an accident (short-term, permanent total, permanent partial), medical expenses caused by an accident and the accumulation of accident-related benefits.

Premiums Earned: That portion of gross premiums written in current and past periods applying to the expired portion of the policy period.

Professional Liability and other Special Liability: Insurance to protect the insured against the consequences of its liability to pay damages in respect of a breach of professional duty in the practicing of its profession.

Property: Property insurance covers the physical assets of an insured against fire, extended coverages or all risks and consequential business interruption arising therefrom.

Proportional Reinsurance: Arrangement whereby the insurer cedes to the reinsurer an agreed fixed percentage of premiums, claims and other liabilities for each policy covered on a pro rata basis.

Reinsurance: The practice whereby one insurer, called the reinsurer, in consideration for premiums received, agrees to indemnify the ceding insurer for all or a portion of the risk under a policy or policies of insurance issued by the ceding insurer. The legal rights of the insured generally are not affected by the reinsurance transaction, and the insurance enterprise issuing the insurance contract remains liable to the insured for payment of policy benefits.

Representative Office: Representative offices provide Converium's business segments with local bases for marketing, liaison and client service. They are restricted in their activities and may not underwrite reinsurance business.

Converium has representative offices in Argentina, Brazil and Japan.

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Reserves: Liabilities established by insurers and reinsurers to reflect the estimated cost of claims payments, benefits payments and the related expenses that the insurer or reinsurer will ultimately be required to pay in accordance with the insurance or reinsurance it has written.

Retention: The amount or portion of risk which a ceding insurer retains for its own account. Losses and loss expenses paid by the ceding insurer in excess of the retention level are then reimbursed to the insurer by the reinsurer. In proportional insurance, the retention may be a percentage of the original policy's limit. In non-proportional insurance, the retention is an amount of loss, a loss ratio or a percentage.

Retrocessional Reinsurance: An arrangement under which a reinsurer cedes to another reinsurer (the retrocessionaire) all or a portion of the insurance risks reinsured by the first reinsurer. Retrocessional reinsurance generally does not legally discharge the ceding reinsurer from its liability to the original ceding company.

Specialty Lines: Specialty Lines is one of the three global business segments Converium is based upon. This segment includes the following lines of business: Agribusiness, Aviation & Space, Credit & Surety, Engineering, Marine & Energy, Professional Liability and other Special Liability, Excess and Surplus Lines, and Workers' Compensation.

Standard Property & Casualty Reinsurance: Standard Property & Casualty Reinsurance is one of the three global business segments Converium is based upon. This segment includes the following lines of business: General Third Party Liability / Casualty, Motor, Property, and Personal Accident (assumed from non-life insurers).

Survival Ratio: An industry measure of the number of years it would take a company to exhaust its asbestos and environmental reserves for losses and loss expenses based on that company's current level of asbestos and environmental claims payments. The ratio is derived by dividing the current ending losses and loss expense reserves by the average annual payments for the prior three years. The ratio is computed based on the ending reserves for losses and loss expenses over the respective claims settlements during the fiscal year.

Tail: The period of time that elapses between the incurrence and settlement of losses under a policy. A short-tail insurance product is one where ultimate losses are known and settled comparatively quickly; ultimate losses under a long-tail insurance product are sometimes not known and settled for many years.

Term Life Insurance: Life insurance protection for a limited period which expires without maturity value if the insured survives the period specified in the policy.

Treaty Reinsurance: A type of reinsurance whereby the ceding company automatically cedes and the reinsurer automatically assumes a predetermined portion or category of specified risks underwritten by the ceding company.

Underwriting: The process whereby an insurer or reinsurer reviews applications submitted for insurance or reinsurance coverage and determines whether it will provide all or part of the coverage being requested for an agreed premium.

Underwriting Results: The pre-tax profit or loss experienced by a non-life insurance company or reinsurance company after deducting incurred losses and loss expenses and operating expenses from premiums earned. This profit and loss calculation includes reinsurance assumed and ceded but excludes investment income.

Universal Life Insurance: A life insurance product under which premiums are generally flexible, the level of death benefits may be adjusted and expenses and other charges are specifically disclosed to the policyholder and deducted from their account balance.

Whole Life Insurance: A permanent life insurance product offering guaranteed death benefits and guaranteed cash values.

Workers' Compensation: Workers' compensation insurance provides payments required by law to be made to an employee who is injured or disabled in connection with work, including payments for both medical treatment and lost wages.

