CONVERIUM HOLDING AG
Form 6-K
July 30, 2003

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Form 6-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

For the period ending June 30, 2003

CONVERIUM HOLDING AG

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

(Address of principal executive offices)

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

Form 20-F X Form 40-F ____

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

Yes ____ No X

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

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Investor information

Shareholders Meeting

The Annual General Meeting will be held at 10:30 a.m. local time on Tuesday, April 27, 2004 at the Casino in Zug, Switzerland.

Transfer Agent & Registrar

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

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

Auditors

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

Stock Trading

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

First half year 2003

SWX Swiss Stock Exchange	High	72.00	Low	52.00
New York Stock Exchange	High	26.12	Low	19.25

First quarter of 2003

SWX Swiss Stock Exchange	High	69.25	Low	52.00
New York Stock Exchange	High	24.84	Low	19.25

Second quarter of 2003

SWX Swiss Stock Exchange	High	72.00	Low	56.05
New York Stock Exchange	High	26.12	Low	20.52

Investor Relations Contact

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Financial highlights

(US$ million, except per share information)	Three months ended June 30		Six months ended June 30	
	2003	2002	2003	2002
Gross premiums written	948.7	832.5	2,212.5	1,773.7
Net premiums written	899.3	792.6	2,083.9	1,691.5
Net premiums earned	912.5	801.5	1,796.8	1,517.1
Net investment income	66.8	68.3	123.0	133.0
Income before taxes	77.7	3.6	95.8	42.4
Net income	59.1	2.9	84.6	31.6
Basic earnings per share	1.48	0.07	2.12	0.79
Annualized return on equity	13.6%	0.7%	9.7%	4.0%
Loss ratio (non-life)	73.5%	69.7%	73.0%	72.6%
Underwriting expense ratio (non-life)	20.3%	25.0%	21.0%	23.4%
Administration expense ratio (non-life)	5.3%	5.2%	4.7%	5.0%
Combined ratio (non-life)	99.1%	99.9%	98.7%	101.0%

	June 30 2003	Dec. 31 2002
Total equity	1,894.3	1,738.0
Total underwriting reserves, net of reinsurance	7,562.7	6,736.0
Total invested assets	6,814.1	6,117.3
Book value per share	47.61	43.55

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Letter from the Chief Executive Officer

Dear shareholders,

In an industry that is geared towards offering its clients protection against catastrophes having a probability of occurring once in 100 or 250 years, six months is not a particularly long period of time by which to measure a company s performance. Nonetheless, as a publicly listed company, we provide our shareholders with quarterly financial statements and half yearly reports to give you an insight into the developments of the company.

Strong growth in gross and net premiums written

As reported in our previous communication with shareholders, Converium continues to enjoy an excellent reception from existing and new clients as one of the leading global multi-line reinsurers. The involuntary withdrawal of several well-known participants from certain lines of the business or from the industry as a whole, together with the continuing turmoil in the capital markets and the resulting impact on shareholders equity, has led clients to place a greater focus on the issue of counter-party risk. For Converium, this has resulted in substantial new business opportunities, as witnessed by the continued strong growth in our gross written premiums by 24.7% from US$ 1,773.7 million to US$ 2,212.5 million for the first half of the year. Our net written premiums grew by a similar amount (+23.2%) from US$ 1,691.5 million to US$ 2,083.9 million. For the period under review, we substantially increased the amount and quality of our retrocessional protections to further insulate our profit and loss statement from extreme volatility due to large natural or man-made catastrophes. Nonetheless, our retention ratio remained almost unchanged at 94.2% of gross written premiums versus 95.4% a year ago.

