CONVERIUM HOLDING AG
Form 6-K
April 30, 2004

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Form 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

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

of the Securities Exchange Act of 1934

For the period ending March 31, 2004

CONVERIUM HOLDING AG

(Translation of registrant s name into English)

Baarerstrasse 8
CH-6300 Zug
Switzerland

(Address of principal executive offices)

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

Form 20-F x Form 40-F o

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

Yes o No x

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

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Investor information

Transfer Agent & Registrar

For American Depository Shares (ADS) traded on the New York Stock Exchange:

The Bank of New York
Corporate Trust Office
101 Barclay Street
New York, NY 10286
USA
Telephone: +1 646 885 3300

Auditors

PricewaterhouseCoopers Ltd
Stampfenbachstrasse 73
P.O. Box 634
8035 Zurich
Switzerland
Telephone: +41 1 630 1111
Fax: +41 1 630 1115

Stock Trading

Converium Holding AG common shares are traded on the SWX Swiss Stock Exchange under the trading symbol CHRN and as ADS (0.5 of a common share) on the New York Stock Exchange under the trading symbol CHR.

First three months of 2004				
SWX Swiss Stock Exchange (CHF)	High	73.75	Low	60.25
New York Stock Exchange (USD)	High	29.57	Low	23.55

First listed	December 11, 2001 SWX Swiss Stock Exchange and New York Stock Exchange
Major shareholders as of March 31, 2004	Fidelity International Limited, Bermuda, holds 9.87% Wellington Management Company, Boston, holds 7.68%

Investor Relations Contact

Zuzana Drozd
Head of Investor Relations
Telephone: +41 1 639 9120
E-mail: zuzana.drozd@converium

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Financial highlights

	Three months ended March 31 (US$ million, except per share information)	
	2004	**2003**
Gross premiums written	1,383.6	1,263.8
Net premiums written	1,298.6	1,184.6
Net premiums earned	993.0	884.3
Total investment results	81.1	47.9
Income before taxes	86.4	18.1
Net income	65.7	25.5
Basic earnings per share	1.65	0.64
Annualized return on equity	12.6%	5.9%
Loss ratio (non-life)	72.0%	73.1%
Underwriting expense ratio (non-life)	21.2%	21.6%
Administration expense ratio (non-life)	3.2%	3.4%
Combined ratio (non-life)	96.4%	98.1%

	March 31, 2004	**December 31, 2003**
Total equity	2,183.0	2,083.3
Total underwriting reserves, net of reinsurance	8,698.5	8,075.1
Total invested assets	7,688.1	7,528.7
Book value per share	54.80	52.38

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The Converium share

In the first quarter of 2004, the Converium share and the ADS both underperformed versus the European and the U.S. Insurance Indices.

Converium Share versus European Insurance Index

Converium ADS versus US Insurance Index

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

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

Results of operations

	Three months ended March 31	
(US$ million)	**2004**	**2003**
Pre-tax income	86.4	18.1
Net realized capital gains (losses)	9.2	-8.3
Pre-tax operating income	77.2	26.4
Net income	65.7	25.5

We reported net income of US$ 65.7 million for the three months ended March 31, 2004, an improvement of US$ 40.2 million as compared to net income of US$ 25.5 million for the same period of 2003. The increase is due to an improved non-life combined ratio, improved Life & Health Reinsurance segment results and stronger investment results.

We reported pre-tax operating income (defined as pre-tax income excluding pre-tax net realized capital gains or losses) of US$ 77.2 million for the three months ended March 31, 2004, an improvement of US$ 50.8 million as compared to pre-tax operating income of US$ 26.4 million for the same period of 2003. We use pre-tax operating results to measure performance, as this measure focuses on the underlying fundamentals of our operations without the influence of realized gains and losses from the sale of investments. The improvement in pre-tax operating income was due to a lower non-life combined ratio, improved Life & Health Reinsurance segment results and an increase in net investment income.

