SCOR
Form 20-F
June 29, 2006

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As filed with the Securities and Exchange Commission on June 29, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 20-F

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2005

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to
Commission file number: 001-14518

SCOR
(Exact name of registrant as specified in its charter)

N/A	**The Republic of France**
(Translation of registrant s name into English)	*(Jurisdiction of incorporation or organization)*

1, Avenue du Général de Gaulle, 92800 Puteaux, France
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
American Depositary Shares (as evidenced by American Depositary Receipts), each representing one Ordinary Share	New York Stock Exchange, Inc.
Ordinary Shares, no par value *	New York Stock Exchange, Inc.

* Listed, not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act:
NONE

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
NONE

Indicate the number of outstanding shares of each of the issuer s class of capital or common stock as of the close of the period covered by the annual report:

968,769,070 Ordinary Shares, including 25,340,999 American Depositary Shares (as evidenced by American Depositary Receipts), each representing one Ordinary Share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

x Yes o No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

o Yes x No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligation under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one)

x Large accelerated filer o Accelerated filer o Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow.

o ITEM 17 x ITEM 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

o Yes x No

CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

The information contained in this Annual Report, as well as oral statements that may be made by SCOR or by its officers, directors or employees acting on behalf of SCOR related to such information contain statements that constitute forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, specifically Section 27A of the U.S. Securities Act of 1933, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended. All statements, other than statements of historical facts, are forward-looking statements including, without limitation, statements relating to:

- the implementation of the SCOR Moving Forward plan described under Item 4. Information on the Company ;
- the implementation of strategic initiatives, including the update of information systems;
- changes in premium revenues;
- changes in the balance of lines and classes of business;
- the development of revenues overall and within specific business areas;
- the development of expenses;
- the direction of insurance and reinsurance rates and the demand for reinsurance products and services;
- the market risks associated with interest and exchange rates and equity markets; and
- other statements relating to SCOR s future business development and economic performance.

The words anticipate , believe , expect , estimate , intend , plan , may , will , should and similar expressio of these forward-looking statements although the absence of such words does not necessarily mean that a statement is not forward-looking. Readers are cautioned not to place undue reliance on forward-looking statements because actual events and results may differ materially from the results implied or expected by such forward-looking statements. Many factors may influence SCOR s actual results and cause them to differ materially from the implied or expected results as described in such forward-looking statements, including, without limitation:

- cyclical trends in the insurance and reinsurance sectors;
- the outcome of U.S. legal proceedings after the conclusion of all appeals and the allocation of liability, amount of damages and amount of indemnification ultimately allocated to SCOR and its affiliates related to the World Trade Center litigation at the conclusion of such proceedings;
- the frequency and severity of insured loss events, including natural and man made catastrophes, terrorist attacks and environmental and asbestos claims, as well as mortality and morbidity levels and trends and persistency levels;
- the underwriting results of primary insurers and the accuracy and overall quality of information provided to SCOR by primary insurance companies with which SCOR transacts business, particularly regarding their reserve levels;
- the availability of and terms under which SCOR is able to enter into retrocessional arrangements;
- the ability of reinsurers and members of pools in which SCOR participates to meet their obligations;

increasing levels of competition in France, Europe, North America and other international reinsurance markets;

interest rate levels;

the performance of global debt and equity markets;

ratings downgrades;

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SCOR s financial strength;

SCOR s ability to meet its liquidity requirements;

currency exchange rates, including the euro U.S. dollar exchange rate;

economic trends in general;

changes in laws, regulations and case law;

political, regulatory and industry initiatives;

the run-off of certain of its U.S. business lines, including CRP and SCOR U.S.;

the value of SCOR s intangible assets;

the ability of SCOR to improve its internal control over financial reporting and resolve material weaknesses in its internal control over financial reporting;

the impact of operational risks, including human or systems failures;

the risks identified in Item 3.D Risk Factors of this Annual Report on Form 20-F filed with the U.S. Securities Exchange Commission (the SEC) and SCOR s other filings with, or documents furnished to, the SEC; and

other matters not yet known to SCOR or not currently considered material by SCOR.

All forward-looking statements attributable to SCOR, or persons acting on its behalf, are qualified in their entirety by these cautionary statements. SCOR disclaims any intention or obligation to update and revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless it is required by law. See Item 3.D. Risk Factors for certain risks that may affect the Group s results.