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for the filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Converium Holding AG

By: /s/ Inga K. Beale

Name: Inga K. Beale

Title: Chief Executive Officer, Converium Holding
AG

By: /s/ Paolo De Martin

Name: Paolo De Martin

Title: Chief Financial Officer, Converium Holding
AG

Date: June 13, 2007

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INDEX TO EXHIBITS

Exhibit Number	Description
1.1	Articles of Incorporation of Converium Holding AG, adopted November 8, 2001.*
1.2	Bylaws of Converium Holding AG, adopted November 16, 2001, revised March 1, 2007.
1.3	Articles of Incorporation of Converium Holding AG, revised May 10, 2007
1.4	Bylaws of Converium Holding AG, revised April 11, 2005.\
2.1	Form of Deposit Agreement among Converium Holding AG, The Bank of New York, as Depositary, and all owners and beneficial owners from time to time of ADSs issued thereunder (including the form of ADS), incorporated by reference from the Registration Statement on Form F-6 of Converium Holding AG (File No. 333-14108), initially filed with the Commission on November 19, 2001.*
2.2	Form of Indenture between Converium Finance, S.A., as Issuer, Converium AG and Converium Holding AG as Guarantors and JPMorgan Chase Bank as Trustee, Calculation Agent and Paying Agent.+
2.3	Form of the USD 200,000,000 principal amount of 8.25% Guaranteed Subordinated Notes Due 2032 (included in Exhibit 2.4 hereto).+
2.4	Subordinated Guarantee by Converium Holding AG and Converium AG relating to USD 200,000,000 principal amount of 8.25% Guaranteed Subordinated Notes Due 2032. ^
2.5	Indenture, dated December 23, 2002 between Converium Finance S.A., Converium Holding AG, Converium AG and JP Morgan Chase Bank, as trustee, relating to USD 200,000,000 principal amount of 8.25% Guaranteed Subordinated Notes Due 2032. ^
4.1	Master Agreement by and among Zurich Financial Services and Converium Holding AG, dated December 1, 2001.*
4.2	Stock Purchase Agreement between Zurich Reinsurance Centre Holdings, Inc. and Converium Holdings (North America) Inc., dated as of October 1, 2001.*
4.3	Agreement for the Sale and Transfer of Shares in Zürich Rückversicherung (Köln) Aktiengesellschaft, dated September 28, 2001.*
4.4	Quota Share Retrocession Agreement between Zurich Insurance Company (including its Singapore, Labuan and Bermuda branches) and Converium AG, dated October 1, 2001.*
4.5	Quota Share Retrocession Agreement between Zurich International (Bermuda) Ltd. and Converium AG, dated October 1, (and effective as of July 1, 2001).*
4.6	Asset purchase and Assumption of Liability Agreement between Zurich Insurance Company and Converium AG, dated September 28, 2001.*

