UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

IN RE CONVERIUM HOLDING AG SECURITIES LITIGATION	:	04 Civ. 7897 (MBM)
	:	Jury Trial Demanded
(Meyer v. Converium Holding AG, et al.)	:	
This Document Relates to: 04 Civ. 8038 04 Civ. 8060 04 Civ. 8295 04 Civ. 8994 04 Civ. 9479	:	

CONSOLIDATED AMENDED CLASS ACTION COMPLAINT

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Lead Plaintiffs, the Public Employees' Retirement System of Mississippi ("Mississippi") and Avalon Holdings, Inc. ("Avalon") (collectively "Lead Plaintiffs"), on behalf of themselves and all others similarly situated, by and through their undersigned attorneys, allege the following based upon knowledge, with respect to their own acts, and based upon facts obtained through the investigation by their counsel.

I. NATURE OF THE ACTION

1. This is a case about a company's intentional manipulation of its loss reserves for the purpose of manufacturing profit. Defendants' fraudulent conduct began to come to light on July 20, 2004, when Defendant Converium Holding AG ("Converium" or the "Company"), a reinsurance company headquartered in Switzerland and New York, announced that it would be forced to take a charge to earnings of at least $400 million in order to increase reserves it had established for policies written in the United States as much as seven years earlier. That charge ultimately grew to $562 million, and was so massive that it wiped out every single penny of profit Converium had reported in its history as a public company.

2. A comprehensive investigation by Lead Plaintiffs has uncovered specific facts demonstrating that Converium and its senior management knew and concealed the fact that the Company's loss reserves were deficient by hundreds of millions of dollars throughout the Class Period, including at the time of its initial public offering in December 2001. In connection with their investigation, Lead Plaintiffs met with and interviewed former senior Converium employees responsible for establishing and monitoring the Company's loss reserves. Each of those witnesses reported the same facts: multiple studies conducted by independent consultants and Converium's own actuaries determined that Converium's reserves were deficient by as much as $776.9 million during the Class Period – and management refused to address these deficiencies or disclose them to the investing public. The statements of these witnesses are corroborated by internal Converium

documents reviewed by Lead Plaintiffs, including e-mails sent directly to Defendant Dirk Lohmann, the Company's former Chief Executive Officer, and Defendant Martin Kauer, Converium's Chief Financial Officer, as well as internal actuarial studies that specifically discuss the Company's massive reserve deficiency.

3. Specifically, Lead Plaintiffs' investigation revealed that:

- Tillinghast, the actuarial consulting firm retained to conduct an independent analysis of Converium's reserves in connection with the IPO, determined before the IPO that Converium North America was under-reserved by $350 million – and that this was Tillinghast's true "best estimate" of the Company's reserves. However, the Company's senior management determined that it could not take a charge of that size and successfully complete the IPO, and therefore only increased its North American loss reserves by $125 million (*see* ¶¶ 81-87);

- Internal Company documents show that Converium's own Global Reserving Actuary concluded that the North American reserve deficiency was nearly $300 million by the end of 2002, and e-mailed that conclusion to Defendants Lohmann and Kauer (*see* ¶¶ 106-107);

- Out of concern at the escalating reserve deficiency, in early 2003 Converium's Board of Directors retained B&W Deloitte, an actuarial consulting firm, to conduct an independent and objective analysis of Converium's loss reserves. Internal Company documents show that B&W Deloitte determined that the Company's North American reserves were deficient by more than $437 million as of December 31, 2002 (*see* ¶¶ 108-117);

- Internal Company documents show that, during the first half of 2003, the Company experienced adverse loss development of $339.9 million, which caused the Company's reserve deficiency to skyrocket to an astounding $776.9 million as of June 30, 2003 (*see* ¶¶ 120-122);

- Internal Company documents show that the Company's Global Reserving Actuary e-mailed Defendants Lohmann and Kauer that the North American reserve deficiency was nearly $300 million as of the third quarter of 2003 (*see* ¶¶ 132-133); and

- Internal Company documents show that, in the Fall of 2003, the Company implemented a plan to "novate" problematic reinsurance policies that management knew would result in large losses from Converium's North American operations to Europe, and to secretly increase the Company's North American reserves – without ever disclosing these highly material

facts to investors. Despite these secret machinations, the Company remained under-reserved by $500 million at the end of 2003 (*see* ¶¶ 128-140).

4. As a direct result of Defendants' willful failure to address Converium's massive reserve deficiency, the Company was able to report a string of ever-increasing profits during the Class Period, including record income for 2003 and the first quarter of 2004. Defendants' machinations further enabled the Company to successfully complete its $2 billion IPO in December 2001 – the largest initial public offering of a reinsurance company in history. In addition, throughout the Class Period, Defendants repeatedly assured investors that Converium closely and carefully monitored its reserves, and that the Company was fully and adequately reserved for losses. In fact, when the Company announced its 2003 year-end financial results on February 17, 2004, Defendants highlighted the fact that Converium had actually reduced its reserves by more than $30 million in 2003, a message carefully crafted to create the false impression that Converium's reserves were fully sufficient.

5. The market's reaction to the Company's July 20 disclosure was swift and severe. Analysts reacted with disbelief, assailing management's credibility and the "bewilderingly large reserve increase." The price of Converium's American Depositary Shares fell by nearly 50% in a single day, from $25.02 to $12.61, and the price of the Company's shares in Switzerland fell similarly – resulting in a market capitalization loss of nearly $1 billion. Credit rating agencies soon downgraded the Company's ratings, sending the Company's North American reinsurance business – which accounted for nearly half of Converium's business – into a death spiral. Recognizing that Converium was not financially viable, Converium's major customers exercised trigger clauses in their contracts, allowing them to terminate their contracts and recover the premiums they had previously paid. Converium's Chief Executive Officer and Chief Financial Officer resigned. On September 10, 2004, the Company announced that it would place its North

American business in run-off, and cease the writing of all new business in North America. Less than three years after the Company's initial public offering, Converium's North American operations were out-of-business.

II. JURISDICTION AND VENUE

6. This Court has jurisdiction over the subject matter of this action under Section 22 of the Securities Act of 1933 (the "Securities Act"), 15 U.S.C. §77v, and Section 27 of the Securities Exchange Act of 1934 (the "Exchange Act"), 15 U.S.C. § 78aa, and 28 U.S.C. §§ 1331 and 1337. The claims alleged herein arise under Sections 11, 12(a)(2) and 15 of the Securities Act, 15 U.S.C. §§77k, 77(l)(a)(2) and 77o, and Sections 10(b) and 20(a) of the Exchange Act, 15 U.S.C. §§ 78j(b) and 78t(a), and the rules and regulations of the Securities and Exchange Commission ("SEC") promulgated thereunder, including Rule 10b-5, 17 C.F.R. § 240.10b-5.

7. Venue is proper in this District pursuant to Section 22 of the Securities Act, Section 27 of the Exchange Act, and 28 U.S.C. § 1391(c). Many of the acts and transactions that give rise to the violations of law alleged herein, including the dissemination to the public of materially false and misleading press releases and filings with the SEC, occurred in this District. In addition, Converium's American Depositary Shares ("ADSs") trade on the New York Stock Exchange. During the Class Period, Converium maintained its North American headquarters at One Chase Plaza in New York City.

8. Pursuant to the judicially prescribed "effects test" for asserting extraterritorial jurisdiction, this Court may properly exercise subject matter jurisdiction over the claims of (a) all investors who purchased or acquired Converium ADSs on the New York Stock Exchange; and (b) investors in the United States who purchased or acquired Converium stock on the SWX Swiss Exchange.

9. This Court may also properly exercise subject matter jurisdiction over the claims of foreign class members who acquired Converium stock on the SWX Swiss Exchange under the judicially prescribed "conduct test," which provides that a federal court has subject matter jurisdiction over such claims if (a) the defendants' activities in the United States were more than "merely preparatory" to a securities fraud conducted abroad, and (b) these activities or culpable failures to act within the United States "directly caused" the claimed losses. The facts alleged herein show that substantial activity in furtherance of the fraud occurred within the United States and damaged members of the class worldwide.

10. As alleged herein, the Company and the Officer Defendants engaged in extensive fraud-related conduct in the United States, which misrepresented the Company's financial and operational condition by, *inter alia*:

a) misrepresenting the adequacy of the loss reserves maintained by Converium North America;

b) misrepresenting the adverse loss development experienced by Converium North America;

c) misrepresenting the financial results of Converium North America;

d) novating insurance policies from Converium North America to Converium Zurich and Converium Cologne to conceal the North American reserve deficiency;

e) conducting earnings conference calls with Wall Street research analysts located in the United States in which the Company and the Officer Defendants made false and misleading statements; and

f) filing false and misleading financial statements with the SEC.

11. As set forth in detail below, the fundamental fraud at issue here relates to Converium's reserves for its North American property and casualty lines of business, and the conduct of executives and employees in Converium's North American headquarters and in Europe, who analyzed and established those reserves. Moreover, the Company's ADSs trade on

the New York Stock Exchange. Through holdings of shares and ADSs, a significant portion of Converium's securities are held by individual and institutional investors in the United States. Specifically, in December 2001, following the Company's IPO, 24% of the Company's shareholders resided in the United States. By December 2002, U.S. investors comprised 70% of the Company's shareholders.

12. Moreover, a significant number of the false and misleading statements made by the Defendants were initially made in the United States, and are contained in Converium's SEC filings. Converium's press releases and SEC filings were broadly disseminated within the United States through the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone and electronic communications, and the facilities of national securities exchanges. Converium also conducted investor conferences and conference calls with financial analysts that took place, in large measure, in the United States.

13. The facts alleged herein demonstrate that Converium's conduct in the United States was not "merely preparatory" to the Company's and the Officer Defendants' scheme to defraud, but directly caused the losses suffered by investors.

14. In connection with the wrongful acts and conduct alleged herein, Defendants, directly and indirectly, used the means and instrumentalities of interstate commerce, including the United States mail and the facilities of a national securities market.

III. THE PARTIES

Lead Plaintiffs

15. Lead Plaintiff the Public Employees' Retirement System of Mississippi ("Mississippi") is a public pension fund that currently manages over $15 billion for the benefit of the current and retired public employees of the State of Mississippi. As set forth in the Certification Mississippi filed in connection with its motion to be appointed Lead Plaintiff,

Mississippi purchased Converium securities during the Class Period at artificially inflated prices and suffered damages when revelation of the true facts caused a decline in the value of its investments.

16. Lead Plaintiff Avalon Holdings, Inc. ("Avalon") is a private institutional investor incorporated in Nevis and based in Greece. It invests assets for the benefit of its shareholders. As set forth in the Certification Avalon filed in connection with its motion to be appointed Lead Plaintiff, Avalon purchased Converium securities during the Class Period at artificially inflated prices and suffered damages when revelation of the true facts caused a decline in the value of its investments.

17. By Order dated July 14, 2005, the Court appointed Mississippi and Avalon as Co-Lead Plaintiffs.

Additional Named Plaintiff

18. The Louisiana State Employees' Retirement System ("LASERS") is a $7 billion public pension plan established for the benefit of the employees of the State of Louisiana. LASERS purchased 90,000 ADSs issued by Converium on the day of the IPO, and was damaged thereby. LASERS also purchased an additional 30,400 Converium ADSs in the week following the IPO, which purchases are traceable to the Registration Statement and Prospectus. LASERS has standing to assert claims arising under the Securities Act on behalf of those members of the Class who purchased Converium securities in connection with the IPO. As a result of the purchases described herein, LASERS suffered losses in excess of $430,000. LASERS, which is not a Lead Plaintiff in this Action, has joined this Action as a Named Plaintiff and proposed Class Representative.

Corporate Defendants

19. Converium Holding AG is a corporation organized under the laws of Switzerland with principal places of business in New York, New York, Zug, Switzerland, and Cologne, Germany. The Company is domiciled, for domestic insurance regulatory purposes, in Connecticut and New Jersey. Converium is a global reinsurance company which offers property, casualty and other non-life reinsurance products, in additional to life reinsurance products. Prior to the IPO, Converium operated under the name Zurich Re, which was the reinsurance business of Defendant ZFS. Zurich Re's North American business, Zurich Re (North America), became Converium North America.

20. From the date of its IPO until October 2003, Converium organized its business around four operating segments: Converium Zurich, which managed the Company's non-life reinsurance business in Europe and Asia; Converium North America, which managed the Company's non-life reinsurance businesses in the United States and Canada; Converium Cologne, which managed the Company's non-life reinsurance business in Germany, Africa and the Middle East; and Converium Life which managed the Company's life reinsurance business. Of these operating segments, Converium North America was by far the largest and most significant. For example, for the year ended December 31, 2000, Converium North America accounted for $845 million – 43% – of the $2 billion in total net premiums written by the Company. The Company's common stock trades on the SWX Swiss Exchange under the symbol CHRN and its American Depositary Shares trade on the New York Stock Exchange under the symbol CHR. Each Converium ADS equals half of a share of Converium common stock. The Company's fiscal year ends December 31.

21. Zurich Financial Services Group ("ZFS" or "Zurich") is a corporation organized under the laws of Switzerland. Prior to Converium's IPO, Converium was a wholly-owned

subsidiary of ZFS. In connection with the IPO, and pursuant to the Registration Statement and Prospectus, ZFS sold 40 million shares of Converium in the form of shares and ADSs, representing its entire stake in the Company, for proceeds of approximately $1.9 billion.

Officer Defendants

22. Dirk Lohmann served as Converium's Chief Executive Officer and as a member of the Company's Executive Committee prior to and at all times during the Class Period. Lohmann is liable for the false and misleading statements issued by the Company, and by himself personally, during the Class Period, including but not limited to the statements contained in the Company's SEC filings that Lohmann signed. Each of the false and misleading statements for which Lohmann is liable is set forth with particularity below.

23. Martin Kauer served as Converium's Chief Financial Officer and as a member of the Company's Executive Committee prior to and at all times during the Class Period. Kauer is liable for the false and misleading statements issued by the Company, and by himself personally, during the Class Period, including but not limited to the statements contained in the Company's SEC filings that Kauer signed. Each of the false and misleading statements for which Kauer is liable is set forth with particularity below.

24. Richard Smith served as the Chief Executive Officer of Converium North American and as a member of the Company's Executive Committee from prior to the start of the Class Period through September 23, 2003. Smith is liable for the false and misleading statements issued by the Company during the Class Period, up to the date of his resignation. Each of the false and misleading statements for which Smith is liable is set forth with particularity below.

25. Defendants Lohmann, Kauer and Smith are collectively referred to herein as the "Officer Defendants." It is appropriate to treat these defendants as a group for pleading purposes and to presume that the false and misleading information conveyed in the Company's SEC filings

and press releases as alleged herein are the product of the collective actions of this narrowly defined group of defendants. Each of these defendants, by virtue of his high-level position within the Company, directly participated in the day-to-day management of the Company, and was privy to confidential information concerning the Company and its business operations and financial results. Each of these defendants was responsible for establishing and monitoring the Company's loss reserves and was involved or participated in the drafting, production and dissemination of the false and misleading statements alleged herein. Indeed, each was a member of Converium's Executive Committee which, under the supervision of Defendant Lohmann, was responsible for developing, directing and monitoring Converium's strategy, including consolidated performance and capital allocation. Defendants Lohmann and Kauer served on the Executive Committee at the time of the IPO and throughout the Class Period, and Defendant Smith served on the Executive Committee until his resignation from the Company in September 2003.

Director Defendants

26. Terry G. Clarke was an elected member of Converium's Board of Directors at the time of the IPO and consented to his inclusion as such in the Registration Statement and Prospectus. Clarke served on the Remuneration Committee of the Board of Directors from January 2, 2002 until February 2005; the Audit Committee from January 1, 2003 through December 31, 2003; and the Finance Committee from January 1, 2004 until February 2005. Clarke resigned from all Committees of the Board of Directors in connection with his appointment as Chief Executive Officer of Converium in February 2005.

27. Peter C. Colombo served as the Chairman of Converium's Board of Directors at the time of the IPO and throughout the Class Period, and continues to serve in that role today. Colombo signed the Registration Statement and Prospectus issued in connection with the IPO. Colombo served on the Finance Committee from prior to the IPO until December 31, 2002.

Colombo has also served on the Remuneration and Audit Committees of the Board of Directors from prior to the IPO to date.

28. George F. Mehl served as the Vice-Chairman of Converium's Board of Directors at the time of the IPO and throughout the Class Period, and continues to serve in that role today. Mehl signed the Registration Statement and Prospectus issued in connection with the IPO. Mehl served on the Remuneration and Audit Committees of the Board of Directors from prior to the IPO, and continues to serve on those committees today.

29. Jurgen Forterer served as a member of Converium's Board of Directors at the time of the IPO. Forterer signed the Registration Statement and Prospectus issued in connection with the IPO. Forterer served on the Finance Committee of the Board of Directors from prior to the IPO until September 21, 2004.

30. Anton K. Schnyder served as a member of Converium's Board of Directors at the time of the IPO. Schnyder signed the Registration Statement and Prospectus issued in connection with the IPO.

31. Derrell J. Hendrix served as a member of Converium's Board of Directors at the time of the IPO. Hendrix signed the Registration Statement and Prospectus issued in connection with the IPO. Hendrix served on the Finance Committee of the Board of Directors from prior to the IPO, and continues to serve on that committee today.

32. George G.C. Parker served as a member of Converium's Board of Directors at the time of the IPO. Parker signed the Registration Statement and Prospectus issued in connection with the IPO. Parker served on the Finance and Audit Committees of the Board of Directors from prior to the IPO, and continues to serve on those committees today.

33. Defendants Clarke, Colombo, Mehl, Forterer, Schnyder, Hendrix and Parker are referred to collectively herein as the "Director Defendants." The Director Defendants and Officer Defendants are referred to collectively as the "Individual Defendants."

IPO Underwriter Defendants

34. UBS AG, acting through its business group UBS Warburg (collectively "UBS"), served as co-lead underwriter on the Converium IPO and agreed to purchase from ZFS 11.11 million ordinary shares (in the form of shares or ADSs).

35. Merrill Lynch International ("Merrill Lynch") served as co-lead underwriter on the Converium IPO and agreed to purchase from ZFS 11.11 million ordinary shares (in the form of shares or ADSs).

36. The IPO Underwriter Defendants (referred to collectively herein as the "Underwriter Defendants") shared with the junior underwriters in fees of approximately $54 million from their sale of Converium stock on the IPO.

IV. CLASS ACTION ALLEGATIONS

37. Lead Plaintiffs and Named Plaintiff (collectively "Plaintiffs") bring this action on their own behalf and as a class action pursuant to Rule 23(a) and (b)(3) of the Federal Rules of Civil Procedure on behalf of a class (the "Class") consisting of all persons or entities who purchased or otherwise acquired Converium shares or ADSs during the period from December 11, 2001 through September 2, 2004, inclusive (the "Class Period"), including all persons who purchased or otherwise acquired Converium shares and/or ADSs pursuant or traceable to the Registration Statement and Prospectus issued in connection with the IPO. Excluded from the Class are (i) Defendants; (ii) members of the immediate family of each Individual Defendant; (iii) any person who was an officer or director of Converium, ZFS or any of the Underwriter Defendants (or any other underwriter on the IPO) at the time of the IPO or during the Class

Period; (iv) any firm, trust, corporation, officer, or other entity in which any Defendant has or had a controlling interest; and (v) the legal representatives, agents, affiliates, heirs, successors-in-interest or assigns of any such excluded party.

38. The Class is so numerous that joinder of all Class members is impracticable. Throughout the Class Period, Converium stock was actively traded on the SWX Swiss Exchange and Converium ADSs were actively traded on the New York Stock Exchange, both of which are efficient markets. While the exact number of Class members can only be determined by appropriate discovery, Plaintiffs believe that Class members number in the thousands. As of December 31, 2004, there were 146,272,886 million shares of Converium stock and 5,814,068 ADSs issued and outstanding. Converium shares and ADSs were followed by securities analysts employed by major brokerage firms who wrote reports that were disseminated to the sales force and to certain customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace.

39. Plaintiffs' claims are typical of the claims of other Class members. Plaintiffs and all Class members acquired their Converium securities pursuant to the Registration Statement and Prospectus or on the open market, and sustained damages as a result of Defendants' wrongful conduct complained of herein in violation of the federal securities laws.

40. Plaintiffs will fairly and adequately protect the interests of the Class members and have retained counsel competent and experienced in class action and securities litigation. Plaintiffs have no interests that are contrary to or in conflict with those of the Class members that Plaintiffs seek to represent.

41. A class action is superior to other available methods for the fair and efficient adjudication of this controversy. Because the damages suffered by individual Class members may

be relatively small, the expense and burden of individual litigation make it virtually impossible for the Class members individually to seek redress for the wrongful conduct alleged herein.

42. Common questions of law and fact exist as to all Class members and predominate over any questions solely affecting individual Class members. Among the questions of law and fact common to the Class are:

a) whether the federal securities laws were violated by Defendants' acts as alleged herein;

b) whether documents, press releases and public statements made by the Defendants during the Class Period concerning the Company's financial and operational position, including statements concerning the Company's reserves and its financial results, contained misstatements of material fact or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading;

c) whether the Company, ZFS and the Officer Defendants acted with the requisite state of mind in omitting and/or misrepresenting material facts in the documents filed with the SEC, press releases and public statements;

d) whether the market prices of Converium shares and ADSs during the Class Period were artificially inflated due to the material misrepresentations complained of herein; and

e) whether the Class members have sustained damages and, if so, the appropriate measure thereof.

43. Plaintiffs know of no difficulty that will be encountered in the management of this litigation that would preclude its maintenance as a class action.

44. The names and addresses of record owners of Converium shares and ADSs purchased on or traceable to the IPO and during the Class Period are available from records maintained by Converium or its transfer agent. Notice may be provided to such record owners via first class mail, using techniques and a form of notice similar to that customarily used in securities class actions.