In this Annual Report on Form 20-F, the term the Company refers to SCOR and the terms SCOR , the Group , the SCOR Group , we , us and our refer to the Company together with its consolidated subsidiaries.

As used herein, references to EUR or are to euro and references to dollars , USD or $ are to U.S. dollars. For y convenience, this Annual Report contains translations of certain euro amounts into dollar amounts at the rate of USD 1.18 per EUR 1.00, the noon buying rate in New York for cable transfers in euro as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate) on December 31, 2005, the date of SCOR s most recent balance sheet included in this Annual Report. You should not assume, however, that euros could have been exchanged into dollars at any particular rate or at all. See Item 3.A. Selected Financial Data for certain historical information regarding the Noon Buying Rate.

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. SELECTED FINANCIAL DATA

Currency Translations And Exchange Rates:

The following table sets forth, for the periods indicated, information with respect to the high, low, average and end of period Noon Buying Rates, expressed in U.S. dollars per euro.

Year Ended December 31,	High	Low	Average Rate(1)	End of Period(2)
2001	0.95	0.83	0.89	0.89
2002	1.05	0.86	0.95	1.04
2003	1.26	1.04	1.14	1.26
2004	1.36	1.18	1.25	1.35
2005	1.35	1.17	1.24	1.18
2006 (through June 23)	1.30	1.19	1.23	1.25
January 2006	1.23	1.20	1.21	1.22
February 2006	1.21	1.19	1.19	1.19
March 2006	1.22	1.19	1.20	1.21
April 2006	1.26	1.21	1.23	1.26
May 2006	1.29	1.26	1.28	1.28
June 2006 (through June 23, 2006)	1.30	1.25	1.27	1.25

(1) The average of the Noon Buying Rates on the last business day of each month during the relevant period.

(2) The end of period Noon Buying Rate is the Noon Buying Rate on the last business day of the relevant period.

The Noon Buying Rate on June 23, 2006 was USD 1.25 per EUR 1.00.

SCOR prepares and publishes its financial statements in euros. Because a significant part of the Group s revenues and expenses, as well as its assets and liabilities, are denominated in dollars and other currencies, fluctuations in the exchange rates used to translate these currencies into euros may have a significant impact on SCOR s reported results of operations and net equity from year to year. Fluctuations in the exchange rate between the euro and the dollar will also affect the dollar amounts received by holders of American Depositary Shares, or ADSs, on conversion by the Depositary of dividends paid in euro on the Ordinary Shares underlying the ADSs and may affect the dollar trading prices of the ADSs on the New York Stock Exchange. See Item 3.D. Risk Factors We are exposed to the risk on foreign exchange rates and Item 3.D. Risk Factors The trading price of SCOR s ADSs and dividends paid on SCOR s ADSs may be materially adversely affected by fluctuations in the exchange rate for converting euros into U.S. dollars. See also Item 5.A. Operating Results Exchange Rate Fluctuations for information regarding the effects of currency fluctuations on the Group s results and Item 11. Quantitative and Qualitative Disclosures About Market Risk.

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Selected U.S. GAAP Consolidated Financial Data

The following selected consolidated financial data are derived from the consolidated financial statements of SCOR. The consolidated financial data of SCOR presented below have been prepared in accordance with U.S. Generally Accepted Accounting Principles, or U.S. GAAP. SCOR also publishes consolidated financial statements, not included herein, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, or IFRS-EU, which differ in certain respects from U.S. GAAP.

The euro amounts presented in the table below as at and for the year ended December 31, 2005 have been translated into dollars solely for your convenience at the Noon Buying Rate of USD 1.18 per EUR 1.00 on December 31, 2005, the date of SCOR s most recent balance sheet included in this Annual Report. These translations should not be construed as representations that the euro amounts could actually have been converted into dollars at these rates or at all.

The selected consolidated financial data should be read in conjunction with Item 3.D. Risk Factors , Item 5. Operating and Financial Review and Prospects and SCOR s consolidated financial statements and related notes and other financial information included elsewhere in this Annual Report.