For the three months ended March 31, 2004, gross premiums written increased 9.5%, net premiums written increased 9.6% and net premiums earned increased 12.3%.

Our non-life combined ratio was 96.4% for the three months ended March 31, 2004, compared to 98.1% in the same period of 2003, reflecting strong current year underwriting results.

We had net realized capital gains for the three months ended March 31, 2004 of US$ 9.2 million, compared to net realized capital losses of US$ 8.3 million for the same period of 2003. In the first quarter of 2004, US$ 1.1 million in impairment charges were recorded, versus US$ 15.8 million in impairment charges in the first quarter of 2003.

Our effective tax rate was 24.0% for the first quarter of 2004 as compared to a benefit rate of 40.9% for the same period of 2003. The 2004 first quarter effective tax rate approximates the expected tax rate for the full year. The 2003 first quarter effective tax benefit rate was impacted by a change in expected tax rates in Switzerland in the first quarter of 2003.

The components of net income are described in more detail below:

Reinsurance results

	Three months ended March 31	
(US$ million)	**2004**	**2003**
Gross premiums written	1,383.6	1,263.8
Net premiums written	1,298.6	1,184.6
Net premiums earned	993.0	884.3

Gross premiums written for the first quarter of 2004 increased US$ 119.8 million, or 9.5% compared to the same period of 2003, and net premiums written increased US$ 114.0 million, or 9.6% for the same period. We retained 93.9% of our gross premiums written for the three months ended March 31, 2004 compared to 93.7% for the same period of 2003.

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The increases in net premiums written predominately reflect the continued improved market conditions and new client relationships in certain key markets. For the three months ended March 31, 2004, Standard Property & Casualty Reinsurance grew by US$ 132.0 million or 24.5% and Life & Health Reinsurance grew by US$ 26.1 million or 21.3%. This was offset by Specialty Lines, which decreased by US$ 44.1 million or 8.4%. See Business Development section for further information by line of business.

Net premiums earned for the three months ended March 31, 2004 increased US$ 108.7 million, or 12.3% compared to the same period of 2003. The growth in net premiums earned increased at a higher rate due to the seasonality of certain business within our portfolio.

	Three months ended March 31	
(US$ million)	**2004**	**2003**
Losses, loss adjustment expenses and life benefits	-720.9	-655.6
Non-life loss ratio (to premiums earned)	72.0%	73.1%

Our losses, loss adjustment expenses and life benefits incurred increased US$ 65.3 million, or 10.0% for the three months ended March 31, 2004 as compared to the same period of 2003, mainly due to the increase in earned premiums. The non-life loss ratio was 72.0% for the three months ended March 31, 2004 compared to 73.1% for the same period in 2003. The decrease in the non-life loss ratio in 2004 reflects the strong performance on the current year business, which had a relatively low frequency of loss activity, offset slightly by the impact of prior year reserve developments.

In the first quarter of 2004, the continuing reserve volatility of old underwriting years resulted in net strengthening of prior years loss reserves of US$ 43.0 million, consisting of US$ 10.1 million in the Standard Property & Casualty Reinsurance segment and US$ 32.9 million in the Specialty Lines segment. In the Standard Property & Casualty Reinsurance segment, the reserve strengthening primarily occurred with respect to the motor book. In the Specialty Lines segment, the reserve strengthening arose primarily from the professional liability and other special liability lines of business related to accident years 2000 and prior. Pre-tax income was adversely impacted by US$ 11.3 million in the first quarter of 2003 by developments on prior years loss reserves. Risk diversification is a basic risk management tool in the insurance and reinsurance industry; as a multi-line reinsurer there are always likely to be reserve adjustments at the line of business level. Our book of business is broadly diversified by line of business as well as balanced by region and by the expected duration of its claims obligations.

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

In the first quarter of 2004, there was no reserve strengthening for the Guaranteed Minimum Death Benefit (GMDB) business in the Life & Health Reinsurance segment. In the first quarter of 2003, total net reserves for the GMDB business were strengthened by US$ 12.5 million, based on the latest information available at that time.

