



ANNUAL REPORT  
**2009**



**PROTECTOR**  
forsikring

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# HIGHLIGHTS 2009

In 2009, total premiums amounted to NOK 871.4 million compared to NOK 729 million in 2008, an increase of 20 %.

Within the commercial and public lines of business, the premium growth was 29 %. The premium volume within change of ownership insurance was about unchanged relatively to 2008.

The operating profit amounted to NOK 258.8 million compared to NOK 9.4 million in 2008.

The combined ratio was 96.5 %. Average combined ratio historical to date was 92 %.

Protector enters 2010 with a strengthened market position, and the company's competitive power has increased due to low costs and a strengthened financial position.

The Board proposes a dividend of NOK 1,25 per share for the fiscal year 2009.





# THIS IS PROTECTOR

Protector started its business and issued the first insurances in January 2004, and has experienced a rapid growth. The company is highly focused on risk selection and market adapting. In May 2007, Protector was listed on the Oslo Stock Exchange.

A good basis for further growth is established through a "scalable business model". The company will achieve growth without any significant accrual of costs due to the fundamental development of competence and effective systems.

#### VISION AND BUSINESS CONCEPT

Protector will be the challenger to the established insurance companies. This position will be achieved through unique relations, good decision making and cost effective solutions.

#### Business Goals and Strategies

Protector has set goals for further profitable growth in the years ahead. Many of the basic investments are already made, and growth in premiums will contribute to a continued reduced cost ratio.

The company's ambition is to be:

- › Top 3 in Protector's defined segments
- › Cost leader
- › Preferred by the brokers

The company's long-term financial objectives are:

- › Growth-rate gross written premium: 10 %
- › Combined ratio for own account: 92 %
- › Return on solvency capital: 20 %

#### DISTRIBUTION STRATEGY

Protector has a distinct distribution strategy. All distribution is done through intermediaries. The commercial and public sector business is sold via insurance brokers. The same strategy applies for the affinity programs. Change of ownership insurance is sold via selected real estate agents.

#### MARKET STRATEGY

Protector operates in non-marine insurance. The company has clearly defined market segments:



WHAT MATTERS IS NOT THE SIZE OF  
THE DOG IN THE FIGHT, BUT THE SIZE  
OF THE FIGHT IN THE DOG.

## COMMERCIAL LINES OF BUSINESS

Protector's segment consists of companies with annual insurance premiums above NOK 100.000. Most of the clients have an annual insurance premium below NOK 1.000.000, but Protector is also targeting larger companies with annual written premiums between NOK 10 – 15 million. In the beginning of 2010, the customer list included more than 1 100 companies.

## PUBLIC LINES OF BUSINESS

Protector is established as one of the three largest actors in the municipality sector in Norway. In the beginning of 2010, 164 municipalities were included on the customer list. The customer relationships consist of both complete and single product coverage.

## CHANGE OF OWNERSHIP INSURANCE

Protector's change of ownership insurance covers the seller's responsibility for material defects in the estate according to the sale of property law ("Avhendingsloven"). Protector is the market-leader within change of ownership insurance with just above 50 % market share. Protector has developed an effective value chain in change of ownership insurance, and has through the market share a critical mass to continue as a leading player in the years ahead.

## STRATEGY FOR CLAIMS HANDLING

Claims handling is the moment of truth for insurance companies. Protector has decided to have in-house claims handling. Substantial competence has been developed on this field. The change of ownership department of claims handling counts 28 full time employees at the beginning of 2010. In addition, 10 employees work in the claims handling department for the commercial and public lines of business.

## IT-STRATEGY

Protector has a strategy of in-house development of IT solutions. Hence, the company's employees have developed the company's systems for administration of insurance agreements and claims handling. The systems have been developed with standardized tools and are accessible through web-based solutions. This facilitates the distribution of data and functions to partners and clients.

## PERFORMANCE BASED CULTURE

Protector's organization is based on highly qualified and experienced employees, which counted 100 people in the beginning of 2010. In addition to the development of claims handling, large resources have been invested to increase the capacity in the areas of underwriting, analysis, sales and service.

Clearly defined goals have been established for all employees, and these goals are linked to performance contracts. On all levels of the organization, a structure has been created for regular employee appraisals. Protector has defined four core values, which are part of the criteria on which employees are assessed in this process: Trustworthy, Accommodative, Brave and Enthusiastic.

## LEADERSHIP DEVELOPMENT

Protector has started a leadership development program for the company's management and key personnel with management responsibility. The objective of the program is to develop a congruent leadership in Protector. This involves understanding the company's basic core-value based philosophy for leadership, both from the individual and the organization. The organization's vigor and ability to realize the company's objectives will be strengthened by facilitating people's opportunity to be aware of and explore their own basic core values and attitude

# KEY FIGURES

[1.000 NOK]	2009	2008	2007
<b>Gross premiums written</b>	871 374	728 997	664 941
Gross premiums earned	843 091	720 491	649 635
Gross claims incurred	(649 177)	(549 069)	(533 555)
Premiums earned for own account	842 646	592 370	375 778
Claims incurred for own account	(694 738)	(477 063)	(268 807)
Net commission income	21 022	32 727	47 125
Operating expenses	(139 665)	(117 921)	(101 070)
Other income/costs	5 126	7 537	6 926
Net financial income	224 426	(28 217)	40 152
<b>Operating profit before security provision</b>	258 817	9 433	100 104
Change in security provision	(61 663)	(54 828)	(51 891)
Profit before tax	197 155	(45 395)	48 213
Profit after tax	193 363	(47 946)	48 172
Gross claims ratio	(1) 77,0 %	76,2 %	82,1 %
Gross cost ratio	(2) 17,6 %	18,0 %	17,6 %
Gross combined ratio	(3) 94,6 %	94,2 %	99,3 %
Claims ratio for own account	(4) 82,4 %	80,5 %	71,5 %
Cost ratio for own account	(5) 14,1 %	14,4 %	14,4 %
<b>Combined ratio for own account</b>	(6) 96,5 %	94,9 %	85,9 %
Retention rate	(7) 99,9 %	82,2 %	57,8 %
Solvency capital	(8) 777 303	569 124	665 497
Solvency margin	(9) 88 %	91 %	167 %
Capital adequacy ratio (risk weighted)	(10) 28 %	35 %	121 %
Operating profit before security provision etc per share	(11) 3,08	0,10	1,06
Net profit after tax per share	(12) 2,30	(0,51)	0,51

(1) Gross claims incurred in % of gross premiums earned

(2) Gross operating expenses in % of gross premiums earned

(3) Gross claims ratio + gross cost ratio

(4) Claims incurred for own account in % of premiums earned for own account

(5) Total operating expenses for own account in % of premiums earned for own account

(6) Claims ratio for own account + cost ratio for own account

(7) Premiums earned for own account in % of gross premiums earned

(8) Equity + security provision

(9) Solvency capital in % of premiums written for own account

(10) Net primary capital in % of risk weighted assets

(11) Operating profit before security provision divided by weighted number of shares

(12) Net profit after tax divided by weighted number of shares



DITLEV DE VIBE VANAY (43)

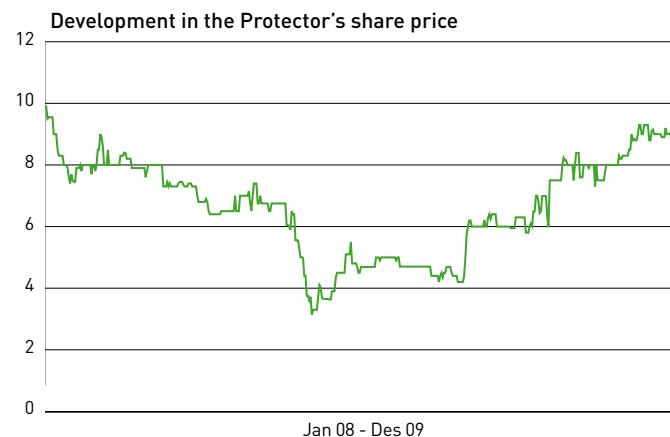
Chief Financial Officer. Mr Vanay holds an MSc in Economics and Business Administration from the Norwegian School of Management. He has more than 10 years experience from the insurance and IT sectors, amongst others finance and business controlling in Storebrand, If and Tinde.



# SHAREHOLDER INFORMATION

## THE PROTECTOR SHARE

In 2009, Protector's share price increased by 103 % excluding dividends and 110 % including dividends. The increase in the Oslo Benchmark Index was 64.8 % in the same period. In 2008, Protector's share price performance was affected by the financial crisis. In 2008, the price of the Protector share fell by 52.5 %, while the Oslo Benchmark Index fell by 54.1%.



The Protector share had an average daily turnover at Oslo Stock Exchange, excluding trade with own shares, of 60,355 shares in 2009, relative to 53,105 shares in 2008. At the end of 2009, the Protector share was traded at NOK 9.50. The market value of total outstanding shares was NOK 818 million per 31.12.2009

## DIVIDEND POLICY

Protector's shareholders shall over time achieve competitive returns on their investment through a combination of cash dividends and an increase in the share price.

The current dividend policy states that the dividend over time shall amount to 5 – 15 % of the solvency capital. When the dividend is determined for a given year, it will be on the basis of the company's results, required capital including satisfactory buffers, and necessary flexibility in terms of the company's growth and expansion. Any surplus capital following dividend payment may benefit the shareholders in terms of share buy-back programs.

Protector's board normally proposes a dividend per share in connection with the publication of Protector's preliminary annual results in February. The General Meeting then considers the proposition in April or May, and the approved dividend payout to shareholders takes place in April or May. For shareholders not domiciled in Norway, tax may be withheld from dividend payments in accordance with applicable regulations.

## SHARE BUY-BACK

In 2009, Protector has in addition to the dividend payment of NOK 0.35 per share, bought back own

shares. During 2009, Protector bought a total of 3,349,920 shares in Protector Forsikring ASA, corresponding to 3.89 % of the total outstanding shares, at an average price of NOK 6 per share. In 2008, Protector bought a total of 14,762,900 shares to an average price of NOK 7.23 per share.

#### SHAREHOLDERS AND VOTING RIGHTS

The company has issued a total of 86,155,605 shares and there is only one class of shares with equal rights for all shareholders. A list of Protector's largest shareholders is provided in note 10 on page 35 in this report.

29.12.2009	Extraordinary general meeting held
08.12.2009	Notice of extraordinary general meeting
05.11.2009	Financial Calendar - Protector Forsikring ASA
05.11.2009	Results Q3 2009 - Strong premium growth, a good technical result and a strong operating profit
29.10.2009	Presentation of Results for Q3 2009
22.10.2009	Notification of trade
07.09.2009	Flagging
25.08.2009	PROTCT - Results H1 2009 - Strong premium growth and strong operating profit
19.08.2009	Presentation of Q2 2009
18.06.2009	Change in financial calendar
17.06.2009	Protector Forsikring ASA reports possible insurance fraud to Økokrim
13.06.2009	Share buy back
03.06.2009	Fire at the Halsa harvesting plant
29.05.2009	Share buy back
27.05.2009	Share buy back
13.05.2009	Share buy back
07.05.2009	Results Q1 2009 – Strong growth
20.04.2009	Notification of trade
16.04.2009	Protector Forsikring ASA - Ex dividend NOK 0,35 today
15.04.2009	Annual general meeting held
01.04.2009	Annual overview 2008
31.03.2009	Notice of Annual General Meeting
19.03.2009	Protector Forsikring ASA - Proposed dividend
26.02.2009	Interim results Q4 2008 and preliminary annual results 2008
04.02.2009	Protector Forsikring ASA terminates agreement to acquire NEMI Forsikring ASA
26.01.2009	Continued growth within the commercial sector
22.01.2009	Extended announcement in connection with Protector Forsikring ASA's agreement to acquire all shares in NEMI Forsikring ASA
20.01.2009	Protector Forsikring ASA has entered into an agreement regarding the acquisition of the shares in NEMI Forsikring ASA

#### COMPANY ANNOUNCEMENTS PUBLISHED IN 2009

#### ANNUAL GENERAL MEETING

Protector Forsikring ASA holds the Annual General Meeting in the company's new offices in Filipstad Brygge 1, Oslo, on Wednesday 21 April 2010 at 4.00 pm. The notice is sent to all shareholders and to the Oslo Stock Exchange. The notice of the Annual General Meeting is also published

#### FINANCIAL CALENDAR 2010

21 APRIL	Annual General Meeting
29 APRIL	Q1 results
16 JULY	Q2 results
28 OCTOBER	Q3 results

# STRONG GROWTH AND VERY GOOD RESULTS

## 2009 – A VERY STRONG FINANCIAL YEAR

Following last year's negative 28 mill return on investments, we have now regained our losses – and more so. The years 2008 and 2009 combined show an average annual return on investments of 7.2 %. As expected, we have seen stability or growth in the markets we operate in. This involves both the commercial sector, the public sector and the real-estate market.

At the beginning of 2010, the market situation has developed towards slightly harder competition. This trend is particularly present in the public sector, with a substantial decrease in rate levels. The situation in the commercial sector is different, giving room for increased market share without sacrificing profitability.

Our market share in the non-marine brokered market is now approximately 15 %. Going into the year of 2010, we are experiencing a strong start, expecting further growth and increased market share in 2010. Our volume objective in 2010 is to exceed one billion kroner – and we have started to look for "the next one".