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SELECTED U.S. GAAP CONSOLIDATED FINANCIAL DATA

	As of and for the years ended December 31,					
	2001	2002	2003	2004	2005	2005
	(EUR)	(EUR)	(EUR)	(EUR)	(EUR)	(Translated) (unaudited) (USD)
	(millions, except share and per share amounts)					
Income statement						
Operating revenues	4,000	4,520	3,650	2,509	2,387	2,823
Total revenues	4,010	4,562	3,767	2,551	2,486	2,940
Income (loss) before cumulative effect of change in accounting	(434)	(493)	(512)	243	165	195
Cumulative effect of change in accounting principles, net of income taxes[(1),(2)]	42			4		
Net income (loss)	(392)	(493)	(512)	247	165	195
Net income (loss) per Ordinary Share, basic	(11.54)	(13.03)	(3.76)	0.31	0.18	0.21
Net income (loss) per Ordinary Share, diluted	(11.54)	(13.03)	(3.76)	0.30	0.17	0.20
Balance sheet data (as at end of year)						
Total assets	16,917	16,002	13,605	13,400	13,829	16,354
Shareholders equity	1,267	1,078	356	1,211	1,702	2,013
Convertible debentures, long-term debt and capital leases	510	902	1,039	961	955	1,129
Dividend declared per Ordinary Share	0.30				0.03	0.04
Number of Ordinary Shares, in thousands	41,244	136,545	136,545	819,269	968,769	

(1) A change in accounting principles due to the discount of reserves occurred in 2001. The effect of the change in 2001 was to increase the Property Casualty net income by EUR 62 million before tax and EUR 41 million after tax. If the accounting change was never made, the impact in 2002, 2003, 2004 and 2005 would have been to increase Property Casualty net income by EUR 17 million before tax and EUR 11 million after tax, EUR 3 million before tax and EUR 2 million after tax, EUR 12 million before tax and EUR 8 million after tax, and EUR 9 million before tax and EUR 6 million after tax, respectively.

(2) In 2004, the Group adopted Statement of Position, Accounting and Reporting by Insurance Enterprise for Certain Non-Traditional Long-Duration Contracts and for Separate Accounts . See Note 3.9 to the consolidated financial statements included in Item 18. Financial Statements .

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

You should carefully consider the risks described below in conjunction with the other information and the consolidated financial statements of SCOR and the related notes thereto included elsewhere in this Annual Report before making an investment decision with respect to the Ordinary Shares or ADSs.

The insurance and reinsurance sectors are cyclical, which may impact our results.

The insurance and reinsurance sectors, particularly in the Non Life area are cyclical. Historically, reinsurers have experienced significant fluctuations in operating results due to volatile and sometimes unpredictable developments, many of which are beyond the direct control of the reinsurer, including, notably, competition, frequency or severity of catastrophic events, levels of capacity and general economic conditions. Demand for reinsurance is influenced significantly by underwriting results of primary insurers and prevailing general economic conditions. The supply of reinsurance is related to prevailing prices, the levels of insured losses, levels of sector surplus and utilization of underwriting capacity that, in turn, may fluctuate in response to changes in rates of return on investments being earned in the insurance and reinsurance industries. As the performance of financial markets and reinsurers improves and reinsurance capacity increases, however, ceding companies are more inclined to ask for price reductions in the most profitable lines of business and underwriting quality tends to decline. At the same time, claims may be higher when economic conditions are unfavorable, particularly for products that provide reinsurance coverage for a risk that is related to the financial condition of the company that is being insured. As a result, the reinsurance business has been cyclical historically, characterized by periods of intense price competition due to significant underwriting capacity and periods when shortages of underwriting capacity permit favorable premium levels.

We may therefore experience the effects of such cyclicality and there can be no assurances that changes in premium rates, the frequency and severity of catastrophes or other loss events or other factors affecting the insurance or reinsurance industries will not have a material effect on our revenues, net income, results of operations and financial condition in future periods.

We are exposed to losses from catastrophic events.

Like all reinsurers, our operating results and financial condition have in the past been, and can be expected in the future to be, adversely affected by natural and man-made catastrophes, which may give rise to claims under the Property-Casualty and Life reinsurance coverage we provide. Catastrophes can be caused by a variety of events, including hurricanes, windstorms, earthquakes, hail, severe winter weather conditions, fires and explosions.