	Three months ended March 31	
(US$ million)	**2004**	**2003**

Underwriting acquisition costs	-207.9	-196.6
Operating and administration expenses	-51.0	-48.9
Non-life underwriting expense ratio (to premiums earned)	21.2%	21.6%
Non-life administration expense ratio (to premiums written)	3.2%	3.4%

Underwriting acquisition costs primarily relate to commissions on treaty and individual risk business. Our underwriting acquisition costs increased US$ 11.3 million, or 5.7% for the three months ended March 31, 2004 over the same period in 2003. This increase is mainly related to the growth in earned premiums. The non-life underwriting expense ratio for the three months ended March 31, 2004 and 2003 was 21.2% and 21.6%, respectively.

Operating and administration expenses increased 4.3% in the three months ended March 31, 2004 over the same period in 2003. This was due to increased expenditures to support the growth in operations and the weakening of the US dollar. Due to our premium growth and a strong expense management culture, the non-life administration expense ratio declined to 3.2% for the three months

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ended March 31, 2004, compared to 3.4% in the same period of 2003. Due to the cyclicality in our premiums written, the administration expense ratio is typically lower in the first quarter than in subsequent quarters.

We fully charge the cost of options to operating expense under the fair value approach of SFAS No. 123, Accounting for Stock-Based Compensation , and recorded compensation expense of US$ 0.5 million and US$ 1.0 million for the three months ended March 31, 2004 and 2003, respectively, in connection with Converium s stock option plans.

Investment results

	Three months ended March 31	
(US$ million)	**2004**	**2003**
Investment income:		
Fixed maturities	46.2	30.6
Equity securities	2.1	2.0
Funds Withheld Asset	20.3	21.5
Other, net of expenses	3.3	2.1
Net investment income	71.9	56.2
Average annualized net investment income yield (pre-tax)	3.6%	3.4%
Net realized capital gains (losses)	9.2	-8.3
Total investment results	81.1	47.9
Average annualized total investment income yield (pre-tax)	4.1%	2.9%
Change in net unrealized gains (losses) (pre-tax)	62.3	3.8
Total investment return (pre-tax)	143.4	51.7
Average annualized total investment return (pre-tax)	7.3%	3.1%
Average total invested assets (including cash and cash equivalents)	7,906.1	6,614.7

Investment results are an important part of our overall profitability. Our net investment income was US$ 71.9 million for the three months ended March 31, 2004, representing an increase of US$ 15.7 million, or 27.9% as compared to the same period of 2003. The increase resulted from a growth in invested assets over 2003, particularly in our fixed maturities portfolio, as well as income received from the transition of a fixed income bond fund to a direct fixed income investment portfolio.

Our average annualized net investment income yield was 3.6% for the three months ended March 31, 2004 as compared to 3.4% for the same period of 2003. Yields are calculated based on the average of beginning and ending investment balances (including cash and cash and cash equivalents).

We had net realized capital gains for the three months ended March 31, 2004 of US$ 9.2 million, compared to net realized capital losses of US$ 8.3 million for the same period of 2003. In the first quarter of 2004, US$ 1.1 million in impairment charges were recorded, versus US$ 15.8 million in impairment charges in the first quarter of 2003.

Our average annualized total investment income yield was 4.1% for the three months ended March 31, 2004 as compared to 2.9% for the same period of 2003. The yields were significantly impacted by net realized capital gains in 2004 versus net realized capital losses in 2003.

Our average annualized total investment return was 7.3% for the three months ended March 31, 2004 as compared to 3.1% for the same period of 2003. The performance in excess of the annualized total investment income yield of 4.1% was essentially due to a decline in interest rates at the end of the quarter, which resulted in positive unrealized capital gains.