Combined ratio improves

Converium continues to exhibit a strong performance in its underwriting results for the first six months of 2003. Our non-life combined ratio for the first six months of this year came in at 98.7% compared with 101.0% for the first half of 2002. This improvement is largely a reflection of the continuing improvements achieved during the important renewal negotiations on January 1 and April 1. In addition, the first half of 2003 was marked by a lack of any significant catastrophe losses in the more volatile property catastrophe and aviation lines of business. Some may have asked why Converium would not be showing an even stronger improvement in its combined ratio, particularly in view of the lack of any major headline loss events. One reason is that Converium s business mix is more focused on the frequency type than on the so-called severity type of reinsurance business. For example, only around 6.6% of our business stems from property catastrophe writings. This is significantly lower than for many of our competitors; in particular many of the new start up reinsurers established in Bermuda following the events of September 11th. In evaluating the performance of a property catastrophe portfolio, one must keep in mind that the premiums earn ratably over the calendar year, whereas certain catastrophe exposures specifically wind in the northern hemisphere are concentrated in the third and fourth quarters. Thus, while our reported non-life combined ratio for the first six months of the year may be higher than that of some of our peers, the true profitability of a given year will only be known once the full year and the wind season in the northern hemisphere has passed.

During 2003, Converium experienced strong growth in Continental European markets serviced by its Cologne and Zurich segments, which grew their net written premiums by 53.1% and 29.3% respectively. Much of this business was written on a proportional basis as many European insurers were faced with capital constraints due to the strain placed

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upon their balance sheets by the melt down of the European equity markets. As a consequence, Converium was able to participate in the core business of many companies at very advantageous terms. These lines of business naturally exhibit lower volatility in their performance over time and therefore, carry higher expected non-life loss ratios compared to non-proportional catastrophe business. Given that much of the new business written was either in specialty lines, such as credit and surety or professional liability, or in standard lines of business, such as third-party liability and motor liability, the initial non-life loss ratios are higher than in short-tail property lines. Overall, our non-life loss ratio increased 0.4 percentage points to 73.0% for the first half of 2003, reflecting the shift towards longer-tail exposures. As much of our new business production in the Continental European market was on a direct basis rather than through brokers, our underwriting expense ratio declined by 2.4 percentage points from 23.4% to 21.0%. Our administration expense ratio improved 0.3 percentage points from 5.0% to 4.7% despite a strong rise in the Swiss Franc and the Euro against the US-dollar. As a larger proportion of our overhead expenses are in these currencies, a weakening of the US-dollar negatively impacts our administration expense ratio. The improvement can therefore be largely ascribed to a strong expense management culture and a more efficient leveraging of Converium s capabilities in growing its business from the existing platform.

Capital markets still difficult; net income increases

As you may recall from last year s mid-year report, not all developments are completely within the control of your company s management. This is particularly true for the influence of the capital markets and exchange rates, which have proven to be quite volatile during the last six months. The first quarter was overshadowed by fears of a pending war in the Middle East, taking the major equity markets down to their lowest level in many years. This was followed by a strong rally during the second quarter, which more than offset the losses since the beginning of the year. At the same time, most leading economies continued to exhibit a laggard performance with growing unemployment and a failure to respond to traditional fiscal and monetary policy. A consequence of this was a further decline in the yield curve and an increasingly difficult environment for insurers and reinsurers as large holders of financial assets. This decline in the yield curve resulted in a reduction in the average annualized yield on our invested assets of 120 basis points to 3.6% for the first six months of 2003. This is a 25% reduction in yield when compared to the first six months of 2002. Our net investment income only declined 7.5%, or US$ 10 million, from US$ 133 million to US$ 123 million thanks largely to the strong operational cash flow and the resulting increase in invested assets.

A further impact of the equity market s volatility was observed in the need to increase our provisions for future benefits under a closed block of variable annuities with guaranteed minimum death benefits during the first quarter of 2003, when Converium increased its provision for this business by US$ 12.5 million. The recovery of the equity markets during the second quarter and the continuing decrease of total guaranteed minimum death benefits served to reduce the net amount at risk; hence, the ratio between benefit reserves and net amount at risk at June 30, 2003 improved. However, as we are still in the process of gaining further insight into the sensitivities of this business to various factors, only one of which is capital market movements, no benefit was taken in the second quarter.

While last year s first half result saw a significant deviation between the operating income and net income due to the impact of asset impairment charges and realized capital

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losses, the 2003 picture is thankfully the reverse. Pre-tax operating income for the first half of 2003 was down 14.9% to US$ 88.3 million, largely due to the impact of reduced current yield and charges related to the variable annuities. Net income, however, increased 167.7% to US$ 84.6 million, thanks to a significant reduction in asset impairment charges and realized capital losses and a modest amount of realized capital gains, as we restructured our investment portfolio to protect shareholders equity against an unfavourable movement in the fixed income markets. Converium continues to adhere to the most stringent asset impairment policies and is compliant with current and emerging standards. Beginning with the second quarter 2003, Converium now also treats any asset that is below the original purchase price for more than 12 months as impaired, irrespective of the magnitude by which it has declined.