In 2004 and 2005, SCOR, like most other reinsurers, although to a lesser degree because of its underwriting policy, was affected by the unusually high frequency of natural catastrophes, particularly the major hurricanes in the United States, Mexico and the Caribbean in 2004 and 2005 and numerous typhoons in Japan in 2004. The Group s most significant exposure to natural catastrophes mainly relates to earthquake risks, particularly in Japan, Taiwan, Canada, Portugal, Israel, Chile, Italy and Turkey, and storms and other weather-related phenomena in Europe, Asia and, to a lesser extent, in the United States.

The frequency and severity of such events, particularly natural catastrophes, are by their nature unpredictable. The inherent unpredictability of these events makes forecasts and risk evaluations uncertain for any given year. As a result, our claims experience may vary significantly from one year to another, which can have a large impact on our profitability and financial situation. In addition, depending on the frequency and nature of the losses, the speed with which claims are made and the terms of the policies affected, we may be required to make large claims payments. We may be forced to fund these obligations by liquidating investments in unfavorable market conditions, or raising funds at unfavorable costs. These factors could have a significant impact on our financial condition.

We have managed our exposure to catastrophic losses through selective underwriting practices, particularly by limiting our exposure to certain events which are now frequent in the Gulf of Mexico, by monitoring risk accumulations on a geographic basis, and by retroceding a portion of those risks to other reinsurers (retrocessionaires) selectively chosen based on their solid financial solvency margin. There can be no assurance, however, that these underwriting practices, including the management of risks on a geographical basis, or retrocessions, will be sufficient to protect us against material catastrophic losses, or that retrocession will continue to be available in the future at commercially reasonable rates. Although we attempt to limit our exposure to acceptable levels, it is possible that multiple catastrophic events could have a material adverse effect on our assets, results of operations and financial position. To obtain a better understanding of our possible exposure, we strengthened the modeling of our exposure to natural catastrophes by adopting the Eqecat model in 2005.

We may be subject to losses due to our exposure to risks related to terrorist acts.

In the context of our business, we may be exposed to claims arising from the consequences of terrorist acts. These risks, the potential significance of which can be illustrated by the September 11, 2001 attack in the United States, can affect both individuals and property. The September 11, 2001 attack on the World Trade Center (WTC) initially resulted in the Group establishing reserves as a reinsurer on the basis that such attack was one single

occurrence and not two occurrences under the terms of the applicable insurance coverage issued to the lessors of the WTC and others. On December 6, 2004, a jury determined that the attack on the WTC made SCOR s ceding company liable for two distinct occurrences on the basis of the policy wording it had issued. However, the jury verdict did not determine the amount of indemnification due from the insurers. A separate court-supervised appraisal procedure is underway in order to determine the amount of indemnification due by the insurers resulting from the destruction of the WTC towers. Pending the final determination of the appraisal process, which is expected in late 2006 or early 2007, the Group felt that it would be prudent to increase its reserves based on the replacement value estimated by the experts appointed by insurers including our ceding company. The gross amount of reserves was accordingly increased from USD 355 million as of December 31, 2003 to USD 422 million as of December 31, 2004, and net of retrocession from USD 167.5 million to USD 193.5 million. Those amounts did not change significantly in 2005. The jury verdict that the attack on the WTC constituted two occurrences and not one single occurrence under the terms of our ceding company s insurance policy has been appealed in the U.S. Court of Appeals for the Second Circuit and a decision is expected in 2006. See Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings for a discussion of the pending World Trade Center litigation.

After the events of September 11, 2001, we adopted underwriting rules designed to exclude or limit our exposure to risks related to terrorism in our reinsurance contracts, in particular in those countries and for the risks that are the most exposed to terrorism. Contracts entered into prior to the implementation of these measures, however, remain unchanged until their expiry date or renewal. In addition, it has not always been possible to implement these measures, particularly in our principal markets. For example, certain European countries do not permit excluding terrorist risks from insurance policies. Due to these regulatory constraints, we have actively supported the creation of insurance and reinsurance pools that involve insurance and reinsurance companies as well as public authorities in order to spread the risks of terrorist activity among the members of these pools. We participate in pools created in certain countries such as France (GAREAT), Germany (Extremus) and the Netherlands (NHT), which allows us to have limited and known commitments. Although the U.S. Congress passed the Terrorism Risk Insurance Act (TRIA) in November 2002 and extended it in 2005, which established a federal assistance program, initially through the end of 2005 to help the commercial property and casualty insurance industry cover claims related to future terrorism-related losses and required that coverage for terrorist acts be offered by insurers, the U.S. insurance market is still subject to significant exposures in respect of terrorism-related losses. SCOR has significantly reduced its exposure to the U.S. market by declining to underwrite reinsurance agreements with large national insurers. In addition to the commitments described above, the Group does reinsure, from time to time, terrorist risks, usually limiting by event and by period as well as geographically the coverage that ceding companies receive for damage caused by terrorist acts.