45. In bringing these claims, Plaintiffs and the members of the Class are entitled to the presumption of reliance established by the fraud-on-the-market doctrine. At all times relevant to this Complaint, the markets for Converium shares and ADSs were efficient markets for the following reasons, among others:

a) Converium ADSs trade on the New York Stock Exchange, which is a highly efficient market. The average daily trading volume throughout the Class Period was 39,493 Converium ADSs on the New York Stock Exchange;

b) Converium shares trade on the SWX Swiss Exchange, which is a highly efficient market. The average daily trading volume throughout the Class Period was 235,494 Converium shares on the SWX Swiss Exchange;

c) As a regulated issuer, Converium filed periodic public reports with the SEC;

d) Converium shares and ADSs were followed by numerous securities analysts employed by firms including Banc of America Securities, J.P. Morgan Securities Ltd., Deutsche Bank AG, Morgan Stanley & Co., UBS Securities LLC, Credit Suisse First Boston LLC, Bear, Sterns & Co. Inc., Sarasin and Pictet & Cie, among others, who wrote reports about the Company and the value of its shares and ADSs that were publicly available and entered the public marketplace;

e) Converium regularly issued press releases, which were carried by national and international news wires. Each of these releases was publicly available and entered into the public marketplace; and

f) The market price of Converium shares and ADSs traded in tandem and reflected the effect of news disseminated in the market.

46. As a direct and proximate result of the wrongful conduct by Defendants, Plaintiffs and the other members of the Class suffered damages in connection with their purchases of Converium shares and ADSs. Had Plaintiffs and the other members of the Class known of the material adverse information not disclosed by Defendants, or been aware of the truth behind the material misstatements of the Defendants, they would not have purchased Converium shares or ADSs at artificially inflated prices.

47. The Exchange Act claims asserted herein were first asserted against Converium and certain of the Officer Defendants on October 4, 2004. On October 12, 2004, the plaintiff in Taylor v. Converium Holdings AG filed suit asserting claims arising under the Exchange Act against Converium, the Officer Defendants, ZFS and the Director Defendants. The Complaint in Taylor alleged that, beginning on December 11, 2001 (the date of the IPO), the defendants named in that action made a series of false and misleading statements about Converium's reserves, financial results and operating condition. Accordingly, the Exchange Act claims were brought within two years after the discovery of this fraud and within five years of the making of the statements alleged herein to be materially false and misleading.

48. Pursuant to Rule 15(c) of the Federal Rules of Civil Procedure, the assertion of the Securities Act claims against Converium, ZFS and the Individual Defendants relates back to the date of the filing of the Taylor action, which was filed within one year after the discovery of the falsity of statements included in the Registration Statement and Prospectus and within three years of Converium's IPO, through which Converium's shares and ADSs were offered to the public and sold. Further, Securities Act claims were asserted against Defendants Converium, ZFS and the Individual Defendants in Rubin v. Converium Holdings AG, which was originally filed in the Supreme Court of the State of New York on or about December 9, 2004, and subsequently removed to District Court for the Southern District of New York.

49. The Securities Act claims asserted herein against the Underwriter Defendants are the subject of a tolling agreement dated December 9, 2004 and executed by counsel for the Underwriter Defendants on their behalf. That agreement tolled the period of limitations applicable to any claims asserted under the Securities Act against the Underwriter Defendants

arising from the IPO by any persons or entities who purchased or otherwise acquired Converium shares or ADSs on or traceable to the Company's IPO.

V. SUBSTANTIVE ALLEGATIONS

50. Plaintiffs' allegations are based upon the investigation of Lead Counsel, which included, among other things, reviews of public filings with the SEC by Converium; press releases; publicly available trading information; articles in the general and financial press; and review and analysis of documents provided to Lead Counsel by former Converium employees, including e-mails, studies and internal analyses of Converium's loss reserves.

51. Plaintiffs' allegations are also based upon information provided by several former employees of Converium with knowledge of the Company's practices for establishing loss reserves, including but not limited to the following confidential witnesses:

- Confidential Witness No. 1 is a former Converium employee who worked as a reserving actuary at Converium North America and its predecessors from 1991 until after the end of the Class Period in 2004. Confidential Witness No. 1 also served as the Chief Reserving Actuary at Converium North America for approximately nine months, from late 2001 through mid-2002. Confidential Witness No. 1 reported directly to Isaac Mashitz, the Chief Reserving Actuary at North America (through the IPO); Joanne Spalla, who succeeded Mashitz as Chief Reserving Actuary (from mid-2002 through the end of the Class Period); and Sheldon Rosenberg, a Vice President and Actuary at North America. Spalla, in turn, reported directly to Jean-Claude Jacob, the Company's Global Reserving Actuary, who reported to Defendant Lohmann. Confidential Witness No. 1 directly participated in the analysis of the Company's loss reserves during the Class Period, and provided Plaintiffs with information based upon his own-first hand experience working in Converium's New York office, his review of documents obtained through the course of that employment, and his conversations with Converium executives in New York and Switzerland.

- Confidential Witness No. 2 is a former Converium employee who served as a Vice President and reserving actuary between February 1998 and October 2002 at Converium North America, and who directly participated in the analysis of the Company's loss reserves. Confidential Witness No. 2 reported to the same senior management of Converium North America as did Confidential Witness No. 1.

- Confidential Witness No. 3 is a former Converium employee who served as Senior Vice President at Converium North America between 1993 and 2003.

- Confidential Witness No. 4, is a former Human Resources Administrator at Converium North America.

- Confidential Witness No. 5, is a former Converium employee who served as a reserving actuary at Converium North America from September 2003 to September 2004. Confidential Witness No. 5 reported to the same senior management of Converium North America as did Confidential Witness No. 1.

- Confidential Witness No. 6 is a former Converium employee who served as President of Converium North America, as the Company's Chief Technical Officer and as a member of the Executive Committee from October 2003 through September 2004. Confidential Witness No. 6 reported directly to Defendants Lohmann and Kauer, and to the other members of the Executive Committee.

A. CONVERIUM'S BUSINESS AND OPERATIONS

52. Converium is a global, multi-line reinsurance company offering, among other products and services, product and casualty reinsurance products. The Company employs approximately 650 people in 20 offices, worldwide. As a reinsurance company, Converium agrees to indemnify insurance companies for a portion of the risk they undertake when issuing insurance policies. The original insurance companies, known as "ceding" insurers, pay Converium a premium for agreeing to provide such indemnification.

53. As a result of these reinsurance agreements, Converium receives premiums in exchange for exposure to claims that will be submitted in the future for losses that have not yet been sustained. The time period covered by the ceded insurance policies varies depending on the type of policy (*e.g.*, property, casualty, life, marine, aviation), which are referred to as an insurance company's lines of business, or simply as "lines."

54. A group of ceded policies is often referred to as a "book of business." Such reference may include policies grouped by line (the "casualty book of business"); by geographic

origin (the "U.S. book of business"); by policy year (the "1996-2000 book of business"); or a combination thereof (the "U.S. casualty book of business from 1996-2000").

55. The time period during which a covered loss may be sustained is referred to as a "tail." Certain insurance lines are referred to as having "long tails," meaning that covered losses may be incurred, and claims may be submitted, several years after the policies are underwritten and ceded to Converium.

1. Converium's Loss Reserves

56. To ensure that the Company has sufficient liquid capital to pay claims that are submitted, Converium, like all reinsurance companies, establishes loss reserves. For reinsurance companies, reserves are a key, if not the most important measure of financial health, as they represent the risk that the company will have to pay for the insurance policies it has underwritten. Loss reserves consist of individual case reserves plus Incurred But Not Reported reserves ("IBNR"). A case reserve is established once an insurer has received a claim from the insured party. IBNR reserves are established to pay the expected cost of claims that have not yet been submitted to the insurer, but which the insurer expects to incur. The establishment of reserves is meant to ensure that a sufficient portion of the premiums received in connection with a book of business will be available to cover the claims covered by that book of business. Loss reserves established by an insurer or reinsurer reflect the estimated cost of claims that the carrier will be required to pay in the future on insurance that has been written as of the date of the financial statement. In order for the level of reserves established in connection with a given group of policies to be adequate, the reserves must be based upon actuarial analysis.

57. In the case of reinsurers like Converium, reserves are initially established when an insurance company first cedes policies to a reinsurance company. As claims are submitted under those policies, and additional data regarding the losses covered by those policies are developed,

the level of reserves must be adjusted to ensure that the reinsurance company maintains a sufficient level of reserves. A failure to adjust reserves in response to emerging claim and loss data can leave a reinsurance company with deficient reserves.

58. According to Confidential Witness No. 1, in order to establish and monitor its reserves, Converium employed a team of reserving actuaries in New York who conducted regular analyses of the Company's North American book of business. Specifically, each quarter and at year end, Converium North America prepared a "Loss Reserve Study," which the Company used to evaluate and establish its North America reserves and to monitor the losses it was experiencing. The Loss Reserve Study was provided each quarter to the Company's Global Reserving Actuary, Jean-Claude Jacob, who was stationed in Switzerland, and was also presented to Defendants Lohmann, Converium's CEO, Kauer, the CFO, and Smith, the CEO of Converium North America, each quarter. Lohmann, Kauer, Smith, Jacob and other members of the Company's senior management would then have a teleconference to discuss the results of the Loss Reserve Study, which they reviewed prior to determining Converium's loss reserves. Defendants Lohmann and Kauer were ultimately responsible for approving the reserves established for Converium North America.

59. In addition to the Loss Reserve Study, senior management at Converium performed other internal studies. These included the studies conducted regularly by Jean-Claude Jacob, the Company's Global Reserving Actuary, and by Confidential Witness No. 2, a Company Vice-President and a reserving actuary at Converium North America. The results of these studies were also provided to Defendants Lohmann, Kauer and Smith.

60. The Company also periodically retained outside consultants to conduct purportedly independent analyses of the Company's reserves. These include the study performed by

Tillinghast in 2001, prior to the IPO, and the study performed by Deloitte in 2003, described in detail below.

2. Loss Reserves Directly Impact Converium's Publicly Reported Financial Statements and Key Financial Indicators

61. The establishment of reserves has a direct impact on Converium's financial results. Reserves for losses and loss adjustment expense appear as a liability on the Company's balance sheet and Losses and loss adjustment expenses represents the largest expense item in the Company's income statement. Thus, when Converium establishes or increases its reserves, its publicly reported income decreases in a commensurate amount.

62. An increase in Converium's reserves will also result in a commensurate decrease in shareholders' equity, which reflects the difference between the Company's assets and its liabilities (including reserves), and is a key metric for evaluating the financial condition of reinsurance companies.

63. In addition to looking at Converium's income, earnings per share and shareholders' equity, analysts tracking the Company's performance also examined its non-life reinsurance loss ratio, expense ratio, and combined ratio (*i.e.*, the ratios excluding Converium's life insurance business) – each of which is also a key measure of a reinsurance company's financial performance.

64. The loss ratio is the ratio of net incurred losses plus loss adjustment expense to net premiums earned. Loss adjustment expense ("LAE") reflects the costs associated with the payment of losses and settlement of claims other than the amount of the loss itself, such as the expense of investigating claims and providing payment to attorneys and claims adjusters. For example, if a company receives $100 in premiums and pays out a total of $60 in actual losses and LAE, the loss ratio is 60%.

65. The expense ratio is the ratio of operating expenses to net premiums earned, which measures how much of each dollar received in premiums is consumed by selling, general, and administrative expenses – that is, business expenses not directly related to the payment of claims. For example, if a company receives $100 in premiums and pays $25 in overhead expenses, the expense ratio is 25%.

66. The combined ratio is the sum of the loss and expense ratios. A combined ratio lower than 100% indicates that an insurer is engaged in profitable underwriting. Accordingly, the lower an insurer's combined ratio, the better. Because a reinsurance company's loss and LAE expense is predicated upon its established reserves, the combined ratio is directly tied to its reserve level. Consequently, a company that is under-reserved, as Converium was throughout the Class Period, will understate its combined ratio, thus indicating (falsely) that the company is more profitable than it really is. For example, Converium's reported non-life combined ratio (the ratio excluding the Company's life insurance business) decreased steadily throughout the Class Period, and was below 100% from 2003 until the end of the Class Period. In July 2004, when Converium announced that its reserves were deficient by at least $400 million, the Company's non-life combined ratio skyrocketed to 140.5%, an increase of 43 percentage points from its previously reported ratio of 96.4%. By pushing the combined ratio above 100%, the reserve strengthening revealed that Converium's underwriting business was, in fact, highly unprofitable, rather than profitable.

67. As set forth below, the massive reserve deficiency at Converium North America throughout the Class Period caused the Company's reports of its net income, earnings per share, shareholders' equity and combined ratio to be materially false and misleading.

B. ZURICH RE: THE BEGINNING OF THE CONVERIUM FRAUD

68. Prior to 1997, ZFS owned or controlled several distinct reinsurance businesses in Europe and North America. In 1997, Defendant Lohmann joined ZFS from Hanover Re, a competing reinsurance firm, to assume control of ZFS's European reinsurance business and to begin the consolidation of that company's global reinsurance business. The global reinsurance business was reorganized under the name Zurich Reinsurance or Zurich Re, with the North American business organized under the name Zurich Re (North America).

69. In 1998, Lohmann became Chief Executive Officer of ZFS's reinsurance business and set about broadening Zurich Re's global operation. At that time, Lohmann and other executives at ZFS began exerting more direct control over the operations of Zurich Re (North America).

70. At that same time, indications arose of a growing problem at Zurich Re (North America). Specifically, claims began to be filed from casualty policies written in the United States for the 1996 and 1997 policy years. According to Confidential Witnesses Nos. 1 and 2, the losses being claimed for those years were significantly higher than expected, and the premiums charged for those casualty policies were insufficient to cover those losses.

71. Confidential Witness No. 1 further explained that Zurich Re (North America) utilized loss development patterns developed by its reserving actuaries to anticipate the expected losses that would arise under its policies. The actual losses being submitted under casualty policies written for the 1996 and 1997 policy years exceeded the expectations derived from the actuaries' loss development patterns.

72. According to Confidential Witness No. 1, by 1999 it had become clear to the reserving actuaries at Zurich Re (North America) and the senior management of Zurich Re, including Defendants Smith and Lohmann, that Zurich Re (North America)'s book of business for

the 1996-1998 policy years was highly problematic. The casualty policies in question had what is referred to as "long tails" – that is, claims for losses covered by those policies could be submitted years after the policies were written. According to Confidential Witness No. 1, actuarial analyses performed by Zurich Re (North America) indicated that additional reserves needed to be taken to cover the higher-than-expected losses being reported under those policies.

73. Confidential Witness No. 1 further stated that, by the end of 2000 and early 2001, it had become clear that the problems with the U.S. casualty book of business extended beyond the 1996 and 1997 policy years, and impacted the 1998-2000 policy years as well. Further, as additional results came in from the 1996 and 1997 policy years, the scope of the problems presented by the casualty book of business written in the U.S. in those years became evident.

74. Confidential Witness No. 2, who focused on 1998 and 1999, stated that the policies written during those years were extremely under-priced, meaning that the premiums Converium charged were not sufficient to cover losses on those policies. Confidential Witness No. 2 explained that, every quarter, he performed a study of the reserves for those two years, and his estimates as to the reserves needed to cover those years consistently increased. Confidential Witness No. 2 further stated:

> you could make a blanket statement that we charged way too little premium but when you look at the amount of the under charging it was like cosmic. It's like, holy Jesus how did that happen? It's unbelievable. But from my point of view, the telling piece of information is that every time I looked at those two years they got worse. I could not do an analysis which would get me to an answer that was stable.

75. Confidential Witness No. 3 corroborated that the Company had under-priced its U.S. book of business for 1996-2000, explaining that ZFS placed intense pressure on its reinsurance business in the late 1990s, when these policies were being written, to help meet the annual growth targets that ZFS had projected for its investors. As a result of the pressure to meet those targets, Confidential Witness No. 3 stated "Everyone got the message that we needed to

continue to grow the Company, but it was not a good time to continue to write business. We wrote difficult business in a crummy environment and we wrote it too cheap."

76. These witnesses also confirmed that ZFS's senior management were well aware of the fact that Zurich Re (North America) was significantly under-reserved prior to the IPO. Zurich Re (North America) tracked and evaluated its book of business through its "Loss Reserve Study," which was used to develop and refine expectations and to track reserves. As Confidential Witness No. 1 explained, the Loss Reserve Study included consideration of an estimated loss ratio that represented the percentage of premiums paid on a policy that should be reserved to pay losses covered by that policy. The Loss Reserve Study was prepared and presented to the Chief Reserving Actuary for North America and the CEO of North America at the end of each quarter and at year-end. From the start of the Class Period through his resignation on September 23, 2003, Defendant Smith received personal presentations of the Loss Reserve Study. Confidential Witness No. 1 stated that Smith would present the Loss Reserve Study to Defendants Lohmann and Kauer in Europe via teleconference. Confidential Witness No. 1 further stated that, after the IPO, the Loss Reserve Study continued to be prepared by Converium on a quarterly and annual basis and presented to the Company's senior management in this fashion.

77. According to Confidential Witness No. 1, by 2000 and 2001 the Loss Reserve Study showed a significant reserve deficiency at Zurich Re (North America) directly related to the U.S. casualty book of business for the 1996-2000 policy years.

78. In addition to the Loss Reserve Study, Zurich Re (North America) and the senior management of Zurich Re tracked the problems arising from the U.S. casualty book of business for the 1996-2000 policy years through Zurich Re (North America)'s "technical" or "bulk"

reserve. A technical reserve is a reserve that is not assigned to any specific book of business, but used, when needed, to bolster reserves on a poorly performing book of business.

79. According to Confidential Witness No. 1, in 2000 and 2001, the technical reserve at Zurich Re (North America) was negative, which meant that the company was under-reserved. In fact, by the end of 2000, the technical reserve stood at approximately negative $100 million. This meant that, under its own analyses, the Company was under-reserved by at least $100 million by the end of 2000. Indeed, according to Confidential Witness No. 1, Defendant Smith, as CEO of Zurich Re (North America), consistently refused to book reserves in line with the best estimates presented by the reserving actuaries.

C. TILLINGHAST IDENTIFIES A $350 MILLION RESERVE DEFICIENCY PRIOR TO THE IPO

80. According to Confidential Witness No. 1, by 2001 the problems in the U.S. casualty book of business had become so severe that ZFS decided that it needed to extricate itself from the increasing liability presented by its reinsurance business. Accordingly, ZFS considered whether to (1) sell the reinsurance business; (2) terminate the North American operation and "run off" its remaining business; or (3) spin-off the reinsurance business into an independent entity.

81. In early 2001, ZFS retained Tillinghast-Towers Perrin ("Tillinghast") to perform an independent analysis of the Company's reserves (the "Tillinghast Study"). Tillinghast is an insurance industry consulting business operated by Towers-Perrin. As Confidential Witness No. 1 explained, the purpose of the Tillinghast Study was to obtain an accurate, independent and unbiased estimate of Zurich Re (North America)'s reserve deficiency to help ZFS determine how to dispose of its reinsurance business. To that end, Tillinghast performed separate studies of the Zurich, North American and German businesses of Zurich Re. According to Confidential Witness No. 1, it was well known amongst the actuaries and senior management of Zurich Re and Zurich Re (North America), including Defendants Smith, Lohmann and Kauer, that Tillinghast would

discover a reserve deficiency of at least $100 million at Zurich Re (North America), because the technical reserve at that time was negative approximately $100 million.

82. In or about April 2001, Tillinghast presented the results of its study, which showed that the reserves maintained by Zurich Re (North America) were deficient by approximately $350 million. In other words, Tillinghast determined, based on the Company's data, that the Company was under-reserved by at least $350 million in North America alone. Confidential Witness No. 1 stated that Tillinghast prepared a written report of the results of its study, which was distributed to senior management in Switzerland and North America, including Defendants Lohmann, Kauer, and Smith.

83. The Tillinghast Study broke down the North American reserve deficiency by lines of business, specifying the degree to which each line was under-reserved. Internal Company documents compared the loss reserve deficiency identified as Tillinghast's "best estimate" with the loss reserves actually booked by Zurich Re (North America) for those lines. Confidential Witness No. 1 described one document that he had reviewed, entitled "Zurich Reinsurance North America Analysis of Loss and ALAE Reserves as of 31 December 2000," which compared Tillinghast's best estimates of the loss reserves necessary for each line of insurance with the reserves the Company had actually booked for those lines. This document, which was widely disseminated at Zurich, including to Defendants Lohmann, Kauer, and Smith, identified the tens of millions of dollars that the Company's established loss reserves were deficient for virtually every line of business. For example, Tillinghast concluded that the Workers Compensation lines of insurance were under-reserved by over $60 million; the Umbrella lines were under-reserved by over $50 million; the Property (Non-Catastrophe) lines were under-reserved by over $15 million; and the Automotive lines were under-reserved by more than $10 million.

84. Converium and the Officer Defendants knew that ZFS could not proceed with either a sale or public offering of Converium with a $350 million reserve deficiency. According to Confidential Witness No. 1, Converium and the Officer Defendants also knew that ZFS could not increase reserves by anywhere close to $350 million and still hope to conduct an initial public offering. As Confidential Witness No. 1 stated, Converium and the Officer Defendants knew that any such increase would have to be publicly disclosed, and would (i) indicate to the market that there were enormous problems with the North American business, and (ii) cause investors to doubt the accuracy and adequacy of the Company's reserves. Confidential Witness No. 1 confirmed that he openly discussed these issues with senior management, and that management of Zurich Re (North America) concluded that they could not increase reserves by anywhere close to $350 million, and still take Converium public. Indeed, management determined that, if they did announce such a massive increase, the only viable option would be to run-off the North American business.