- 4.7 Indemnity Agreement (Unicover) between Zurich Reinsurance (North America), Inc. and Zurich Insurance Company, dated as of October 1, 2001.*
 - 4.8 Indemnity Agreement (September 11th Cessions) between Zurich Reinsurance (North America), Inc. and Zurich Insurance Company, dated as of October 1, 2001.*
 - 4.9 Indemnity Agreement (September 11th Losses) between Zürich Rückversicherung (Köln) Aktiengesellschaft and Zurich Insurance Company, dated as of October 1, 2001.*
 - 4.10 Partial Commutation Agreement between Zurich Reinsurance (North America), Inc. and Zurich Insurance Company, dated as of October 1, 2001.*
 - 4.11 Master Novation and Indemnity Reinsurance Agreement among Zurich Reinsurance (North America), Inc., Centre Insurance Company, Centre Solutions (U.S.) Limited and Zurich Insurance Company, Bermuda Branch, dated as of October 1, 2001.*
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Exhibit Number	Description
4.12	Group Reinsurance Business Master Novation and Indemnity Reinsurance Agreement by and among Zurich Reinsurance (North America), Inc., Zurich Insurance Company and Zurich International (Bermuda) Ltd., dated as of October 1, 2001.*
4.13	Commutation Agreement (covering the Aggregate Excess of Loss Reinsurance Agreement effective January 1, 1991 through December 31, 1993) between Zurich Reinsurance (North America), Inc. and Centre Reinsurance Limited, dated as of October 1, 2001.*
4.14	Commutation Agreement (covering the Aggregate Excess of Loss Reinsurance Agreement effective January 1, 1994 through December 31, 1994) between Zurich Reinsurance (North America), Inc. and Centre Reinsurance International Company, dated as of October 1, 2001.*
4.15	Commutation Agreement (covering the Aggregate Excess of Loss Reinsurance Agreement effective January 1, 1995) between Zurich Reinsurance (North America), Inc. and Centre Reinsurance Limited, dated as of October 1, 2001.*
4.16	Commutation Agreement (covering the Obligatory Surplus Share Reinsurance Agreement effective October 1, 1995) between Zurich Reinsurance (North America), Inc. and Centre Reinsurance Limited, dated as of October 1, 2001.*
4.17	Commutation Agreement (covering the Obligatory Surplus Share Reinsurance Agreement effective November 6, 1992) between Zurich Reinsurance (North America), Inc. and Centre Reinsurance International Company, dated as of October 1, 2001.*
4.18	Agreement Amending and Terminating Centre Reinsurance Dublin Affiliated Group Tax Allocation Agreement among Orange Stone Delaware Holdings Limited, Orange Stone Reinsurance, Centre Reinsurance Holdings (Delaware) Limited, Centre Reinsurance (U.S.) Limited, Zurich Reinsurance Centre Holdings, Inc., Zurich Reinsurance (North America), Inc., ZC Insurance Company, ZC Specialty Insurance Company, Centre Risk Advisors, Inc., Constellation Reinsurance Company, Centre Re Services, Inc., Zurich Global Assets LLC, formerly known as BDA/US Services Limited, ZC Management Corporation, ZC Resource LLC, ZC Property Management, Inc. and Claims Solutions Group, dated October 1, 2001.*
4.19	Catastrophe Cover Retrocession Agreement by and between Converium AG and Zurich Insurance Company, dated December 1, 2001.*
4.20	Stock Purchase Agreement between Zurich Reinsurance (North America), Inc. and Centre Strategic Investments Holdings Limited, dated August 23, 2001.*
4.21	Run-off Services and Management Agreement between Zurich Insurance Company and Converium AG, dated December 3, 2001.*
4.22	Tax Sharing and Indemnification Agreement among Zurich Reinsurance Centre Holdings, Inc., Orange Stone Delaware Holdings Limited, Converium Holdings (North America) Inc., Zurich Reinsurance (North America), Inc. and Zurich Insurance Company, dated as of October 1, 2001.*

4.23	Tax Sharing and Indemnification Agreement between Zurich Financial Services, Zurich Insurance Company, Converium Holding AG and Converium AG dated December 3, 2001. *
4.24	Form of Converium Standard Stock Option Plan for Non-US Employees. *
4.25	Form of Converium Standard Stock Purchase Plan for Non-US Employees. *
4.26	Omnibus Share Plan for US Employees. *
4.27	Converium Employee Stock Purchase Plan for US Subsidiaries.*
4.28	Form of Converium Annual Incentive Deferral Plan.*
4.29	Lease, between Zurich Insurance Company and Converium AG, dated August 29, 2001.*