## OUR RESULT IN 2009 IS CHARACTERIZED BY 4 HIGHLIGHTS;

- › a very strong 20 % growth in GWP driven by 29 % growth in the commercial/public sector and a stable volume in change of ownership insurance
- › a strong return on investments of 224 million kroner, driven by a 156 million kroner return on stocks and good return on the bond portfolios
- › an acceptable combined Ratio at 96.5 % with a stronger underlying trend
- › a further decrease in cost-ratio, which strengthens our competitiveness

Our position in the **COMMERCIAL SECTOR** is strengthened with the beautiful 51 % growth rate. Simultaneously with this growth, we are experiencing profitability in the sector. The situation is tougher in the public sector, with a substantial decrease in rates and a slight decrease in premium volume. These two sectors combined have 29 % growth and 603 million kroner in revenue. Our scalable business model has lead to cost-leadership in this segment in Norway today. Our cost-ratio is well below 13 % and on a decreasing curve. We have had very good access to tenders from the large and medium sized insurance brokers this year, and despite tough competition, we have been able to win a few larger clients in 2009. Our client-list includes approximately 1,110 large/medium sized clients in the commercial sector and 164 municipalities.

In addition, we have 8-10 grouped insurance programmes which consist of different collections of small companies in a common scheme.

A stable and competent team of employees is on board internally. Each of us wakes up every day to serve our clients and broker relations in the best possible matter.

We strive to live by our motto this year as well;

- › easy to do business with
- › commercially attractive
- › trustworthy

Entering 2010, the trend is good. We are hoping for a new 15 % growth, lower costs and a slightly better technical result following the decrease in costs.

Our market share within the segment for **CHANGE OF OWNERSHIP INSURANCE** has had a small increase to right above 50 %. The premium volume is stabilized at approximately 265 million kroner, but the trend going into 2010 is stronger. In 2009, market surveys again show that our clients, in particular those who are confronted with a claim, are unusually satisfied with our quality. On a scale from 0-100, our score is at the exceptionally high 81. Similar surveys with our partners in the real-estate broker industry are also scored at a very high level. We give our greatest appreciation to the feedback from the market and will take on the new year with a lot of energy and enthusiasm. We have taken a new step towards building credibility and trust on all fields within claims handling. Our perception is that counterparts and partners experience constructiveness and professionalism when they meet us. Together with the high and stable number of claims at approximately 4,000 annually, we experience a very high number of lawsuits – 230 in 2009. We continue to achieve good results in court with 44-26-29, respectively for win, draws and losses. Also within change of ownership insurance, our growth objectives are aggressive.

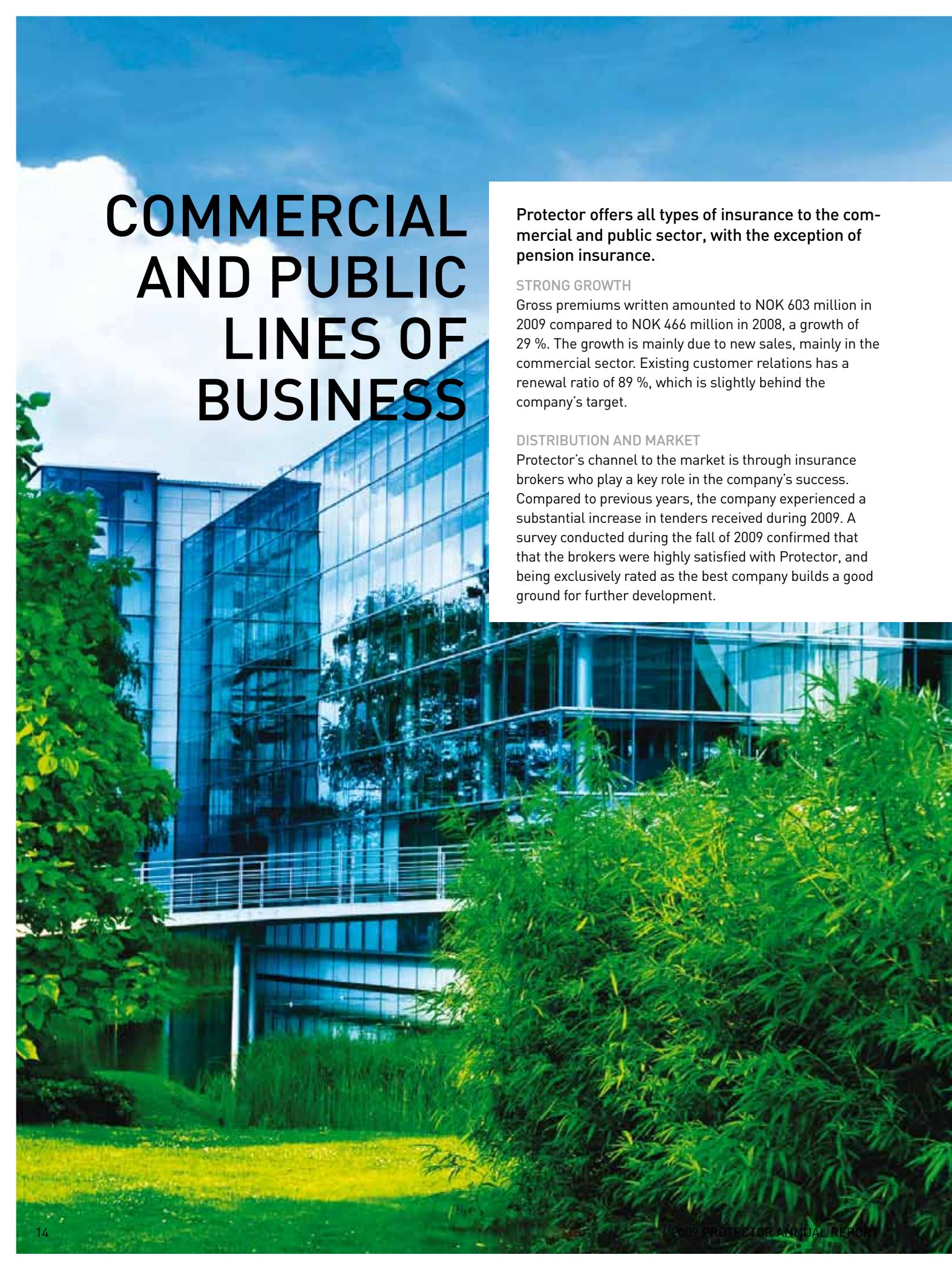
Finally, I want to take the opportunity to address my appreciation to all our cooperating insurance brokers and real-estate brokers. We will strive even harder in 2010 in order to make sure that your clients experience us as a good company. Thank you also to our strong team of 100 motivated employees. We celebrate the solid year properly, move to Aker Brygge (at a very nice rent) and raise our aspirations another small notch.

**Sverre Bjerkeli**  
CEO



**SVERRE BJERKELI (50)**  
Is the company's Chief Executive Officer. He has worked for Protector since 2004 and as CEO since 2006. Bjerkeli has more than 15 years of experience from the finance and insurance industry where he among other positions, was director of private and small business insurance in Storebrand/If. He was central in establishing Storebrand Bank as well as being the CEO and has international experience through CEO positions in Torrino and Ementor Norge.

# COMMERCIAL AND PUBLIC LINES OF BUSINESS



Protector offers all types of insurance to the commercial and public sector, with the exception of pension insurance.

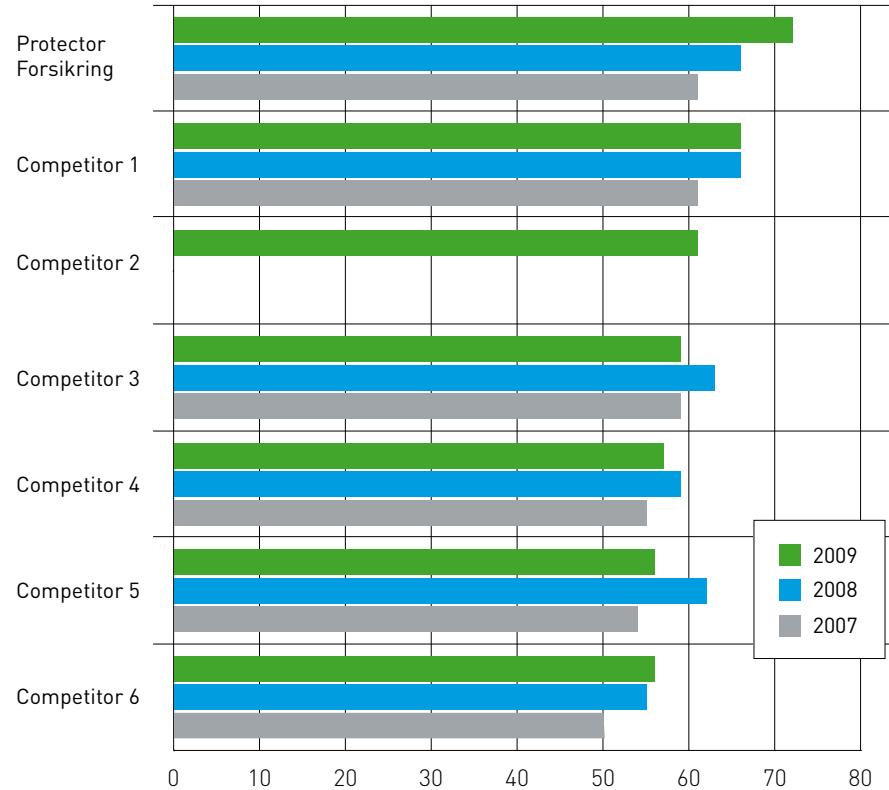
## STRONG GROWTH

Gross premiums written amounted to NOK 603 million in 2009 compared to NOK 466 million in 2008, a growth of 29 %. The growth is mainly due to new sales, mainly in the commercial sector. Existing customer relations has a renewal ratio of 89 %, which is slightly behind the company's target.

## DISTRIBUTION AND MARKET

Protector's channel to the market is through insurance brokers who play a key role in the company's success. Compared to previous years, the company experienced a substantial increase in tenders received during 2009. A survey conducted during the fall of 2009 confirmed that the brokers were highly satisfied with Protector, and being exclusively rated as the best company builds a good ground for further development.

## INSURANCE BROKER SATISFACTION INDEX



The commercial and public sector are characterized by a high level of competition. This means that prices are squeezed, particularly where major tenders are concerned. Protector is therefore highly selective at the top-end of the market and will accept a lower growth rate in 2010.

## ORGANIZATION AND COMPETENCE

During 2009, Protector started a professionalization process based on experience from a successful process of defining roles completed in 2008. The importance of continuing the positive development is particularly clear with an academically strong team and efficient processes. There has been an increase in both quality in the work and capacity.

At year-end 2009, the claims-handling department counted 10 employees who, during the year, received 5152 new claims in personal lines of business, motor, property and liability. With the exception of heavy vehicles and a few transportation claims, the department handles all claims in-house. The claims handling company VanAmeyde handles the exceptions in addition to being a capacity buffer in hectic periods.

A survey conducted during the fall of 2009 shows that the brokers are very satisfied with the claims department, rating it among the very best claims departments in Norway. There will be additions to the personal lines of business-team in 2010.



TROND HØYE (54)  
INSURANCE DIRECTOR  
Employee since 01.12.2003. Høye is a civil engineer from The Norwegian University of Science and Technology. He has had several positions within the Storebrand group since 1982, with his last position as Director of products and marketing in Storebrand non-life/If. From 1993 until 1998, Høye was Director of production and IT of Norske Liv AS. He joined Protector from a position as partner in Gabler Rådgivning.



PIA ALMVANG (35)  
DIRECTOR OF COMMERCIAL AND PUBLIC LINES OF BUSINESS  
Employee since 01.06.2005. Almvang is educated actuary at the University of Oslo. She has 7 years of experience from Swiss Re and Trygg Hansa/Codan.



FREDRIK MESSEL (50)  
DIRECTOR OF COMMERCIAL AND PUBLIC LINES OF BUSINESS, CLAIMS HANDLING  
Employee since 01.05.2007. Messel holds a law degree from The University of Oslo. He has had several positions in Gjensidige Forsikring, among these as director of claims handling and as the CEO of Gjensidige Nor Vekterservice. Messel also represented Gjensidige in several of the industry's decision-making bodies. Among them FNH and Forsikringsklagenemnda. He joined Protector from a position as managing director and partner in Nordic Claims Management AS.



# CHANGE OF OWNERSHIP INSURANCE

In 2009, Protector strengthened its position as the market leader in the market for change of ownership insurance, due to our two largest clients', Eiendomsmegler 1 and Privatmegleren, gains of market share. Eiendomsmegler 1 is now the largest real estate broker chain in Norway and Privatmegleren is the third largest. The market share was 50 %.

Change of Ownership Insurance is only sold through estate agents and Protector has maintained its position among these agents by providing good information, support and high quality claims handling.

## A SLOW FIRST PART OF 2009 RESULTING IN LOW PREMIUM VOLUME

The real-estate market in 2009 was also affected by the financial crisis in 2008. Slow turnover-rate and low sales-volume characterized the real-estate market in the first part of 2009. A normalized market was not seen before the end of second quarter. The market levels from 2006 and 2007 were back in the second half of the year. Premiums were NOK 265 million, slightly higher than 2008. Hit-ratio continued to increase from 70 % in 2008 to 73 % in 2009. Protector strengthened its position as the market leader within change of ownership insurance.

## SALES AND SUPPORT

Protector has endeavored to become a quality leader in change of ownership insurance. This means facilitating insurance processes so that estate agents can provide their customers with a first-class service. This involves providing timely information, good routines and general availability through a dedicated service centre to which estate agents can direct their enquiries.

Protector's service centre for sales and support counted 13 employees at the end of 2009.