Other

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(US$ million)	Three months ended March 31 2004	2003
Other loss	-0.1	-4.4
Interest expense	-7.8	-8.6
Income tax (expense) benefit	-20.7	7.4

Other loss for the three months ended March 31, 2004 was US$ 0.1 million as compared to other loss of US$ 4.4 million for the same period of 2003. Other loss includes interest income on reinsurance deposits, interest expense on funds held under reinsurance contracts, fee income, write-off of uncollectible balances and results from private equity funds.

Interest expense for the three months ended March 31, 2004 was US$ 7.8 million, a decrease of US$ 0.8 million compared to US$ 8.6 million for the same period of 2003.

Our effective tax rate was 24.0% for the first quarter of 2004 as compared to a benefit rate of 40.9% for the same period of 2003. The 2004 first quarter effective tax rate approximates the expected tax rate for the full year. The 2003 first quarter effective tax benefit rate was impacted by a change in expected tax rates in Switzerland in the first quarter of 2003.

Business Development

Converium s financial results for 2004 were primarily driven by strong performance of our non-life business within the Standard Property & Casualty Reinsurance and Specialty Lines segments, the positive contribution of the Life & Health Reinsurance segment, and the current conditions in the capital markets.

The following discusses Converium s segment results for the three months ended March 31, 2004 and 2003. A reconciliation of segment results to income before taxes is as follows:

(US$ million)	Three months ended March 31 2004	2003
Segment income (loss):		
Standard Property & Casualty Reinsurance	60.4	49.1
Specialty Lines	38.6	1.2
Life & Health Reinsurance	4.9	-10.3
Corporate center	-9.6	-8.9
Total segment income	94.3	31.1
Other loss	-0.1	-4.4
Interest expense	-7.8	-8.6

Income before taxes	86.4	18.1

Standard Property & Casualty Reinsurance:

	Three months ended March 31	
(US$ million)	**2004**	**2003**
Gross premiums written	723.2	582.5
Net premiums written	671.6	539.6
Net premiums earned	443.4	386.1
Total investment results	32.7	19.2
Segment income	60.4	49.1
Loss ratio non-life	67.9%	66.6%
Underwriting expense ratio non-life	21.0%	20.9%
Administration expense ratio non-life	3.2%	3.4%
Combined ratio non-life	92.1%	90.9%
Retention ratio (net premiums written divided by gross premiums written)	92.9%	92.6%

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Standard Property & Casualty Reinsurance reported segment income of US$ 60.4 million and US$ 49.1 million for the three months ended March 31, 2004 and 2003, respectively. The increase in segment income was primarily attributable to:

An improved investment result of US$ 32.7 million, representing an increase of US$ 13.5 million over 2003.

Profitable growth, predominantly in Europe, and the absence of major natural catastrophes.

This was offset by a slightly lower technical result with the non-life loss ratio increasing by 1.3 percentage points for the three months ended March 31, 2004, versus the same period in 2003. In the first quarter of 2004, there was net strengthening of prior years loss reserves in the amount of US$ 10.1 million, primarily from the motor book, compared to favorable development of US$ 10.7 million in the same period of 2003. As a multi-line reinsurer, there are always likely to be reserve adjustments at the line of business level. The Standard Property & Casualty Reinsurance segment s book of business is broadly diversified by line of business as well as balanced by geographical region and by the expected duration of its claims obligations.

For the three months ended March 31, 2004, gross premiums written increased 24.2% to US$ 723.2 million, net premiums written increased 24.5% to US$ 671.6 million and net premiums earned increased 14.8% to US$ 443.4 million.

For the three months ended March 31, 2004, net premiums written growth in Standard Property & Casualty Reinsurance by line of business included:

Motor (which increased by 38.4% or US$ 77.6 million to US$ 279.5 million), which grew as a result of new business within the United Kingdom and Western European region;

General third party liability (which increased by 46.5% or US$ 40.8 million to US$ 128.5 million), which grew due to continuing rate increases within the United Kingdom and Western European region and new business in the United States; and

Personal accident (which increased by 294.6% or US$ 16.5 million to US$ 22.1 million), whose growth reflects the increased premium volume on Lloyd s syndicate business.