Shareholders equity continues to grow; asset liability management pays off

While it may seem self-evident that shareholders equity should increase, this has not necessarily been the case for most European reinsurers since Converium s debut as a publicly listed company a little more than 18 months ago. Thanks to a conservative investment philosophy and adherence to a stringent asset liability management discipline, Converium has been able to weather the vagaries of the capital markets since its launch and consistently grow shareholders equity in the process. Since year-end 2002, Converium s shareholders equity has increased by 9.0% or US$ 156.3 million to US$ 1,894.3 million, or by more than 10% when including dividends to shareholders. Overall total return including dividends since year-end 2001 has been more than 20%. While your company has experienced some set backs during its first year and a half, particularly with respect to provisions for prior year s liabilities, Converium continues to exhibit progress in the positioning of the company as a leader in its industry and in building a lasting global franchise with strong value creation potential.

Outlook remains favourable

As a company that is intent on being a leader amongst the next Re generation, Converium s strategy for the future is not simply based upon hoping for the best. Our industry has experienced a period involving an unusually low level of large reinsured shock losses for the last 20 months. This has been true for both man-made losses (e.g. aviation) or natural catastrophe perils. Current forecasts indicate a higher probability of tropical storm activity in the Atlantic than was experienced over the last few years. Similarly, in other fields, the law of large numbers cannot be overruled indefinitely. Capital markets remain volatile and uncertain. Converium s strategy of building a geographically diversified portfolio with a well-balanced mix of underwriting risks (specialty lines, standard property & casualty reinsurance, and life), coupled with disciplined risk management, a conservative investment philosophy guided by a leading edge asset liability management and a sound operating platform provide a solid foundation for sustainable growth in shareholder value. The outlook for a company with Converium s capabilities and market positioning remains favourable.

Sincerely,

Dirk Lohmann
Group Chief Executive Officer

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The Converium share

In the first half of 2003, the Converium share closed at approximately the same level as the European Insurance Index after a strong out-performance in March and April 2003. The Converium ADS developed in line with the US Insurance Index until the end of April 2003, but underperformed by the end of the first half of 2003 as the US Insurance Index showed pronounced recovery in the first half of 2003.

Converium Share versus European Insurance Index

Converium ADS versus US Insurance Index

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The Converium share

Since the IPO, the Converium share and ADS have substantially outperformed the European and the US Insurance Index respectively.

Converium Share versus European Insurance Index

Converium ADS versus US Insurance Index

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The Converium share

In addition to economic uncertainties which left investors inert, the industry still has to face a number of issues.

Following the strong decline of stock markets, European insurance and reinsurance companies, which were over-proportionally exposed to equities, had to face severe solvency and asset and liability management issues. This and the resulting downgrades by rating agencies led to a reshuffling in the European insurance and reinsurance landscape, which created new opportunities for established, independent, leading, global multi-line reinsurers such as Converium.

US reinsurers, which had a traditionally low exposure towards equities, performed well in the first half of 2003, however, coming from low levels in 2002. The Converium ADSs account for approximately 12% of the overall Converium share turnover.

First listed	December 11, 2001 SWX Swiss Stock Exchange and New York Stock Exchange
Major shareholders as of June 30, 2003	Fidelity International Limited, Bermuda, holds 9.87% Deutsche Bank AG, Frankfurt, holds 7.96% Wellington Management Company, Boston, holds 7.68% Government of Singapore, Singapore, holds 5.12%

The commitment of top-tier institutional investors, who invested in Converium at the time of the IPO or shortly thereafter, underpins the quality of Converium shares as an investment.