## CLAIMS HANDLING

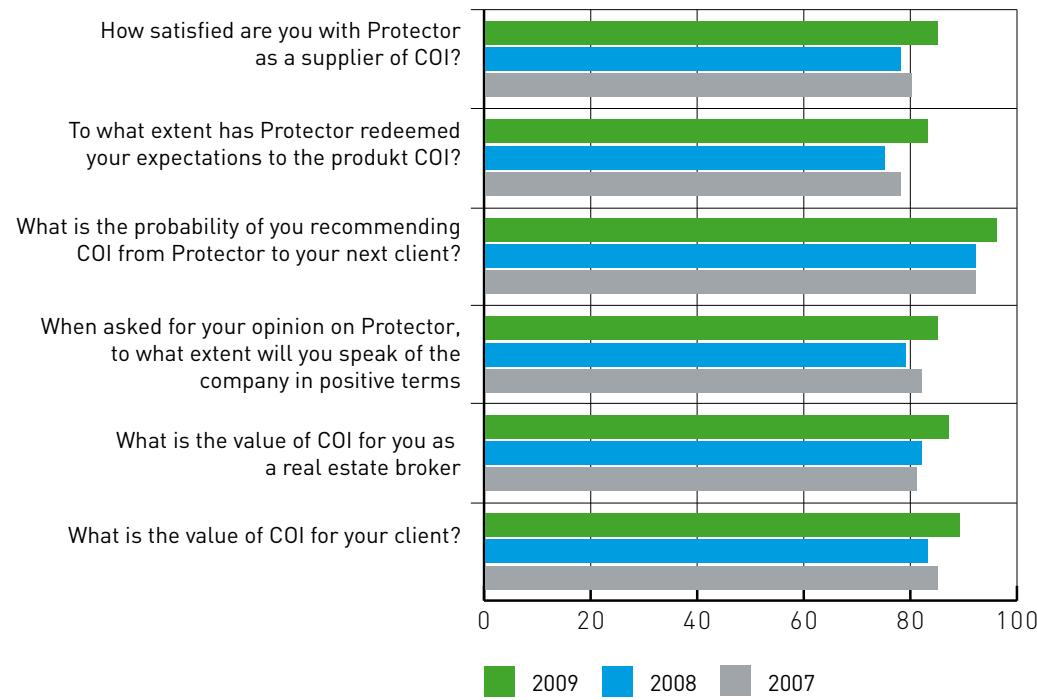
Protector received approximately 3800 claims in 2009. The financial crisis hardly affected the claims frequency. The number of lawsuits was 230, which is comparable to the level from 2008. The results in court are good. Protector's decision has been upheld in 290 of 345 cases (84 %) taken to other appeal bodies.

The company focuses on high quality claims handling. Speed and communication has had extra focus in 2009. Of claims received in 2009, we answered 93 % within 3 days and processed 93 % within 10 days after receiving documentation.

## REPUTATION

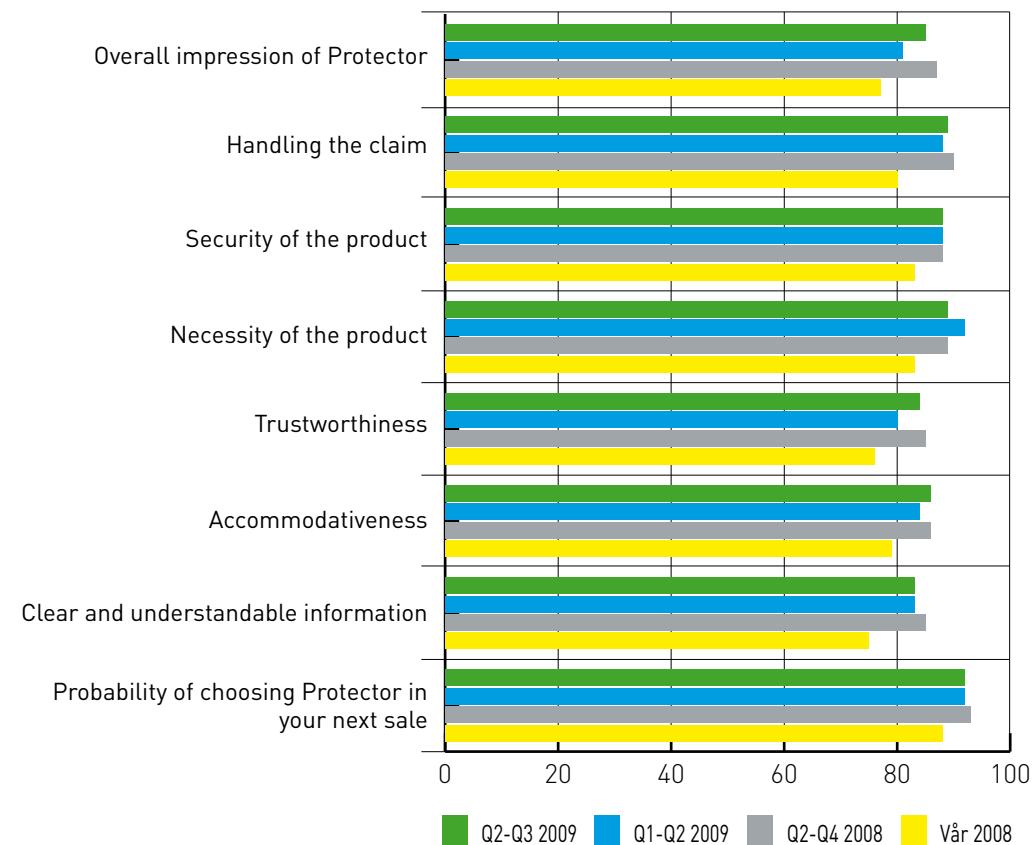
Change of ownership insurance has, since the start, attracted negative attention in the media and as the market leader, Protector is often in the public eye. In this respect, 2009 has been a calm year. Surveys show that the seller – who buys the insurance, and thus is our client – is highly satisfied. This is the case, also for the real-estate brokers, who score Protector at a very high level.

## REAL-ESTATE BROKER SATISFACTION INDEX



SVEIN ANDREASSEN (50)  
DIRECTOR CHANGE OF OWNERSHIP INSURANCE, SALES  
Ansatt siden 01.04.2007.  
Employee since 01.04.2007.  
Andreassen has 16 years of experience from the insurance industry. He has had several different managing positions within business development, marketing and capital management in Storebrand and If. He joined Protector from six years in a position as CEO of Tinde ASA (Orkla) where he worked actively towards the real estate agents.

## SELLERS SATISFACTION INDEX



MERETE C. BERNAU (43)  
DIRECTOR CHANGE OF OWNERSHIP INSURANCE, CLAIMS  
Employee since 01.09.2005.  
Bernau holds a Lac degree from the University of Oslo and is an authorized lawyer. She has extensive experience from Storebrand/If as a lawyer within liability insurance

# DIRECTORS' REPORT

Protector Forsikring ASA is a general insurance company (P&C) serving non-marine industries. The company's focus is towards the commercial and public sectors and the affinity insurance market. Protector was founded 2003 and obtained a license to engage in general insurance the same year. The company commenced its operations in 2004 and was listed on the Oslo Stock Exchange in May 2007. Protector is operating from its offices in Oslo.

## THE MAIN FEATURES CHARACTERISING 2009 ARE:

- › Good access to new business
- › Strong growth within the commercial lines of business
- › Strengthened market position within change of ownership insurance
- › Strong return on investments

## PREMIUM INCOME

In 2009, gross premiums written increased by 20 % to a total of NOK 871.4 million. Gross premiums earned increased by NOK 122.6 million to a total of NOK 843.1 million. Premiums earned for own account was NOK 842.6 million, an increase of 42 % compared to 2008.

The company has shown strong growth in the commercial and public sector, where gross premiums written totalled NOK 474.7 million, compared to NOK 363.7 million in 2008. The growth is mainly due to a high level of new sales in the commercial sector, where the growth in gross premiums written was 51 %. The growth within the municipality sector has in 2009 been some weaker, but the company has maintained its position as number 3 in this market. Protector experienced increased competition in the public sector where the property rates are low and pricing of products within the personal lines has become more aggressive. The competitive situation in the public sector is expected to persist throughout 2010.

Within the affinity segment, gross written premiums amounted to NOK 396.8 million, compared to NOK 365.2 million in 2008. The growth is driven by a high level of new sales in the SME market. Premium income within change of ownership insurance, the company's largest affinity programme, totalled NOK 264.5 million, about unchanged compared to 2008. Due to the increase of market share for Protector's distribution partners, Protector's market share has strengthened through 2009. The market share is estimated to be right above 50 % at the end of 2009. The number of sellers in the real-estate market who buy change of ownership insurance is still increasing. In 2009, the company experienced a hit-ratio of 73 %, compared to 70 % in 2008.

## RESULT

Operating profit before changes in security provision and tax amounted to NOK 258.8 million, compared to NOK 9.4 million in 2008. The return on the company's average solvency capital amounted to 38 %, compared to 2 % in 2008. The improvement in the return is mainly due to a strong return on investments.

The company's claims ratio for own account increased from 80.5 % in 2008 to 82.4 % in 2008. The cost ratio was 14.1 %, down from 14.4 % in 2008. The development in claims ratio and cost ratio



JOSTEIN SØRVOLL  
CHAIRMAN OF THE BOARD

**Age:** 60

**Education:** Actuary from the University of Oslo (1973).

**Work experience:** Partner of Gabler Rådgivning (2003-present). CEO of Protector Forsikring (2003-2006). CEO of Bayerische Rück/Swiss Re Norway (2000-2003). CEO of Norske Liv As (1992-1998). Executive positions in the Storbrand group (1976-1990).

**Director of Protector since:** 2006.

**Other essential tasks in companies and organizations:**

CEO of Gabler Wassum AS  
Chairman of the Board for Gabler Rådgivning AS.

**Regarded as an independent director:** Yes.

resulted in a combined ratio of 96.5 % in 2009 compared to 94.9 % in 2008.

The commercial and public sector experienced in 2009 4 claims sized above NOK 5 million, which is considered as normal with the existing portfolio.

The gross cost ratio was 17.6 % compared to 18 % in 2008. The cost ratio is decreasing despite one-off costs of NOK 7 million related to the potential acquisition of a competitor (NOK 4 million) and the establishment of an extended pension agreement for the company's CEO (NOK 3 million). In addition, a 3-year bonus-program for management and key-personnel is implemented in 2009 and expensed at NOK 6.4 million.

In 2009, a cost-cut program of NOK 15 million was implemented. NOK 12 million was realised. The deviation of NOK 3 million is due to higher commission costs due to portfolio changes within the commercial lines of business.

In 2009, net income from investments was NOK 224.4 million or 16.1 %, compared to a negative return of NOK 28.2 million or -2.1 % in 2008. Narrowing credit-spreads and a strong stock market were the main reasons for the good result. Return on the interest-portfolio was NOK 68.2 million or 5.8 % in 2009. In 2008, the return on the interest-portfolio was NOK 49.3 million or 4.2 %. The return on equities was NOK 156.2 million or 72.6 %, compared to a negative return of NOK 77.5 million or -44.7 % in 2008.

The growth in premiums for own account requires higher demands of statutory security provisions, which in 2009 increased by NOK 61.7 million.

Net profit for Protector Forsikring ASA amounted to NOK 193.4 million.

The financial statements are presented on the assumption of meeting the requirements of a going concern. Circumstances, which are of significance for the evaluation of the company's position and results, have not occurred following the end of the fiscal year.

#### CAPITAL AND SHAREHOLDER ISSUES

Protector's solvency margin at year-end 2009 was 267 %. The capital adequacy ratio was 28 % against a minimum requirement of 8%. Note 21 give a more detailed description of the calculation of solvency margin and capital adequacy ratio.

At the end of 2009, the company's solvency capital amounted to NOK 777.3 million, NOK 562.7 million as total equity (before proposed cash dividend) and NOK 214.6 million as security provision.

The company's free equity before proposed cash dividend amounted to NOK 323.6 million at the end of 2009.

Net cash flow from operational activities, before investments in financial assets, was positive at NOK 338.1 million. Net cash flow in 2009 was negative at NOK 43 million.

The Board of Directors regards the company's capital situation and financial solidity as very satisfactory.

End of 2009, Protector owns 3,348,920 shares in the company. The shares were purchased in 2009 at an average price of NOK 6.

Protector Forsikring ASA had 2,149 shareholders at 31 December 2009.



JØRGEN STANG  
HEFFERMEHL  
BOARD MEMBER

**Age:** 61

**Education:** Cand.Jur. (Law degree) from the University of Oslo (1975), Supreme Court Attorney.

**Work experience:** Partner of SIMONSEN Advokatfirma DA (1980-present). Several board memberships. Extensive national and international experience within the field of business law.

**Director of Protector since:** 2003.

**Other essential tasks in companies and organizations:** Chairman of the Board for SIMONSEN Advokatfirma DA. Chairman of the Board for Quorum Verdi Invest AS. Chairman of the Board for JS Heff Invest AS. Member of the board for Quorum Invest AS. Member of the board for Nexen Exploration Norge AS. Member of the board for Agdesidens Rederi AS. CEO of Ditlev-Simonsen AS. **Regarded as an independent director:** Yes.

## DIVIDEND

The Board of Directors proposes a cash dividend of NOK 1.25 per share, totalling NOK 104.4 million for the fiscal year 2009. The Board considers the size of the dividend to be consistent with the company's financial position and position in the market. The dividend is payback of paid-in-capital. Proposed dividend is included in other equity.

According to the company's dividend policy of 2009, the intention for future years is to distribute 5 – 15% of the solvency capital as cash dividends. This is after taken into consideration the profit for the year, capital requirements inclusive acceptable buffers and necessary flexibility for growth and development of the company. Any excess capital after distribution of dividends may be returned to the shareholders in the form of share-buy-back programs.

## RISK FACTORS

Protector is exposed to various types of risk through its business. Continuous monitoring and active risk management is an integrated core area in Protector's activities and organisation. The main risk factors, of which the company are exposed to, are; market risk, insurance risk, credit risk, liquidity risk, operational risk and strategic risk.

## MARKET RISK

Protector is exposed to losses due to changes in observable variable market factors as interest and equity prices. End of 2009, the company's the investment portfolio totalled NOK 1,635 million. 74.9 % of the investments were placed in interest-bearing instruments and 25.1 % in equities. The equity rate increased by 8.3 percentage points in 2009, mainly due to the relatively increase in the value of equities. The duration (exclusive interest bearing instruments held to maturity) was reduced from 0.32 years to 0.16 years. The interest risk is therefore low.