85. The scope of the reserve deficiency identified by Tillinghast is overwhelming when viewed in the context of Converium's financial results. For example, the Company reported a net loss of $29.3 million for year-end 2000. If Converium had increased reserves to address the $350 million deficiency Tillinghast identified, Converium's true loss for 2000 would have been nearly $380 million – more than 10 times greater than the reported loss of $29.3 million.

86. Defendant Smith, under direction from Defendants Lohmann and Kauer, instructed Isaac Mashitz, then the Chief Reserving Actuary at Zurich Re (North America), Sheldon Rosenberg, then a Vice President and Actuary at Zurich Re (North America), and Confidential Witness No. 1, to "convince" Tillinghast that the reserve deficiency was far less than $350 million. Mashitz, Rosenberg, and Confidential Witness No. 1 "negotiated" with Tillinghast for

several months in an effort to persuade Tillinghast that the North American reserves were not deficient by $350 million. Confidential Witness No. 1 stated that Lohmann and Kauer ultimately decided that the maximum reserve increase the Company could take and still conduct the IPO was $125 million, and that he was ordered to get Tillinghast to agree that that was the "right number." Confidential Witness No. 1 stated that "we pulled out every stop" and "worked them to death to get that number down." Internal Converium documents corroborate his account, and show that, as of the summer of 2001, Tillinghast's "best estimate" was that reserves were still deficient by $186 million – or 50% more than the $125 million increase senior management was willing to take. Confidential Witness No. 1 further stated that, throughout this process, he, Mashitz and Rosenberg, as well as the Company's senior management, knew that Tillinghast's original "best estimate" of $350 million was accurate.

87. Ultimately, rather than increasing North American reserves by $350 million to ensure that the Company's loss reserves were in line with Tillinghast's best estimates, Converium increased North American reserves prior to the IPO by only $125 million. Thus, while Converium offered its shares and ADSs to the investing public with the express representation that the Company's loss reserves had been subject to a thorough review by Tillinghast and were in line with Tillinghast's best estimates, the Company and the Officer Defendants knew that Converium was under-reserved by hundreds of millions of dollars. As Confidential Witness No. 1 explained, the pervasive belief at Converium was that the Company had "pulled a fast one."

D. CONVERIUM'S INITIAL PUBLIC OFFERING

88. In a September 6, 2001 press release, ZFS and Converium announced that Converium would be spun-off in an initial public offering to shareholders. The press release stated:

> During the fourth quarter of 2001, ZFS will, by way of an IPO, sell at least 70% of its entire shareholding of Converium Holding Ltd. ZFS' management has elected for a demerger and IPO as the exit route for ZFS from assumed reinsurance following consideration of a number of alternatives. ZFS management believes that an IPO will create the most value for ZFS shareholders.

89. That same press release reported that, "following an independent actuarial review," Converium had increased its overall reserves by $112 million in the first half of 2001, consisting of a $125 million increase in the North American reserves, and a $13 million reduction of European reserves. As a result, Converium's loss reserves were now purportedly in accord with "the consulting actuaries' best estimate of provisions for net loss and loss adjustment expenses." The press release stated:

> Based on the pro forma balance sheets and income statements Converium's capital adequacy under Standard & Poor's capital model is expected to be at least 180% and solvency is expected to be at least 70% as at Dec. 31, 2001. During the second quarter of 2001, following an independent actuarial review, Converium undertook reserve strengthening amounting to $112 million. As a result, Converium's loss reserves at Dec. 31, 2000 correspond to the consulting actuaries' best estimate of provisions for net loss and loss adjustment expenses.

90. In the months leading up to the IPO, Defendants repeatedly emphasized the strength of the Company's reserves, and specifically touted the fact that Converium's reserves were purportedly in line with Tillinghast's best estimates. Following the legal registration of Converium as an independent entity on October 1, 2001, senior managers set off on a road show with intensive and detailed company presentations to over 400 investors in 19 cities throughout Europe and the United States. In a flier issued on or about October 23, 2001 and used on that road show, the Company stated that "Converium's loss reserves as of December 31, 2000 have been thoroughly examined by Tillinghast and are booked by Converium at Tillinghast's 'best estimates.'" In that same flier, the Company hyped its credit rating, citing its "A+" rating from Standard & Poor's and the "A" rating it received from A.M. Best.

91. On December 11, 2001, Converium conducted its IPO pursuant to the Registration Statement and Prospectus. ZFS sold 35 million shares of Converium stock on the IPO at a price of 82 Swiss Francs per share, or $24.59 per ADS (with each ADS representing one half of one share of stock). The pricing of the ADSs was based on the rate of exchange that day, at which 1.6673 Swiss Francs equaled one U.S. dollar. The IPO yielded gross proceeds of approximately $1.756 billion. Of that, ZFS received net proceeds of approximately $1.67 billion from its sale of Converium stock on the IPO.

92. The Converium IPO was the largest initial public offering of a reinsurance company in history. Moreover, it was the largest initial public offering of a Swiss company in three years. Trading in Converium securities began on December 11, 2001, with Converium stock trading on the Swiss Exchange under the symbol CHRN, and Converium ADSs trading on the New York Stock Exchange under the symbol CHR.

93. The lead underwriters on the IPO were UBS and Merrill Lynch, each of which sold 11.1 million shares of Converium stock on the IPO, or roughly 2/3 of the total shares sold by ZFS. Fees of approximately $54 million were paid to UBS, Merrill Lynch and the other underwriters of the IPO.

94. In addition to the 35 million shares ZFS sold on December 11 IPO, ZFS granted the Underwriters an over-allotment of 5 million shares of Converium stock, representing the remainder of ZFS's interest in Converium. On January 9, 2002, ZFS issued a press release in which it announced that the over-allotment had been exercised, and that it had sold the remaining 5 million shares of Converium that it held. In short, through the IPO, Zurich sold 40 million shares of Converium--every single share of Converium that it owned.

E. FOLLOWING THE IPO, THE NORTH AMERICAN LOSS RESERVE DEFICIENCY CONTINUES TO GROW

95. Following the IPO, Converium inherited the loss reserve problems that existed at Zurich Re and Zurich Re (North America). As alleged above, at the time of the IPO, Converium's North American business was under-reserved by at least $225 million. Following the IPO, claims continued to mount, and the North American business continued to deteriorate.

1. The Importance of Converium North America

96. Analysts noted early on the importance of Converium North America to the Company's overall operations. For example, when Sarasin initiated coverage of Converium on January 14, 2002, it noted that, in the first half of 2001 "North America and the UK were the two most important markets [for Converium], contributing 40% and 21% of premium volume respectively." Similarly, Banc of America observed in a March 20, 2002 report that "North America accounts for 42% of total group business."

97. Moreover, analysts focused in particular on Converium North America's loss reserves. Converium represented itself to be adequately reserved in line with Tillinghast's best estimates following the IPO, and as a result, analysts concluded that the reserves maintained by Converium as a whole, and Converium North America in particular, were now adequate. As Banc of America stated in a report issued on March 20, 2002, only three months after the IPO:

> In order to assuage market concerns over the level of reserving, Tillinghast was appointed to perform an independent actuarial assessment as to their adequacy. As a result of Tillinghast's recommendations, a further $112m was injected into reserves in the first half of 2001, in order to match the Tillinghast best estimate. Our forecasts preclude further significant reserving fluctuations going forward, notwithstanding the changing business mix.

98. According to Confidential Witness No. 1, following the IPO, reserving decisions for Converium North America were specifically reviewed and approved by Converium management in Switzerland, including Defendants Lohmann and Kauer. Confidential Witness

No. 1 explained that the Swiss management took a direct hand in North American reserves because of the clear problems posed by the 1996-2001 policy years in the U.S. Confidential Witness No. 1 explained Defendants Lohmann's and Kauer's involvement in reviewing and approving North American reserves, stating that, after the IPO "we didn't book anything without their ok."

99. The extensive control exerted by European management is corroborated by Confidential Witness No. 4, a former Human Resources Administrator at Converium North America, who pointed out that the Company's Executive Committee was made up almost entirely of individuals from Europe. "So really the decisions were coming down from the Board and from the Global Executive Committee. Any reserve decisions, new business, new lines of business, restructuring or any kind of movement anywhere was discussed at a very high level... It was all handled out of Switzerland."

100. Confidential Witness No. 1 described Converium's process for reviewing and establishing North American reserves as follows: the actuarial team in New York would meet with Defendant Smith and present him with the Loss Reserve Study, which demonstrated the deficiency in North American reserves and recent adverse loss developments. Smith would then present the Loss Reserve Study directly to Lohmann and Kauer in Switzerland and discuss with them what reserves should be taken. Lohmann and Kauer then made the decision as to whether to strengthen reserves.

101. In addition to the Loss Reserve Study, following the IPO Defendants Smith, Lohmann and Kauer also received a second internal study of the North American reserve deficiency conducted by Confidential Witness No. 2, a Vice President and reserving actuary at Converium North America. The study performed by Confidential Witness No. 2 regularly

showed that the reserve deficiency in North America was approximately $100 million greater than the reserve deficiency identified the Loss Reserve Study.

2. By 2002, Defendants Are Well Aware That Converium North America Is Under-Reserved by Hundreds of Millions of Dollars

102. According to Confidential Witness No. 1, after 2001 the Company's reserve deficiency continued to increase and the Company's financial results at the end of 2001 demonstrated that a further reserve strengthening was necessary. Indeed, Confidential Witness No. 1 stated that the Company's "numbers for 2001 came in worse than expected."

103. Specifically, Confidential Witness No. 1 explained that, just 20 days after the IPO, Converium experienced up to $80 million in adverse loss development at its North American operations. This meant that, without a further strengthening of reserves, the reserves maintained by Converium North America would be deficient by an additional $80 million above the deficiency identified by Tillinghast. According to Confidential Witness No. 1, Defendant Smith, as well as Sheldon Rosenberg and Brian Kensil, the CFO for Converium North America, agreed that the adverse loss development immediately following the IPO amounted to up to $80 million. Confidential Witness No. 1 stated that the Company took no action to correct that deficiency, because it could not reveal that Converium's reserves were deficient so soon after the IPO.

104. In addition to the adverse loss development of up to $80 million identified immediately following the IPO, in each quarter of 2002, Converium's actuaries in New York identified further adverse loss development of up to $50 million. That adverse loss development contributed directly to the growing North American reserve deficiency. According to Confidential Witness No. 1, those adverse developments were reported to Defendant Smith, who in turn reported the adverse developments to Defendants Lohmann and Kauer. Confidential Witness No. 1 explained that he learned this information from Jean-Claude Jacob, the Company's

Global Reserving Actuary in Switzerland, who attended meetings with Lohmann and Kauer at which they received reports of the adverse loss development and ever-increasing reserve deficiency at Converium North America.

105. Despite their knowledge that the North American reserve deficiency was growing by as much as $50 million a quarter during 2002, Lohmann and Kauer only permitted Converium North America to book additional reserves of $5-10 million for the first two quarters of 2002, according to Confidential Witness No. 1. As a result, the North American reserve deficiency increased by $90 million during the first two quarters of 2002.

106. The North American reserve deficiency grew so severe that, in 2002, Jean-Claude Jacob initiated his own, internal study of the North American reserves. Confidential Witness No. 1 explained that, based on his conversations with Jacob, the purpose of this study was to determine "how big the hole in New York" was; that is, to determine the full extent of the North American reserve deficiency.

107. Jacob concluded that the reserves maintained by Converium North America were deficient by hundreds of millions of dollars at the end of 2002. This is confirmed by an e-mail with the subject "Converium NA roll forward reserve analysis completed" Jacob sent in 2003 to Defendants Smith, Lohmann, and Kauer in addition to Confidential Witness No. 6, then the President of Converium North America, Brian Kensil, CFO of Converium North America, and Joanne Spalla, the Chief Reserving Actuary in New York, among other Company executives. Jacob's e-mail reported that Converium North America's "Net Loss reserves as at 4Q02 were US$268M below Group Corporate Actuarial (CGA) preliminary estimate." A spreadsheet attached to Jacob's e-mail indicates that the $268 million deficiency identified in the e-mail excluded an additional $25 million. Thus, that spreadsheet shows that the total reserve deficiency

at Converium North America was at least $293.2 million as of December 31, 2002. As explained below, Converium's senior management was soon to learn that the reserve deficiency was even larger.

F. B&W DELOITTE DETERMINES THAT CONVERIUM IS UNDER-RESERVED BY $437 MILLION

108. In contrast to Defendants' public representations about the strength of Converium's reserves, the reserve problems in North America were so severe that, in or about March or April of 2003, Converium's Board of Directors retained B&W Deloitte ("Deloitte"), the actuarial consulting group of Deloitte & Touche LLP, to conduct an independent study of the Company's reserves as of year-end 2002. As with the study conducted by Tillinghast prior to the IPO, the Deloitte study was intended to provide an objective and independent assessment of Converium's reserves. According to Confidential Witness No. 1, Deloitte was hired because the Board was concerned that the Company was not adequately reserved, and wanted to obtain an independent study of the Company's reserve position.

109. In order to ensure that Deloitte conducted an independent, objective analysis of the Company's reserves, the Company's senior management, including Defendants Lohmann and Kauer, provided Deloitte with the Company's raw data on claims, and not Converium's own analyses of its loss reserves. According to Confidential Witness No. 1, Defendants Lohmann and Kauer determined what information to provide to Deloitte.

110. Confidential Witness No. 5, a former reserving actuary at Converium North America, described the Deloitte review as "a very diligent and accurate review of all the reserves of Converium America and Converium Zurich."

111. Joanne Spalla, who became Chief Reserving Actuary at Converium North America in or about mid-2002, explained the purpose of the Deloitte study in a May 1, 2003 e-mail with

the subject "Re: Meeting with B&W Deloitte May 9th – What to expect." Spalla sent that e-mail to Defendant Smith, Confidential Witness No. 6**,** then the North American President, North American CFO Brian Kensil, Sheldon Rosenberg and Confidential Witness No. 1, among other Company executives. Spalla wrote that "Deloitte is the firm that has been hired to provide a third party review of Converium Groups [sic] net reserves as of December 31, 2002." Spalla explained in her e-mail that Deloitte requested the May 9 meeting "to gain a familiarity of our lines of business" and specifically requested that Converium provide:

> Pricing information by line and Underwriting Year
> Distribution of retention and limits by line and UY
> Distribution of WP by effective date within line for UY's 01 and 02 [...]
> Slips for the 5 largest treaties by market segment [...]
> They will also be asking questions to determine if there have been any significant changes in our business that may impact their analysis.

Deloitte requested this information in advance of its May 9 meeting with Converium to ensure that it had all the information it needed to conduct its analysis.

112. To ensure that Deloitte's reserve study was not influenced by Converium's internal assessments, the Company only provided Deloitte with its raw data on losses and claims, and not the Company's own actuarial studies. A May 5, 2003, e-mail from Joanne Spalla to Defendant Smith, Confidential Witness No. 6, Kensil, Rosenberg and Confidential Witness No. 1, among other Company executives, confirms this. Specifically, describing an attached file containing the data provided to Deloitte, Spalla wrote:

> Data provided to Deloitte. This file consists of triangles that were already provided to Deloitte. The print ranges have been set for each sheet showing inception to date Earned Premiums, Paid Losses, Case Losses and ACR's by underwriting year. I plan to include these exhibits in the presentation material for Friday. Please note that we will NOT be providing out ELR's, ULR's and IBNR reserves to Deloitte until after they share their preliminary estimates. I have also included a list of treaties that are excluded from the triangles.
>
> Other information that Deloitte will be looking for includes profiles of our business by limit and attachment point by underwriting year, information on any unusual

> treaties or events that may distort the triangles and changes in our book that would impact the reserve analysis.

113. Confidential Witness No. 1 explained that the "triangles" are tables showing the claims submitted for each policy year, broken down by year. The "Earned Premiums, Paid Losses, Case Losses and ACR's" represent underlying data relating to Converium's book of business, while the "ELR's, ULR's and IBNR reserves" refer to Converium's "expected loss ratios," "ultimate loss ratios" and "incurred but not reported reserves," which reflect conclusions and analyses by Converium's actuaries. Converium withheld the latter to ensure that Deloitte's study would remain independent and objective.

114. In May 2003, Deloitte presented the preliminary results of its study to management, which was based on all the data and information Converium had provided in response to Deloitte's requests. Deloitte's study determined that, as of December 31, 2002, the reserve deficiency at Converium North America was more than $437 million. Specifically, a May 28, 2003 e-mail from Joanne Spalla to Jean-Claude Jacob, Brian Kensil and Confidential Witness No. 1 stated that "Deloitte's preliminary analysis for the 'Traditional Lines' was $437 million higher than our booked estimates and $342 million higher than our top down analysis. This does NOT include any of the takeout accounts nor does it include RSD."

115. Spalla's statement that the $437 million reserve deficiency did not include any of the "takeout accounts" or "RSD" meant that the deficiency was actually significantly greater than $437 million. Confidential Witness No. 1 explained that the take-out accounts and the RSD accounts, which were accounts from the Risk Strategies Division, which sold finite insurance, were problematic accounts that required high reserves. The exclusion of those accounts from Deloitte's study had the effect of reducing the reserve deficiency Deloitte would discover.

116. Spalla's May 28 e-mail also is an admission that the Company did not establish reserves in accordance with its own "top down analyses." Instead, the Company established reserves (*i.e.*, "booked estimates") that were $95 million less than the amounts indicated by the "top down" analyses.

117. The Deloitte analysis provided to Converium broke down the reserve deficiency at Converium North America by line of business, specifying the degree to which the loss reserves for each line of business were deficient. For example, according to a spreadsheet attached to Spalla's May 28 e-mail, Deloitte concluded that Converium North America's Automotive lines of business were $37.88 million under-reserved; its Director & Officer lines of business were $35.698 million under-reserved; and its Medical Errors & Omissions Excess line of business was $78.27 million under-reserved. That spreadsheet also breaks down the reserve deficiencies by policy year, and identifies policy years 1996-2000 as the source of the majority of the under-reserved books of business.

118. When considered in light of Converium's financial results, the scope of the reserve deficiency identified by Deloitte is staggering. For example, Converium recorded net income of $106.8 million in 2002 and $185.1 million in 2003. Because reserves are carried as a liability on the Company's balance sheet, reserve increases directly impact the Company's bottom line. Had Converium increased its loss reserves to correct the $437 million deficiency Deloitte identified in North America, it would have wiped out all of the Company's net income for 2002 and 2003, and resulted in a total net loss of at least $145 million for those two years.

119. Moreover, during the Class Period, the Company publicly disclosed that Converium North America maintained reserves of approximately $2 billion. Accordingly, this deficiency meant that Converium was under-reserved by almost 25%.

120. Confidential Witness No. 1 further explained that, in the first quarter of 2003, Converium North America continued to experience significant adverse loss development for the U.S. book of business written between 1996 and 2000. Indeed, according to internal Company documents, during the first half of 2003 Converium North America experienced additional adverse loss development of $339.9 million. That adverse loss development exacerbated the deficiency in the North American reserves that existed at the end of 2002.

121. The accuracy of Deloitte's analysis was demonstrated by Deloitte's calculation of the adverse loss development that Converium would experience in the first half of 2003. An internal Converium document compares the loss development predicted by Deloitte for the first half of 2003 with the actual loss development experienced by Converium North America during that period. Specifically, Deloitte predicted total loss development of $334.1 million during the first two quarters of 2003, and Converium North America experienced actual loss development of $339.9 million – a difference of just $5.8 million, or 1.7%. Deloitte's analysis of the Company's reserve deficiency was right on the money.

122. Moreover, the $437 million deficiency identified in Deloitte's study represented the North American reserve position as of year-end 2002. That deficiency did not, therefore, include the additional $339.9 million in adverse loss development Converium North America experienced in the first half of 2003. As a result of that adverse loss development, Converium North American was under-reserved by at least $776.9 as of June 30, 2003.

G. CONVERIUM HIDES ITS NORTH AMERICAN DEFICIENCY

123. Despite the results of the Deloitte study, Converium did not disclose its massive reserve deficiency to the public or publicly increase its reserves. Indeed, according to Confidential Witness No. 1, Defendant Lohmann determined at the beginning of 2003 that Converium would report $180 million of net income for 2003. Regardless of what happened

during the year, Confidential Witness No. 1 explained that Lohmann insisted that Converium would meet that goal. As Confidential Witness No. 1 stated, Lohmann knew that Converium could not address its reserve deficiency and meet that goal. Instead, in the second half of 2003, Converium initiated a restructuring to conceal the problems in its North American operation, and began a scheme to hide its growing North American reserve deficiency by secretly transferring policies known to be contributing to the growing reserve deficiency from Converium North America to the Company's European operation.

124. From the date of its IPO, Converium had always reported its financial results on a geographic basis, separately identifying results for Converium North America. For example, in its 2002 Form 20-F, the Company reported that Converium North America suffered a loss of $57 million on revenues of $1.26 billion and achieved an adjusted non-life combined ratio of 114.9%.

125. On October 3, 2003, the Company announced that, beginning with the third quarter of 2003, it would no longer report its results according to geographic segments, but would instead report its results by global business segments. While the Company stated that the reason for this sudden change was supposedly to increase "transparency," witnesses confirmed that the true purpose for reorganizing the Company's reporting structure was to obscure the deteriorating condition of Converium North America, and its growing reserve deficiency. Confidential Witness No. 1 explained that the Company was aware of the market's focus on North America in general and the 1997-2001 book of business in particular, and sought to thwart analysts and investors from discovering the ever-increasing reserve deficiency at Converium North America, and the Company's need to once again increase North American reserves.

126. Confidential Witness No. 1 learned from Joanne Spalla that it was Jean-Claude Jacob's idea to reorganize Converium to deemphasize the North American operation.

Confidential Witness No. 1 further explained that it was common knowledge among the actuaries at the Company this was the true purpose of the change in the global reporting structure.