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

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

Results of operations

	Three months ended June 30		Six months ended June 30	
(US$ million)	**2003**	**2002**	**2003**	**2002**
Pre-tax income	77.7	3.6	95.8	42.4
Net realized capital gains (losses)	15.8	61.0	7.5	61.3
Pre-tax operating income	61.9	64.6	88.3	103.7
Net income	59.1	2.9	84.6	31.6

We reported net income of US$ 59.1 million and US$ 84.6 million for the three and six months ended June 30, 2003, representing increases of US$ 56.2 million and US$ 53.0 million versus the same periods in 2002. The increases are due to continued improvements in the non-life underwriting results, as well as net realized capital gains in 2003 versus net realized capital losses in 2002.

We reported pre-tax operating income (defined as pre-tax income excluding pre-tax net realized capital gains or losses) of US$ 61.9 million for the three months ended June 30, 2003, a decrease of US$ 2.7 million as compared to pre-tax operating income of US$ 64.6 million for the same period of 2002. For the six months ended June 30, 2003, we reported pre-tax operating income of US$ 88.3 million, a decrease of US$ 15.4 million as compared to pre-tax operating income of US$ 103.7 million for the same period of 2002. For the six months, this decrease was primarily due to lower net investment income of US$ 10.0 million, higher interest expense of US$ 9.0 million and a technical loss of US$ 14.6 million on our Guaranteed Minimum Death Benefit (GMDB) book in the first quarter of 2003. The decreases were offset by an improved non-life combined ratio in 2003 versus 2002.

For the three months ended June 30, 2003, gross premiums written increased 14.0%, net premiums written increased 13.5% and net premiums earned increased 13.8%. For the six months ended June 30, 2003, gross premiums written increased 24.7%, net premiums written increased 23.2% and net premiums earned increased 18.4%. The growth was spread across most specialty lines as well as most lines of business in standard property & casualty reinsurance.

Our non-life combined ratio was 99.1% for the three months ended June 30, 2003, compared to 99.9% in the same period of 2002. For the six months ended June 30, 2003, our non-life combined ratio was 98.7% compared to 101.0% in the same period of 2002. There was no material net non-life prior years reserve development in 2003. In the second quarter of 2002, the results were impacted as a result of the recognition of a US$ 24.4 million provision for net adverse loss development on prior years business.

Due to improving conditions in the capital markets, net realized capital gains were US$ 15.8 million for the three months and US$ 7.5 million for the six months ended June 30, 2003 as compared to net realized capital losses of US$ 61.0 and US$ 61.3 million for the same periods of 2002.

Our effective tax rate was 23.9% for the three months and 11.7% for the six months ended June 30, 2003, as compared to 19.4% and 25.5% for the same periods of 2002. The 2003 year-to-date effective tax rate was reduced by a change in expected tax rates in Switzerland in the first quarter.

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

Reinsurance results

	Three months ended June 30	Six months ended June 30

(US$ million)	2003	2002	2003	2002
Gross premiums written	948.7	832.5	2,212.5	1,773.7
Net premiums written	899.3	792.6	2,083.9	1,691.5
Net premiums earned	912.5	801.5	1,796.8	1,517.1

For the second quarter of 2003, gross premiums written increased US$ 116.2 million, or 14.0% compared to the same period of 2002, and net premiums written increased US$ 106.7 million, or 13.5% for the same period. For the six months ended June 30, 2003, gross premiums written increased US$ 438.8 million, or 24.7% and net premiums written increased US$ 392.4 million, or 23.2% compared to the same period of 2002. For the six months ended June 30, 2003, we retained 94.2% of our gross premiums written, compared to 95.4% for the same period of 2002.

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Management s discussion and analysis of financial condition and results of operations (continued)

The increases in non-life net premiums written predominately reflect the continued improved market conditions and new client relationships in certain key markets. For the six months ended June 30, 2003, Converium Zurich grew by US$ 219.3 million, or 29.3%. Converium Cologne grew US$ 114.0 million, or 53.1%. The growth from Converium Cologne was due to improving its market position, primarily throughout Europe. Converium North America grew US$ 47.0 million, or 7.4%.

Net premiums earned for the six months ended June 30, 2003 increased US$ 279.7 million, or 18.4% compared to the same period of 2002. The growth in net premiums earned lags that of net premiums written, as the new business written will be earned over several quarters.