The Board of Directors is yearly determining the company's investment strategy. Limits for the company's ability to carry risk are established in the investment strategy and the market risk is continuously measured against the company's risk capital. Assessment of market risk is based on required capital buffers following stress tests. The stress tests involve the company's ability to cope with a fall in the value of interests and shares in line with the capital management regulations. For further information about interest risk, refer to note 3 to the accounts.

The company's securities are managed by Carnegie Kapitalforvaltning ASA, Danske Capital AS, Pareto Kapitalforvaltning AS and Storebrand Kapitalforvaltning AS.



BENEDICTE BAKKE AGERUP  
BOARD MEMBER



ERIK G. BRAATHEN  
BOARD MEMBER

**Age:** 45

**Education:** Advanced Management Program, Harvard Business School (2007). MSc in Economics and Business Administration from the Norwegian School of Economics and Business Administration (1988).

**Work experience:** Group Vice President Strategy and Innovation/Company Secretary in Wilh.Wilhelmsen ASA (2007-present). Deputy CFO Wilh.Wilhelmsen ASA (2005-2007). CFO KLP (2002-2005). Group Treasurer Wilh. Wilhelmsen ASA (1996-2001). Head of Finance Wilhelmsen Lines (1992-1996). Consultant Risk Management DnB Nor (1988-1992).

**Director of Protector since:**  
2009.

**Other essential tasks in companies and organizations:** Chairman of the Board for Wilh.Wilhelmsen Pensjonskasse. Chairman of the Board for Puregas AS. Member of the Board for Den norsk Krigsforsikring for Skib. Member of the Committee Norwegian Hull Club.

**Regarded as an independent director:** Yes.

**Age:** 54

**Education:** Master of international Management.

**Work experience:** Private investor (from 1999). CEO of Braathens Safe ASA (1989-1999). Chairman of the board for Norwegian Airshuttle (2004-2009).

**Director of Protector since:**  
2009.

**Other essential tasks in companies and organizations:** Member of the board for Babcock & Brown Air Ltd. Member of the representatives committee of Bank2 ASA. **Regarded as an independent director:** Yes.

## INSURANCE RISK

The insurance risk is adjusted to the company's accessible risk capital. Risk related to insurance operations is limited by the company's establishment of a comprehensive reinsurance program with well-established reinsurers. The limits for the reinsurance program are determined by the need to protect the equity against claims beyond an acceptable amount, as well as the need to reduce fluctuations in results. Through the reinsurance programmes, the company is satisfactorily covered against catastrophes and large losses. End of 2009 the retention rate was 99.9 %. The high retention rate is due to changes in the company's reinsurance structure. Adjusting for these changes, the retention rate was 80 %, which is slightly below the expected retention rate in 2010.

## CREDIT RISK

Credit risk is the risk of incurring a loss if counterparties fail to meet their obligations. This also includes risk for changes in general credit prices, also called "credit-spread". Protector is exposed to credit risk in the investment area and in reinsurance.

The company has established limits for the various issuers of securities, and defined a minimum level for the credit rating within the various groups of issuers. Limits for credit durations are also established. In 2009 the credit duration in the interest bearing portfolio (exclusive interest bearing instruments held to maturity) has increased from 1.59 years to 1.99 years. There has not been substantial changes in the average credit rating for the issuers in the portfolio. The average rating is at BBB+/A- today.

Outstanding claims with the company's reinsurers represent a credit risk. Protector's reinsurers have a very good credit rating. Their rating is monitored closely.

The total credit risk in the company is regarded as acceptable.

## LIQUIDITY RISK

In P & C insurance, the liquidity risk is in general low since premiums are due for payment before claims have to be paid. Protector's premium income is, in large, placed in cash accounts or liquid securities ensuring that Protector will be able to procure the necessary liquidity at all times. Thus, the company's liquidity risk is considered low.

## OPERATIONAL RISK

Operational risk is the risk of loss because of insufficient or failing internal processes or systems, human error, or external events. Today, the operational risk is documented in connection with the work to fulfil the "regulation on risk control and



GIUDITTA CORDERO MOSS  
BOARD MEMBER

**Age:** 48  
**Education:** Cand.Jur. (Law degree) from the University of La Sapienza (1984), Roma. Ph.D. in Law from the Russian Academy of Science, Moscow (1995). Dr.juris at the University of Oslo (1999).  
**Work experience:** Professor at the Institute of Private Law, at the University of Oslo. Legal practitioner and partner in the law firm Lindh Stabell Horten DA (2002). Legal practitioner and partner in the law firm Hjort DA (1990-2001). Lawyer at Norsk Hydro ASA, Norway (1989-1999). Lawyer at FIAT S.p.A., Italy (1986-1989).  
**Director of Protector since:** 2005.

**Other essential tasks in companies and organizations:**  
Chairman of the Board for the Norwegian Association for Comparative Law. Member of the Board for OAO DnB Nor Monchebank. Judge, Administrative Tribunal, European. Bank for Reconstruction and Development.  
**Regarded as an independent director:** Yes.

HEGE GRAN  
BOARD MEMBER (ELECTED  
BY THE EMPLOYEES)

**Age:** 42  
**Education:** Courses from the Norwegian School of Management (1993-2004)  
**Work experience:** Sales manager at Protector Forsikring (2006-present)  
Key account manager at IF (2004-2006). Key account manager at Storebrand/IF (1998-2004). Sales positions in Storebrand (1987-1998).  
**Director of Protector since:** 2008.  
**Other essential tasks in companies and organizations:** None.

internal control". The fundamental feature in this work is that the individual manager carries out a process to map the main risks before and after measures have been implemented. In 2009, this work did not uncover risks that were not satisfactorily controlled. The operational risk is regarded as low.

### STRATEGIC RISK

Strategic risk relates to Protector's choice of strategic position, including distribution, IT strategy, flexibility relative to the market, business partners, reputation and changes in the market conditions. Protector's strategy is continuously assessed against results, fluctuations in markets and competition and changes in framework conditions. Elements that are critical to the company's achievements are subject to special monitoring.

### ORGANISATION AND WORK ENVIRONMENT

The company had 100 employees at year-end 2009. This is an increase of seven employees compared to 2008. Great emphasis is placed on organisational development and competence levels as well as recruitment of highly qualified personnel. Through 2009, the company's core competence and capacity are strengthened, to enable continued growth.

Of the company's employees, 50% are women and 50% are men. The company's management team comprises two women and five men. The Board of Directors comprises three women and four men. No special measures have been implemented to promote equal opportunities.

Sick leave amounted to 2.7% in 2009, corresponding to 663 days of absence. Sick leave thus decreased by 2.1 percentage points compared with 2008. No occupational accidents or injuries were reported in 2009. The company's business activity does not pollute the external environment.

### OUTLOOK

Despite increased competition in the public sector and more aggressive pricing of certain products within the personal lines of business, the company expects continued growth in 2010. The expectations of growth is based on the expectations of continued good access to new commercial- and affinity business, as well as an expected increase in the market for change of ownership insurance (increasing property prices and increasing turnover of properties). Already effected and new initiatives to improve the profitability are expected to lead to a better technical result in 2010 than in 2009. The company's financial position is solid and the company is well positioned for continued profitable growth.



TOR-ÅGE SCHEI  
BOARD MEMBER (ELECTED  
BY THE EMPLOYEES)

**Age:** 41  
**Education:** Bachelor in Economics and Administration at the Norwegian School of Management (1991).  
**Work experience:** Chief Underwriter at Protector Forsikring (2006-present). Underwriter at Gjensidige Forsikring (2006). Underwriter/claims handler at KLP Skadeforsikring (1996-2006). Claims handler at KLP Forsikring (1995-1996). Arbeidsmarkedsetaten (1993-1995).  
**Director of Protector since:** 2008.  
**Other essential tasks in companies and organizations:** None.

Oslo, 10 March 2010  
The Board of Director's in Protector Forsikring ASA  
Translation - not to be signed

Jostein Sørvoll  
(Chairman)

Jørgen Stang Heffermehl

Benedicte Bakke Agerup

Erik G. Braathen

Giuditta Cordero Moss

Hege Gran

Tor-Åge Schei

Sverre Bjerkeli  
(CEO)

# PROFIT AND LOSS ACCOUNT

[1.000 NOK]	Notes	2009	2008
<b>PREMIUMS INCOME</b>			
Gross premiums written		871 374	728 997
Premiums written ceded		12 923	(101 070)
Change in gross provision for unearned premiums		(28 283)	(8 506)
Change in reinsurers' share of provision for gross unearned premiums		(13 367)	(27 051)
<b>Earned premiums for own account</b>	4	<b>842 646</b>	<b>592 370</b>
<b>Allocation of investment return transferred from non-technical account</b>	1	<b>27 089</b>	<b>30 554</b>
<b>CLAIMS</b>			
Gross claims paid		(405 955)	(419 335)
Reinsurers' share of claims paid		84 634	156 910
Change in provision for gross outstanding claims		(243 222)	(129 734)
Reinsurers' share of change in provision for gross outstanding claims		(130 195)	(84 903)
<b>Claims incurred for own account</b>	4	<b>(694 738)</b>	<b>(477 063)</b>
<b>INSURANCE RELATED OPERATING EXPENSES</b>			
Sales expenses	14	(8 379)	(11 952)
Insurance related administrative expenses	11,15-17	(139 665)	(117 921)
Commissions from the reinsurers	4	29 402	44 678
<b>Total operating expenses for own account</b>		<b>(118 642)</b>	<b>(85 194)</b>
<b>Technical result before changes in security provision etc.</b>		<b>56 354</b>	<b>60 667</b>
<b>CHANGES IN SECURITY PROVISIONS ETC.</b>			
Change in security provision	4	(61 663)	(54 828)
<b>Technical result</b>		<b>(5 308)</b>	<b>5 839</b>
<b>NET FINANCIAL INCOME</b>			
Interest income from financial assets		44 381	39 157
Unrealised gains and reversed unrealised losses on financial assets		185 175	(86 155)
Gains and losses from realisation of financial assets		(4 079)	20 066
Administration expenses		(1 050)	(1 286)
<b>Total net financial income</b>	19	<b>224 426</b>	<b>(28 217)</b>
<b>Allocated return on investment transferred to technical account</b>	1	<b>(27 089)</b>	<b>(30 554)</b>
<b>Other income</b>		<b>5 126</b>	<b>7 537</b>
<b>Non-technical result</b>		<b>202 463</b>	<b>(51 234)</b>
<b>Profit before tax</b>		<b>197 155</b>	<b>(45 395)</b>
<b>Tax</b>	12	<b>(3 791)</b>	<b>(2 552)</b>
<b>Profit for the year</b>		<b>193 363</b>	<b>(47 946)</b>
<b>ALLOCATION OF PROFIT/LOSS</b>			
Transferred to/from Other Equity		(193 363)	47 946
<b>Total allocations</b>		<b>(193 363)</b>	<b>47 946</b>
Earnings per share	20	2,30	(0,51)
Diluted earnings per share	20	2,22	(0,49)

# BALANCE SHEET

[1.000 NOK]	Notes	2009	2008
<b>ASSETS</b>			
INTANGIBLE ASSETS			
Goodwill	5	358	716
Deferred tax asset	12	-	1 943
Other intangible assets	5	7 849	4 960
<b>Total intangible assets</b>		<b>8 207</b>	<b>7 619</b>
FINANCIAL ASSETS			
Financial assets at amortised cost			
Held-to-maturity financial assets		237 616	265 547
Financial assets at fair value through profit or loss			
Shares		411 016	204 791
Securities, bonds etc		963 135	636 547
Other financial assets		23 018	114 380
<b>Total financial assets</b>	<b>3,7</b>	<b>1 634 785</b>	<b>1 221 266</b>
REINSURERS' SHARE OF GROSS TECHNICAL PROVISIONS			
Reinsurers' share of provisions for unearned premiums		33 353	34 336
Reinsurers' share of provisions for claims		139 575	269 770
<b>Total reinsurers share of gross technical provisions</b>	<b>4</b>	<b>172 928</b>	<b>304 106</b>
RECEIVABLES			
Policyholders		9 591	23 750
Intermediaries		36 996	18 378
Other receivables		326	-
<b>Total receivables</b>	<b>8</b>	<b>46 913</b>	<b>42 128</b>
OTHER ASSETS			
Tangible fixed assets	6	2 932	3 709
Cash and bank deposits	9	85 597	37 216
<b>Total other assets</b>		<b>88 529</b>	<b>40 925</b>
PREPAID EXPENSES AND ACCRUED INCOME			
Other prepayments and accrued income		21 491	6 785
<b>Total prepaid expenses and accrued income</b>		<b>21 491</b>	<b>6 785</b>
<b>TOTAL ASSETS</b>		<b>1 972 853</b>	<b>1 622 829</b>

# BALANCE SHEET

[1.000 NOK]	Notes	2009	2008
<b>EQUITY AND LIABILITIES</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Share capital [86.155.605 shares at NOK 1]	10	86 156	86 156
Own shares	10	[3 349]	-
Other paid-in equity	18	13 607	10 171
<b>Total paid-in equity</b>		<b>96 413</b>	<b>96 327</b>
<b>EARNED EQUITY</b>			
Administration provision		69 032	43 700
Natural perils fund		33 305	24 890
Guarantee scheme		32 079	23 647
Other equity		331 835	227 584
<b>Total earned equity</b>		<b>466 250</b>	<b>319 821</b>
<b>Total equity</b>	21	<b>562 664</b>	<b>416 148</b>
<b>TECHNICAL PROVISIONS FOR OWN ACCOUNT</b>			
Provision for unearned premiums		125 842	97 559
Provision for claims outstanding	2	1 018 205	774 983
Security provision		214 639	152 976
<b>Total technical provisions for own account</b>	4	<b>1 358 686</b>	<b>1 025 517</b>
<b>PROVISIONS FOR OTHER LIABILITIES</b>			
Pension liabilities	11	9 289	3 974
Deferred tax	12	1 849	-
<b>Total provisions for other liabilities</b>		<b>11 138</b>	<b>3 974</b>
<b>OTHER LIABILITIES</b>			
Liabilities related to direct insurance operations		4 308	5 927
Liabilities related to reinsurance operations		541	152 221
Other liabilities		16 084	11 837
<b>Total other liabilities</b>	13	<b>20 933</b>	<b>169 985</b>
<b>ACCRUED EXPENSES AND DEFERRED INCOME</b>			
Other accrued expenses and deferred income		19 433	7 205
<b>Total accrued expenses and deferred income</b>		<b>19 433</b>	<b>7 205</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1 972 853</b>	<b>1 622 829</b>