127. Specifically, Confidential Witness No. 1 stated:

> During '03, as opposed to reporting by branch, and it was obvious that it was good branch, bad branch, Europe was good, and New York was bad. So, what they did was reorganize the whole company to report by global lines of business. And that was done strictly to hide the fact that New York sucked.

128. According to Confidential Witness No. 1, Defendant Lohmann devised a two-pronged scheme to secretly improve the appearance of Converium's North American business: first, by novating policies underwritten by Converium North America to Zurich, and second, by increasing Converium North America's loss reserves without public disclosure. A novation is the transfer of an insurance policy or group of policies, including all premiums received and losses paid, from one entity to another. To novate portions of the U.S. book of business from the U.S to Zurich, Converium North America relinquished to Zurich the premiums it had received for underwriting those policies. Converium North America then released the reserves it had established to cover losses claimed under those policies.

129. According to Confidential Witness No. 1, the purpose of the novation plan was to get under-reserved policies that were responsible for the adverse loss development experienced by Converium North America off of Converium North America's books. This was corroborated by Confidential Witness No. 6, who explained that a major motivation for novating contracts from North America to Europe was to remove the adverse loss development from the novated policies from the balance sheet of Converium North America.

130. Confidential Witness No. 1 confirmed this scheme:

> [W]e novated our worst contracts. We took a lot of shit off of North America's books by putting it onto the European company's books, and then said, as a global organization, to paint a rosier picture of New York, but obviously it wasn't enough because it continued to deteriorate.

131. In addition to novating policies away from Converium North America, the Company secretly increased its North American loss reserves by nearly $75 million in the third quarter of 2003, and by over $43 million in the fourth quarter, without ever disclosing these facts to investors.

132. The statements of these witnesses are corroborated by internal Converium documents. On October 26, 2003, Jean-Claude Jacob reported directly to Defendants Lohmann, Kauer and Smith, in addition to Joanne Spalla, Confidential Witness No. 6, Brian Kensil and other executives at Converium, on the progress of the novation scheme and secret reserve increases. In an e-mail sent that day, under the heading "Converium North America after novations as at 3Q2003" Jacob wrote that "Through Novations and reserve strengthening CRNA [Converium Reinsurance North America] reserve position improved by US$155M (*i.e.* US$74.1M of actual reserve strengthening and US$81.3M of reserve deficiency on novated contracts transferred to Converium AG (CAG))."

133. Jacob's October 26 e-mail also reported that even after the secret reserves increases, the Company's own internal studies showed an overall North American reserve deficiency of nearly $300 million as of the third quarter of 2003. Specifically, Jacob wrote that "Net Loss reserves as at 3Q03 are **US$297M** below Group Corporate Actuarial (CGA) preliminary estimate." [Emphasis in original.]

134. Moreover, according to Confidential Witness No. 1, during the third quarter of 2003, Spalla and Jacob instructed Confidential Witness No. 1 and Confidential Witness No. 5, another reserving actuary at Converium North America, "to bury $45 million" in adverse loss development at Converium North America.

135. Specifically, Confidential Witness No. 1 stated:

> For the [third quarter of 2003], we were told that the New York numbers for prior years need to look $45 million better than what they look like now. We had to make our indications look better. They were not accepting what we were giving them. We were told to find $45 million. What that means is we'd already identified $30 to $35 million of things that we believed, based upon the losses that had come in during the first quarter, we needed to put up extra funds to cover them. We were told to go out and find $45 million of better business that we could take money from to cover it. And that was quite a stretch.

136. Confidential Witness No. 1 stated that he complied with Spalla's direction and was able to hide $45 million in adverse loss development and reserve deficiencies. Confidential Witness No. 1 stated that he was aware, as was Spalla, that this action was improper. Confidential Witness No. 1 specified that he was told by Joanne Spalla that she had been directed by senior management to bury that $45 million in adverse loss developments during the third quarter of 2003.

137. The Company's fraudulent scheme continued in the fourth quarter of 2003. On November 29, 2003, Joanne Spalla sent a memorandum to Jean-Paul Jacob and other Converium executives which stated that Converium North America had novated an additional $76.8 million in contracts to Europe during the fourth quarter and had also secretly increased North American reserves by an additional $43.6 million. Once again, these material facts were not disclosed to investors.

138. All told, through their machinations, in the second half of 2003 defendants increased Converium North America's reserves by approximately $275 million – all without any disclosure to investors. In fact, rather than disclose these highly material facts, which would have revealed that Converium was not adequately reserved and that its North American business was deteriorating, the Company announced that Converium had actually reduced its reserves in 2003.

Indeed, on February 17, 2004, Converium reported "an aggregate net operating income benefit of US$ 31.3 million arising out of reserve releases for prior years' incurred losses."

139. Even with the secret reserve increases and novations, by the end of 2003 Converium and its senior officers knew that the Company was under-reserved by hundreds of millions of dollars. Indeed, Deloitte's analysis, coupled with the adverse loss development for the first two quarters of 2003, resulted in a reserve deficiency of $776.9 million as of June 30, 2003. Thus, even taking into account the secret reserve increases in the second half of 2003, Converium was still under-reserved by $500 million as of the end of 2003.

140. Further, internal Converium documents establish that Converium's own actuaries informed senior management that the Company was under-reserved by hundreds of millions of dollars as of year-end 2003. For example, a Converium document concerning the Company's loss reserves as of December 31, 2003 shows that the Company's Global Reserving Actuary concluded that Converium North America was under-reserved by at least $268 million.

VI. FALSE AND MISLEADING STATEMENTS

THE IPO

141. On December 11, 2001, the Registration Statement and Prospectus filed in connection with the IPO was declared effective by the SEC. Pursuant to the Registration Statement and Prospectus, Zurich sold 40 million shares for 82 CHF per share, and $24.59 per ADS, reaping proceeds of approximately $1.9 billion – the largest IPO for a reinsurance company in history. The Registration Statement, which was signed by Defendants Lohmann, Kauer, Colombo, Mehl, Forterer, Schnyder, Hendrix and Parker, contained a series of materially false and misleading statements regarding Converium's financial results and reserves. These false statements were designed to create the impression that Converium was a strong, growing company which carefully monitored reserves, and was fully and adequately reserved.

142. The Prospectus reported historical financial data for the former ZFS subsidiaries that were combined to form Converium. According to the Prospectus, for the first six months of 2001, Converium reported a net loss of $60.5 million and a non-life combined ratio of 111.2% – a significant improvement from the 117% ratio the Company reported for 2000. In addition, the Prospectus reported that the Company had shareholders' equity of approximately $1.65 billion as of October 1, 2001. The Prospectus also separately reported financial results for Converium North America, including the fact that Converium North America reported a loss for the first six months of $81 million.

143. The statements in the Prospectus regarding Converium's and Converium North America's financial results for the first half of 2001 were materially false and misleading. Indeed, as described above, as of the date of the IPO, Converium (and Converium North America) were under-reserved by at least $225 million. As a result, rather than reporting a loss of only $60 million for the first half of 2001, Converium should have reported a loss of at least $285 million. The Company's shareholders' equity was similarly overstated by $225 million, or 16%. In addition, because Converium's non-life combined ratio was directly impacted by the level of the Company's loss reserves, the non-life combined ratio Converium reported for the first half of 2001 was materially understated as a result of the Company's reserve deficiency.

144. The Prospectus also expressly represented that the Company's loss reserves were established in-line with Tillinghast's best estimates, and that the increase in the Company's reserves taken in connection with the IPO was sufficient to maintain the adequacy of Converium's reserves:

> [The] reserve strengthening discussed above was determined in accordance with our loss reserving policies as described in "Establishment of Loss and Loss Adjustment Expense Reserves," and was recorded in accordance with our established accounting policies as described in Note 2(c) of our historical

combined financial statements. Our revised estimate of reserves, based mainly on the new ceding company reported data, was in line with Tillinghast's principally top-down reserve estimate within its range of estimates.

145. These statements were materially false and misleading because, as alleged above at ¶¶ 82-87, the "reserve strengthening" in 2001 was not in line with Tillinghast's reserve estimate. To the contrary, as Confidential Witness No. 1 stated, Tillinghast actually estimated that Converium was under-reserved by $350 million. Converium's senior management determined to increase reserves by only $125 million because they believed that was the maximum amount by which Converium could increase reserves and still go public.

146. The Prospectus also materially misrepresented the method by which Converium calculated its loss reserves. Specifically, the Prospectus assured investors that Converium established its reserves "on the basis of facts available at the time," and that its reserves "were reasonable estimates based on the information known at the time our estimates were made." To wit:

> We estimate our loss and loss adjustment reserves on the basis of the facts available at the time the loss and loss adjustment expense reserves are established and use actuarial methodologies which are commonly used in our industry. Our estimates of losses and loss adjustment expenses are subject to assumptions reflecting economic and other factors such as inflation rates, changes in legislation, court rulings, case law and prevailing concepts of liability, which can change over time. We review and update our estimates and record changes to our loss and loss adjustment reserves in current income.
>
> * * * * *
>
> We utilize actuarial tools that rely on historical and pricing information and statistical models as well as our pricing analyses. We revise these reserves for losses and loss adjusted expenses as additional information becomes available and as claims are reported and paid.
>
> * * * * *
>
> On the basis of our actuarial reviews we believe our liability for gross losses and loss adjustment expenses, referred to as gross reserves, and our gross reserves less reinsurance recoverables for losses and loss adjustment expenses ceded, referred to

> as net reserves, at the end of all periods presented in our historical combined financial statements were determined in accordance with our established policies and were reasonable estimates based on the information known at the time our estimates were made. [Emphasis added].

147. These statements regarding the establishment and adequacy of the Company's loss reserves were materially false and misleading. As alleged above, Converium was under-reserved by at least $225 million at the time of the IPO, and the Company's reserves were not reasonable estimates based on the information known at the time.

148. In addition, the Prospectus purported to "warn" investors about potential risks related to the adequacy of Converium's loss reserves, stating that reserves "may prove to be inadequate to cover our actual losses." This risk warning was itself materially false and misleading, because at the time the statement was made, the loss reserves maintained by the Company were not adequate to cover losses, and the Company's reserves in North America were deficient by at least $225 million.

FOLLOWING THE IPO, DEFENDANTS CONTINUE TO MISLEAD INVESTORS REGARDING CONVERIUM'S FINANCIAL CONDITION

149. On March 18, 2002, Converium issued a press release reporting its financial results for the year ending December 31, 2001. The Company reported a net loss of $367 million for fiscal 2001, which the Company downplayed as endemic of the industry-wide impact of the September 11 attacks and the Enron collapse – one-time catastrophic events which did not accurately reflect the state of the Company's business. In seeking to divert attention from its losses, Defendant Kauer touted the material improvement in the Company's adjusted non-life combined ratio, excluding the impact of September 11 and Enron:

> Converium has a very solid balance sheet and is strongly capitalized at $ 1.6 billion to benefit in the hardening markets. ... We substantially improved our underlying adjusted non-life combined ratio in 2001 by 7.8 points to 105.4%. ... Our objective for 2002 is to generate a non-life combined ratio of close to 100% and to target an ROE of more than 12.5%.

150. The statements in the Company's March 18, 2002 press release were materially false and misleading. As set forth above, Converium was under-reserved by at least $225 million as of June 30, 2001. In addition, Converium North America experienced adverse loss development of as much as $80 million prior to the end of 2001, bringing Converium North America's reserve deficiency to $305 million as of December 31, 2001. As a result of that reserve deficiency, the net income reported in the March 18 press release was overstated by over 80%, while the Company's reported adjusted combined ratio was materially understated.

151. On May 23, 2002, Converium filed its Form 20-F for the year ended December 31, 2001 (the "2001 20-F") in which it repeated the results first announced in the Company's March 18, 2002 press release, and represented that those results were prepared in accordance with GAAP. In addition, the 2001 20-F reported that, as of December 31, 2001, the Company had shareholders' equity of $1.57 billion. The 2001 20-F also provided detailed financial results for Converium North America. Specifically, Converium North America recorded a net loss of $28.7 million in 2001 and achieved an adjusted non-life combined ratio of 107.9%. The 2001 20-F also reported that the Company incurred losses and loss expense adjustment of $253 million, which included adverse loss development of $80.1 million at Converium North America. Defendants Lohmann and Kauer signed the 2001 20-F. In addition, both Defendants Lohmann and Kauer certified, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Company's 2001 20-F fully complied with the requirements of the Securities Exchange Act of 1934, and that the information contained in the 2001 20-F fairly presented, in all material respects, the financial condition and results of operations of the Company.

152. The financial results reported in Converium's 2001 20-F were materially false and misleading because, as of December 31, 2001, the Company was under-reserved by $305 million.

As a result, Converium's reported net income was overstated by that amount, while the Company's reported adjusted non-life combined ratio was materially understated. In addition, shareholders' equity was overstated by 24%. For the same reasons, the statements in the 2001 20-F regarding Converium North America's financial results were materially false and misleading. Specifically, the Company overstated Converium North America's net income and understated its adjusted non-life combined ratio. In addition, the reported adverse loss development at Converium North America was understated by as much as $80 million, as were the losses and loss adjustment expenses reported for the Company.

153. On July 29, 2002, Converium issued a press release announcing its financial results for the six months ended June 30, 2002. The Company's press release reported significant financial improvement in the first half of the year, including net income of $31.6 million, compared to a net loss of $60.5 million for the first half of 2001, and earnings per share of $0.79. Significantly, the Company also reported that it had reduced its non-life combined ratio to 101% – an improvement of over 10 percentage points from the 111.2% reported for the same period of the prior year. Indeed, the Company touted as "highlights" of its financial performance its "on track" combined ratio, its net income, and the fact that it maintained "[s]trong reserve levels." Defendant Kauer emphasized these achievements, and was quoted in the press release stating:

> Converium is on track: our gross premiums written grew by more than 24% to just under US $1.8 billion, our net premiums written by 33% to US $1.7 billion, our net premiums earned by 44% to US $1.5 billion in the first six months of 2002. Converium's non-life combined ratio was 101.0% for the first half of 2002. This accurately reflects the results of our re-underwriting and restructuring efforts. We increased our pre-tax operating income by US$ 130 million to US$ 104 million for the first half of 2002. Despite the turmoil in the financial markets that resulted in net realized capital losses of US$ 61.3 million, we were able to report a net income of US$ 31.6 million for the first semester 2002.

154. On July 29, 2002, the Company's filed with the SEC pursuant to Form 6-K its half year report. The July 29 6-K repeated the strong financial results announced in the July 29, 2002

press release and cited in ¶ 153 above, and represented that the financial results were prepared in accordance with GAAP. The Form 6-K also contained a letter from Defendant Lohmann to the Company's shareholders, in which Lohmann stated that "we continue to uphold our stringent asset impairment rules [and] have also taken measures to mitigate the potential impact of asset impairment charges in future periods." Further, Lohmann wrote that Converium's market fundamentals "remain sound" and that "market conditions [for underwriting activities] were favorable in all of our markets and in most lines of business." With regard to the Company's loss reserves, Lohmann stated "We continue to closely monitor the adequacy of our reserves for losses and loss adjustment expenses to uphold high reserving standards." [Emphasis added.]

155. The July 29 6-K also provided detailed financial results for Converium's geographic segments. The Company reported marked improvement at Converium North America, which posted a net loss of just $18.3 million, and a non-life combined ratio of 105.9%. In addition, the Company reported that, for the first six months of 2002, Converium North America recorded net adverse loss development of just $19.9 million. Defendants Lohmann and Kauer signed the July 29, 2002 Form 6-K.

156. The statements in Converium's July 29, 2002 press release and July 29, 2002 Form 6-K were materially false and misleading as a result of the Company's massive reserve deficiency. As set forth above, as of year-end 2001, the Company (and Converium North America) were under-reserved by $305 million. Further, as alleged above at ¶¶ 104-105, the Company materially understated its adverse loss development for the first half of 2002. Specifically, Converium North America experienced adverse loss development of up to $50 million during the first and second quarters of 2002, yet increased reserves by only $19.9 million during the first half of 2002, causing the North American reserve deficiency to grow by roughly $80 million during the first

sixth months of 2002. As a result, as of June 30, 2002, Converium was under-reserved by $385 million. This massive reserve deficiency directly impacted the Company's reported financial results. Specifically, the Company's net income was materially overstated by this amount, as was the net income reported for Converium North America. For the same reason, the non-life combined ratios reportedly achieved by the Company and by Converium North America were materially understated, as was the adverse loss development reportedly experienced by Converium North America.

157. The Company's falsely reported financial results impacted credit rating agencies in addition to market analysts and investors. On September 6, 2002, Standard & Poor's issued a press release announcing that it had affirmed Converium's "A+" credit rating, and forecast a "stable" outlook for the Company. The press release stated:

> The ratings on Converium reflect the group's very strong capital adequacy, its strong business position, and the highly technical orientation of its underwriting.
>
> * * * * *
>
> Standard & Poor's expects a significant improvement in operating performance for the full year 2002, with further improvement in 2003 as the full impact of the premium rate increases is felt. Over the medium term, the combined ratio is expected to trend down to less than 100%, with ROR rising to about 8%.

CONVERIUM INCREMENTALLY INCREASES RESERVES IN THE FALL OF 2002, BUT CONCEALS THE FULL SCOPE OF THE MASSIVE RESERVE DEFICIENCY

158. By the late Fall of 2002, losses and adverse developments on Converium's North American business had continued to mount, driving the reserve deficiency in North America to more than $400 million. At the time, Converium North America only maintained net loss reserves of less than $2 billion, meaning that those reserves were understated by more than 20%. Recognizing that they could not disclose the full extent of Converium's reserve deficiency, the Officer Defendants decided to attempt a series of small, incremental reserve increases designed to

address the deficiency. However, as these defendants were well aware, these reserve increases were patently insufficient. Moreover, when these increases were announced in October 2002, they caused the price of Converium stock and ADSs to fall dramatically. As a result, the Officer Defendants falsely assured investors in November 2002 that the Company had "finalized" its loss reserve analysis and that there would be no further reserve increases.

159. On October 28, 2002, before the start of trading in New York or Switzerland, the Company issued a press release announcing its financial results for the third quarter ended September 30, 2002. The Company reported a net loss of just $5.6 million for the third quarter of 2002, and a non-life combined ratio of 112.7%. On October 29, 2002, Converium filed its financial results for the third quarter of 2002 with the SEC pursuant to Form 6-K. The Form 6-K repeated the financial results announced in the October 28, 2002 press release, and represented that those results were prepared in accordance with GAAP. Defendants Lohmann and Kauer signed the October 29, 2002 Form 6-K.

160. In the October 28 press release, the Company surprised the market by announcing its first significant reserve increases since the IPO. Specifically, the Company disclosed that, during the 2002 third quarter, the Company had increased its loss reserves by nearly $60 million, with the majority of the increase being recorded by Converium North America. The Company also stated that it was conducting actuarial studies, and that it anticipated increasing reserves by up to an additional $75 million during the fourth quarter. Specifically, the Company stated:

> During the third quarter, recognition of net reserve developments has led to prior year reserve strengthening of US$ 59.6 million, including US$ 47.0 million recorded by Converium North America and US$ 12.6 million recorded by Converium Cologne. During the first nine months of 2002, Converium Group has recorded a total US$ 84.0 million provision for net reserve development on prior years' business, representing a movement of 2.0% of the net non-life reserves at December 31, 2001.

* * * * *

> Based on the latest loss information reported by its ceding companies, Converium Group is currently conducting further actuarial studies. Preliminary findings suggest that additional reserve actions of up to US$ 75.0 million will be required for the 4th quarter 2002. Converium Group will report on this in detail during the fourth quarter, as soon as the mentioned actuarial studies are complete.

161. Defendants Lohamnn and Kauer also used this release to assure investors that they were "taking the pertinent measures to solve" any reserve issues. Defendant Lohmann stated:

> The reserve actions undertaken in the second half of 2002 represent a challenge that I would rather not have to face, but it is one that I believe the management and staff of Converium will master. Our situation is not much different from that of the rest of the market and many of our competitors face the same issues. The question is how long they can avoid or hide the truth. I firmly believe that this step will prove to be the precursor of further adjustments within the industry.
>
> Converium is facing pressure from prior years and contracts that from an underwriting standpoint we left long behind us. However, it is the nature of our business that problems surface with a significant time lag. We are proactively addressing the issues, and taking the pertinent measures to solve them. [Emphasis added.]

162. In a conference call with analysts that day, Defendant Lohmann further reassured the market that, through the reserve increases announced by the Company, Converium had fully addressed the issues relating to its reserves. Lohmann stated:

> I do also feel that we have turned the corner on the reserve thing with this further study… I really feel very strongly that [in] 2003 you are not going see this sort of development impairing our good performance in the business year 2003, and the improvements that we had hoped would flow through fully in the bottom line of 2002 will flow through in 2003.

163. Defendants' assurances that Converium was now sufficiently and adequately reserved had their desired effect. For example, a report by analysts at Sarasin dated October 28, 2002, stated that "[W]e believe management's claim that the additional reserves strengthening of max USD 75m, which will be booked in 2002Q4, will be sufficient to bring Converium's IBNR reserves (incurred but not reported) to adequate levels."

164. Despite the Company's assurances, the disclosure of the reserve increase sent the price of Converium shares and ADSs tumbling. The ADSs, which had closed at $22 on October 25, 2002 (the prior trading day), closed at $19.61 on October 28, a decline of more than 10%. The Company's Swiss shares performed similarly. After closing at 66.10 CHF per share on October 25, the stock closed at 59.50 CHF per share on October 28. Trading in the Company's securities was heavy on both the New York and Swiss exchanges.