	Three months ended June 30		Six months ended June 30	
(US$ million)	**2003**	**2002**	**2003**	**2002**
Losses and loss adjustment expenses and life benefits	677.1	567.9	1,332.7	1,110.5
Non-life loss ratio (to premiums earned)	73.5%	69.7%	73.0%	72.6%

Our losses and loss adjustment expenses and life benefits incurred increased US$ 109.2 million, or 19.2% for the three months ended June 30, 2003 and US$ 222.2 million, or 20.0% for the six months ended June 30, 2003, both as compared to the same period of 2002. The non-life loss and loss adjustment expense ratio was 73.5% and 73.0% for the three and six months ended June 30, 2003 as compared to 69.7% and 72.6% for the same periods in 2002. The increase in the non-life loss ratio in 2003 reflects a shift towards longer-tail business, both in specialty lines and in standard property & casualty reinsurance, particularly in Converium Zurich.

Reserve Development

There was no material net non-life prior years reserve development in 2003. In the second quarter of 2002, our results were impacted as a result of the recognition of a US$ 24.4 million provision for net adverse loss development on prior years business. Converium Cologne recorded an additional US$ 18.5 million in reserves related to prior years business and Converium North America recorded adverse development of US$ 19.9 million. This was partially offset by positive reserve development of US$ 14.0 million in Converium Zurich. Our net reserves for the September 11th terrorist attacks are capped at US$ 289.2 million by Zurich Financial Services.

Guaranteed Minimum Death Benefit (GMDB) Business

In the first quarter of 2003, as a result of the continued downturn of the international equity markets, Converium Life reported a technical loss of US$ 14.6 million, including paid claims of US$ 3.4 million, and reserve strengthening of US$ 12.5 million for a closed block of GMDB business in order to align the reserves to the expected future benefits payable. In addition to this business, Converium Life had US$ 3.7 million of adverse reserve development on certain US special risk business.

As a result of the recovery of the US stock market in the second quarter of 2003 and the continuing decrease of total guaranteed minimum death benefits, the net amount at risk decreased during the second quarter of 2003; hence the ratio between benefit reserves and net amount at risk at June 30, 2003 improved.

	Three months ended June 30		Six months ended June 30	
(US$ million)	**2003**	**2002**	**2003**	**2002**
Underwriting acquisition costs	183.9	193.3	380.5	347.4
Operating and administration expenses	48.0	40.5	96.9	84.1
Non-life underwriting expense ratio (to premiums earned)	20.3%	25.0%	21.0%	23.4%
Non-life administration expense ratio (to premiums written)	5.3%	5.2%	4.7%	5.0%

Underwriting acquisition costs primarily relate to commissions on treaty and individual risk business. Our underwriting acquisition costs decreased 4.9% for the three months ended June 30, 2003 over the same period in 2002. This decrease primarily resulted from new business production in the Continental European markets which was produced on a direct basis as opposed to through brokers, as well as the replacement of a material contract in our Converium Zurich operations with one that carries significantly lower underwriting acquisition costs. The non-life underwriting expense ratio for the three months ended June 30, 2003 and 2002 was 20.3% and 25.0%, respectively.

Our underwriting acquisition costs increased 9.5% for the six months ended June 30, 2003 over the same period in 2002. This increase is mainly related to the growth in premiums earned, offset by the impacts noted above. The non-life underwriting expense ratio for the six months ended June 30, 2003 and 2002 was 21.0% and 23.4%, respectively.

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Management s discussion and analysis of financial condition and results of operations (continued)

Operating and administration expenses increased 18.5% in the three months ended June 30, 2003 over the same period in 2002. These increases primarily arose from expenditures to support the growth in premium volume and the weakening of the U.S. Dollar. Despite the increase in operating and administration expenses, the non-life administration expense ratio increased marginally to 5.3% for the three months ended June 30, 2003, compared to 5.2% in the same period of 2002. Operating and administration expenses increased 15.2% in the six months ended June 30, 2003 over the same period in 2002, due to the factors noted above. Due to the strength of our premium growth and a strong expense management culture, the non-life administration expense ratio declined to 4.7% for the six months ended June 30, 2003, compared to 5.0% in the same period of 2002.