Oslo, 10 March 2010  
 The Board of Directors of Protector Forsikring ASA  
 Translation - not to be signed

Jostein Sørvoll  
 (Chairman)

Jørgen Stang Heffermehl

Benedicte Bakke Agerup

Erik G. Braathen

Giuditta Cordero Moss

Hege Gran

Tor-Åge Schei

Sverre Bjerkeli  
 (CEO)

# CASH FLOW STATEMENT

[1.000 NOK]	2009	2008
<b>CASH FLOW FROM OPERATIONS</b>		
Paid in premiums	851 954	726 293
Paid claims	(405 951)	(428 524)
Paid reinsurance	(37 106)	(29 957)
Paid operating expenses	(120 189)	(120 800)
Interest income	52 194	48 779
Gain/loss from sale of financial assets	(2 801)	54 397
Net invested in financial assets	(325 046)	(81 661)
<b>Net cash flow from operations</b>	<b>13 054</b>	<b>168 527</b>
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>		
Invested in shares	(20 128)	(106 781)
Invested in inventory and intangible assets	(5 752)	(6 001)
<b>Net cash flow from investment activities</b>	<b>(25 881)</b>	<b>(112 782)</b>
<b>CASH FLOW FROM FINANCIAL ACTIVITIES</b>		
Dividend paid	(30 154)	-
<b>Net cash flow from financial activities</b>	<b>(30 154)</b>	<b>-</b>
<b>NET CASH FLOW FOR THE PERIOD</b>	<b>(42 981)</b>	<b>55 745</b>
Net change in cash and cash equivalents	(42 981)	55 745
Cash and cash equivalents opening balance	151 596	95 851
<b>CASH AND CASH EQUIVALENTS CLOSING BALANCE</b>	<b>108 615</b>	<b>151 596</b>

# STATEMENT OF CHANGES IN EQUITY

[1.000 NOK]	Share Capital	Own shares	Other paid in equity	Administration provision	Natural perils fund	Guarantee scheme	Other equity	Total equity
Equity at 31.12.2008	86 156	-	10 171	31 464	17 921	17 026	193 152	355 890
Change in accounting principles - Deferred tax fund				12 236	6 969	6 621	4 277	30 104
Change in accounting principles - Dividend							30 154	30 154
<b>Total equity at 01.01.2009</b>	<b>86 156</b>	<b>-</b>	<b>10 171</b>	<b>43 700</b>	<b>24 890</b>	<b>23 647</b>	<b>227 584</b>	<b>416 148</b>
Option cost, effect on equity			3 436					3 436
Own shares		(3 349)					(16 779)	(20 128)
Paid dividend							(30 154)	(30 154)
<b>Total equity before the result from the year</b>	<b>86 156</b>	<b>(3 349)</b>	<b>13 607</b>	<b>43 700</b>	<b>24 890</b>	<b>23 647</b>	<b>180 650</b>	<b>369 301</b>
Total result after tax before fund provisions							193 363	193 363
<b>Total equity at 31.12.2009 before fund provisions</b>	<b>86 156</b>	<b>(3 349)</b>	<b>13 607</b>	<b>43 700</b>	<b>24 890</b>	<b>23 647</b>	<b>374 013</b>	<b>562 664</b>
Provisions to obliged fund gross					25 332	8 415	8 431	(42 178)
<b>Total equity at 31.12.2009</b>	<b>86 156</b>	<b>(3 349)</b>	<b>13 607</b>	<b>69 032</b>	<b>33 305</b>	<b>32 079</b>	<b>331 835</b>	<b>562 664</b>

# NOTES

## NOTE 1 ACCOUNTING PRINCIPLES

### Generally

The company's financial statements are prepared in accordance with the Norwegian Accounting Act, financial statements regulations for insurance companies and generally accepted accounting principles.

### Insurance premiums

Insurance premiums are recognised over the term of the policy. Gross premiums written include all the amounts the company has received or is owed for insurance contracts where the insurance period starts before the end of the period. At the end of the period accruals are recorded, and the premiums written that relate to subsequent periods will be accrued under "change in gross provision for unearned premiums". For change of ownership insurance the income is entered into the financial statement at the time of the risk transfer.

Premiums for ceded reinsurance reduce the gross premiums written and are accrued according to the insurance period.

### Allocated investment return

When calculating the return on investments which is being transferred from non-technical accounts to technical accounts for non-life insurance, it will be on the basis of the sum of the average technical provisions during the year. The applicable technical interest rate is the average yield during the year on government bonds with a remaining maturity of three years. The Financial Supervisory Authority of Norway has calculated the average technical yield for 2009 and 2008 to be 2.70 and 4.60 percent, respectively.

### Claims incurred

Insurance products are generally divided into two main categories: long-tail and short-tail insurance products. The settlement period is defined as the duration between a loss or loss occurrence (date of loss) and the time when the claim is reported and then paid and settled. Short-tail insurance products are e.g. property insurance, while long-tail products primarily involve personal lines of business. The uncertainty in short-tailed lines of business is linked primarily to the size of the loss.

For long-tail lines of business the risk is linked to the fact that the ultimate claims costs must be estimated based on experience and empirical data. For certain personal lines products, it may take 10 to 15 years before all the claims that occurred in a particular calendar year are reported to the company. In addition, there will be many instances where the reported information is inadequate to calculate correct claims provisions. This may be due to ambiguity concerning the causal relationship, and uncertainty about, the injured party's future work capacity etc. Many personal injury claims are tried in the court system, and the level of compensation for such claims has increased over time. This will also be of consequence to claims that occurred in previous years which have not yet been settled. The risk linked to provisions for personal lines of business is thus affected by external conditions. To reduce this risk, the company calculates its claims related liabilities based on various methods and ensures that the registered provisions linked to ongoing claims are updated at all times based on the current calculation rules.

Claims incurred consist of gross claims paid less the reinsurers' share, as well as any change in the gross claims provisions, less the reinsurers' share. Direct and indirect claims handling costs are included in claims incurred. The claims incurred contain run-off and settlement gains / losses from previous years.

### Total operating expenses

Total insurance related operating expenses consist of sales- and administrative expenses less commissions received on ceded reinsurance premium. The administrative expenses are accrued and charged as an expense during the accounting period.

### Technical provisions

The technical provisions are calculated in accordance with the principles established in the regulations of 10.05.1991 and the supplementary regulations of 18.11.1992 in respect of technical provisions and non-life risk statistics. The theoretical methods applied in the calculations are described in the 2nd chapter of the supplementary regulation.

### Provision for unearned premiums

The premium provision represents the accrual of insurance premiums and comprises the unearned portion of premiums written during the year. The earned premiums are accrued linearly throughout the period of insurance.

### Provision for outstanding claims

The claims provision comprises provisions for claims which are reported but not settled, and claims incurred but not reported at the end of the accounting year. The provisions in respect of known losses are individually assessed by the claims department, while the provisions for claims not yet reported are based on empirical data and the application of actuarial calculations. The provisions shall cover the company's expected future claims payments for risks covered to date.

### Security provision

The security provisions are statutory and shall cover fluctuations in the company's premium and liabilities for own account.

### Administration provision

The administrative provisions shall cover administrative costs incurring in connection with claims settlement should the company go into liquidation. The fund is tied-up equity.

### Natural perils fund

Operating surplus from the mandatory Norwegian Natural Perils Pool must be allocated to a separate Natural Perils fund. These funds may only be drawn upon in respect of claims related to losses caused by natural perils. The fund is tied-up equity.

### Guarantee scheme

The purpose of the guarantee scheme is to guarantee that claims submitted under direct non-life insurance contracts entered into in Norway are settled in full. The fund is tied-up equity.

### Receivables

In the balance-sheet trade debtors and other receivables are at face value and provisions for expected losses are deducted. Provisions for expected losses are made based on evaluations of the individual receivables.

### Bank

Bank deposits are deposits used in the continuing operations.

### Investments

Ordinary purchases and sales of investments are booked at the time of settlement. All financial assets that are not booked as actual value in the results are recognised in the balance sheet for the first time as

actual value plus transaction costs. Financial assets that are booked as actual value in the results are booked at actual value when acquired and transaction costs are allocated in the accounts. Investments are removed from the balance sheet once the right to receive gains from the investment terminates or once these rights are transferred and the company on the whole has transferred all risk and the entire profit potential inherent to the ownership. Financial assets with actual value in the results are considered to represent actual value once they appear on the balance sheet for the first time. Hold to maturity bonds are booked at amortized cost by using the effective interest rate method.

Profit or loss from variations in actual value of assets classified as "financial assets at fair value through profit or loss", including interest income and dividend, is included in the income statement under "Unrealised gains and reversed unrealised losses on financial assets" and "Gains and losses from realisation of financial assets" in the period they arise. Dividends from financial assets at fair value through income are included once the company's right to dividends are decided.

Amortized cost on hold to maturity bonds is booked on the line "Unrealised gains and reversed unrealised losses on financial assets" together with consecutive coupon rates.

Actual value of listed investments is based on the prevailing bid price. Actual value of non-listed assets is determined by our management. The Norwegian Mutual Fund Association (VFF) weekly collects (credit-) spreads from 5 brokerages. The average is sent out to fund managers and used as a basis for valuation of the securities in their portfolios.

#### **Fixed assets and intangible assets**

Fixed assets and intangible assets are recognised at acquisition costs, and are written down to actual value when a depreciation in value is not expected to be temporary. Depreciations are deducted from the durable business assets and intangible assets. Potential expenditures or improvements are added to the business assets acquisition cost and depreciate in line with the business asset.

The immaterial assets comprise software and IT-systems. The Company's IT-systems are developed in-house.

Goodwill represents the difference between compensation and identifiable assets and excess value, after potential liabilities are deducted. Goodwill depreciate linearly during the expected economic lifetime of the assets.

#### **Dividend**

Dividend from investments is recognised when the company has an unconditional right to receive the dividend. Dividend paid is recognised as a liability at the time when the General Meeting approves the payment of the dividend.

#### **Provisions**

Provisions are recognised when the company has a legal or constructive obligation as a result of a past event, it is probable that this will result in the payment or transfer of other assets to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Information about contingent assets are disclosed where an inflow of

## **NOTE 2 INSURANCE RISK**

The risk under any one insurance contract is the probability that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and must therefore be estimated.

Factors that have a negative impact on insurance risk include lack of risk diversification in terms of type and amount of risk, geographical

economic benefits is probable. Information about a contingent liability is disclosed unless the possibility of a capital outflow is remote.

#### **Pensions**

The pension costs and pension liabilities are calculated on a straight-line earning profile basis, based on assumptions relating to discount rates, projected salaries, the amount of pension and benefits from the National Insurance Scheme, future return on pension funds, and actuarial calculations relating to mortality rate, voluntary retirement, etc. Pension funds are recognised at fair value and deducted in the net pension liability in the balance sheet. Changes in the pension liability due to changes in the pension plans are recognised over the estimated average remaining service period. When the accumulated effect of changes in and deviations from actuarial assumptions (changes in estimates) exceed 10 percent of the higher of pension obligations and pension plan assets, the excess amount is recognized over the estimated average remaining service period.

Linear contribution and expected terminal pay form the basis of contribution when pensions are accounted. Amendments of the scheme are redeemed over the expected remaining period of contribution. The same guidelines apply as far as deviation from estimates is concerned, to the extent that the deviation of estimates exceeds 10 % of the larger of pension liability and pension funds (corridor).

Employers' national insurance contributions are ascribed to net pension commitment.

#### **Tax**

The tax expense in the income statement consists both of taxes payable for the accounting period, and the period's changes in deferred tax. Deferred tax is calculated as 28% of the temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, together with tax loss carried forward at the end of the fiscal year. Temporary tax increases or tax reductions, which are reversed or may reverse within the same period, are balanced. Deferred tax assets are recorded in the balance sheet when it is more likely than not that the tax assets will be utilized.

#### **Changes in accounting principles**

The Ministry of Finance determined on 18 December 2009 amendments in the guidelines for annual accounts for insurance companies with effect from 1 January 2009. The annual account guidelines are amended in such a way that allocation to administration, allocation to the Norwegian Natural Perils Pool and allocation to the guarantee scheme shall be booked gross under earned equity. Deferred tax shall not be calculated from technical provisions categorized under equity (or reinsurance provisions), but is still included in the allocation of tax related to temporary differences. Changes in accounting principles has a NOK 30.1 million effect through changing to presentation from net to gross under equity.

In 2008 the dividend was presented in the financial statements for the year dividend payments was based on. In 2009 the accounting principles are changed and dividends will be recognised as a liability in the year that the General Meeting approves the dividends.

Comparable figures from previous years are revised.

location and type of industry covered.

Protector has until 2009 just operated in the Norwegian marked, but writes all classes of business within general insurance. Protector seeks to diversify the insurance portfolio to reduce the variability of the expected results.

### Underwriting risk

Underwriting risk is the risk related to whether charged premiums are sufficient to cover payable liabilities in respect of insurance contracts Protector enters into.

This risk is assessed and managed on the basis of statistical analyses of historical experience for the various lines of business. The insurance premium must be sufficient to cover expected claims, but must also comprise a risk premium equal to the return on the part of the company's capital that is used to protect against random fluctuations. All other things equal, this means that lines of business which, from experience, are subject to major fluctuations, must include a larger risk premium.