165. On November 19, 2002, Converium issued a press release stating that the Company had "finalized its loss reserve analysis" and, as a result, would increase reserves by $70 million in the fourth quarter. The press release stated:

> Additional provisions of US $70.3 million net for liability business written by Converium North America in 1997 to 2000
>
> * * * * *
>
> Converium North America has finalized its loss reserve analysis that will result in the recording of additional provisions for losses on its commercial umbrella, miscellaneous casualty (particularly professional liability, nursing homes), medical errors & omissions liability, motor liability, and workers' compensation lines of business of US $70.3 million net for the fourth quarter 2002, which are in addition to the US $47.0 million that were recorded during the third quarter 2002. [Emphasis added.]

166. Significantly, in this same press release Defendants Lohmann and Kauer assured investors that the Company had now resolved its reserve issues in a "forthright and proactive manner." Defendant Lohmann stated:

> The steps taken in the third and fourth quarter underline Converium management's determination to confront emerging reserve issues in a forthright and proactive manner. As a result, I am confident that the underlying earnings power of our in-force business will manifest itself.

167. Defendant Kauer added:

> These additional provisions keep us at our best estimate within our actuarial range and represents approximately 2.8% of our reserves.

> Converium Group writes a global non-life book – well diversified by lines on business and properly balanced by regions. Overall, Converium Group's balance sheet, particularly with regards to reserve levels, is very solid. [Emphasis added.]

168. The press release also sought to assure investors that Converium North America maintained ample reserves that were fully adequate:

> As per September 30, 2002, Converium North America held total loss and loss adjustments reserves, net, of US$ 1,989.2 million, which incorporate US$ 904.8 million of case reserves net and US$ 1,084.4 million of IBNR net. The additional provisions of US$ 70.3 million recorded in the 4th quarter 2002 relate to IBNR.

169. Converium's October 18, 2002 and November 19, 2002 press releases were materially false and misleading because the Company grossly understated the extent of the Company's need to increase reserves in North America. Indeed, as alleged above, independent consultants retained by the Company, concluded that even after these reserve increases, Converium was under-reserved as of year-end 2002 by at least $437 million. Accordingly, the representation that the Company had "finalized" its reserve analysis was false and misleading because the known reserve deficiency at Converium North America as of November 19 far exceeded the $117.3 million increase taken by the Company. As a result, the North American loss reserves of $1.98 billion reported in the November 19 press release were materially false and misleading, because reserves should have been materially higher. For the same reasons, Defendants Lohmann's and Kauer's statements in that press release were similarly false and misleading.

170. Defendants' representations that the Company had "finalized" its loss reserve analysis had its intended effect. While analysts understood that policy years 1997 to 2000 represented a "soft market" in the U.S. insurance market, by the end of 2002 Converium had convinced the market that it was adequately reserved for the policies underwritten during those years. For example, in a February 17, 2003 report, Sarasin stated :

> Converium has addressed the sector-wide problem of reserve adjustments for the underwriting years 1997 to 2000 in a very transparent way. Despite the fact that one can never exclude further reserves actions, we believe that given the in-depth actuarial reserve analysis in 2002, Converium will not have to beef up its underwriting reserves in the near future.

IN 2003, CONVERIUM CONTINUES TO REPORT STRONG FINANCIAL RESULTS, AND ATTEMPTS TO CONCEAL ITS MASSIVE RESERVE DEFICIENCY

171. On February 11, 2003, Converium issued a press release announcing its financial results for the fourth quarter of 2002 and full year 2002, which reported that Converium's "substantial improvement of underlying performance continues" and that the Company's 2002 results were "driven by the very strong performance in non-life underwriting." In that press release, the Company touted its 2002 adjusted non-life combined ratio of 99.3% – below 100% for the first time – and claimed that "Substantial improvement of underlying performance continues." Converium reported net income of $106.8 million – a $474.2 million increase over the prior year – and earnings-per-share of $2.68 for 2002. For the fourth quarter of 2002, the Company reported net income of $80.8 million and earnings-per-share of $2.03. The Company also reported shareholders' equity of $1.73 billion, reflecting a 10.6% increase from 2001. Commenting on the results, Defendant Lohmann was quoted in the Company's release, in part, as follows:

> Our industry has seen considerable turmoil during 2002 with several involuntary exits and restructurings of major players in our industry having been announced. Our expectation is that this trend will continue on into 2003. Converium, with its strong balance sheet and clear positioning as a leading independent reinsurer, is emerging as a winner from this industry stakeout." [Emphasis added.]

172. The statements made in the Company's February 11, 2003 press release were materially false and misleading. As set forth above in ¶¶ 107-114, as of year-end 2002, Converium North America was under-reserved by at least $437 million. Indeed, even Converium's Global Reserving Actuary, Jean-Claude Jacob, concluded that the reserve deficiency at Converium North America was nearly $300 million as of the fourth quarter of 2002. As a

direct result of the massive North American reserve deficiency, Converium's reported net income and earnings-per-share for the fourth quarter and full year 2002, and the reported shareholders' equity for 2002, were materially overstated. Indeed, rather than reporting net income in excess of $100 million for 2002, the Company should have reported a loss for the year of as much as $337 million. The Company similarly misrepresented Converium North America's net income, which was overstated by hundreds of millions of dollars, and the adverse loss development in North America, which was understated. Moreover, the Company overstated its shareholders' equity by 34%. In addition, because of the massive reserve deficiency at Converium North America, the adjusted non-life combined ratios reported for the Company and for Converium North America were materially understated.

173. On April 18, 2003, Converium filed its Form 20-F with the SEC, reporting its financial results for the year ended December 31, 2002 (the "2002 20-F"). The 2002 20-F repeated the above-cited financial results initially reported in the Company's February 11 press release, and represented that those financial results were prepared in conformity with GAAP. In addition, both Defendants Lohmann and Kauer certified, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Company's Form 20-F fully complied with the requirements of the Securities Exchange Act of 1934, and that the information contained in the Form 20-F fairly presented, in all material respects, the financial condition and results of operations of the Company.

174. The financial results reported in Converium's 2002 20-F were materially false and misleading, for the reasons set forth above in ¶ 172. Specifically, the Company's net income, earnings-per-share and shareholders' equity, as well as the net income reported for Converium North America, were materially overstated. The combined ratios reported for the Company and

for Converium North America were materially understated, as was the North American adverse loss development.

175. The Company's 2002 20-F further described the reserve increases taken in 2002, and again assured investors that the increases were taken after "an in-depth actuarial reserve analysis." As the 2002 Form 20-F, stated:

> In 2002, we strengthened reserves by $148.5 million. Throughout the year, increased loss experience related to prior years continued to emerge. These additional provisions are the result of the continued emergence of increased reported losses versus expected losses related to prior years. As a result of actuarial work performed at Converium North America through the third and fourth quarters, management concluded that ultimate losses would most likely be higher in the range of possible outcomes that previously estimated. During 2002, Converium North America engaged in an in-depth actuarial reserve analysis of certain lines of business, which resulted in an increase of $137.2 million of provisions for net losses, primarily related to underwriting years 1997 through 2000, on the commercial umbrella, miscellaneous casualty, medical errors and omissions liability and motor liability lines of business.
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> * * * * *
>
> Under these policies we review and update our reserves as experience develops and new information becomes known, and we bring our reserves to a reasonable level within a range of reserve estimates by recording an adjustment in the period when the new information confirms the need for an adjustment. [Emphasis added.]

176. These statements were materially false and misleading because, even after the these increases, Converium remained under-reserved by at least $437 million as of December 31, 2002.

IN 2003, CONVERIUM CONTINUES TO REPORT STRONG FINANCIAL RESULTS, AND ATTEMPTS TO CONCEAL ITS MASSIVE RESERVE DEFICIENCY

177. On April 29, 2003, Converium issued a press release announcing its financial results for the quarter ended March 31, 2003. The press release reported net quarterly income of $25.5 million, and emphasized that Converium's combined ratio had dropped 4.1 percentage point compared to the first quarter of 2001. The Company also reported earnings-per-share of $0.64,

and shareholders' equity of $1.79 billion – up 3.2% since the end of 2002. Significantly, the Company also reported strong financial results for Converium North America. The April 29 press release stated that Converium North America reported net income of $16.7 million, and for the first time achieved a non-life combined ratio of 100% – a 3.2 point improvement over the same period in 2001.

178. Despite the fact that the Board had by now retained Deloitte to analyze reserves precisely because it was concerned that reserves were not accurately stated, the Company emphasized the fact that in the first quarter of 2003 there were "no material net developments of prior years' reserves," stating:

> No material net developments of prior years reserves' None of Converium's non-life business segments (Converium Zurich, Converium North America, Converium Cologne) reported any material net developments of prior years reserves in the first three months of 2003.
>
> * * * * *
>
> All of the non-life segments - Converium Zurich, Converium North America, and Converium Cologne - contributed to the continuously improving performance of Converium's non-life book and none reported material net developments of prior years' reserves.

179. Defendants Lohmann and Kauer similarly emphasized the Company's combined ratio and the purported lack of adverse loss development. The April 29 press release quoted Defendant Lohmann as stating:

> I am very pleased by the development of our non-life operations; a combined ratio of 98.3% and no material net adverse developments from prior years are the clear result of our re-underwriting efforts and the reserve actions we took in the last years.

180. On April 29, 2003, the Company filed with the SEC pursuant to Form 6-K its financial results for the quarter ended March 31, 2003. The Form 6-K repeated the financial

results announced in the Company's April 29 press release, and represented that those results were prepared in accordance with GAAP. Defendants Lohmann and Kauer signed the Form 6-K.

181. The statements made in the Company's April 29, 2003 press release and first quarter 2003 Form 6-K were materially false and misleading. As set forth above, Converium was under-reserved as of December 31, 2002 by at least $437 million. Further, according to Confidential Witness No. 1, in direct contrast to Defendants' representations, Converium North America experienced significant adverse loss development during the first quarter of 2003. Internal Company documents confirm that Converium North America experienced additional adverse loss development of $339.9 million during the first and second quarters of 2003. Accordingly, as of the end of the second quarter of 2003, Converium was under-reserved by a staggering $776.9 million.

182. On July 29, 2003, Converium issued a press release announcing its financial results for the second quarter and for the six months ended June 30, 2003. The Company reported net income of $59.1 million for the second quarter of 2003, an increase of $56.2 million compared to the same period of the previous year, and earnings-per-share of $l.48 for the quarter. The Company reported net income of $84.6 for the first half of 2003 – an improvement of 167.7% over the first half of 2002. In addition, the Company reported an improved non-life combined ratio of 99.1% for the quarter, compared to 99.9% in the second quarter of 2002, and of 98.7% for the first half of 2003, compared to 101% for the same period in 2002. Further, the Company reported shareholders' equity of $1.89 billion as of June 30, reflecting a six-month increase of 9%. In that press release, Defendant Lohmann spoke positively about the Company's business, without any mention of the Company's massive reserve deficiency:

> Today, Converium is fully established as an independent leading global multi-line reinsurer and continues to benefit from the reshuffling in the reinsurance industry.

> The hardening of the reinsurance markets, the strength of our global franchise and infrastructure, and opportunities arising from our position as a global player all let to a profitable growth in non-life, both in specialty lines and in standard property and casualty reinsurance. In order to prepare Converium for the 2004-renewals, we are currently reviewing strategies that will allow us to proactively manage the cycle in the reinsurance market place.
>
> I am pleased by the continuing improvement of the underlying profitability of our non-life operations; a combined ratio of 99.1% for the second quarter of 2003, respectively of 98.7% for the first half of 2003 – an improvement of 0.8 percentage points, respectively 2.3 percentage points – is the clear result of our re-underwriting efforts and reflects Converium's shift to longer-tail business, both in specialty lines and in standard property and casualty reinsurance.
>
> * * * * *
>
> Converium's strong performance, as evidenced by the continuing improvement in the underlying profitability of our non-life operations and growth in shareholders' equity, is proof that our strategy of focusing on specialty lines and growth opportunities in the European market is bearing fruit.

183. Indeed, despite the fact that Deloitte had determined that Converium North America was under-reserved by $437 million only two months earlier, Defendants again falsely touted the strength of the Company's reserves. On July 29, 2003 the Company conducted a conference call with analysts, during which Defendant Kauer emphasized that "Converium maintains a strong reserving level... We continue to maintain our reserving discipline."

184. On July 30, 2003, the Company filed with the SEC pursuant to Form 6-K its financial results for the quarter ended June 30, 2003. The Form 6-K repeated the financial results announced in the Company's July 28 press release, and represented that those results were prepared in accordance with GAAP. The Form 6-K also provided additional financial results for Converium North America, and reported income of $43 million for that segment for the first half of 2003. Significantly, the Form 6-K reported that "There was no material non-life prior years' reserve development in 2003." Defendants Lohmann and Kauer signed the Form 6-K.

185. The statements in Converium's July 29, 2003 press release, July 29 conference call and July 30, 2003 Form 6-K were materially false and misleading. As of June 30, 2003, the Company was still significantly under-reserved, as it had not increased reserves to redress the massive North American reserve deficiency. Indeed, the reserve deficiency had increased by $339.9 million during the first half of 2003 as a result of adverse loss development, and was now $776.9 million. As a result, Converium's reported net income was overstated by that amount, as was the net income reported for Converium North America, while the non-life combined ratios reported for the Company and for Converium North America were materially understated. Indeed, rather than booking any profits, both the Company and Converium North America actually incurred losses of hundreds of millions of dollars. The Company also materially overstated its earnings-per-share, and inflated its shareholders' equity by an astonishing 70%. In addition, the statements in the July 29 press release and July 30 Form 6-K regarding adverse loss development during 2003 were materially false and misleading, because, in actuality, Converium North America had experienced adverse development of $339.9 million. The statements by Defendants Lohmann and Kauer quoted in the July 29 press release, Defendant Kauer's statements on the July 29 conference call, and the statements in Defendant Lohmann's letter to shareholders included in the Form 6-K were also materially false and misleading for the reasons set forth in this paragraph.

186. On July 30, 2003, following the Company's report of purportedly strong results for the three months and the six months ended June 30, 2003, Standard & Poor's issued a press release reaffirming the Company's "A" credit rating. The press release stated:

> The ratings reflect the group's strong capitalization, strong business position, and improving operating performance, as well as the strong technical orientation of the group's underwriting.

CONVERIUM INCREASES NORTH AMERICAN RESERVES IN THE FALL OF 2003, BUT DOES NOT DISCLOSE THOSE INCREASES TO INVESTORS

187. On October 3, 2003, the Company issued a press release announcing a restructuring of its financial reporting. The Company stated that, beginning in the third quarter of 2003, it would no longer report financial results by geographic segment, but instead would report based on three global business segments: Standard Property & Casualty Reinsurance; Specialty Lines; and Life & Health Reinsurance. The press release quoted Defendant Kauer as stating: "We are confident that the new segment structure will enhance the understanding of Converium's strategy, and allow us to become even more comparable to our peers and more transparent in our financial reporting." According to the press release:

> At the time of its IPO in December 2001, Converium adopted an organizational model based on geography. This structure was driven by the historical development of its then parent, Zurich Financial Services. Over its first 22 months as an independent reinsurer, Converium has become more globally integrated, and the issues of legal entity and geography have become less relevant criteria when determining business strategy, capital allocation and the adoption of best practice throughout the organization. It is now apparent that a structure based on global functional areas is required to ensure that Converium is fully aligned with its strategy, and to deploy company resources and capabilities most efficiently.
>
> * * * * *
>
> With this structure, Converium has fully aligned its operating platform with its global strategy. At the same time, the new segment reporting structure allows a better assessment of the execution of Converium's strategy.

188. The same day, Converium held a conference call with analysts to explain the restructuring. On that call, Defendant Lohmann stated that "We believe that the new segment structure will enhance our shareholders' ability to understand Converium and its financial performance." In reality, however, as alleged above in ¶¶ 123-127, the true reason for the change was to obscure the deterioration in the North American business.

189. On October 28, 2003, Converium issued a press release announcing its financial results for the third quarter the nine months of ended September 30, 2003, which continued to report "strong performance," "strong reserve levels" and a "strong capital position." The Company reported net income of $44.3 million for the third quarter of 2003, and $128.9 million for the nine months ended September 30, 2003, representing increases of $49.9 million and $102.9 million, respectively, over the same periods in 2002. The Company also reported earnings-per-share of $1.12 for the quarter, and $3.24 for the first nine months of 2003. Converium further reported a non-life combined ratio of 95.7% for the quarter, and 97.7% for the first nine months of 2003. In addition, the Company reported shareholders' equity of $1.94 billion. As a result of the restructuring announced on October 3, 2003, the Company did not separately report financial results for Converium North America.

190. On October 28, 2003, Converium held a conference call with analysts, on which Defendant Lohmann touted the performance of the Company's property and casualty lines of business. Defendant Lohmann stated:

> Here I'm extremely pleased to say that both non-life segments delivered strong performance. The standard property and [casualty] reinsurance segment came in with the combined ratio of 93.7%, which reflects a solid performance in the property and general liability lines as well as a lower level of capacity losses... Perhaps the most important news for all of you is that relating to prior years. This has been something that has [harried] us in the past and here I'm pleased to say that both the Standard P&C reinsurance and Specialty line segment did not experience any material earnings drag from prior years' development.
>
> * * * * *
>
> Looking back at the third quarter of 2003, you can observe a continued strong overall performance. We carry strong reserve levels supported by the enhanced understanding and modeling of the underlying drivers of that exposure.

191. On October 30, 2003, the Company filed with the SEC pursuant to Form 6-K its financial results for the quarter ended September 30, 2003. The Form 6-K repeated the financial

results announced in the Company's October 28 press release, and further represented that those results were prepared in accordance with GAAP. Defendants Lohmann and Kauer signed the Form 6-K.

192. The statements in the Company's October 28, 2003 press release, October 28, 2003 conference call and October 30, 2003 Form 6-K were materially false and misleading because the Company was under-reserved by hundreds of millions of dollars. As a result of the Company's novation scheme and the secret reserve increases effected in connection therewith, and under the cloak of Converium's new reporting structure, the Company shifted tens of millions of dollars from the books of Converium North America to Converium Zurich without public disclosure. Indeed, as alleged above at ¶¶ 128-132, in the third quarter of 2003 Converium secretly augmented Converium North America's reserves by $155 million, without disclosing that material fact to investors. Even after that secret increase, the Company remained under-reserved by over $600 million. As a result, the Company's reported net income was overstated by that amount, and earnings-per-share and shareholders equity were materially overstated, while the Company's non-life combined ratio was materially understated.

193. Despite the massive reserve deficiency that continued to plague the Company's North American operations, Converium announced record financial results for 2003 – results which were bolstered by the Company's decision to actually release pre-existing reserves into income. On February 17, 2004, Converium issued a press release announcing record financial results for the fourth quarter 2003 and for the full year 2003. For the year ended December 31, 2003, Converium reported net income of $185.1 million and earnings-per-share of $4.65, resulting in a return on equity of 10.7%. For the fourth quarter, Converium reported net income of $56.2 million and earnings-per-share of $1.4l. The Company touted its operating income of $206

million for the full year 2003, which represented an increase of 204.3% over the prior year. The Company also reported a non-life combined ratio of 97.9% for the year, and 98.4% for the fourth quarter. Further, the Company reported shareholders' equity of $2.1 billion, an increase of 19.9% from year-end 2002. Commenting on these strong results, Defendant Lohmann stated that they were "clear evidence of the good performance of our core activities which reflects our stringent underwriting discipline." Lohmann also boasted that, when it came to its reserves, Converium "walked the talk." To wit:

> Converium walks the talk: The strict underwriting discipline and cycle management have been further enhanced by the appointment of the Chief Risk Officer and the Chief Technical Officer to the Global Executive Committee. The 2004 renewals so far reflect Converium's prudent underwriting.

194. Incredibly, despite the massive reserve deficiencies, Converium actually released millions of dollars from the Company's loss reserves to boost income. As the press release stated, "Converium reported an aggregate net operating income benefit of US$ 31.3 million arising out of reserve releases for prior years' incurred losses."

195. Further, on February 17, 2004, Converium held an earnings conference call with regard to its fourth quarter 2003 financial results. On that call, defendant Lohmann assured investors that the Company's reserves were fully adequate:

> Possibly the one area where people have had questions about Converium was with respect to its exposure to prior years' development. This has clearly been on our radar screen since the disappointments of 2002, and I'm pleased to report that, overall, the net impact of prior years' development was a $10.8 million positive contribution to our operating profit.

196. The statements in Converium's February 17, 2004 press release were materially false and misleading. Specifically, as set forth above, despite the Company's novation scheme and secret reserve increases, the Company remained under-reserved by at least $500 million as of year-end 2003. In addition, the reported reserve release (and concomitant income benefit) of

$31.3 million was the product of the Company's novation scheme, rather than from an actual positive loss development. As a result, Converium's reported net income, operating income, earnings-per-share were each materially overstated; the Company's non-life combined ratio was materially understated. Indeed, rather than the record income it reported, the Company in fact incurred losses of hundreds of millions of dollars. The Company overstated its shareholders' equity by nearly 50%.

197. Following the announcement of these strong financial results, Converium ADSs traded at $28.27.

198. On April 6, 2004, Converium filed its 2003 Form 20-F with the SEC. The 2003 20-F repeated the above-cited financial results initially reported in the Company's February 17 press release. In addition, both Defendants Lohmann and Kauer certified, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the 2003 20-F fully complied with the requirements of the Securities Exchange Act of 1934, and that the information contained in the 2003 20-F fairly presented, in all material respects, the financial condition and results of operations of the Company. According to the Company, the financial results reported in the 2003 20-F were prepared in accordance with GAAP. The financial results reported in the 2003 20-F were materially false and misleading, for the reasons set forth above in ¶ 196.

199. On April 28, 2004, the Company issued a press release announcing its results for what was described as "Converium's best quarter operating income so far." The press release reported that the Company earned $65.7 million in net income for the quarter – an increase of 157.6% and precisely on track with the quarterly income needed to meet analysts' expectations for the year. Earnings per share were $1.65, an increase of 157.8%.