We fully charge the cost of options to operating expense under the fair value approach of SFAS No. 123, Accounting for Stock-Based Compensation , and recorded compensation expense of US$ 2.4 million and US$ 3.4 million for the three and six months ended June 30, 2003 in connection with Converium s stock option plans.

Investment results

	Three months ended June 30		Six months ended June 30	
(US$ million)	**2003**	**2002**	**2003**	**2002**
Net investment income	66.8	68.3	123.0	133.0
Average annualized net investment income yield (pre-tax)	3.9%	5.0%	3.6%	4.8%
Net realized capital gains (losses)	15.8	61.0	7.5	61.3
Total investment results	82.6	7.3	130.5	71.7
Average annualized total investment income yield (pre-tax)	4.8%	0.5%	3.8%	2.6%
Change in net unrealized gains (losses) (pre-tax)	101.2	4.1	105.0	18.6
Total investment return (pre-tax)	183.8	3.2	235.5	53.1
Average annualized total investment return (pre-tax)	10.6%	0.2%	6.9%	1.9%

Investment results are an important part of our overall profitability. Our net investment income was US$ 66.8 million for the three months ended June 30, 2003, representing a decrease of US$ 1.5 million, or 2.2% as compared to the same period of 2002. Our annualized net investment income yield was 3.9% for the three months ended June 30, 2003 as compared to 5.0% for the same period of 2002. Yields are calculated based on the average of beginning and ending investment balances (including cash and cash equivalents).

Net investment income was US$ 123.0 million for the six months ended June 30, 2003, representing a decrease of US$ 10.0 million, or 7.5% as compared to the same period of 2002. The decrease is primarily driven by sustained lower interest rates worldwide and a reduction in returns on certain bond funds, which declined US$ 5.8 million for the six months ended June 30, 2003 versus the same period in 2002. Our annualized net investment income yield was 3.6% for the six months ended June 30, 2003 as compared to 4.8% for the same period of 2002.

We had net realized capital gains for the three months ended June 30, 2003 of US$ 15.8 million, compared to net realized capital losses of US$ 61.0 million for the same period of 2002. In 2003, we realized capital gains of US$ 16.0 million on sales of fixed income investments in order to reduce the duration of our bond portfolio as trends of declining interest rates continued. In 2002, we realized capital losses of US$ 32.7 million on the restructuring of our North American equity portfolio and US$ 15.8 million on the sale of WorldCom fixed income securities. In the second quarter of 2003, US$ 6.1 million in impairment charges were recorded versus US$ 13.5 million in impairment charges in the second quarter of 2002. This decline is due to the stabilization of global financial markets during the second quarter.

We had net realized capital gains for the six months ended June 30, 2003 of US$ 7.5 million, compared to net realized capital losses of US$ 61.3 million for the same period of 2002. For the six months ended June 30, 2003, US$ 21.9 million in impairment charges were recorded, versus US$ 21.5 million in impairment charges in the same period of 2002. Included in the impairment charges in the six months ended June 30, 2003 are US$ 19.5 million related to our equity securities portfolio and US$ 2.4 million related to our real estate portfolio.

Our impairment policy for fixed income and equity securities requires us to record, as realized capital losses, declines in value that exceed 20% over a period of six months, or in excess of 50% regardless of the period of decline. At management s judgment, we impair additional securities based on prevailing market conditions. To continue to adhere to emerging new asset impairment standards, in the second quarter of 2003, we further reinforced our already strict impairment rules. Now, any declines in value over a period of more than twelve months are recorded as realized capital losses. In the second quarter of 2003, this change resulted in additional impairment charges of US$ 4.6 million.

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Management s discussion and analysis of financial condition and results of operations (continued)

Other

(US$ million)	Three months ended June 30 2003	Three months ended June 30 2002	Six months ended June 30 2003	Six months ended June 30 2002
Other income (loss)		0.5	4.4	3.6
Interest expense	8.4	4.0	17.0	8.0
Income tax expense	18.6	0.7	11.2	10.8

Other income for the three months ended June 30, 2003 was nil as compared to other income of US$ 0.5 million for the same period of 2002. Other loss for the six months ended June 30, 2003 was US$ 4.4 million as compared to other income of US$ 3.6 million for the same period of 2002. Other income (loss) includes interest income on reinsurance deposits, interest expense on funds held under reinsurance contracts, fee income, writeoff of uncollectible balances and results from our investments in private equity funds.