As a result, additional terrorist acts, whether in the U.S. or elsewhere, could cause us significant claims payments and, as a result, could have a significant effect on our operating income, results of operations, financial condition and future profitability.

We could be subject to losses as a result of our exposure to environmental and asbestos-related risks.

Like other reinsurance companies, we are exposed to environmental and asbestos-related risks, particularly in the United States. Insurers are required under their contracts with us to notify us of any claims or potential claims that they are aware of. However, we often receive notices from insurers of potential claims related to environmental and asbestos risks that are not precise enough, as the primary insurer may not have fully evaluated the risk at the time it notifies us of the claim. Due to the imprecise nature of these claims, the uncertainty surrounding the extent of coverage under insurance policies and whether or not particular claims are subject to an aggregate limit, the number of occurrences involved in particular claims and new theories of insured and insurer liability, we can, like other reinsurers, only give a very approximate estimate of our potential exposure to environmental and asbestos claims that may or may not have been reported. In 2005, we increased the level of reserves for asbestos-related risks by EUR 13 million and reduced our reserves for environmental risks by EUR 15 million following commutations of old contracts issued in Europe. We believe our reserves at December 31, 2005, are sufficient to cover our estimated liabilities relating to environmental and asbestos claims and correspond to approximately eleven years of payments.

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Nonetheless, due to the changing legal and regulatory environment, including changes in tort law, the evaluation of the final cost of our exposure to asbestos-related and environmental claims may be increasing in uncertain proportions. Diverse factors could increase our exposure to the consequences of asbestos-related risks, such as an increase in the number of claims filed or in the number of persons likely to be covered by these claims. Evaluation of these risks is all the more difficult as claims related to asbestos and environmental pollution are often subject to payments over long periods of time. In these circumstances, it is difficult to estimate the reserves that should be recorded for these risks. We therefore rely on market assessments of survival ratios for reserves although data currently available relate to old underwriting years in the U.S. market to which we are not significantly exposed.

As a result of these imprecisions and uncertainties, we cannot exclude the possibility that we could be exposed to significant additional environmental and asbestos claims, which could have an adverse effect on our operating income, results of operations, financial condition and future profitability.

If our reserves prove to be inadequate, our net income, results of operations and financial condition may be adversely affected.

We are required to maintain reserves to cover our estimated ultimate liability for Property-Casualty losses and loss adjustment expenses with respect to reported and unreported claims incurred as of the end of each accounting period, net of estimated related salvage and subrogation claims. Our reserves are established both on the basis of information that we receive from insurance companies, particularly their own reserving levels, as well as on the basis of our knowledge of the risks, the studies we conduct and the trends we observe on a regular basis. For our Life business, we are required to maintain reserves for future policy benefits that take into account expected investment yields and mortality, morbidity, lapse rate and other assumptions. In our Non Life business, our reserves and policy pricing are based on a number of assumptions and on information provided by third parties, which, if proven to be incorrect, could have an adverse effect on our results of operations. Even though we are entitled to audit the companies with which we do business, and despite our frequent contacts with these companies, our reserving policy remains dependent on the risk evaluations of these companies.

The inherent uncertainties in estimating reserves are compounded for reinsurers by the significant periods of time that often elapse between the occurrence of an insured loss, the reporting of the loss to the primary insurer and ultimately to the reinsurer, the primary insurer s payment of that loss and subsequent indemnification by the reinsurer, as well as by differing reserving practices among ceding companies and changes in jurisprudence, particularly in the United States.

Furthermore, we have significant exposures to a number of business lines in respect of which accurate reserving is known to be particularly difficult because of the long-tail nature of these businesses, including workers compensation, liability insurance, and environmental and asbestos-related claims. Our reserves for these lines of business represent a significant portion of our technical reserves, although the proportion has been decreasing as we have increased in our subscriptions the proportion of our Property business relative to our Casualty and liability business. In relation to such claims, it has in the past been necessary to revise our estimated potential loss exposure and, therefore, the related loss reserves. Changes in law, evolving judicial interpretations and theories as well as developments in class action litigation, particularly in the United States, add to the uncertainties inherent to claims of this nature.