200. Converium's April 28, 2004 press release quoted Defendant Lohmann as stating:

> The first quarter operating income is the best Converium has thus far reported in its history. I am encouraged by the continuing improvement in the combined ratio as well as the growth in our investment results, which are developing as we had anticipated.

201. On April 29, 2004, the Company filed with the SEC pursuant to Form 6-K its financial results for the quarter ended March 30, 2004. The Company disclosed in the Form 6-K that it had increased reserves by $43 million during the first quarter of 2003. The Company stated:

> 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.

The Form 6-K also repeated financial results announced in the Company's April 28 press release. The Company stated that the financial results reported in the Form 6-K were prepared in accordance with GAAP. Defendants Lohmann and Kauer signed the Form 6-K.

202. The statements in Converium's first quarter 2004 6-K, the Company's April 29, 2004 press release and earnings conference call were materially false and misleading. Specifically, Converium's reported net income, operating income, earnings-per-share, and shareholders' equity were materially overstated; the Company's combined ratio was materially understated. In addition, the Company's reported reserve increase did not resolve the massive reserve deficiency at Converium North America. As a result of that deficiency, the Company's reported financial results were materially misstated.

VII. CONVERIUM'S FRAUDULENT SCHEME UNRAVELS

203. Confidential Witness No. 1 explained that, after the Company announced its results for the first quarter of 2004, there was no longer any way to hide the massive reserve deficiency at Converium North America. Confidential Witness No. 1 stated that, in order to continue posting

financial results in line with those reported for the first quarter of 2004 and expected by analysts, the Company needed to bury additional reserve deficiencies in the second quarter of 2004.

204. Specifically, according to Confidential Witness No. 1, Joanne Spalla was asked "to bury $40 million" in the second quarter of 2004. Spalla refused, knowing that it would be impossible to do so in light of the state of the Company's reserves. Spalla informed Confidential Witness No. 1 that she was told by Lohmann that "we're going to announce this all in the third quarter, we just want to put another good quarter under our belt."

205. After Spalla refused to bury the $40 million per Lohmann's request, the Company turned to Confidential Witness No. 6, Converium North America's President, and Brian Kensil, the North American CFO, to hide those deficiencies. Specifically, Confidential Witness No. 1 explained that, in June of 2004, while Confidential Witness No. 6 and Kensil were in Zurich for a meeting, Defendants Lohmann and Kauer approached them and asked them "to bury another $50 million in reserve deficiencies." Lohmann and Kauer presented Confidential Witness No. 6 and Kensil with documents to sign attesting to the second quarter results with $40 million in adverse loss development buried. Confidential Witness No. 6 and Kensil refused.

206. Confidential Witness No. 6 confirmed this account. Confidential Witness No. 6 stated that he was pressured by Converium's senior management to sign off on the Company's financial results for the second quarter of 2004 without disclosing the North American reserve deficiency. Confidential Witness No. 6 explained that both he and Brian Kensil were extremely reluctant "to sign off with the knowledge that there is this big potential hole." The refusal of Converium North America's President and CFO to sign off on the quarterly financial results, and the refusal of Joanne Spalla and the North American actuaries to bury additional reserves in the

second quarter of 2004, left the Company with no alternative but to disclose its massive reserve deficiency to the public.

207. Confidential Witness No. 6 described a conflict within the Company's senior management over the timing of that disclosure. Specifically, Confidential Witness No. 6 stated that while he and others pushed for immediate disclosure, Defendants Lohmann and Kauer, as well as Jean-Claude Jacob, argued to delay the disclosure of the Company's reserve deficiency. According to Confidential Witness No. 6, "those individuals had a strong interest in retaining the status quo" and avoiding the ramifications of the disclosure of the Company's massive reserve deficiency.

VIII. THE TRUTH IS DISCLOSED

208. On July 20, 2004, less than three months after Converium announced the most profitable quarter in its history, the Company shocked the financial markets by announcing that the Company would incur a $400 million charge in order to effect a reserve increase at Converium North America on policies written for the United States in 1997-2001. In a press release issued before trading began in New York or Switzerland, the Company stated:

> Converium's second quarter results will fall short of expectations due to higher than modeled US casualty loss emergence primarily related to the underwriting years 1997 to 2001. Reserves for these lines of business, in particular umbrella, professional liability and Excess & Surplus Lines casualty, will be bolstered by up to US$ 400 million. This reserve action triggers net impairments of up to US$ 289 million of Deferred Tax Assets and US$ 94 million of Goodwill in the balance sheet of Converium Reinsurance (North America) Inc. [Emphasis added.]

209. On a conference call with investors that day, Defendant Lohmann tried to downplay the implications of the reserve increase, attempting to explain it as an industry-wide problem. However, Lohmann was contradicted in a statement to Bloomberg News by Hanover Re, a competing reinsurance company, which said "We don't have any reserve problems whatsoever. Our situation is completely different from that at Converium." Lohmann also said,

in a statement which defied credulity, that the massive increase was triggered by developments which occurred during April and May 2004. Lohmann also falsely stated that "we do not expect to see further reserve development" and that the Company was "erring on the conservative side now."

210. The $400 million charge shocked the market, decimating the Company's securities prices and setting off a chain of events that soon brought about the demise of Converium North America. Immediately following the Company's disclosure and in direct response to the announcement of the $400 million charge, the price of the Company's ADSs plummeted by nearly 50%, falling $12.44, from $25.02 to $12.61 per ADS. The Company's stock performed similarly on the Swiss Stock Exchange, where, after closing at 62.05 CHF per share on July 19, the stock fell 28.80 CHF to close at 33.25 CHF per share. All told, in one day of trading, Converium lost nearly $1 billion in market capitalization. The Company's securities traded at extraordinarily high volumes, with trading on the New York Stock Exchange 100 times higher than it had been the prior day. On the Swiss Exchange, over 5.6 million shares of Converium stock traded hands, compared to 65,000 shares the prior day.

211. Analysts, who had previously been convinced by Defendants' statements that the Company was adequately reserved, were shocked by the disclosure. In a July 20, 2004 report, J.P. Morgan stated "We believe that management credibility is at issue as assurances have repeatedly been given in the past that US casualty reserving issues have largely been addressed." Morgan Stanley expressed similar astonishment at the "bewilderingly large reserve strengthening" when downgrading Converium's securities in a July 21, 2004 report, which stated:

> Converium's US $400 million reserve strengthening is surprising in both magnitude and timing.
>
> 1. The announced reserve additions of US$400 million represent ~16% of the US casualty reserves at the end of 2003. This is one of the largest additions

> as a percentage of reserves we can recall in our sector over the past 2 years. Management have repeatedly stated over the past 12 months that they did not expect to see large additions to US casualty reserves following address of this issue in 2002 (reserves strengthened by ~US$150 million in 2002 and US$120 million in 2001).

212. Defendant Lohmann made a last-ditch attempt to explain the staggering change, casting the Company's disastrous $400 million charge as a pro-active response to recently discovered problems that he himself had helped to uncover – rather than the final capitulation to a long-standing problem that the Company had refused to address (and had actively concealed) since its IPO. In a July 27, 2004 conference call with analysts, Lohmann purporting to explain the discovery of the Company's reserve deficiency, stated:

> [T]ogether with the assistance of the Chief Technical officer, Gary Prestia, and staff from his newly formed underwriting technical services team, I launched a file review of 114 programs consisting of 447 treaty contracts, which I personally selected. These contracts collectively represent between 28% and 38% of the total premiums written by our US subsidiary between 1996 and 2001.
>
> The result of these efforts to date, has led to reserve strengthening of nearly $385 million for our US casualty business in the second quarter. These reserve increases apply primarily to the business written in the underwriting years 1997 to 2001.

213. In truth, the Company's massive reserve deficiency had been well documented by Converium's own actuaries as well as independent consultants since 2001, and was known to Defendant Lohmann prior to the IPO and throughout the Class Period – not discovered by him just before to the Company's July 20 disclosure.

214. The market was not swayed by Lohmann's attempt to explain away $400 million in reserve increases. In a July 29, 2004 report, Deutsche Bank stated:

> Converium was heralded as the ideal way to play a hardening market at the time of its IPO, supposedly free of legacy issues and with a clean bill of health issued on the state of its balance sheet. Investors were disappointed at reserve additions first announced in 2002, and, following that, problems emerging with the life reinsurance business. But these pale into insignificance against the company's recent announcement – almost 40% of stated shareholders funds blown away in one quarter. The speed at which problems unraveled is terrifying and in our view,

> raises serious questions about internal monitoring controls. And for investors, it is likely to be a case of thrice bitten, forever shy!

215. On August 30, 2004, after trading closed in New York and Switzerland, Converium issued a press release announcing that it needed to increase reserves by an additional $50-100 million, above the $400 million already disclosed. In response to this news, the price of the Company's ADSs declined another 11.6%, falling $1.30 per ADS from a closing price of $11.20 on August 30 per ADS to as low as $9.90 per ADS on August 31. The Company's stock performed similarly on the Swiss Stock Exchange where, after closing on August 30 at 28.6 CHF per share, the stock traded as low as 24.9 CHF per share on August 31. The Company ultimately quantified that additional reserve increase at $96.4 million.

216. On September 2, 2004, before trading began in New York and Switzerland, the Company issued a press release announcing that, as a result of its recently disclosed reserve increase and the associated charge, both Standard & Poor's and A.M. Best had downgraded their credit ratings of the Company. In response to this news, which resulted directly from the disclosure of the Company's massive reserve deficiency, the price of the Company's ADSs declined again, falling over $1 per ADS from $9.90 to $8.86. The Company's stock performed similarly on the Swiss Stock Exchange.

217. Ultimately, the Company was forced to increase its reserves in 2004 by a staggering $562 million, almost all of which went to address the massive deficiencies in the North American reserves that had existed for years. As a result, Converium reported a loss for 2004 of an astonishing $761 million.

218. The downgrade in the Company's credit ratings triggered withdrawal clauses in its reinsurance agreements, enabling Converium's customers to cancel their policies without penalty, and to reclaim previously paid premiums. On September 10, 2004, the Company announced that

it would place its U.S. business into run-off, meaning that the Company would no longer write policies out of its U.S. offices, and that its North America operations were effectively out of business.

219. On September 10, 2004, the Company announced that Defendant Clarke would assume the position of Managing Director, to be "assisted" by Defendant Lohmann. On November 4, 2004, Defendant Kauer resigned from the Company without explanation. On February 24, 2005, the Company announced the appointment of Clarke as Converium's CEO – with no mention of Defendant Lohmann, who was replaced.

IX. GAAP VIOLATIONS

220. GAAP consists of the rules, conventions and practices recognized and employed by the accounting profession for the preparation of financial statements. Statements of Financial Accounting Standards ("SFAS") are promulgated by the profession's Financial Accounting Standards Board ("FASB"). Other authoritative pronouncements include Statements of Position of the American Institute of Certified Public Accountants ("SOP") and Staff Accounting Bulletins ("SABs"), which represent the views of the SEC staff regarding certain accounting and reporting matters and have the weight of GAAP for public companies' financial statements. Financial statements filed in any documents with the Securities and Exchange Commission are required by Regulation S-X (17 C.F.R. 210.4-01(a)(1)) to conform to U.S. GAAP. Regulation S-X further provides that financial statements filed with the SEC that are not prepared in compliance with GAAP are presumed to be misleading and inaccurate. Regulation S-K provides direction on the form and content of information, other than financial statements, included in registration statements and other periodic filings with SEC.

221. The GAAP provisions violated by Defendants, and discussed in detail below, were not new or untested provisions of GAAP and did not involve complex accounting issues.

Additionally, Defendants committed these GAAP violations repeatedly, both before and during the Class Period.

222. As set forth in Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Concepts ("SFAC") No. 1, one of the fundamental objectives of financial reporting is to provide accurate and reliable information concerning an entity's financial performance during the period being presented. SFAC No. 1, 42 states:

> Financial reporting should provide information about an enterprise's financial performance during a period. Investors and creditors often use information about the past to help in assessing the prospects of an enterprise. Thus, although investments and credit decisions reflect investors' and creditors' expectations about future enterprise performance, those expectations are commonly based at least partly on evaluations of enterprise performance.

223. Additionally, Section 13 of the Exchange Act requires, in part, companies like ZFS and Converium to:

> devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that –
>
> * * * * *
>
> (ii) transactions are recorded as necessary (I) to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements, and (II) to maintain accountability for assets;

15 U.S.C. § 78m(b).

224. SFAS 5, "Accounting for Contingencies," establishes the general principles for recognition of losses in financial statements as follows:

> An estimated loss from a loss contingency (as defined in paragraph 1) shall be accrued by a charge to income if *both* of the following conditions are met:
>
> > a. Information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements. It is implicit in this condition that it must be probable

that one or more future events will occur confirming the fact of the loss.

b. The amount of loss can be reasonably estimated.

225. Eliminating any doubt as to whether SFAS 5 applies to property-casualty insurance reserves, the following comment in SAB 87, "Contingency Disclosures on P&C Insurance Reserves for Unpaid Claims" makes clear that SFAS 5 does apply to such reserves:

> Question 1: In the staff's view, do Statement 5 and SOP 94-6 disclosure requirements apply to property-casualty insurance reserves for unpaid claim costs? If so, how?
>
> Interpretive Response: Yes. The staff believes that specific uncertainties (conditions, situations and/or sets of circumstances) not considered to be normal and recurring because of their significance and/or nature can result in loss contingencies for purposes of applying Statement 5 and SOP 94-6 disclosure requirements. General uncertainties, such as the amount and timing of claims, that are normal, recurring, and inherent to estimations of property-casualty insurance reserves are not considered subject to the disclosure requirements of Statement 5. Some specific uncertainties that may result in loss contingencies pursuant to Statement 5, depending on significance and/or nature, include insufficiently understood trends in claims activity; judgmental adjustments to historical experience for purposes of estimating future claim costs (other than for normal recurring general uncertainties); significant risks to an individual claim or group of related claims; or catastrophe losses. The requirements of SOP 94-6 apply when "[i]t is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events ... [and] the effect of the change would be material to the financial statements."

226. SFAS 60, "Accounting and Reporting by Insurance Enterprises," establishes further accounting standards for the insurance industry including, among other things, the recognition of loss reserves. Specifically, ¶ 21 of SFAS 60 states:

> At the time that a property and casualty insurance company or reinsurance company issues an insurance policy covering risk of loss from catastrophes, a contingency arises. The contingency is the risk of loss assumed by the insurance company, that is, the risk of loss from catastrophes that may occur during the term of the policy.

227. SFAS 131, "Segment Reporting" establishes standards for the reporting of individual operating segment information in an entity's financial statements as follows:

> This Statement requires that public business enterprises report certain information about operating segments in complete sets of financial statements of the enterprise and in condensed financial statements of interim periods issued to shareholders. It also requires that public business enterprises report certain information about their products and services, the geographic areas in which they operate, and their major customers. [Emphasis added.]
>
> This Statement requires that an enterprise report a measure of segment profit or loss and certain items included in determining segment profit or loss, segment assets, and certain related items. It does not require that an enterprise report segment cash flow. However, paragraphs 27 and 28 require that an enterprise report certain items that may provide an indication of the cash-generating ability or cash requirements of an enterprise's operating segments.
>
> To provide some comparability between enterprises, this Statement requires that an enterprise report certain information about the revenues that it derives from each of its products and services (or groups of similar products and services) and about the Countries in which it earns revenues and holds assets, regardless of how the enterprise is organized. As a consequence, some enterprises are likely to be required to provide limited information that may not be used for making operating decisions and assessing performance.

228. SEC Regulation S-K, Item 303, "Management's Discussion and Analysis of Financial Condition and Results of Operations," (17 C.F.R. §229.303) requires disclosures of known trends affecting operating income as follows:

> (3) Results of operations
>
> (i) Describe any unusual or infrequent events or transactions or any significant economic changes that materially affected the amount of reported income from continuing operations and, in each case, indicate the extent to which income was so affected. In addition, describe any other significant components of revenues or expenses that, in the registrant's judgment, should be described in order to understand the registrant's results of operations.
>
> (ii) Describe any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. If the registrant knows of events that will cause a material change in the relationship between costs and revenues (such as known future increases in costs of labor or materials or price

> increases or inventory adjustments), the change in the relationship shall be disclosed.

229. Paragraph 13 of SEC Regulation S-X, Article 7 - Insurance Companies, "Policy Liabilities and Accruals," requires the following disclosures regarding loss reserves:

> (a) State separately in the balance sheet the amounts of (1) future policy benefits and losses, claims and loss expenses, (2) unearned premiums and (3) other policy claims and benefits payable.
>
> (b) State in a note to the financial statements the basis of assumptions (interest rates, mortality. withdrawals) for future policy benefits and claims and settlements which are stated at present value.
>
> (c) Information shall be given in a note concerning the general nature of reinsurance transactions, including a description of the significant types of reinsurance agreements executed. The information provided shall include (1) the nature of the contingent liability in connection with insurance ceded and (2) the nature and effect of material nonrecurring reinsurance transactions.

230. As alleged herein, Defendants understated and concealed Converium's actual reserve deficiency, both in Converium's IPO and throughout the Class Period. Concealment of Converium's massive reserve deficiency in turn resulted in the overstating of Converium's financial results and shareholder equity. Defendants therefore violated GAAP, thereby resulting in the misstatement of its financial statements (including required segment information), as well as the other disclosure requirements under SEC Regulations S-K and S-X. Defendants' representations that Converium's financial statements were prepared in accordance with GAAP were, therefore, materially false and misleading. Each of these misrepresentations standing alone was a material violation of GAAP, applicable SEC regulations and the Company's own accounting policies.

231. In addition to the specific accounting and reporting violations described above, Defendants' failure to properly book and record reserves caused Converium to present its financial statements in a manner that violated, among others, the following GAAP principles:

a) The principle that financial reporting should provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit and similar decisions (FASB Statement of Concepts No. 1, ¶ 34);

b) The principle that financial reporting should provide information about the economic resources of an enterprise, the claims to those resources, and the effects of transactions, events, and circumstances that change resources and claims to those resources (FASB Statement of Concepts No. 1, ¶ 40);

c) The principle that financial reporting should provide information about how management of an enterprise has discharged its stewardship responsibility to owners (stockholders) for the use of enterprise resources entrusted to it. To the extent that management offers securities of the enterprise to the public, it voluntarily accepts wider responsibilities for accountability to prospective investors and to the public in general (FASB Statement Concepts No. 1, ¶ 50);

d) The principle that financial reporting should provide information about an enterprise's financial performance during a certain time period. Investors and creditors often use information about the past to help in assessing the prospects of an enterprise. Thus, although investment and credit decisions reflect investors' expectations about future enterprise performance, those expectations are commonly based at least partly on evaluations of past enterprise performance (FASB Statement of Concepts No. 1, & 42);

e) The principle that financial reporting should be reliable in that it represents what it purports to represent. That information should be reliable as well as relevant is a notion that is central to accounting (FASB Statement of Concepts No. 58-59);

f) The principle of completeness, which means that nothing is left out of the information that may be necessary to insure that it validly represents underlying events and conditions (FASB Statement of Concepts No. 2 ¶ 79); and

g) The principle that conservatism be used as a prudent reaction to uncertainty to try to ensure that uncertainties and risks inherent in business situations are adequately considered. The best way to avoid injury to investors is to try to ensure that what is reported represents what it purports to represent (FASB Statement of Concepts No. 2, ¶¶ 95, 97).

232. In filing financial statements with the SEC which failed to conform to the requirements of GAAP, Defendants repeatedly disseminated financial statements that were presumptively false and misleading. Indeed, the accounting errors and irregularities detailed

herein evidence Defendants' intent to deceive investors during the Class Period and misrepresent the truth about the Company and its business, operations and financial performance to the detriment of those who relied on them.

233. Defendants were required to disclose, in the Company's financial statements, the existence of the material facts described herein and to appropriately estimate and report loss reserves in conformity with GAAP. The Company failed to make such disclosures and to present its financial statements in conformity with GAAP. Defendants knew, or were reckless in not knowing, the facts indicating that all of the Company's financial statements during the Class Period, including press releases, public statements, annual reports and filings with the SEC, which were disseminated to the investing public during the Class Period, were materially false and misleading for the reasons set forth herein. Had the true financial position and results of operations of the Company been disclosed during the Class Period, the Company's common stock and ADSs would have traded at prices well below their posted price.

X. LOSS CAUSATION

234. Defendants' unlawful conduct alleged herein directly caused the losses incurred by Plaintiffs and the Class. The false and misleading statements set forth above in ¶¶ 141-219 were widely disseminated to the securities markets, investment analysts and to the investing public. Those false and misleading statements, which materially misrepresented the Company's financial results, among other things, caused and maintained the artificial inflation of the price of Converium shares and ADSs, and caused those securities to trade at prices in excess of their true value. The Company's announcement on July 20, 2004 that it would take a $400 million charge to increase its loss reserves corrected the previously issued false and misleading statements by revealing that the Company's loss reserves were deficient by hundreds of millions of dollars.

235. As set forth above, the Company's loss reserves were deficient by amounts ranging from $225 million to $776.9 million throughout the Class Period. The July 20, 2004 disclosure revealed that the Company was massively under-reserved and the truth about the Company's actual financial results during the Class Period. The Company's August 30, 2004 and September 2, 2004 disclosures further quantified the scope and impact of the reserve deficiency, revealing additional true information about the Company's reserve deficiency and operating condition. Those truthful disclosures corrected the artificial inflation in the price of Converium's securities. As a result of their purchases of Converium shares and ADSs during the Class Period and the corrections removing the artificial inflation in the prices paid for those securities, Plaintiffs and the Class suffered economic harm, *i.e.*, damages, under the federal securities laws.