Reinsurance is used to reduce the underwriting risk in areas where this is particularly required.

The company has clearly specified guidelines for which types of insurance risks, as well as which limits of liability, that can be written. Underwriting limits are in place to ensure that appropriate risk selection criteria are applied and to ensure that accepted risks are within the terms and conditions of the company's reinsurance contracts. Protector's reinsurance contracts which are a combination of quota share and XL agreements, further reduces the risk exposure. Insurance risks are considered moderate with the reinsurance cover the company has in place.

### Provisioning risk

Once the policy period expires, the insurance risk relates to the provisions to cover future payments on claims incurred. Clients may report claims with a certain delay. Depending on the complexity of the claim, a shorter or longer period of time may pass until the amount of the claim has been finally calculated. This may be a prolonged process particularly for personal injuries. Even when the claim has been settled there is a risk that it will be resumed at a later date, triggering further payments.

The size of the claims provisions are determined both through individual assessments and actuarial calculations. At 31 December 2009, the claims provisions amounted to NOK 878.6 million for own account. The duration of the provisions, that is, the average duration of provisions being settled to clients, was 3.56 years at 31 December 2009. 1%-point increase in inflation will result in a growth in claims provisions of NOK 31.3 million. See below how future cash flow is related to provisions for outstanding claims for own account at 31 December 2009.

#### Cash flow connected to claims provisions for own account

[1.000 NOK]	Future cash flow related to claims incurred				
	0 - 5 years	5 - 10 years	10 - 15 years	15 - 20 years	
At 31 December 2009					
Claims incurred for own account	878 630	683 987	134 520	42 828	17 295

The calculation of provisions for claims will always be subject to considerable uncertainty. Historically, many insurers have experienced substantial positive as well as negative impacts on profit (run-off) resulting from reserving risk, and that may also be expected to happen in future. Reserving risk is managed by pursuing a reserving policy which ensures that the process for determining provisions for claims is updated and aligned at all times. This includes that it is based on an underlying model analysis, and that internal control calculations and evaluations are made.

### GROSS CLAIMS DEVELOPMENT

[1.000 NOK]	2004	2005	2006	2007	2008	2009	Total
Gross							
Estimated claims cost							
2004	62 952						62 952
2005	61 407	299 414					360 821
2006	68 503	253 356	299 485				621 344
2007	76 939	254 808	290 770	496 529			1 119 047
2008	74 235	260 642	312 225	496 175	522 126		1 665 402
2009	78 788	258 107	314 936	478 992	516 928	658 842	2 306 592
Estimated amount as at 31.12.2009	78 788	258 107	314 936	478 992	516 928	658 842	2 306 592
Total disbursed	72 088	238 392	258 428	322 862	247 204	152 377	1 291 351
Claims provision	6 699	19 715	56 509	156 130	269 723	506 465	1 015 241
Prior-year claims provision	6 699	19 715	56 509	156 130	269 723		508 776
Natural hazard claims provisions						2 964	2 964
Total	78 788	258 107	314 936	478 992	516 928	661 806	2 309 556

Insurance events are random, and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability of the expected outcome will be.

The frequency and severity of claims can be affected by several factors. The different factors will depend on the products, or lines of business considered. An increase in the frequency of claims can be due to seasonal effects and more sustainable effects. In some lines of businesses, with relatively few claims, severe claims may heavily influence the results. In most lines of businesses the underlying development of the severity of claims is influenced by inflation. For bodily injuries the severity of claims is also influenced by court rulings, which tend to increase the compensation more than the general inflation.

See the effect on profit before tax (for own account) in the sensitivity analyses below for 1% change in premium income, 1% change in claims, 1%-point change in combined ratio and 1%-point change in inflation.

Effect on profit before tax (for own account)	Effect in 1.000 NOK
1% change in premium income	(+ / -) 8.426
1% change in claims	(+ / -) 6.947
1% - point change in combined ratio	(+ / -) 8.794
1% - point change in inflation	(+ / -) 31.279

### NOTE 3 FINANCIAL RISK

#### Liquidity Risk

Specification of financial assets grouped by maturity [1.000 NOK]	Less than one year	More than a year	No maturity	Total
Bank deposits	23 018			23 018
Held to maturity financial assets	30 175	207 441		237 616
Interest-bearing papers	233 823	572 111		805 934
Equity funds			411 016	411 016
Bond fund			157 201	157 201
<b>Total investments</b>	<b>287 015</b>	<b>779 552</b>	<b>568 217</b>	<b>1 634 785</b>

The company's financial assets are placed as bank deposits and in liquid interest-bearing securities and funds. The liquidity risk is very limited. Upon the sale of financial assets, the settlement day will be within 3 days.

#### Interest Risk

An increase of 1% in interest will lead to a reduction in the portfolio of bonds and other investments with fixed returns by an estimate of NOK 4.6 million. This corresponds to interest-sensitivity of 0.39 %. In accounts the portfolio will change by approximately NOK 1.6 million since NOK 224.2 million (market value) of the portfolio is classified as held to maturity.

#### Currency Risk

The financial assets are placed as bank deposits in NOK. The company carries no currency risk.

#### Credit Risk

Investments allocated on ratingcategori based on the banks rating of the issuers.

[1.000 NOK]				2009	2008
<b>Rating</b>					
AAA				67 350	99 346
AA				17 838	116 796
A				470 608	337 527
BBB				418 152	192 810
BB				81 961	23 253
No rating				167 861	246 742
<b>Total</b>				<b>1 223 769</b>	<b>1 016 474</b>

## NOTE 4 TECHNICAL RESULT AND TECHNICAL PROVISIONS

	Non-marine Private										Non-marine Commercial					
	Accident	Combi-ned	Motor	Other <sup>1</sup>	Total Private	Combi-ned	Motor	Liability	Workers com-pensation	Security	Cargo	Annual pure insurance	Total commercial	Pool-schemes	Total Protector	
Premiums written <sup>2</sup>	6 686	1 930	3 873	277 696	290 194	125 591	76 496	32 686	182 523	67 681	5 141	74 957	565 075	16 105	871 374	
Gross premiums	1 037	165	314	(6 632)	(5 116)	(64 842)	18 225	21 520	94 336	(7 932)	779	(44 027)	18 039	12 923	12 923	
Premiums ceded	7 733	2 095	4 186	271 064	285 078	60 729	94 721	54 206	276 888	59 749	5 220	30 330	563 113	16 105	884 296	
<b>Gross business</b>																
Premiums earned	6 354	1 469	3 048	277 698	288 480	123 538	76 127	30 460	177 592	59 478	4 353	67 489	539 036	15 574	843 091	
Claims incurred	(2 671)	(969)	(3 290)	(214 446)	(221 376)	(99 906)	(68 164)	(13 529)	(140 549)	(47 320)	(785)	(52 835)	(223 089)	(4 714)	(649 178)	
Insurance related operating expenses	(876)	(253)	(507)	(72 393)	(74 028)	(16 434)	(10 010)	(4 277)	(23 884)	(8 856)	(673)	(9 808)	(73 941)	(74)	(148 044)	
Technical result	2 807	247	(749)	(9 230)	(6 924)	7 198	(2 048)	12 654	13 160	3 302	2 895	4 845	42 006	10 786	45 869	
Reinsurers' share	969	118	172	6 628	(5 368)	(70 226)	12 442	18 192	92 445	(4 630)	449	(39 829)	8 844	(3 920)	(445)	
Premiums earned	(1 090)	(101)	(40)	1 816	585	52 870	(17 749)	(20 594)	(95 14)	4 762	(473)	30 953	(46 146)	(45 561)		
Claims incurred																
Insurance related operating expenses																
Commissions	(121)	17	132	(2 143)	(2 114)	(2 449)	(4 639)	(2 402)	(3 469)	(3 574)	(24)	(1 161)	(10 570)	(3 920)	(16 604)	
Reinsurance result																
For own account																
Technical result	2 686	265	(617)	(11 373)	(9 038)	4 748	(6 686)	10 252	9 690	6 876	2 871	3 685	31 436	6 866	29 265	
Claims incurred, gross	(3 513)	(1 008)	(2 727)	(186 552)	(193 800)	(140 230)	(64 234)	(16 626)	(146 265)	(54 251)	(1 072)	(44 499)	(467 177)	(1 576)	(662 653)	
Occurred this year	842	39	(564)	(27 893)	(27 576)	40 324	(3 930)	3 097	5 716	6 932	286	(8 336)	44 088	(3 038)	13 475	
Occurred previous years	(2 671)	(969)	(3 290)	(214 446)	(221 376)	(99 906)	(68 164)	(13 529)	(140 549)	(47 320)	(785)	(52 835)	(223 089)	(4 714)	(649 178)	
Total for the accounting year																
Claims incurred for own account	(3 513)	(882)	(2 603)	(182 235)	(189 234)	(33 520)	(62 033)	(16 626)	(146 265)	(39 169)	(1 072)	(44 499)	(467 177)	(1 576)	(662 653)	
Incurred during the year	(248)	(188)	(727)	(30 395)	(31 558)	(13 516)	(23 880)	(17 497)	(90 198)	(3 389)	(187)	(4 083)	(572 750)	(3 038)	(187 345)	
Incurred in previous years <sup>3</sup>																
Total for the accounting year	(3 761)	(1 070)	(3 331)	(212 630)	(220 791)	(47 036)	(85 913)	(34 123)	(236 464)	(42 558)	(1 258)	(21 883)	(469 234)	(4 714)	(694 739)	
Technical provisions gross																
Provision for unearned premiums	1 119	1 001	1 927	4 308	8 354	32 706	18 043	9 043	26 223	14 258	1 956	12 109	114 338	3 149	125 842	
NFSA minimum requirement	1 119	1 001	1 927	4 308	8 354	32 706	18 043	9 043	26 223	14 258	1 956	12 109	114 338	3 149	125 842	
Provisions for outstanding claims	6 351	476	814	337 500	345 141	118 229	40 220	35 491	369 454	88 747	826	14 961	667 927	5 138	1 018 205	
NFSA minimum requirement	6 344	456	814	337 108	344 722	57 116	40 167	33 891	359 002	85 101	826	14 961	591 065	5 138	940 924	
Technical provisions for own account																
Provision for unearned premiums	1 119	986	1 927	1 804	5 835	14 601	18 043	9 043	26 223	8 796	1 956	4 844	83 505	3 149	92 489	
NFSA minimum requirement	1 119	986	1 927	1 804	5 835	14 601	18 043	9 043	26 223	8 796	1 956	4 844	83 505	3 149	92 489	
Provision for outstanding claims	6 319	472	791	328 401	335 983	25 596	37 055	31 846	369 227	66 479	824	6 482	537 509	5 138	878 630	
NFSA minimum requirement	6 289	445	781	327 702	335 198	18 362	36 414	31 844	368 683	66 347	765	6 482	518 915	5 138	859 231	
Security provision	1 558	302	571	94 275	96 706	6 453	10 661	8 004	75 351	14 714	533	2 217	117 933	-	214 639	
NFSA minimum requirement	1 558	302	571	70 561	72 992	6 453	10 661	8 004	75 351	14 714	533	2 217	117 933	-	190 925	

<sup>1</sup> Includes child insurance, risk insurance and change of ownership insurance.

<sup>2</sup> Insurance policies in Norway

<sup>3</sup> Run-off-losses of NOK 170.4 million is due to changes in the reinsurance structure, the premium income is increased by the same amount.

	PROVISION FOR UNEARNED PREMIUMS			PROVISION FOR OUTSTANDING CLAIMS		
	Gross	For own account	Gross	For own account	Gross	For own account
<b>[NOK 1.000]</b>						
Pool-schemes:						
Norwegian Natural Perils Pool	3 149	3 149				
Workers' Compensation Insurance Association						
Motor Insurance Association						
Total	3 149	3 149	5 138	5 138	5 138	5 138

NOTE 5 INTANGIBLE ASSETS

Goodwill [1.000 NOK]		Total
Acquisition cost at 01.01.2009 <sup>1</sup>		1 432
Purchased		
Acquisition cost at 31.12.2009		1 432
Accumulated depreciation at 31.12.2009		(1 074)
Net Book value at 31.12.2009		358

<sup>1</sup> Additional payments associated with purchase of Gabler Liv AS.

Depreciation for the year		358
Goodwill is depreciated on a straight-line basis over the expected useful life of the economical advantage		
Expected useful life (years)		4

Intangible Assets [1.000 NOK]	Software	IT- system	Total
Acquisition cost at 01.01.2009	976	4 549	5 524
Purchased		5 172	5 172
Acquisition cost at 31.12.2009	976	9 721	10 696
Accumulated depreciation at 31.12.2009	(759)	(2 088)	(2 847)
Net Book value at 31.12.2009	217	7 633	7 849

Depreciation for the year	195	2 088	2 283
Intangible assets are depreciated on a straight-line basis over the assets expected useful life.			
Expected useful life (years)	4	3	

## NOTE 6 TANGIBLE FIXED ASSETS

Fixed Assets [1.000 NOK]	Office machinery	Furniture and fixtures	Art	Total
Acquisition cost at 01.01.2009	4 756	3 090	125	7 972
Purchased	443	137		580
Disposals	(737)			(737)
Acquisition cost at 31.12.2009	4 462	3 228	125	7 815
Accumulated depreciation at 31.12.2009	(3 190)	(1 692)		(4 882)
<b>Net Book value at 31.12.2009</b>	<b>1 272</b>	<b>1 536</b>	<b>125</b>	<b>2 932</b>
Depreciation for the year	878	479		1 357

Fixed assets are depreciated on a straight-line basis over the assets expected useful life. Artworks are not depreciated.