These increases were slightly offset by a decrease in net written premiums in the property line of business by 1.2% or US$ 2.9 million to US$ 241.5 million, where there was a tightening of terms and conditions.

Specialty Lines:

	Three months ended March 31	
(US$ million)	**2004**	**2003**
Gross premiums written	503.7	537.6
Net premiums written	478.3	522.4
Net premiums earned	445.3	408.3
Total investment results	42.4	25.1
Segment income	38.6	1.2
Loss ratio non-life	76.1%	79.2%
Underwriting expense ratio non-life	21.4%	22.3%

Administration expense ratio non-life	3.2%	3.4%
Combined ratio non-life	100.7%	104.9%
Retention ratio (net premiums written divided by gross premiums written)	95.0%	97.2%

Specialty Lines reported segment income of US$ 38.6 million and US$ 1.2 million for the three months ended March 31, 2004 and 2003, respectively. In addition to the positive results for 2004, the cash flow generated by the longer tail lines increases total invested assets. The increase in segment income was primarily attributable to:

The non-life loss ratio improved by 3.1 percentage points for the three months ended March 31, 2004, versus the same period in 2003. This was due to a strong performance on recent underwriting years and the application of our prudent reserving policy. The continuing reserve volatility of old underwriting years resulted in net strengthening of prior years loss reserves of US$ 32.9

million, particularly in the professional liability and other special liability lines of business, compared to strengthening of US$ 22.0 million in the same period of 2003.

The investment results and return for 2004 were positively impacted by the continuing recovery of the global capital markets.

For the three months ended March 31, 2004, gross premiums written decreased 6.3% to US$ 503.7 million, net premiums written decreased 8.4% to US$ 478.3 million and net premiums earned increased 9.1% to US$ 445.3 million.

For the three months ended March 31, 2004, the Specialty Lines segment included net premiums written growth within:

Professional liability and other special liability (which increased by 13.8% or US$ 21.7 million to US$ 178.9 million);

Marine and energy (which increased by 44.5% or US$ 11.3 million to US$ 36.7 million); and

Agribusiness (which increased by 100.0% or US$ 13.3 million to US$ 26.6 million).

These increases were offset by a decrease of US$ 70.3 million in net premiums written within the workers compensation line of business. This mainly resulted from lower premium accruals related to the 2003 underwriting year based on revised estimated premiums received from the cedent and the non-renewal of some business with one of our ceding companies. In addition, net premiums written within the aviation and space line of business decreased slightly due to the non-renewal of a number of small contracts. Aviation and space remains one of our most significant lines of business.

Life & Health Reinsurance:

	Three months ended March 31	
(US$ million)	**2004**	**2003**
Gross premiums written	156.7	143.7
Net premiums written	148.7	122.6
Net premiums earned	104.3	89.9
Total investment results	6.0	3.6
Segment income (loss)	4.9	-10.3
Underwriting expense ratio	19.0%	27.7%
Administration expense ratio	3.2%	3.3%
Retention ratio (net premiums written divided by gross premiums written)	94.9%	85.3%

Life & Health Reinsurance reported segment income of US$ 4.9 million for the three months ended March 31, 2004 as compared to a segment loss of US$ 10.3 million for three months ended March 31, 2003. The increase in segment results was primarily attributable to:

Improved underwriting performance and the expansion of business with existing clients.

- The development of our GMDB book during the first quarter of 2004 as compared to 2003. Actions were taken during the course of 2003 to analyze the business and enhance the calculations used to model it. As a result, the reserves were strengthened in 2003, providing a sound basis for the first quarter of 2004, where no changes in reserves were needed.

For the three months ended March 31, 2004, gross premiums written increased 9.0% to US$ 156.7 million, net premiums written increased 21.3% to US$ 148.7 million and net premiums earned increased 16.0% to US$ 104.3 million. The growth in premiums written was primarily due to:

- Increase in premium volume in continental Europe within the life and disability line of business, mainly due to the weakening of the US dollar against the Euro.