236. The Company's announcements that Converium either had or would increase its loss reserves constituted partial disclosures of the truth regarding the Company's reserve deficiency. However, as a result of the false and misleading statements made contemporaneously with these partial disclosures, the full truth regarding the Company's reserve deficiency was not revealed. To the extent that those partial disclosures resulted in the decline of the price of Converium's shares and ADSs, that decline reflects the elimination of the portion of the inflation in the price of those securities, and that decline in value caused Plaintiffs and the Class economic harm under the federal securities laws.

XI. CLAIMS FOR RELIEF

COUNT I

AGAINST THE DIRECTOR DEFENDANTS AND THE UNDERWRITER DEFENDANTS FOR VIOLATIONS OF SECTION 11 OF THE SECURITIES ACT

237. This Count is asserted against the Director Defendants and the Underwriter Defendants for violations of Section 11 of the Securities Act, 15 U.S.C. §77k, on behalf of all

members of the Class who purchased or otherwise acquired the Converium securities issued in the IPO.

238. This Count does not sound in fraud. All of the preceding allegations of fraud or fraudulent conduct and/or motive are specifically excluded from this Count. Plaintiffs do not allege that the Director Defendants or the Underwriter Defendants had scienter or fraudulent intent, which are not elements of a Section 11 claim.

239. The Registration Statement, and the Prospectus incorporated therein, was false and misleading, contained untrue statements of material fact and omitted other facts necessary to make the statements not misleading, and failed to disclose material facts as described above in ¶¶ 141-148.

240. The Director Defendants were directors, or directors-elect, of Converium at the time the Registration Statement became effective, and signed the Registration Statement or consented to their inclusion therein. Specifically, Defendants Colombo, Mehl, Forterer, Schnyder, Hendrix and Parker were directors of Converium at the time the Registration Statement became effective and each signed the Registration Statement; Defendant Clarke was a director-elect of Converium at the time the Registration Statement became effective and consented to be included as such in the Registration Statement. As such, the Director Defendants issued, caused to be issued, and participated in the issuance of materially false and misleading written statements that were contained in the Registration Statement, which misrepresented or failed to disclose, among other things, the facts set forth above.

241. As directors of Converium, the Director Defendants owed to the purchasers of the securities issued in the IPO the duty to make a reasonable and diligent investigation of the statements contained in the Registration Statement at the time it became effective to ensure that

said statements were true and that there were no omissions of material fact which rendered the statements therein materially false and misleading. The Director Defendants did not make a reasonable investigation or possess reasonable grounds to believe that the statements contained in the Registration Statement were true and without omissions of any material facts and were not misleading. Accordingly, the Director Defendants are liable to Plaintiffs and the other members of the Class who purchased Converium securities issued in the IPO pursuant to the Registration Statement.

242. As underwriters of the IPO, the Underwriter Defendants owed to the purchasers of the securities issued in the IPO the duty to make a reasonable and diligent investigation of the statements contained in the Registration Statement at the time it became effective to ensure that said statements were true and that there were no omissions of material fact which rendered the statements therein materially false and misleading. The Underwriter Defendants did not make a reasonable investigation or possess reasonable grounds to believe that the statements contained in the Registration Statement were true and without omissions of any material facts and were not misleading. Accordingly, the Underwriter Defendants are liable to Plaintiffs and the other members of the Class who purchased Converium securities issued in the IPO pursuant to the Registration Statement.

243. Plaintiffs and other members of the Class who acquired the securities in the IPO pursuant to the Registration Statement, did not know of the wrongful conduct alleged herein or of the facts concerning the false and misleading statements and omissions alleged herein, and could not have reasonably discovered such facts or wrongful conduct.

244. None of the misrepresentations or omissions alleged here were forward looking statements but, rather, concerned existing facts. Moreover, Defendants did not properly identify

any of these statements as forward-looking statements and did not disclose information, known to them, that undermined the validity of those statements.

245. Less than one year elapsed from the time that Plaintiffs discovered or reasonably could have discovered the facts upon which this complaint is based to the time that the first complaint was filed asserting claims arising out of the falsity of the Registration Statement. Less than three years elapsed from the time that the securities upon which this Count is brought were bona fide offered to the public to the time that the first complaint was filed asserting claims arising out of the falsity of the Registration Statement. Moreover, the claims asserted in this Count against the Underwriter Defendants were the subject of an agreement that tolled the statute of limitations.

246. Plaintiffs and the other members of the Class have sustained damages. The value of Converium's shares and ADSs sold in the IPO has declined substantially subsequent to and due to the violations of Section 11 of the Securities Act by the Director Defendants and by the Underwriter Defendants.

247. By reason of the foregoing, the Director Defendants and by the Underwriter Defendants named in this Count are liable for violations of Section 11 of the Securities Act to Plaintiffs and the other members of the Class who purchased or otherwise acquired Converium shares and ADSs in the IPO pursuant to the Registration Statement.

COUNT II

AGAINST CONVERIUM AND THE OFFICER DEFENDANTS FOR VIOLATIONS OF SECTION 11 OF THE SECURITIES ACT

248. This Count is asserted against Converium and the Officer Defendants. This Count is asserted against the Company and the Officer Defendants for violations of Section 11 of the

Securities Act, 15 U.S.C. §77k, on behalf of all members of the Class who purchased or otherwise acquired the Converium securities issued in the IPO.

249. This Count does not sound in fraud. All of the preceding allegations of fraud or fraudulent conduct and/or motive are specifically excluded from this Count. Plaintiffs do not allege that the Company's or the Officer Defendants' liability under this Count arises from any scienter or fraudulent intent, which are not elements of a Section 11 claim.

250. The Registration Statement, and the Prospectus incorporated therein, was false and misleading, contained untrue statements of material fact and omitted other facts necessary to make the statements not misleading, and failed to disclose material facts as described above in ¶¶ 141-148.

251. The Company is the registrant for the IPO. As issuer of the shares that were registered, and the ADSs issued backed by those shares, the Company is strictly liable to Plaintiffs and members of the Class who purchased or otherwise acquired the Converium securities issued in the IPO pursuant to the Registration Statement for the misstatements and omissions contained therein.

252. The Officer Defendants were executive officers and representatives of the Company who were responsible for the contents and dissemination of the Registration Statement. Further, Defendants Lohmann and Kauer signed the Registration Statement. As such, the Officer Defendants issued, caused to be issued, and participated in the issuance of materially false and misleading written statements that were contained in the Registration Statement, which misrepresented or failed to disclose, among other things, the facts set forth above. By reasons of the conduct alleged herein, each of these defendants violated Section 11 of the Securities Act.

253. As officers of Converium, the Officer Defendants owed to the purchasers of the securities issued in the IPO the duty to make a reasonable and diligent investigation of the statements contained in the Registration Statement at the time it became effective to ensure that said statements were true and that there were no omissions of material fact which rendered the statements therein materially false and misleading. The Officer Defendants did not make a reasonable investigation or possess reasonable grounds to believe that the statements contained in the Registration Statement were true and without omissions of any material facts and were not misleading. Accordingly, the Officer Defendants are liable to Plaintiffs and the other members of the Class who purchased Converium securities issued in the IPO pursuant to the Registration Statement.

254. Plaintiffs and other members of the Class who acquired the securities in the IPO pursuant to the Registration Statement were not aware of the wrongful conduct alleged herein or of the facts concerning the untrue and misleading statements and omissions alleged herein, and could not have reasonably discovered such facts or wrongful conduct.

255. None of the misrepresentations or omissions alleged herein were forward-looking statements but, rather, concerned existing facts. Moreover, Defendants did not properly identify any of these statements as forward-looking statements and did not disclose information, known to them, that undermined the validity of those statements.

256. Less than one year elapsed from the time that Plaintiffs discovered or reasonably could have discovered the facts upon which this complaint is based to the time that the first complaint was filed asserting claims arising out of the falsity of the Registration Statement. Less than three years elapsed from the time that the securities upon which this Count is brought were

bona fide offered to the public to the time that the first complaint was filed asserting claims arising out of the falsity of the Registration Statement.

257. Plaintiffs and the other members of the Class have sustained damages. The value of Converium's shares and ADSs sold in the IPO has declined substantially subsequent to and due to the violations of Section 11 of the Securities Act by the Director Defendants and by the Underwriter Defendants.

258. By reason of the foregoing, the Director Defendants and by the Underwriter Defendants named in this Count are liable for violations of Section 11 of the Securities Act to Plaintiffs and the other members of the Class who purchased or otherwise acquired Converium shares and ADSs in the IPO pursuant to the Registration Statement.

COUNT III

AGAINST ZFS AND THE UNDERWRITER DEFENDANTS FOR VIOLATIONS OF SECTION 12(a)(2) OF THE SECURITIES ACT

259. This Count is asserted against ZFS and the Underwriter Defendants. This Count is asserted against ZFS and the Underwriter Defendants for violations of Section 12(a)(2) of the Securities Act, 15 U.S.C. §77l(a)(2), on behalf of all members of the Class who purchased or otherwise acquired securities in the IPO.

260. This Count does not sound in fraud. All of the preceding allegations of fraud or fraudulent conduct and/or motive are specifically excluded from this Count. Plaintiffs do not allege for purposes of this Count that the Underwriter Defendants had scienter or fraudulent intent, or that ZFS' liability under this Count arises from any scienter or fraudulent intent which are not elements of a Section 12(a)(2) claim.

261. ZFS sold securities, and was a seller, offeror, and/or solicitor of sales of securities offered pursuant to the Prospectus that formed a part of the Registration Statement. The

Underwriter Defendants were sellers, offerors, and/or solicitors of sales of securities offered pursuant to the Prospectus. The Prospectus contained untrue statements of material fact and omitted other facts necessary to make the statements not misleading, and failed to disclose material facts, as set forth above in ¶¶ 141-148. ZFS's and the Underwriter Defendants' actions and solicitations included participating in the preparation of the materially false and misleading Prospectus.

262. The Underwriter Defendants are sellers within the meaning of the Securities Act because they: (a) transferred title to Plaintiffs and other members of the Class who purchased Converium shares and ADSs; (b) transferred title of Converium shares and ADSs to other underwriters and/or broker-dealers that sold those securities as agents for the Underwriter Defendants; and (c) solicited the purchase of Converium shares and ADSs by Plaintiffs and other members of the Class, motivated at least in part by the desire to serve the Underwriter Defendants' own financial interest and the interests of ZFS and Converium, including but not limited to commissions on their own sales of Converium securities and separate commissions on the sale of those securities by non-underwriter broker-dealers.

263. ZFS and the Underwriter Defendants used means and instrumentalities of interstate commerce and the U.S. mails.

264. ZFS and the Underwriter Defendants owed to Plaintiffs and all other purchasers or other acquirers of securities in the IPO the duty to make a reasonable and diligent investigation of the statements contained in the offering materials, including the Prospectus, to ensure that such statements were true and that there was no omission of material fact necessary to prevent the statements contained therein from being misleading. ZFS and the Underwriter Defendants did not make a reasonable investigation or possess reasonable grounds to believe that the statements

contained in the Registration Statement were true and without omissions of any material facts and were not misleading. Accordingly, ZFS and the Underwriter Defendants are liable to Plaintiffs and the other members of the Class who purchased Converium securities in the IPO.

265. Plaintiffs and other members of the Class purchased or otherwise acquired securities in the IPO pursuant to the materially false and misleading Prospectus and did not know, or in the exercise of reasonable diligence could not have known, of the untruths and omissions contained in the Prospectus.

266. Plaintiffs and other members of the Class offer to tender to ZFS and the Underwriter Defendants those Company securities that the members of the Class continue to own in return for the consideration paid for those securities, together with interest thereon.

267. By virtue of the conduct alleged herein, ZFS and the Underwriter Defendants violated Section 12(a)(2) of the Securities Act. Accordingly, Plaintiffs and other members of the Class who purchased in the IPO to the Prospectus have the right to rescind and recover the consideration paid for their securities, and hereby elect to rescind and tender their securities to ZFS and the Underwriter Defendants. Plaintiffs and the members of the Class who have sold their securities purchased in the IPO are entitled to rescissory damages.

COUNT IV

AGAINST CONVERIUM
FOR VIOLATION OF SECTION 12(a)(2) OF THE SECURITIES ACT

268. This Count is asserted against Converium for violations of Section 12(a)(2) of the Securities Act, 15 U.S.C. §77l(a)(2), on behalf of all members of the Class who purchased or otherwise acquired securities in the IPO.

269. This Count does not sound in fraud. All of the preceding allegations of fraud or fraudulent conduct and/or motive are specifically excluded from this Count. Plaintiffs do not

allege that the Company's liability under this Count arises from any scienter or fraudulent intent, which are not elements of a Section 12(a)(2) claim.

270. Converium issued the Prospectus and was an offeror and/or solicitor of sales of securities offered pursuant to the Prospectus that formed a part of the Registration Statement. The Prospectus contained untrue statements of material fact and omitted other facts necessary to make the statements not misleading, and failed to disclose material facts, as set forth above in ¶¶ 141-148. Converium's actions and solicitations included participating in the preparation of the materially false and misleading Prospectus.

271. Converium used means and instrumentalities of interstate commerce and the U.S. mails.

272. As the issuer of the securities, Converium is strictly liable for the materially false and misleading statements contained in the Registration Statement and Prospectus.

273. Plaintiffs and other members of the Class purchased or otherwise acquired securities in the IPO pursuant to the materially false and misleading Prospectus and did not know, or in the exercise of reasonable diligence could not have known, of the untruths and omissions contained in the Prospectus.

274. Plaintiffs and other members of the Class offer to tender to Converium those Company securities that the members of the Class continue to own in return for the consideration paid for those securities, together with interest thereon.

275. By virtue of the conduct alleged herein, Converium violated Section 12(a)(2) of the Securities Act. Accordingly, Plaintiffs and other members of the Class who purchased in the IPO have the right to rescind and recover the consideration paid for their securities, and hereby elect to

rescind and tender their securities to Converium. Plaintiffs and the members of the Class who have sold their securities purchased in the IPO are entitled to rescissory damages.

COUNT V

AGAINST ZFS FOR VIOLATION OF SECTION 15 OF THE SECURITIES ACT

276. This Count is asserted against ZFS for violations of Section 15 of the Securities Act, 15 U.S.C. §77o, on behalf of all members of the Class who purchased or otherwise acquired securities in connection with the IPO pursuant to the Registration Statement and Prospectus.

277. This Count does not sound in fraud. All of the preceding allegations of fraud or fraudulent conduct and/or motive are specifically excluded from this Count. For purposes of this Count, Plaintiffs do not allege that ZFS' liability under this Count arises from any scienter or fraudulent intent, which are not elements of a Section 15 claim.

278. At all relevant times, ZFS was a controlling person of the Company within the meaning of Section 15 of the Securities Act. Prior to the creation of Converium as a corporate entity, ZFS owned and controlled the Company's predecessors. Following the creation of Converium, and through the registration of the shares of Converium stock that were to be offered for sale in the IPO, Converium was a wholly-owned subsidiary of ZFS. Following the registration of Converium's shares, ZFS owned 100% of Converium's shares through December 11, 2001 – the date of the IPO. ZFS sold the majority of those shares – 35 million – on the IPO, and subsequently sold the remaining 5 million shares it held on January 9, 2002.

279. ZFS at all relevant times participated in the operation and management of the Company, and conducted and participated, directly and indirectly, in the conduct of Converium's business affairs. ZFS participated in the preparation and dissemination of the Registration Statement, and otherwise participated in the process necessary to conduct the IPO. Through its position of control and authority as the exclusive and controlling owner of Converium, ZFS was

able to, and did, control the contents of the Registration Statement which contained materially false financial information.

280. By reason of the aforementioned conduct, ZFS is liable under Section 15 of the Securities Act, jointly and severally with, and to the same extent as the Company is liable under Sections 11 and 12(a)(2) of the Securities Act, to plaintiff and the other members of the Class who purchased securities in the IPO. As a direct and proximate result of the ZFS's conduct, Plaintiffs and the other members of the Class suffered damages in connection with their purchase or acquisition of Company stock and/or ADSs.

COUNT VI

AGAINST THE OFFICER DEFENDANTS AND DEFENDANTS COLOMBO, MEHL, FORTERER, SCHNYDER, HENDRIX AND PARKER FOR VIOLATIONS OF SECTION 15 OF THE SECURITIES ACT

281. This Count is asserted against the Officer Defendants and Defendants Colombo, Mehl, Forterer, Schnyder, Hendrix and Parker for violations of Section 15 of the Securities Act, 15 U.S.C. §77o, on behalf of Plaintiffs and the other members of the Class who purchased or otherwise acquired securities in connection with the IPO pursuant to the Registration Statement and Prospectus.

282. This Count does not sound in fraud. All of the preceding allegations of fraud or fraudulent conduct and/or motive are specifically excluded from this Count. Plaintiffs do not allege that Defendants Colombo, Mehl, Forterer, Schnyder, Hendrix and Parker had scienter or fraudulent intent, or that the Officer Defendants' liability under this Count arises from any scienter or fraudulent intent, which are not elements of a Section 15 claim.

283. At all relevant times, the Officer Defendants and Defendants Colombo, Mehl, Forterer, Schnyder, Hendrix and Parker were controlling persons of the Company within the

meaning of Section 15 of the Securities Act. Each of the Officer Defendants served as an executive officer of Converium and as a member of the Company's Executive Committee prior to and at the time of the IPO. Specifically, Defendant Lohmann served as Converium's Chief Executive Officer; Defendant Kauer served as its Chief Financial Officer; and Defendant Smith served as the Chief Executive Officer of Converium North America. Defendants Colombo, Mehl, Forterer, Schnyder, Hendrix and Parker each served as a director of Converium prior to and at the time of the IPO.

284. Each of the Officer Defendants at all relevant times participated in the operation and management of the Company, and conducted and participated, directly and indirectly, in the conduct of Converium's business affairs. As officers of a publicly owned company, the Officer Defendants had a duty to disseminate accurate and truthful information with respect to Converium's financial condition and results of operations. Defendants Colombo, Mehl, Forterer, Schnyder, Hendrix and Parker participated in the preparation and dissemination of the Registration Statement, and otherwise participated in the process necessary to conduct the IPO. Because of their positions of control and authority as senior officers of Converium, the Officer Defendants were able to, and did, control the contents of the Registration Statement which contained materially false financial information.

285. As directors of a publicly owned company, Defendants Colombo, Mehl, Forterer, Schnyder, Hendrix and Parker had a duty to disseminate accurate and truthful information with respect to Converium's financial condition and results of operations. Defendants Colombo, Mehl, Forterer, Schnyder, Hendrix and Parker each signed the Registration Statement and thereby controlled its contents and dissemination, including the dissemination of the Prospectus contained therein.

286. By reason of the aforementioned conduct, each of the Defendants named in this Count is liable under Section 15 of the Securities Act, jointly and severally with, and to the same extent as the Company is liable under Sections 11 and 12(a)(2) of the Securities Act, to Plaintiffs and the other members of the Class who purchased securities in the IPO. As a direct and proximate result of the conduct of the Officer Defendants and of Defendants Colombo, Mehl, Forterer, Schnyder, Hendrix and Parker, Plaintiffs and the other members of the Class suffered damages in connection with their purchase or acquisition of Company stock and/or ADSs.

COUNT VII

AGAINST CONVERIUM AND THE OFFICER DEFENDANTS FOR VIOLATIONS OF SECTION 10(b) OF THE EXCHANGE ACT

287. Plaintiffs repeat and reallege each of the allegations set forth above as if fully set forth herein. This Count is asserted against Converium and the Officer Defendants for violations of Section 10(b) of the Exchange Act, 15 U.S.C. §78j(b), and Rule 10b-5, 17 C.F.R. § 240.10b-5, promulgated thereunder.

288. Throughout the Class Period, Converium and each of the Officer Defendants, in concert with others, individually and in concert, directly and indirectly, by the use of means or instrumentalities of interstate commerce and/or of the mails and a national securities exchange, engaged and participated in a continuous course of conduct that operated as a fraud and deceit upon Plaintiffs and the Class; made various untrue and/or misleading statements of material facts and omitted to state material facts necessary in order to make the statements, in light of the circumstances under which they were made, not misleading; made the above statements with a severely reckless disregard for the truth; and employed devices, and artifices to defraud in connection with the purchase and sale of securities, which were intended to, and, during the Class Period, did: (i) deceive the investing public, including Plaintiffs and other Class members,

regarding, among other things, Converium's loss reserves and financial results, including but not limited to Converium's income, non-life combined ratio and shareholders' equity; (ii) artificially inflate and maintain the market price of Converium shares and ADSs; and (iii) cause plaintiffs to purchase Converium shares and ADSs at artificially inflated prices.

289. Defendant Converium and the Officer Defendants (Lohmann, Kauer and Smith), as the top executive officers of Converium, are liable as direct participants in the wrongs complained of herein. Through their positions of control and authority as officers of Converium, the Officer Defendants were able to control and did control the content of the public statements contained herein and, with knowledge or in reckless disregard of the massive reserve deficiency at Converium North America, they caused the above complained of public statements to contain misstatements and omissions of material facts as alleged herein.

290. Defendant Converium is liable for each of the materially false and misleading statements set forth herein, including each of the statements of the Officer Defendants, under the principles of *respondeat superior*.

291. In addition, the false and misleading statements made in the Company's published documents (including but not limited to its press releases and SEC filings) constitute "group published information," which Defendants Lohmann, Kauer and Smith were responsible for creating. During their respective terms of employment at Converium, Defendants Lohmann, Kauer and Smith had direct involvement in the daily business of the Company and participated in the preparation and dissemination of Converium's "group published information."