Interest expense for the three and six months ended June 30, 2003 was US$ 8.4 million and US$ 17.0 million, respectively, compared to US$ 4.0 million and US$ 8.0 million for the same periods of 2002. The increase was mainly due to interest expense on our US$ 200.0 million 8.25% guaranteed subordinated notes issued in December 2002.

We had income tax expense of US$ 18.6 million and US$ 11.2 million for the three months and six months ended June 30, 2003, representing increases of US$ 17.9 million and US$ 0.4 million, respectively, compared to the same periods in 2002. Our effective tax rate was 23.9% for the three months and 11.7% for the six months ended June 30, 2003, as compared to 19.4% and 25.5% for the same periods of 2002. The 2003 year-to-date effective tax rate was reduced by a change in expected tax rates in Switzerland in the first quarter.

Financial Condition and Liquidity

Invested Assets

As of June 30, 2003, total invested assets were US$ 6.8 billion compared to US$ 6.1 billion as of December 31, 2002, an increase of US$ 696.8 million, or 11.4%. This increase is mainly due to strong operating cash flow of US$ 572.6 million as well as increases in unrealized gains on investments, and changes in currency translation due to the continued weakening of the US dollar.

Our asset mix, including cash and cash equivalents, consisted of the following at June 30, 2003 and December 31, 2002:

Asset Class	As of June 30, 2003	As of December 31, 2002
Fixed maturity securities (including the Funds Withheld Asset)	81.6%	78.6%
Equity securities*	8.8%	7.0%
Cash and short-term investments	5.9%	10.5%
Real estate and other*	3.7%	3.9%
Total	100.0%	100.0%

* PSP Swiss Property AG is included in Real estate and other with a market value of US$ 68.3 million as of June 30, 2003 and US$ 75.0 million as of December 31, 2002.

As of June 30, 2003, net unrealized gains on investments, net of taxes, totaled US$ 79.5 million, compared to net unrealized losses on investments, net of taxes, of US$ 53.3 million as of December 31, 2002. This net position is primarily comprised of net unrealized gains on fixed income securities and recovery in the capital markets. With the recent realignment in our investment portfolio, the unrealized losses at June 30, 2003 predominantly arise from securities acquired during 2002. We have reviewed the securities that have declined in value and have recorded impairments accordingly.

Our investments are managed by external investment managers, and their performance is measured against benchmarks. The table below presents our investments in the major managed portfolios, as well as the applicable benchmark and benchmark return for the first six months of 2003. The balances at June 30, 2003 are shown in original currencies.

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Management s discussion and analysis of financial condition and results of operations (continued)

		Performance[1]		
(in millions of original currencies, unless noted)	Market value	Benchmark	Portfolio	Delta
Largest portfolios in US$				
Fixed maturities	2,210.5	3.92%[2]	3.81%	0.11%
Mortgage-backed securities	850.5	1.60%[3]	1.77%	+0.17%
Equity securities	400.0	11.78%[4]	11.65%	0.13%
Largest portfolios in Euro				
Fixed maturities	374.4	4.25%[5]	4.15%	0.10%
Equity securities	121.2	2.69%[6]	2.55%	0.14%
Largest portfolios in British pounds				
Fixed maturities	153.0	3.28%[7]	3.19%	0.09%
Equity securities	31.0	3.08%[8]	3.03%	0.05%
Largest portfolio in Swiss francs				
Real estate (direct and indirect)	305.5	n.a	1.91%	n.a.
Largest portfolio in Australian $				
Fixed maturities	105.2	3.11%[9]	3.10%	0.01%

1 Performance is defined as quarterly time-weighted return.
2 SSB USD WGBI 3-5 years Index/SSB World BIG Index ex MBS ex BBB 1-10
3 Lehman Mortgage Index
4 MSCI USA Index, S&P 500
5 SSB Euro World BIG Index ex MBS ex BBB
6 MSCI Euro ex UK
7 FTSE Government All Stock Index
8 MSCI UK
9 UBSWA Composite all