- Increases in client shares and new business written within the accident and health line of business in North America.

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The underwriting expense ratio was 19.0% in 2004 and 27.7% in 2003. The reduction in the expense ratio was caused by a reduction of commission ratios, as well as a release of commission accruals for a retro pool based upon updated information received from the cedent.

Corporate Center:

	Three months ended March 31	
(US$ million)	**2004**	**2003**
Operating and administration expenses	-9.6	-8.9

The Corporate Center carries certain administration expenses, such as costs of the Board of Directors, the Global Executive Committee, and other global functions. The Corporate Center reported operating and administration expenses of US$ 9.6 million for the three months ended March 31, 2004 as compared to US$ 8.9 million for the same period in 2003. The increases primarily arose from expenditures to support the growth in operations, and the weakening of the US dollar.

Financial Condition and Liquidity

Invested Assets

As of March 31, 2004, total invested assets (excluding cash and cash equivalents) were US$ 7.7 billion compared to US$ 7.5 billion as of December 31, 2003, an increase of US$ 159.4 million, or 2.1%. This increase is mainly due to operating cash flow as well as unrealized capital gains.

Our asset mix, including cash and cash equivalents, consisted of the following at March 31, 2004 and December 31, 2003:

Asset Class	**As of March 31, 2004**	**As of December 31, 2003**
Fixed maturity securities (including the Funds Withheld Asset)	82.6%	82.7%
Equity securities*	9.7%	9.7%
Cash and short-term investments	4.8%	4.3%
Real estate and other*	2.9%	3.3%
Total	100.0%	100.0%

* PSP Swiss Property AG is included in Real estate and other with a market value of US$ 80.8 million as of March 31, 2004 and US$ 80.0 million as of December 31, 2003.

Our investments are managed mostly by external investment managers and their performance is measured against benchmarks. The table below presents our investments in the major managed portfolios, as well as the applicable benchmark and benchmark return for the first quarter of 2004. The balances at March 31, 2004 are shown in original currencies.

		Performance 1		
(in millions of original currencies unless noted)	**Market value**	**Benchmark**	**Portfolio**	**Delta**
Largest portfolios in US$				
Fixed maturities	2,293.4	2.41%[2]	2.40%	-0.01%
Mortgage-backed securities	799.0	1.92%[3]	1.92%	
Equity securities	380.6	1.55%[4]	1.55%	
Largest portfolios in Euro				
Fixed maturities	480.6	2.74%[5]	2.75%	0.01%
Equity securities	166.7	3.20%[6]	3.13%	-0.07%
Largest portfolios in British pounds				
Fixed maturities	239.9	1.13%[7]	1.02%	-0.11%
Equity securities	70.7	-0.83%[8]	-0.84%	-0.01%
Largest portfolio in Swiss francs				

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(in millions of original currencies unless noted)	Market value	Performance 1 Benchmark	Portfolio	Delta
Real estate (direct and indirect)	260.0	n/a	1.98%	n/a
Largest portfolio in Australian $				
Fixed maturities	186.5	2.15%[9]	2.10%	-0.05%

1 Performance is defined as quarterly time-weighted return.

2 Citigroup USD WGBI 3-5 years Index/Citigroup World BIG Index ex MBS ex BBB 1-10

3 Lehman Mortgage Index

4 MSCI USA Index, S&P 500

5 Citigroup Euro World BIG Index ex BBB/Citigroup Euro Government Bond Index 1-10 years

6 MSCI Euro ex UK

7 Citigroup UK Government Bond Index 1-10 years

8 MSCI UK

9 Citigroup Australian AAA/AA/A

Fixed Maturities

As of March 31, 2004, our fixed maturities portfolio, excluding the Funds Withheld Asset (described more fully below), had a carrying value of US$ 5.2 billion and represented 64.4% of total investment portfolio including cash and cash equivalents (82.6% including the Funds Withheld Asset). This represents an increase in carrying value of US$ 222.7 million, or 4.5%, from December 31, 2003. This increase was driven by 2004 cash flows from operations and unrealized capital gains.