We annually review the methods for establishing reserves and the amount of our reserves and perform, if necessary, audits of our portfolios. To the extent that our reserves prove to be insufficient, after taking into account available retrocessional coverage, we increase our reserves and incur a charge to earnings, which can have a material adverse effect on our consolidated net income and financial condition. We strengthened our reserves on several occasions in 2002 and 2003 following internal and external actuarial reviews. The most recent reserves strengthening occurred at September 30, 2003, when the Group increased its loss reserves by EUR 297 million, EUR 290 million of which was related to adverse trends in loss experience in the United States with respect to business underwritten by SCOR U.S. and CRP over the period 1997-2001. These additional reserves mainly concern lines of business which have now been put in run-off, such as buffer layers and program business, or which have been significantly reduced such as workers compensation. If we are required to increase our reserves in the future, it could materially affect our results and our financial position.

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

Our results may be affected by the inability of our reinsurers (retrocessionaires) or members of pools in which we participate to meet their obligations and the availability of retrocessional reinsurance on commercially acceptable terms.

We transfer a part of our exposure to certain risks to other reinsurers through retrocession arrangements. Under these arrangements, other reinsurers assume a portion of our losses and expenses associated with losses in exchange for a portion of policy premiums. When we obtain retrocession, we are still liable for those transferred risks if the reinsurer cannot meet its obligations. Therefore, the inability of our reinsurers to meet their financial obligations could materially affect our operating results and financial condition. We also assume risk by writing business on a funds withheld basis. Thus, the inability of our reinsurers (retrocessionaires) to meet their financial commitments could negatively affect our operating result and our financial position. We conduct periodic reviews of the financial condition of our reinsurers. Our reinsurers may become financially unsound by the time they are called upon to pay amounts due, which may not occur for many years. For accounts receivable for which a probable loss is expected we book an allowance in our accounts. Furthermore, since our reinsurers do business in the same sectors as we do, events that have an adverse effect on the sector could have the same effect on all of the participants in the reinsurance sector. To reduce these risks, we maintain a prudent policy for the selection of our retrocessionnaires. Moreover, a portion of the accounts receivable due from our retrocessionaires is guaranteed by letters of credit or deposits of our retrocessionnaires.

We participate in various pools of insurers and reinsurers in order to spread certain risks, in particular terrorism risks, among the members of the pool. In case of total default of one of the members of a pool, we could be required to assume part of the liabilities and obligations of the member in default, which could affect our financial condition.

We operate in a highly competitive industry.

The reinsurance business is highly competitive. Our position in the reinsurance market is based on many factors, such as perceived financial strength of the reinsurer by ratings agencies, underwriting expertise, reputation and experience in the lines written, the jurisdictions in which the reinsurer is licensed or otherwise authorized to do business, premiums charged, as well as other terms and conditions of the reinsurance offered, services offered and speed of claims payment. We compete for business in the French, European, United States, Asian and other international reinsurance markets with numerous international and domestic reinsurance companies, some of which have a larger market share, greater financial resources and higher ratings from financial ratings agencies than we do.

When the supply of reinsurance is greater than the demand from ceding companies, our competitors, some of whom hold higher ratings than us, may be better positioned to enter into new contracts and to gain market share at our expense. From 2003 to mid-2005, our rating had a significant impact on our competitive position. When S&P upgraded our rating on August 1, 2005, it improved our competitive position in our principal markets. However, the fact that we have not obtained an A rating from the AM Best rating agency is currently adversely affecting our operations and our competitive position in the United States, primarily in Life Reinsurance, although we cannot quantify the impact. See Item 3.D. Risk factors Ratings are important to our business .

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We are exposed to the impact of changes in interest rates and developments in the debt and equity markets.

Investment returns are an important part of our overall profitability and changes in interest rates and fluctuations in the debt and equity markets could have a material adverse impact on our profitability, cash flows, results of operations and financial condition. Interest rate fluctuations could have consequences on our return from fixed-maturity securities, as well as the market values of, and corresponding levels of capital gains or losses on the fixed-maturity securities in our investment portfolio. Interest rates and the debt and equity markets are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control.