292. More particularly, Defendants Lohmann and Kauer are liable for the following materially false and misleading statements that were contained within "group published information" during the Class Period:

a) The false and misleading statements in Converium's Form F-1/A Registration Statement and Prospectus, filed with the SEC on December 10, 2001;

b) The false and misleading statements in Converium's January 21, 2002 analyst meeting;

c) The false and misleading statements in Converium's March 18, 2002 press release;

d) The false and misleading statements in Converium's Form 20-F, filed with the SEC on May 23, 2002;

e) The false and misleading statements in Converium's Form 6-K, filed with the SEC on July 29, 2002;

f) The false and misleading statements in Converium's July 29, 2002 press release;

g) The false and misleading statements in Converium's Form 6-K, filed with the SEC on October 28, 2002;

h) The false and misleading statements in Converium's October 28, 2002 press release;

i) The false and misleading statements in Converium's November 19, 2002 press release;

j) The false and misleading statements in Converium's Form F-1 offering prospectus and registration statement, filed with the SEC on December 11, 2002;

k) The false and misleading statements in Converium's February 11, 2003 press release;

l) The false and misleading statements in Converium's Form 20-F, filed with the SEC on April 18, 2003;

m) The false and misleading statements in Converium's Form 6-K, filed with the SEC on April 29, 2003;

n) The false and misleading statements in Converium's April 29, 2003 press release;

o) The false and misleading statements in Converium's Form 6-K, filed with the SEC on July 29, 2003;

p) The false and misleading statements in Converium's October 3, 2003 press release;

q) The false and misleading statements in Converium's Form 6-K, filed with the SEC on October 28, 2003

r) The false and misleading statements in Converium's October 28, 2003 press release;

s) The false and misleading statements in Converium's February 17, 2004 press release;

t) The false and misleading statements in Converium's Form 20-F, filed with the SEC on April 19, 2004;

u) The false and misleading statements in Converium's Form 6-K filed with the SEC on April 29, 2004; and

v) The false and misleading statements in Converium's April 29, 2004 press release.

293. Defendant Smith, whose tenure as CEO of Converium North America and as a member of Converium's Executive Committee ended on or about September 23, 2003, is liable for the materially false and misleading statements that were contained within "group published information" identified above in ¶ 292 (a)-(o).

294. In addition to his liability for the materially false and misleading statements that were contained within "group published information," Defendant Lohmann is also liable for the following materially false and misleading statements that he personally made during the Class Period:

a) His false and misleading statements in the letter to shareholders included in Converium's July 29, 2002 6-K;

b) His false and misleading statements in Converium's October 3, 2002 press release;

c) His false and misleading statements in Converium's October 28, 2002 conference call with analysts;

d) His false and misleading statements in Converium's November 19, 2002 press release;

e) His false and misleading statements in Converium's February 11, 2003 press release;

f) His false and misleading statements in Converium's April 29, 2003 press release;

g) His false and misleading statements in Converium's July 29, 2003 press release;

h) His false and misleading statements in Converium's letter to shareholders included in Converium's July 30, 2003 6-K;

i) His false and misleading statements in Converium's October 3, 2003 conference call with analysts;

j) His false and misleading statements in Converium's October 28, 2003 conference call with analysts;

k) His false and misleading statements in Converium's February 17, 2004 press release;

l) His false and misleading statements in Converium's February 17, 2004 conference call with analysts; and

m) His false and misleading statements in Converium's April 28, 2004 press release.

295. In addition, Defendant Lohmann signed all of the Company's false and misleading SEC filings throughout the class period referenced above.

296. In addition to his liability for the materially false and misleading statements that were contained within "group published information," Defendant Kauer is also liable for the following materially false and misleading statements that he personally made, during the Class Period:

a) His false and misleading statements in Converium's March 18, 2002 press release;

b) His false and misleading statements in Converium's July 29, 2002 press release;

c) His false and misleading statements in Converium's July 29, 2003 conference call with analysts; and

d) His false and misleading statements in Converium's October 3, 2003 press release.

297. In addition, Defendant Kauer signed all of the Company's false and misleading SEC filings throughout the class period referenced above.

CONVERIUM AND THE OFFICER DEFENDANTS ACTED WITH SCIENTER

298. The above allegations establish a strong inference that the Company and each of the Officer Defendants acted with scienter in misrepresenting the adequacy of the Company's loss reserves and the Company's financial condition during the Class Period. Throughout the Class Period, Converium and the Officer Defendants misrepresented the adequacy of the loss reserves established for the Company as a whole, and for Converium North America in particular. As a result of the direct correlation between Converium's loss reserves and its financial results, the massive reserve deficiency at Converium North America caused the Company's reported financial results, including reports of Converium's income, earnings-per-share, combined ratio and shareholders' equity to be materially false and misleading.

299. That Converium acted with scienter in misrepresenting the adequacy of the loss reserves for the Company and for Converium North America, and in reporting false and misleading financial results, is evidenced by the following:

a) The Tillinghast Study identified a reserve deficiency of $350 million at Converium North America;

b) The technical reserve maintained by Converium North America was negative by approximately $100 million prior to the IPO;

c) The Loss Reserve Study identified a significant reserve deficiency prior to the IPO;

d) The $112 million reserve increase taken in 2001 in connection with the IPO did not resolve the $350 million reserve deficiency identified by Tillinghast;

e) Within 20 days of the IPO, the management of Converium North America identified adverse loss development of up to $80 million;

f) Converium North America identified up to $50 million in adverse loss development in each quarter of 2002, which was reported to the Company's senior management in New York and Switzerland;

g) Confidential Witness No. 2 regularly performed studies that consistently identified reserve deficiencies at Converium North America;

h) Converium's Global Reserving Actuary concluded that, as of year-end 2002, the reserves maintained by Converium North America were deficient by $293 million;

i) The Board retained Deloitte to conduct an independent reserve analysis out of concern about the extent of the North American reserve deficiency and because it recognized the need to obtain an objective assessment of that deficiency;

j) Deloitte concluded that the reserves maintained by Converium North America were deficient by $437 million as of December 31, 2002;

k) Converium North America experienced adverse loss development of $339.9 million during the first six months of 2003, which brought the Company's reserve deficiency to $776.9 million as of June 30, 2003;

l) As of September 30, 2003, the study by the Global Reserving Actuary showed that the reserves maintained by Converium North America were deficient by $296.5 million;

m) The Company novated the worst policies from Converium North America to Europe, and secretly increased North American reserves during the second half of 2003;

n) The Company restructured its financial reporting in the third quarter of 2003 in order to conceal the poor performance of Converium North America and to conceal the novation scheme and secret reserve increases implemented during that quarter;

o) The Company's senior management directed Converium North America's actuaries to "bury" $45 million in adverse loss development and reserve deficiencies in the third quarter of 2003;

p) As of December 31, 2003, the study by the Global Reserving Actuary concluded that Converium North America was under-reserved by $268.2 million; and

q) The Company's senior management directed Converium North America's actuaries, as well as Confidential Witness No. 6 and Brian Kensil, to "bury" $50 million in adverse loss development and reserve deficiencies in the second quarter of 2003.

300. As a result of these facts, Converium knew or, but for its reckless disregard of these facts, should have known that the statements, set forth above, regarding its reserves and its publicly reported financial results were materially false and misleading.

301. The following additional facts further support a strong inference that Defendant Lohmann acted with scienter:

a) Lohmann knew that Tillinghast had determined that Converium North America was under-reserved by $350 million prior to the IPO, and made the decision to only increase reserves by $125 million, so that the IPO could be completed;

b) Lohmann, after the IPO, either made or approved all reserve increases for Converium North America together with Kauer;

c) Lohmann received the Loss Reserve Study, which detailed consistent adverse loss development at Converium North America throughout the Class Period, including adverse loss development of up to $50 million during each quarter of 2002;

d) Lohmann regularly received the results of the reserve study conducted by Confidential Witness No. 1, which consistently showed a reserve deficiency at Converium North America;

e) Lohmann regularly received the results of the reserve study conducted by Jean-Claude Jacob, the Global Reserving Actuary, which consistently showed a reserve deficiency at Converium North America;

f) Lohmann received the results of the reserve study conducted by B&W Deloitte, which identified a reserve deficiency at Converium North America approximately $437 million;

g) Lohmann knew or recklessly disregarded the $339.9 million adverse loss development experienced by Converium North America in the first half of 2003;

h) Lohmann authorized the restructuring of Converium in 2003, and knew that the purpose of the restructuring was to conceal the poor performance of Converium North America and to obscure the novation plan scheme and secret reserve increases;

i) Lohmann devised the novation scheme and directed its implementation;

j) Lohmann received the October 26, 2003 e-mail from Jean-Claude Jacob which stated, among other things, that Converium North American was under-reserved by $297 million as of the third quarter of 2003; and

k) Lohmann, in June of 2004, asked Confidential Witness No. 6 and Brian Kensil to bury $50 million in reserve deficiencies at Converium North America.

302. The following additional facts further support a strong inference that Defendant Kauer acted with scienter:

a) Kauer knew that Tillinghast had determined that Converium North America was under-reserved by $350 million prior to the IPO, and made the decision to only increase reserves by $125 million, so that the IPO could be completed;

b) Kauer, after the IPO, either made or approved all reserve increases for Converium North America together with Lohmann;

c) Kauer received directs reports of the Loss Reserve Study, which detailed consistent adverse loss development at Converium North America throughout the Class Period, including adverse loss development of up to $50 million during each quarter of 2002;

d) Kauer regularly received the results of the reserve study conducted by Confidential Witness No. 1, which consistently showed a reserve deficiency at Converium North America;

e) Kauer regularly received the results of the reserve study conducted by Jean-Claude Jacob, the Global Reserving Actuary, which consistently showed a reserve deficiency at Converium North America;

f) Kauer received the results of the reserve study conducted by B&W Deloitte, which identified a reserve deficiency at Converium North America of approximately $437 million;

g) Kauer knew or recklessly disregarded the $339.9 million adverse loss development experienced by Converium North America in the first half of 2003;

h) Kauer knew of, and assisted in or authorized the implementation of, the novation scheme and secret reserve increases;

i) Kauer received the October 26, 2003 e-mail from Jean-Claude Jacob which stated, among other things, that the North American reserve deficiency stood at $297 million as of the third quarter of 2003; and

j) Kauer, in June of 2004, asked Confidential Witness No. 6 and Brian Kensil to bury $50 million in reserve deficiencies at Converium North America.

303. The following additional facts further support a strong inference that Defendant Smith acted with scienter:

a) Smith knew that Tillinghast had identified a $350 million reserve deficiency at Converium North America;

b) Smith knew that Converium North America identified up to $80 million in adverse loss development within 20 days of the IPO;

c) Smith received the results of the Loss Reserve Studies, as well as the reserve studies conducted by Confidential Witness No. 2 and by Jean-Claude Jacob, the Global Reserving Actuary, which identified reserve deficiencies at Converium North America;

d) Smith received the results of the reserve study conducted by B&W Deloitte, which identified a reserve deficiency at Converium North America of approximately $437 million;

e) Smith knew or recklessly disregarded the $339.9 million adverse loss development experienced by Converium North America in the first half of 2003; and

f) Smith received the October 26, 2003 e-mail from Jean-Claude Jacob which stated that, among other things, the North American reserve deficiency stood at $297 million for the third quarter of 2003.

304. Defendant Converium, as well as Defendants Lohmann, Kauer and Smith, also had motive and opportunity to commit the fraud alleged herein. By intentionally understating Converium's reserves, the Company and the Officer Defendants were able to:

a) conduct the Coverium IPO;

b) inflate the Company's financial results;

c) prevent against a downgrade of the Company's credit rating; and

d) preclude the termination clauses in Converium's reinsurance agreements from being triggered.

305. In addition, a significant portion of the compensation for Defendants Lohmann, Kauer and Smith came from a variable bonus pool, the size of which related directly to Converium's financial performance. Specifically, the size of the bonus pool was based in large part on the Company's return on equity, the price of Converium's stock in relation to its competitors and the maintenance of the Company's credit rating.

306. Further, the Officer Defendants had direct involvement in the day to day operations of the Company, and, therefore, are presumed to have had, and to have exercised, the power to control or influence the dissemination of the particular false and misleading statements giving rise to the securities violations as alleged herein.

307. Converium had opportunity to commit the fraud alleged herein with regard to the IPO. By intentionally understating reserves, the Company was able to facilitate the IPO, which, if the truth had been revealed, would not have been possible due to the Company's reserving position.

COUNT VIII

AGAINST THE OFFICER DEFENDANTS AND DEFENDANTS COLOMBO, MEHL, FORTERER, SCHNYDER, HENDRIX AND PARKER FOR VIOLATIONS OF SECTION 20(a) OF THE EXCHANGE ACT

308. Plaintiffs repeat and reallege each of the allegations set forth above as if fully set forth herein. This Count is asserted against the Officer Defendants and Defendants Colombo, Mehl, Forterer, Schnyder, Hendrix and Parker for violations of Section 20(a) of the Exchange Act.

309. Converium committed a primary violation of Section 10(b) of the Exchange Act, 15 U.S.C. §78j(b), and Rule 10b-5, 17 C.F.R. § 240.10b-5, promulgated thereunder, by making the false and misleading statements of material facts, identified above, in connection with the purchase or sale of securities, which constituted a fraud on the market and were, therefore,

presumed to have been relied upon by Plaintiffs and the Class. At the time that it made these false and misleading statements, the Company either knew of, or recklessly disregarded, their falsity.

310. Each of the Officer Defendants had direct control and/or supervisory involvement in the operations of the Company prior to and during the Class Period, and therefore had the power to control or influence the particular transactions giving rise to the violations of the Exchange Act by the Company as alleged herein, and exercised the same.

311. By reason of their status as officers and members of the Executive Committee of Converium during the Class Period, the Officer Defendants are "controlling persons" of Converium within the meaning of Section 20(a) of the Exchange Act because they had the power and influence to cause the Company to engage in the unlawful conduct complained of herein. Because of their positions of control, the Officer Defendants were able to, and did, directly or indirectly, control the conduct of Converium's business, the establishment of its loss reserves, the novation of its contracts, the information contained in its filings with the SEC, and public statements about its business.

312. Each of the Officer Defendants was provided with or had access to copies of the Company's reports, press releases, public filings and other statements alleged by Plaintiffs to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected. Specifically, the Officer Defendants had access to and received direct presentations of the results of: the Jean-Claude Jacob's reserve studies; the Tillinghast Study; and the Deloitte Study. The Officer Defendants also had access to each of the internal Converium documents identified herein.

313. Defendants Colombo, Mehl, Forterer, Schnyder, Hendrix and Parker each signed the Registration Statement and thereby controlled its contents and dissemination, including the

dissemination of the Prospectus contained therein. By reason of their status as directors of Converium at the time of the IPO and their signature of the Registration Statements, these Defendants were "controlling persons" of Converium within the meaning of Section 20(a) of the Exchange Act as of the time of the IPO because they had the power and influence to cause the Company to engage in the unlawful conduct complained of herein. Defendants Colombo, Mehl, Forterer, Schnyder, Hendrix and Parker participated in the preparation and dissemination of the Registration Statement, and otherwise participated in the process necessary to conduct the IPO. Because of their positions of control, these Defendants were able to, and did, directly or indirectly, control the conduct of the IPO and the information contained in its Registration Statement and Prospectus, and the dissemination thereof.

314. Defendants Colombo, Mehl, Forterer, Schnyder, Hendrix and Parker were provided with or had access to copies of the Registration Statement and Prospectus prior to their issuance and had the ability to prevent the issuance of the statements contained therein, or cause those statements to be corrected. In addition, these Defendants had access to and/or received direct presentations of the results of the Tillinghast Study, among other information regarding the true state of the Company's reserve deficiency.

315. As set forth above, each of the Defendants named in this Count controlled Converium, which violated Section 10(b) of the Exchange Act and Rule l0b-5 promulgated thereunder by its acts and omissions as alleged in this complaint. By virtue of their positions as controlling persons, these Defendants are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate cause of the wrongful conduct set forth in this Count, Plaintiffs and other members of the Class suffered damages in connection with their purchases of the Company's shares and ADSs in the IPO and during the Class Period.

COUNT IX

AGAINST ZFS
FOR VIOLATION OF SECTION 10(b) OF THE EXCHANGE ACT

316. Plaintiffs repeat and reallege each of the allegations set forth above as if fully set forth herein. This Count is asserted against ZFS for violation of Section 10(b) of the Exchange Act, 15 U.S.C. §78j(b), and Rule 10b-5, 17 C.F.R. § 240.10b-5, promulgated thereunder.

317. Prior to the Class Period and up until the IPO, ZFS, in concert with others, individually and in concert, directly and indirectly, by the use of means or instrumentalities of interstate commerce and/or of the mails and a national securities exchange, engaged and participated in a continuous course of conduct that operated as a fraud and deceit upon Plaintiffs and the Class; made or caused to be made various untrue and/or misleading statements of material facts and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; made or caused the above statements to be made with a severely reckless disregard for the truth; and employed devices, and artifices to defraud in connection with the purchase and sale of securities, which were intended to, and , during the Class Period, did: (i) deceive the investing public, including Plaintiffs and other Class members, regarding, among other things, Converium's loss reserves and financial results, including but not limited to Converium's income, non-life combined ratio and shareholders' equity; (ii) artificially inflate and maintain the market price of Converium shares and ADSs; and (iii) cause plaintiffs to purchase Converium shares and ADSs at artificially inflated prices.

318. Defendant ZFS is liable as a direct participant in the wrongs complained of herein. Through its position of control and authority over Converium as the Company's sole owner, ZFS was able to control and did control the content of the public statements contained herein and, with knowledge or in reckless disregard of the massive reserve deficiency at Converium North

America, it caused the above complained of public statements to contain misstatements and omissions of material facts as alleged herein.

319. ZFS is liable for the materially false and misleading statements in Converium's Registration Statement and Prospectus, filed with the SEC on Form F-1/A on December 10, 2001.

320. ZFS had access to, and knew or should have known of, the results of the Tillinghast study, which identified a $350 million reserve deficiency prior to the IPO. Despite this access and knowledge, ZFS repeatedly emphasized the strength of the Converium's reserves, and specifically touted the fact that Converium's reserves were purportedly in line with Tillinghast's best estimates.

321. ZFS also had motive and opportunity to commit the fraud alleged herein with regard to the IPO. By intentionally understating Converium's reserves, ZFS was able to facilitate the IPO, through which ZFS sold 40 million shares of Converium – the entirety of its ownership stake in the Company – for proceeds of approximately $2 billion. ZFS had the opportunity to implement the IPO through its exclusive ownership of Converium prior to the IPO and through the road shows conducted in advance of the IPO to over 400 investors in 19 cities throughout Europe and the United States.

COUNT X

AGAINST ZFS
FOR VIOLATION OF SECTION 20(a) OF THE EXCHANGE ACT

322. Plaintiffs repeat and reallege each of the allegations set forth above as if fully set forth herein. This Count is asserted against ZFS for violation of Section 20(a) of the Exchange Act.

323. Converium committed a primary violation of Section 10(b) of the Exchange Act, 15 U.S.C. §78j(b), and Rule 10b-5, 17 C.F.R. § 240.10b-5, promulgated thereunder, by making

the false and misleading statements of material facts, identified above, in connection with the purchase or sale of securities, which constituted a fraud on the market and were, therefore, presumed to have been relied upon by Plaintiffs and the Class. At the time that it made these false and misleading statements, the Company either knew of, or recklessly disregarded, their falsity.

324. ZFS had direct control and/or supervisory involvement in the operations of the Company prior to the Class Period and up until the IPO, and therefore had the power to control or influence the particular transactions giving rise to the violations of the Exchange Act by the Company as alleged herein, and exercised the same.

325. ZFS used means and instrumentalities of interstate commerce and the U.S. mails.

326. By reason of its control and/or supervisory involvement in the operations of the Company prior to the Class Period and up until the IPO, ZFS is a "control person" of Converium within the meaning of Section 20(a) of the Exchange Act because it had the power and influence to cause the Company to engage in the unlawful conduct complained of herein. ZFS participated in the preparation and dissemination of the Registration Statement, and otherwise participated in the process necessary to conduct the IPO. Specifically, through its exclusive ownership of Converium, ZFS was in a position of control, as a result of which ZFS was able to, and did, directly or indirectly, control the conduct of Converium's business, the establishment of its loss reserves, the information contained in its Registration Statement and Prospectus filed with the SEC, and public statements about its business.

327. Prior to the IPO, ZFS prepared or had access to the Company's reports, press releases, public filings and other statements alleged by Plaintiffs to be misleading including, but not limited to, the Registration Statement and Prospectus.

328. As set forth above, ZFS controlled Converium, which violated Section 10(b) of the Exchange Act and Rule l0b-5 promulgated thereunder by its acts and omissions as alleged in this complaint. By virtue of its position a controlling person, ZFS is liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate cause of the wrongful conduct of ZFS set forth in this Count, Plaintiffs and other members of the Class suffered damages in connection with their purchases of the Company's shares and ADSs during the Class Period.

XII. PRAYER FOR RELIEF

WHEREFORE, Plaintiffs pray for relief and judgment, as follows:

a) Declaring this action to be a proper class action pursuant to Rule 23(a) and (b)(3) of the Federal Rules of Civil Procedure on behalf of the Class defined herein;

b) Declaring and determining that the Defendants violated the federal securities laws as charged above;

c) Awarding Plaintiffs and the Class compensatory damages;

d) As to the claims set forth under the Securities Act (§§11, 12(a)(2) and/or §15), awarding rescission or a recessionary measure of damages;

e) Awarding Plaintiffs and the Class pre-judgment and post-judgment interest, as well as reasonable attorneys' fees, expert witness fees and other costs; and

f) Awarding such other relief as this Court may deem just and proper.

XIII. JURY TRIAL DEMAND

Pursuant to Rule 38(b) of the Federal Rules of Civil Procedure, Plaintiffs hereby demand a trial by jury in this action of all issues so triable.

Dated: September 23, 2005

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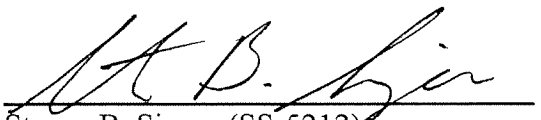

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