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Exhibit Number	Description
4.30	Sublease Support Agreement among Zurich Reinsurance (North America), Inc., Global Asset Holdings Limited and Centre Insurance Company, dated as of October 1, 2001.*
4.31	Sublease between ZC Resource LLC and Zurich Reinsurance (North America), Inc., dated as of June 20, 2001.*
4.32	Form of Letter Agreement between Converium Holding AG and The Bank of New York, relating to the pre-release of the ADRs, incorporated by reference from the Registration Statement on Form F-6 of Converium Holding AG (File No. 333-14108), initially filed with the Commission on November 19, 2001.*
4.33	Agreement dated September 2, 2002, between Converium AG and MDU Investments Ltd, regarding subscription of up to 20 million shares at £1 each. ^
4.34	Share Purchase Agreement dated November 27, 2002, between Converium AG and Northern States Agency Inc., Munich Re, Aviva and Royal and Sun Alliance regarding Global Aerospace Underwriting Managers Limited (GAUM). ^
4.35	Shareholder s Agreement dated March 12, 2003, between Converium AG and Northern States Agency Inc., Munich Re, Aviva and Royal and Sun Alliance regarding Global Aerospace Underwriting Managers Limited (GAUM). ^
4.36	Sale and Purchase Agreement and Assignment between Converium AG and Converium Finance S.A. regarding the transfer of a USD150 million loan granted to Converium Holding AG. ^
4.37	Amendment to Share Purchase Agreement dated November 27, 2002 between Converium AG and Northern States Agency Inc., Munich Re, Aviva and Royal Sun Alliance regarding Global Aerospace Underwriting Managers Limited (GAUM). ^
4.38	Agreement dated December 30, 2003, for the sale and purchase of 5.1% of Royal and Sun Alliance Insurance PLC s shareholding in Global Aerospace Underwriting Managers Limited (GAUM). #
4.39	Agreement dated July 24, 2003 USD900,000,000 Credit Facility for Converium AG, Zurich arranged by ABN Amro Bank N.V., Barclay s Capital and Commerzbank Aktiengesellschaft. #
4.40	Agreement dated November 29, 2004, USD 1,600,000,000 Credit Facility for Converium AG, arranged by ABN AMRO Bank N.V., Barclay s Capital, BNP Paribas, Commerzbank Aktiengesellschaft, Credit Suisse First Boston and J.P. Morgan. \
4.41	Deed of Pledge, dated December 15, 2004, Converium Rückversicherung (Deutschland) AG as the Pledgor and ABN Amro Mellon Global Securities Services as the Account Bank and ABN Amro Bank N.V. as the Pledgee. \
4.42	Deed of Pledge, dated December 15, 2004, Converium AG, Zürich, as the Pledgor, and ABN Amro Bank N.V. as the Pledgee and ABN Amro Mello Global Securities Services as the

Account Bank. \

- 4.43 Guarantee, dated October 21, 2004 between Converium AG, Zürich as the Guarantor, and Converium Insurance (UK) Limited. \
 - 4.44 Guarantee, dated October 21, 2004 between Converium AG, Zürich as the Guarantor, and Converium Rückversicherung (Deutschland) AG. \
 - 4.45 Fronting and Administration Agreement relating to the Global Aerospace Underwriters Pool, dated January 7, 2005, between Global Aerospace Underwriting Managers Limited, Global Aerospace, Inc., Münchener Rückversicherungs Gesellschaft Aktiengesellschaft in München, National Indemnity Company and Converium AG.\
 - 4.46 Amendment No. 1 to the Quota Share Retrocession Agreement between Zurich Insurance Company (Including its Bermuda Branch) and Converium AG, dated as of October 1, 2001 and effective as of July 1, 2001.
 - 4.47 Stock Purchase Agreement by and between National Indemnity Company and Converium AG dated as of October 16, 2006.
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Exhibit Number	Description
4.48	Guarantee Request and Reimbursement Agreement between Converium AG, Zurich, Switzerland and Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Munich, Germany
4.49	Fronting and Administration Agreement relating to the Global Aerospace Underwriters Pool, dated December 22, 2006, between Global Aerospace Underwriting Managers Limited, Global Aerospace, Inc., Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München, National Indemnity Company and Converium AG.
4.50	Standard Stock Purchase Plan of Converium Holding AG, Zug, Switzerland December 2006
4.51	Standard Stock Option Plan of Converium Holding AG, Zug, Switzerland December 2006
4.52	Transaction Agreement, dated as of May 9, 2007, by and between Converium Holding AG and SCOR S.A.
4.53	Fronting and Administration Agreement relating to the Global Aerospace Underwriters Pool, dated April 25, 2007, between Global Aerospace Underwriting Managers Limited, Global Aerospace, Inc., Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München, National Indemnity Company and Converium AG.
7.1	Computation of ratio of earnings to fixed charges.
8.1	Subsidiaries of the Registrant.
12.1	302 Certification of Chief Executive Officer.
12.2	302 Certification of Chief Financial Officer.
13.0	906 Certification of Chief Executive Officer and Chief Financial Officer.
*	Incorporated by reference to the Company's Registration Statement filed on Form F-1, on December 10, 2001.
+	Incorporated by reference to the Company's Registration Statement filed on Form F-1, on December 18,

2002.

^ Incorporated by reference to the Company's Annual Report on Form 20-F for the year ended December 31, 2002, filed on April 18, 2003.

Incorporated by reference to the Company's Annual Report on Form 20-F for the year ended December 31, 2003, filed on April 5, 2004.

\ Incorporated by reference to the Company's Annual Report on Form 20-F for the year ended December 31, 2004, filed on June 30, 2005.