Expected useful life (years)	4	7
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## NOTE 7 INVESTMENTS

Investment [1.000 NOK]		Book value 31.12.09	Market value 31.12.09	Book value 31.12.08	Market value 31.12.08
Held to maturity financial assets		237 616	224 208	265 547	235 218
Financial assets at fair value through profit or loss		1 397 168	1 397 168	955 719	955 719
<b>Total investments</b>		<b>1 634 785</b>	<b>1 621 376</b>	<b>1 221 266</b>	<b>1 190 937</b>

### SUBORDINATED LOAN CAPITAL IN OTHER COMPANIES

Investment [1.000 NOK]	Currency	Acquisition cost	Book value	Market value	Duration
Held to maturity financial assets	NOK	34 774	34 751	32 572	0,48
Financial assets at fair value through profit or loss	NOK	17 984	19 588	19 588	0,13
<b>Total subordinated loan capital in other companies</b>		<b>52 757</b>	<b>54 338</b>	<b>52 159</b>	<b>0,35</b>

### HELD TO MATURITY FINANCIAL ASSETS

#### BONDS AND OTHER FIXED INCOME SECURITIES

Investment [1.000 NOK]	Currency	Acquisition cost	Book value	Market value	Duration
Government bonds	NOK	17 562	17 052	17 396	1,32
Municipalities and counties	NOK	15 443	15 485	15 416	3,11
Financial institutions	NOK	203 131	205 079	191 396	1,14
<b>Total held to maturity financial assets</b>		<b>236 135</b>	<b>237 616</b>	<b>224 208</b>	<b>1,29</b>

Average interest rate is estimated to 6,9% based on market value and 6,5% when based on book value. The weighted average for the total balance is calculated based on the individual security's weighted proportional share of interest-sensitivity.

## FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

### STOCKS AND SHARES

Investment [1.000 NOK]	Currency	Acquisition cost	Book value	Market value	
Equity Funds	NOK	350 000	411 016	411 016	
Total Stocks and shares		350 000	411 016	411 016	

### BONDS AND OTHER FIXED INCOME SECURITIES

Investment [1.000 NOK]	Currency	Acquisition cost	Book value	Market value	Duration
Financial institutions	NOK	626 948	641 950	641 950	0,18
Industrial company's	NOK	158 143	163 984	163 984	0,15
Bond fund	NOK	154 909	157 201	157 201	0,16
<b>Total bonds and other fixed income securities</b>		<b>940 001</b>	<b>963 135</b>	<b>963 135</b>	<b>0,17</b>
- of this not quoted on the stock exchange		383 113	390 454	390 454	0,16

Average effective interest rate based on market value is 4,03 %.

Average interest rate is future cash flows (coupon disbursements and payments on principal amount) discounted with expected market rate for the security concerned at the particular cash flow points in time. The effective interest rate on bond funds is estimated based on the bonds quotations.

### OTHER FINANCIAL ASSETS

Investment [1.000 NOK]	Currency	Acquisition cost	Book value	Market value	Duration
Bank deposits	NOK	23 018	23 018	23 018	0,00
Total other financial assets		23 018	23 018	23 018	0,00

## THE COMPANIES FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AT 31.12.2009

Assets		Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss		1 006 714	390 454	-	1 397 168
Total assets		1 006 714	390 454	-	1 397 168

Actual value of financial assets traded in active markets, are based on market value on the accounting day. A market is considered active if the market rates are easily and regularly available from a stock exchange, distributor, broker, industrial classification, price-setting service or regulatory authority, and these prices represent actual and regularly occurring market transactions. The market price applied to financial assets is the existing bid price. These instruments are included in level 1.

Actual value of financial instruments not traded in an active market, are determined by using valuation methods. These valuation methods maximise the use of observable data where available, and are based as little as possible on own estimates. The instrument is included in level 2, if all essential data are not based on observable market data.

The instrument is included in level 3, if one or more essential data are not based on observable market data.

### NOTE 8 RECEIVABLES

The company has no receivables due later than one year.

NOTE 9 RESTRICTED BANK DEPOSITS

[1.000 NOK]	2009	2008
Employee withholding tax	3 322	2 760
Total	3 322	2 760

NOTE 10 SHARE CAPITAL AND SHAREHOLDER INFORMATION

Share Capital consists of:	No of shares	Face value	Capital
A-shares (each share has one vote)	86 155 605	1	86 155 605
Protector Forsikring ASA has 2.149 shareholders at 31.12.2009.			
List of the 20 major shareholders at 31.12.2009	No of shares	Face value	Ownership
Odin Norden	7 192 055	7 192 055	8,3 %
Bank of New York, Mellon SA/NV	4 479 410	4 479 410	5,2 %
Morgan Stanley and co. intl. Plc	3 805 333	3 805 333	4,4 %
Alfred Berg Gambak	3 735 694	3 735 694	4,3 %
DNB Nor Luxembourg SA	3 619 934	3 619 934	4,2 %
Ojada AS	3 563 116	3 563 116	4,1 %
Protector Forsikring ASA	3 348 920	3 348 920	3,9 %
Bergtor AS	3 083 300	3 083 300	3,6 %
DnB Nor SMB	2 769 000	2 769 000	3,2 %
Gabler Rådgivning AS	2 652 751	2 652 751	3,1 %
MP Pensjon	2 375 706	2 375 706	2,8 %
Tjongsfjord Invest AS	2 261 809	2 261 809	2,6 %
Alfred Berg Norge +	2 210 000	2 210 000	2,6 %
Letra Invest AS	1 873 451	1 873 451	2,2 %
Hathon Eiendom AS	1 855 328	1 855 328	2,2 %
Frognes AS	1 649 916	1 649 916	1,9 %
Petroservice AS	1 479 712	1 479 712	1,7 %
Johan Vinje AS	1 437 841	1 437 841	1,7 %
Trond Høye	1 235 562	1 235 562	1,4 %
Trafalgar AS	1 154 331	1 154 331	1,3 %
<b>Total</b>	<b>55 783 169</b>	<b>55 783 169</b>	<b>64,7 %</b>
<b>Other shareholders</b>	<b>30 372 436</b>	<b>30 372 436</b>	<b>35,3 %</b>
<b>Total number of shares</b>	<b>86 155 605</b>	<b>86 155 605</b>	<b>100,0 %</b>

Shares owned by the board of directors and their close relations, together with shares owned by other senior executives and their close relations at 31.12.2009	Identification	No of shares	Face value	Ownership
Ojada AS	Board member, Erik Gunnar Braathen	3 563 116	3 563 116	4,1 %
Gabler Rådgivning AS	Chairman of the Board, Jostein Sørvoll	2 652 751	2 652 751	3,1 %
Tjongsfjord Invest AS	CEO, Sverre Bjerkeli	2 261 809	2 261 809	2,6 %
Trond Høye	Insurance Director	1 235 562	1 235 562	1,4 %
Ditlev de Vibe Vanay	CFO	225 800	225 800	0,3 %
JS Heff Invest AS	Board member, Jørgen Stang Heffermehl	222 260	222 260	0,3 %
Yarra AS	Trond Høye	200 000	200 000	0,2 %
Merete C. Bernau	Dir Claims handling, Change of Ownership Insurance	65 200	65 200	0,1 %
Pia Almvang	Dir Commercial	51 200	51 200	0,1 %
Puregas AS	Board member, Benedicte Bakke Agerup	20 000	20 000	0,0 %
Laila Stange	Jørgen Stang Heffermehl	14 558	14 558	0,0 %
Giuditta Cordero Moss	Board member	5 000	5 000	0,0 %
Arvid Moss	Giuditta Cordero Moss	1 000	1 000	0,0 %
Bjørn Stange Ankre	Jørgen Stang Heffermehl	300	300	0,0 %
Tor-Åge Schei	Employee elected board member	200	200	0,0 %
Hege Gran	Employee elected board member	100	100	0,0 %
Fredrik Messel	Dir Claims handling, Commercial	100	100	0,0 %
<b>Total</b>		<b>10 518 956</b>	<b>10 518 956</b>	<b>12,2 %</b>

#### OPTION PROGRAMME

In 2006 an option programme was established. The exercise period for the outstanding options was extended until 28 August 2011 by the General Meeting on 15 April 2009. Total outstanding options at year end amounted to 3.009.334 options. No options have been exercised in 2009. For details concerning the company's option programme see note 17 and 18.

Options owned by senior executives:	No of options
Sverre Bjerkeli	500 000
Ditlev de Vibe Vanay	250 000
Trond Høye	150 000
Svein Andreassen	150 000
Pia Almvang	175 000
Merete C Bernau	175 000
Fredrik Messel	100 000

## NOTE 11 PENSIONS

The company's pension liabilities are funded through a collective pension agreement. Based on insurance technical principals, actuarial calculations have been carried out on future pension payments. The calculated liabilities are held together with the value of the paid in and accumulated pension funds. The difference is kept as long-term liabilities possibly as pension funds along with assets. The established pension scheme satisfies the requirements of OTP. In 2009 the company has entered an employment contract with CEO about top pension. The employment contract has effect from 1 July 2004. 70% of the salary up to 12G which exceeds 12G is the maximum yearly pension. Allocation of top pension is in 2009 about NOK 3.7 million in net pension costs incl. employers contribution, where NOK 3 million is related to contribution from earlier years.

[1.000 NOK]	2009	2008
Present value of this years acquired pension	9 442	5 972
Interest costs on the acquired pension	770	610
Return on the pension funds	(630)	(503)
Expenses	484	207
Recognized implementation effect	2 909	-
Amortisation of deviation from estimates	292	155
<b>Net pension costs incl. employer's contribution</b>	<b>13 266</b>	<b>6 441</b>
Present value of future pension liabilities as at 31.12.	26 486	18 787
Pension funds at 31.12.	(12 916)	(10 024)
Surplus/deficit at 31.12.	13 570	8 763
Deviation from estimates not recognized in the profit and loss account	(5 429)	(5 280)
Accrued employer's contribution	1 148	491
<b>Net pension liabilities incl. employer's contribution</b>	<b>9 289</b>	<b>3 974</b>
<b>ECONOMICAL ASSUMPTIONS</b>		
Discount rate	4,5 %	3,8 %
Expected return	5,7 %	5,8 %
Future increase in salaries	4,5 %	4,0 %
Change in social security base amount	4,3 %	3,8 %
Pension adjustment	1,4 %	1,5 %

The actuarial assumptions are based on assumptions of demographical factors normally used within the insurance industry.

NOTE 12 TAX

[1.000 NOK]	2009	2008	Change
This year's taxes are divided between			
Tax payable	-	-	
Deferred tax in previous years	-	84	
Change in deferred tax	3 791	2 467	
<b>Total taxes</b>	<b>3 791</b>	<b>2 552</b>	

COMPUTATION OF THIS YEARS TAX

Profit before taxes	197 155	(45 395)	
Permanent differences	(151 704)	79 842	
Changes in temporary differences	(50 880)	(6 227 )	
Tax loss carried forward	-	(28 220)	
Basis for the tax expense of the year	(5 429)	-	
Tax payable 28%	-	-	
Payable tax in the balance sheet	-	-	

TEMPORARY DIFFERENCES

Fixed assets	(497)	(83)	414
Receivables	(800)	(800)	-
Financial assets	23 044	(567)	(23 611)
Technical provisions	141 254	107 513	(33 740)
Accounting provisions	(743)	-	743
Pension liabilities	(9 289)	(3 974)	5 315
Net temporary differences	152 969	102 090	(50 880)
Tax loss carried forward	(6 944)	(1 515)	5 429
Other differences	1 830	-	(1 830)
Differences which are not included in the calculation of deferred tax / deferred tax assets	141 254	107 513	(33 740)
Basis for deferred tax in the balance sheet	6 602	(6 939)	13 541
28 % deferred tax	1 849	(1 943)	3 791
<b>Deferred tax benefit in the balance sheet</b>	<b>(1 849)</b>	<b>1 943</b>	<b>(3 791)</b>

Reconciliation of tax

[1.000 NOK]	2009	2008
28% profit before taxes	55 203	(12 711)
Permanent differences (28%)	(42 477)	22 356
Inadequate provisions to tax charges in previous years	-	84
The effect of changed accounting principles	(9 447)	(7 178)
3% rule of unrealised gains on equity	513	-
Estimated tax	3 791	2 552
<b>Tax from profit and loss account</b>	<b>3 791</b>	<b>2 552</b>

#### NOTE 13 OTHER LIABILITIES

[1.000 NOK]	2009	2008
Payables	2 754	2 499
Reinsurance yet to be settled	541	152 221
Allocation of vacation pay	6 323	5 278
Allocation of employers contribution	3 997	2 521
Advance tax deduction	3 008	2 481
Other liabilities	4 309	4 986
<b>Total liabilities</b>	<b>20 933</b>	<b>169 985</b>

Liabilities in connection with reinsurance consist of reinsurance yet to be settled (NOK 0.5 million). These liabilities are the reinsurers' share of premiums after deductions for commissions and claims. The liabilities are settled pursuant to the reinsurance contract. Pendant to these liabilities are the reinsurers' share of unearned premiums and the reinsurers' share of provisions for outstanding claims. Protectors reinsurers have solid credit ratings. Reduction in reinsurance yet to be settled is the result of the termination of a reinsurance contract.

The company has no secured liabilities.