During periods of declining interest rates, our annuity and other life insurance products, including the fixed annuities of SCOR Life U.S. Re, may be relatively more attractive to consumers, resulting in increased premium payments on products with flexible premium features, and a higher percentage of insurance policies remaining in force from year to year. During such a period, our investment earnings may be lower because the interest earnings on our fixed-maturity investments likely will have declined in parallel with market interest rates.

In addition, our fixed-maturity investments are more likely to be prepaid or redeemed as borrowers seek to borrow at lower interest rates. Consequently, we may be required to reinvest the proceeds in securities bearing lower interest rates. Accordingly, during periods of declining interest rates, our profitability may suffer as a result of the decrease in the spread between interest rates credited to policyholders and returns on our investment portfolio.

Conversely, an increase in interest rates, as well as developments in the capital markets, could also lead to unanticipated changes in the pattern of surrender and withdrawal of our fixed annuity and other Life reinsurance products, including the fixed annuities of SCOR Life U.S. Re. These would result in cash outflows that might require the sale of assets at a time when the investment portfolio is negatively affected by increases in interest rates, resulting in losses.

We are also exposed to credit risks in the debt securities markets since the financial difficulties of certain issuers and the deterioration of their credit quality could make payment of their obligations uncertain and lead to lower market prices for their fixed-maturity securities, which would affect the value of our investment portfolio.

Interest rate risk is managed within the Group primarily at two levels. At the level of each entity, we take into account the asset-liabilities matching policy and the rules of congruence, and local regulatory, accounting and tax constraints. At the central level, we conduct operations to consolidate all portfolios in order to identify the overall risk and return level.

Accordingly, the Group has analytic tools that guide both its strategic allocation and local distribution of assets.

The sensitivity to changes in interest rates is analyzed on a monthly basis. The Group analyzes the impact of a major change in interest rates on all the portfolios and at the global level. In such a case, the Group identifies the unrealized capital loss that would result from a rise in interest rates and then decides whether a hedging policy should be implemented. We measure the instantaneous unrealized loss due to a uniform increase of 100 basis points in rates or in the case of a distortion of the structures by interest rate terms. The primary risk measurement used is sensitivity or duration. An analysis of the impact on the portfolio may lead to decisions for reallocation or hedging.

Interest rate risk is monitored continuously by the Group. Because of our primarily medium-term investment activity that is tied to the duration of liabilities, portfolio rotation is moderate. Thus, average duration at the Group level is relatively stable, which allows for rapid risk assessment.

For maturities and interest rates on financial assets and liabilities, and for an analysis of interest rate sensitivity, see Note 4 to the consolidated financial statements included in Item 18. Financial Statements and Item 11. Quantitative and Qualitative Disclosures About Market Risk .

We face risks related to our equity-based investments.

We are exposed to equity price risk. Stocks of publicly traded companies represented approximately 9% of our investments as of December 31, 2005. The stock markets posted overall gains in 2005, generating capital gains on our equity investments. Conversely, a general and sustained decline in the equity markets would result in a depreciation of our equity portfolio. Such depreciation could affect our operating results and financial condition.

Stock investments represent both traditional and strategic assets for the Group. The goal is to develop and manage a quality and diversified portfolio of stocks that will appreciate over the medium term (generally greater than 2 years). We also seek stocks that offer high dividend pay-outs. Thus, the valuation methods we use are mainly based on fundamental criteria.

Our exposure to the stock market results both from direct stock purchases and from purchases of shares in mutual funds.

Because stocks are more volatile than bonds, this asset class is continually tracked. All stock positions (directly held or held in mutual funds) are aggregated and valued on a daily basis. This approach allows us to monitor changes in the portfolio and to identify the investments with higher than average volatility as soon as possible through use of alert signals. It also facilitates portfolio arbitrage or reallocation decisions.

The stock risk is controlled and measured. It is controlled at the level of the Group s exposure, which is decided by management and regularly reviewed by the Investment Committee (generally once a month). It is also controlled by defining maximum exposures by stock or by mutual fund, which is reviewed on a regular basis (the exposure in large cap stocks will generally be greater than exposure in mid-cap stocks). The control ratios on mutual funds are also reviewed regularly.