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

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

(US$ million) As of March 31, 2004	Estimated fair value Available-for-sale (AFS)	% of total AFS	Carrying value Held-to-maturity (HTM)	% of total HTM

Less than one year	25.1	0.5	18.6	3.4
One year through five years	2,387.2	51.8	78.4	14.6
Five years through ten years	1,070.8	23.2	402.1	75.0
Over ten years	135.5	2.9	37.3	7.0
Subtotal	3,618.6	78.4	536.4	100.0
Mortgage and asset-backed securities	799.0	17.3		
Unit trust bonds	197.3	4.3		
Total as of March 31, 2004	4,614.9	100.0	536.4	100.0

Most of our fixed income securities are rated by Standard & Poor s, Moody s or similar rating agencies. As of March 31, 2004, approximately 99.5% of our fixed income securities portfolio was invested in securities rated A or better by these agencies and approximately 79.9% was invested in AAA/Aaa-rated securities.

The table below presents the composition of our fixed income securities portfolio by rating, using the lower of these ratings for any security where there is a split rating.

(US$ million) **As of March 31, 2004**	**Estimated fair value Available-for-sale (AFS)**	**% of total AFS**	**Carrying value Held-to-maturity (HTM)**	**% of total HTM**
AAA/Aaa	3,593.4	77.9	521.6	97.2
AA/Aa2	590.7	12.8	14.8	2.8
A/A2	406.1	8.8		
BBB/Baa2	9.9	0.2		
BB	10.0	0.2		
Not rated	4.8	0.1		

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(US$ million) As of March 31, 2004	Estimated fair value Available-for-sale (AFS)	% of total AFS	Carrying value Held-to-maturity (HTM)	% of total HTM
Total as of March 31, 2004	4,614.9	100.0	536.4	100.0

Equity Securities

As of March 31, 2004, our equity securities portfolio had a carrying value of US$ 854.8 million. This represents an increase in carrying value of US$ 14.6 million, or 1.7%, from December 31, 2003. Equity securities were approximately 9.7% of our total investment portfolio as of March 31, 2004 and December 31, 2003, including cash and cash equivalents.

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

Funds Withheld Asset

The transfer of certain historical reinsurance business to Converium was effective as of July 1, 2001 by means of the Quota Share Retrocession Agreement. In addition, on that date, the Funds Withheld Asset was established. Its initial balance was set to match the net balance of the liabilities, less the premium receivables (including outstanding collectible balances and reinsurance deposits) on the business to which the Quota Share Retrocession Agreement applies. As of March 31, 2004, the Funds Withheld Asset was US$ 1,459.4 million. The decrease of US$ 71.2 million over 2003 was substantially due to paid claims.

The table below shows the distribution of the Funds Withheld Asset by currency as of March 31, 2004 and December 31, 2003.

	March 31, 2004	December 31, 2003
U.S. dollar	46%	47%
U.K. pound	27%	26%
Euro	23%	23%
Japanese yen	2%	2%
Swiss franc	2%	2%
Total	100%	100%
Weighted average interest rate	5.4%	5.4%

In general, the Funds Withheld Asset is reduced by paid claims, profit commissions, amounts paid to maintain the retrocession agreements and other amounts paid on the business subject to the Quota Share Retrocession Agreement, and is increased by premiums (less premium refunds), salvage and subrogation, recoveries under retrocession agreements, profit commissions and other amounts received for the business subject to the Quota Share Retrocession Agreement. The balance of the Funds Withheld Asset will decrease over time. However, business historically written on the Zurich Insurance Company (ZIC) and Zurich International Bermuda Ltd (ZIB) balance sheets is being renewed and written on the Converium balance sheet. As a result, we will generate operating cash flow from the new and renewal business written by Converium, which will be invested in accordance with our approved investment guidelines. We do not expect the Fu