To measure the risk, a stock beta of 1 is generally used. This assumption consists of considering that the whole portfolio varies homogeneously and with the same magnitude as the stock market, which is true on average. Therefore, the Group has a daily measurement of the change in the unrealized value of the stock portfolio for an instantaneous change of plus or minus 10% in the stock market.

Ratings are important to our business.

Our ratings are reviewed periodically. Over the course of 2003, our ratings from all the major rating agencies were revised downwards on several occasions and put on watch, particularly after we announced we would be increasing our reserves and announced the amount of our loss for the third quarter of 2003. Although S&P raised our rating from BBB+ to A- on August 1, 2005, we have not yet received an A rating from AM Best, which affects our competitiveness, primarily in the United States.

Our Life reinsurance business and large facultative and direct underwriting businesses are particularly sensitive to the way our clients and ceding companies perceive our financial strength as well as to our ratings. Our rating in 2004 made it difficult to renew certain contracts and certain treaties with existing clients and to obtain new clients, particularly in the Life and large Facultatives business and in our direct underwriting segments. In addition, these ratings also led to a reduction by certain ceding companies of their shares in treaties or contracts in 2004. Finally, some of our reinsurance treaties contain termination clauses triggered by ratings.

The timing of any changes to our credit ratings is also very important to our business since contracts or treaties in our Life and large Facultives businesses are renewed at various times throughout the year. In the United States, our contracts and treaties are generally renewed on January 1 and July 1. If our rating from AM Best does not improve before these renewal dates, it could have an adverse effect on our revenues in 2006 and 2007.

In addition, a part of our business is conducted with U.S. ceding companies for whom state insurance regulations and market practice require that we obtain letters of credit from banks in order to maintain reinsurance contracts. If we are unable to honor our financial commitments under our outstanding credit facilities or if we suffer any ratings downgrade, our financial situation and results could be significantly affected.

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A significant portion of our treaties contain provisions relating to financial strength, which could have an adverse effect on our financial condition.

Some of our reinsurance treaties, in particular in the Scandinavian countries, the United Kingdom and the United States, contain triggers relating to financial strength which entitle our cedents to terminate the relevant treaty upon the occurrence of specified events of default, including a ratings downgrade, our net assets falling below specified thresholds or our carrying out a reduction in share capital. Any such events could allow some of our cedents to terminate their contractual undertakings, which would have a material adverse, but unquantifiable effect on our financial condition.

In addition, our main credit facilities contain financial undertakings and provisions with respect to our financial position, the breach of which could constitute an event of default and cause a suspension in the use of these credit facilities and prevent us from obtaining new credit facilities, which could, in certain circumstances, have an adverse effect on our financial condition.

We face a number of significant liquidity requirements in the short to medium-term.

The main sources of revenue from our reinsurance operations are premiums, revenues from investing activities, and realized capital gains. The bulk of these funds are used to pay out claims and related expenses, together with other operating costs. Our operations generate cash flows due to the fact that most premiums are received prior to the date at which claims must be paid out. Historically, these positive operating cash flows, together with the portion of the investment portfolio held directly in cash or highly liquid securities, have always allowed us to meet the cash demands entailed by our operating activities.

In 2002, we issued EUR 200 million of unsubordinated notes repayable on June 21, 2007.

In June 2004, we issued EUR 200 million of OCEANE bonds at par value, which are bonds convertible or exchangeable for new or existing shares. The OCEANE bonds will be fully redeemed in 2010. We used the proceeds from the OCEANE bond issuance, together with available cash, to repay our 1999 OCEANE bonds that matured on January 1, 2005 for an aggregate amount of approximately EUR 235 million.

Despite the level of cash generated by SCOR s ordinary activities, we may be required to seek full or partial external debt or equity financing in order to meet some or all of the foregoing payments. The amount of any required external financing will depend in the first place on the Group s available cash. Our decision to withdraw from some business lines has significantly reduced our premium income, which may further affect our cash flow. In addition, a significant portion of our assets in life reinsurance are collateralized for the purpose of guaranteeing either letters of credit obtained from banks for the purpose of writing reinsurance contracts with ceding companies, or payment of loss claims made by ceding companies. These liabilities amount to EUR 2,080 million and restrict our capacity to increase cash by means of asset disposals. The credit agreements were renewed in 2005. Furthermore, cash available in Group subsidiaries may not be transferable to the Company, subject to local regulations and because of these subsidiari