#### NOTE 14 SALES EXPENSES

[1.000 NOK]	2009	2008
Sales expenses	8 379	11 952
% of premium due	1,0 %	1,6 %

The company's sales expenses consists of commission to the insurance brokers

#### NOTE 15 INSURANCE RELATED ADMINISTRATIVE EXPENSES

Insurance related administrative expenses [1.000 NOK]	2009	2008
Depreciations (notes 5 and 6)	3 998	1 482
Salary- and pensions costs (note 16)	100 128	72 757
Administrative costs	5 941	5 721
Remunerations	14 913	16 081
Other costs	14 684	21 880
<b>Total</b>	<b>139 665</b>	<b>117 921</b>

Auditing remuneration [1.000 NOK]	2009	2008
Auditing (inclusive VAT)	673	1 150
Other services outside auditing (inclusive VAT)	149	66
<b>Total</b>	<b>822</b>	<b>1 216</b>

## NOTE 16 LABOUR EXPENSES, PENSIONS, NUMBER OF EMPLOYEES

Labour- and pension costs [1.000 NOK]	2009	2008
Salaries <sup>1</sup>	66 256	48 090
Director's remuneration , control committee, election committee	742	859
Pension costs <sup>2</sup>	12 284	5 890
Social security tax	10 590	7 320
Other payments	10 256	10 597
<b>Total</b>	<b>100 128</b>	<b>72 757</b>

<sup>1</sup> The company has an ordinary arrangement for performance-related pay. The arrangement involves all permanent employees. The company has reserved NOK 5 million in 2009. Whether performance-related pay is triggered depends on achievement of goals pursuant to concluded performance contracts. The performance-related pay is paid out the year following the contribution year. The company has established a 3-years incentive scheme to leaders and selected key personnel. In 2009 it is reserved NOK 6.4 million on this scheme.

<sup>2</sup> The company has a collective pension scheme which applies to all employees. The CEO also has an employment contract in respect of top-pension in addition to collective pension scheme. See note 11 for further details.

Number of employees	2009	2008
Number of employees at 31.12.	100,0	93,0
Number of man-labour years at 31.12.	99,6	92,4
Average number of employees at 31.12.	96,5	85,0
Average number of man-labour years at 31.12.	96,0	84,2

## NOTE 17 REMUNERATIONS TO SENIOR EXECUTIVES

### Declaration of determination of salaries and other remunerations to senior executives

Pursuant to section 6-16a of the Public Limited Companies Act, the Board of Directors must draw up a special statement of guidelines for the pay and other remuneration of senior executives. Furthermore, section 5-6 (3) of the same Act prescribes that an advisory vote must be held at the General Meeting on the Board of Directors' guidelines for the remuneration of the executive management for the coming financial year (see (iii) below). In so far as the guidelines concern share-related incentive arrangements, these must also be approved by the General Meeting (see (iii) below).

The agreements entered into and which are shown below provide, according to the Board, for appropriate incentives in line with the company's desire for growth, profitability and a good working environment. The principles for remunerations used in 2009 are continued in 2010.

(i) Information regarding pay and other remuneration of the executive management in the previous financial year is provided in the table below (payments and remunerations).

(ii) With regard to guidelines for pay and other remuneration of the executive management in the coming financial year, the Board of Directors will present the following guidelines to the General Meeting in 2010 for an advisory vote:

The purpose of Protector's terms and conditions policy is to attract personnel with the competence that the company requires, further develop and retain employees with key expertise, and promote a long-term perspective and continuous improvement with a view to achieving Protector's business goals.

The general approach adopted in Protector's policy is to offer a total compensation that is competitive in order for the company to be able to

attract and retain the best senior executives.

Compensation may consist of the following elements:

#### *(a) Fixed elements*

The fixed salary shall be competitive and shall reflect on performance, responsibility and professional skills as is connected with a leadership responsibility in a company in Protector's size and branch. Potential fringe benefits shall be in accordance with market practice and reasonable.

The management of the company has entered into a collective pension scheme applicable for all employees. The scheme is a remuneration scheme which ensures that all employees are entitled to a pension of 70% of their salary at the age of 67 limited to an amount of 12 times the base amount set by National Insurance. Full pension (70%) is earned after 30 years of employment.

In addition to the collective pension scheme the CEO has a contract about top pension of maximum 70% of the salary up to 12G which exceeds 12G.

#### *(b) Variable elements – annual bonus*

Protector has established a scheme for all employees in the company and remunerate good results. Individual performance contracts are signed annually in connection with the company's budget process. Based on the level of performance, the scheme can give up to 10-20% (dependent on job position) of the annual salary.

In addition to the ordinary incentive scheme it is in 2009 established a 3-years incentive scheme for leaders and other key personnel. The incentive scheme applies to fiscal years 2009-2011 and is based on good results in the period. Maximum yearly provision is limited to 6 months wages per employee who is included in this scheme. The payment suppose that those included in this scheme still works in undenounced position 1 May 2012.

(iii) Special comments on share-based incentive arrangements  
 On 15 April 2009 the General Meeting decided that the exercise period for outstanding options will be extended to 28 August 2011 and the options can be completely or partially extended at 28 August and 28 February each year. The strike price in the period is equal to the strike price at 28 August 2009 at NOK 7.75. According to the existing program there will not be allocated further options. Outstanding options can not be transferred and can only be exercised if one still works in undenounced position.

The company has concluded an agreement of pay after termination of employment with the CEO. The agreement has been entered into in order to secure clear guidelines in the event the board of directors wishes to terminate the CEO's conditions of employment.

Yearly the board of directors reviews salaries and other remunerations to the CEO. The CEO determines, with approval from the board of directors, the general terms and remunerations awarded to other senior executives.

Payments and remunerations [1.000 NOK]	Remunerations	Salaries	Performance-related pay	Other remunerations	Paid-up pension premium	Total remunerations
<b>SENIOR EXECUTIVES</b>						
Sverre Bjerkeli, Chief Executive Officer <sup>1</sup>		2 678	254	210	225	3 367
Ditlev de Vibe Vanay, Chief Financial Officer		1 146	76	113	205	1 540
Trond Høye, Insurance director		1 191	168	10	260	1 629
Merete C Bernau, Director Claims handling, Change of Ownership insurance		985	39	19	207	1 250
Pia Almvang, Director Commercial		1 073	133	39	120	1 365
Svein Andreassen, Director Sales, Change of Ownership insurance		1 091	-	122	194	1 406
Fredrik Messel, Director Claims handling, Commercial		1 017	101	12	196	1 326
<b>Total</b>		9 179	772	525	1 407	11 884

<sup>1</sup> The CEO has concluded an agreement of pay after termination of employment for 2 years if given notice from the company. In 2009 the CEO also has a agreement about top-pension with a cost of NOK 3.7 million.

Payments and remunerations [1.000 NOK]	Remunerations <sup>1</sup>	Salaries	Performance-related pay	Other remunerations	Paid-up pension premium	Total remunerations
<b>BOARD OF DIRECTORS</b>						
Jostein Sørvoll, Chairman of the Board <sup>2</sup>	117					117
Jørgen Stang Heffermehl, Board member	120					120
Benedicte Bakke Agerup, Board member	120					120
Erik Gunnar Braathen, Board member (new in 2009)	-					-
Giuditta Cordero Moss, Board member	120					120
Hege Gran, Employee elected board member	45	837	74	41	220	1 217
Tor-Åge Schei, Employee elected board member	45	818	102	27	163	1 154
<b>Total</b>	567	1 655	176	68	383	2 848
<b>CONTROL COMMITTEE</b>						
Anne Merete Nicolaysen, Chair	60					60
Truls Holthe, Member	40					40
Tore G Clausen, Member	40					40
<b>Total</b>	140					140
<b>ELECTION COMMITTEE</b>						
Erik Gunnar Braathen, earlier leader	15					15
Anders Jørgen Lenborg, member	10					10
Per Ottar Skaaret, member	10					10
<b>Total</b>	35					35

<sup>1</sup> The note states disbursed remunerations, earned in 2008.<sup>2</sup> In 2008 the remuneration to Jostein Sørvoll was KNOK 200, which was settled against other income in accordance with the resignation agreement.

It has not been granted loans or given guarantees to senior executives, the remainder of employees or other close relations.

## NOTE 18 OPTION PROGRAMMES

### Option programme established for senior executives and key personnel.

On 12 December 2006, the General Meeting approved a new option programme which involves a total of 4 million options. The option programme was set up as a subscription right programme where each option gave the right to subscribe for one share in the company. On 15 April 2009, the General Meeting decided to extend the exercise period of outstanding options with 2 years to 28 August 2011. The options can be exercised completely or partially on 28 August and 28 February each year. The strike price in this period is equal to the strike price of NOK 7.75 in the original programme. At the time when the decision to extend the exercise period was reached, there were 3.244.334 outstanding options. Granted options in 2007 were 191.498, and the remaining options lapsed or were not granted.

### CHANGE IN TOTAL OUTSTANDING OPTIONS:

	2009		2008	
	Average strike price NOK per share	Number of options	Average strike price NOK per share	Number of options
At 01.01.		3 244 334		2 902 668
Granted		-		687 500
Expired		235 000		345 834
Exercised	7,75	-	7,10	-
<b>Outstanding options 31.12</b>		<b>3 009 334</b>		<b>3 244 334</b>

The real value of the options is calculated at the point in time of which the options are granted, and the cost will be booked against income over the earning period. In the Profit and Loss account for 2009 it is charged an expense of NOK 3.4 million related to the option programme. Charging the option costs as an expense will not put financial strain on the company's liquidity, and the options costs are credited other paid-in equity. The option expense charge will not affect the company's total equity after allocation of the profit for the year. If the employee chooses to exercise the option and the employee is taxable in Norway, the company will have to pay employers' national insurance contributions on the discount in the price of which the employee can buy the share. The benefit of the option contract is calculated to the difference between market value of the shares at the point of which the option is exercised and the fixed strike price. Based on the employees tax benefits at 31.12.2009 provisions for the social security tax of NOK 0.7 million have been made.

Options	No assigned <sup>1</sup>	No exercised	Strike price	No not exercised	Value of options <sup>2</sup>
Sverre Bjerkeli	-	-	-	500 000	875 000
Ditlev de Vibe Vanay	-	-	-	250 000	437 500
Trond Høye	-	-	-	150 000	262 500
Svein Andreassen	-	-	-	150 000	262 500
Pia Almvang	-	-	-	175 000	306 250
Merete C Bernau	-	-	-	175 000	306 250
Fredrik Messel	-	-	-	100 000	175 000

<sup>1</sup> No granted options in 2009

<sup>2</sup> Net option value (share price - strike price). Share price equals the last quoted price on the stock exchange NOK 9.50. Strike price equals NOK 7.75.

NOTE 19 NET FINANCIAL INCOME AND EXPENSES FROM FINANCIAL ASSETS

[1.000 NOK]	2009	2008
<b>Income from financial assets</b>		
Interest income		
Interest income	44 381	39 157
Income from dividend	-	3 495
Unrealised gains on financial assets	190 123	25 680
Gains from realisation of financial assets	9 500	44 770
<b>Total income from financial assets</b>	<b>244 003</b>	<b>113 102</b>
<b>Expenses from financial assets</b>		
Unrealised losses on financial assets	(4 948)	(115 330)
Losses from realisation of financial assets	(13 579)	(24 703)
Administration expenses on financial assets	(1 050)	(1 286)
<b>Total expenses from financial assets</b>	<b>(19 577)</b>	<b>(141 320)</b>
<b>Net financial income</b>	<b>224 426</b>	<b>(28 217)</b>

NET FINANCIAL INCOME DIVIDED BY ASSETS CLASS

**Net income and gains / (loss) from financial assets at fair value through profit or loss**

Interest income from financial assets at fair value through profit or loss	30 667	25 810
Net gains / (loss) from equity and shares	156 224	(76 980)
Net gains / (loss) from bonds and certificates	26 939	10 025
Administration expenses	(1 040)	(1 277)
<b>Total net income and gains / (loss) from financial assets at fair value through profit or loss</b>	<b>212 790</b>	<b>(42 421)</b>

Net income and gains / loss from held to maturity financial assets

Net interest income from held to maturity financial assets	13 714	13 348
Net gains / (loss) from held to maturity financial assets	(2 068)	866
Administration expenses	(10)	(10)
<b>Total net income and gains / (loss) from held to maturity financial assets</b>	<b>11 636</b>	<b>14 204</b>

**Net income / (expenses)**

224 426 (28 217)

NOTE 20 EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit for the year assigned to the company's shareholders at a weighted average number of outstanding ordinary shares throughout the year, net of treasury shares.

[1.000 NOK]	2009	2008
Profit for the year assigned to the company's shareholders	193 363	(47 946)
Weighted average number of shares	84 101 954	94 488 569
<b>Earnings per share</b>	<b>2,30</b>	<b>(0,51)</b>

**Diluted earnings per share**

The calculation of diluted earnings per share, used weighted average number of ordinary shares outstanding during the year, controlled for the impact of the conversion of all potential shares which could lead to dilution. The company has share options that lead to dilution. For stock options there will be made a calculation to determine the number of shares that could have been effected at market price (calculated at the average share price on the company's shares during the year) based on the monetary value of the subscription right of the outstanding stock options. Number of shares calculated as described above is compared with the number of shares that would be issued if all stock options were exercised. Difference attributed to the denominator in the fraction of shares issued without consideration..

[1.000 NOK]	2009	2008
Profit for the year assigned to the company's shareholders	193 363	(47 946)
Weighted average number of shares	84 101 954	94 488 569
Adjusted for stock options	3 166 622	2 972 452
<b>Diluted earnings per share</b>	<b>2,22</b>	<b>(0,49)</b>

**NOTE 21 CAPITAL RATIO AND SOLVENCY MARGIN**

[1.000 NOK]	2009	2008
Total equity	562 664	416 148
Proposed dividend	(103 508)	(30 154)
Administration provision	(69 032)	(43 700)
Natural perils fund	(33 305)	(24 890)
Guarantee scheme	(32 079)	(23 647)
Intangible assets	(8 207)	(7 619)
<b>Core capital</b>	<b>316 533</b>	<b>286 137</b>
Reinsurance provision	(6 838)	(15 276)
<b>Net primary capital</b>	<b>309 695</b>	<b>270 861</b>
Assets with weighted risk of 0%	189 980	337 119
Assets with weighted risk of 10%	40 195	42 403
Assets with weighted risk of 20%	785 554	573 929
Assets with weighted risk of 100%	948 916	661 760
<b>Risk weighted total assets as at 31.12.</b>	<b>1 110 047</b>	<b>780 786</b>
<b>Capital ratio</b>	<b>28 %</b>	<b>35 %</b>
Net primary capital	309 695	270 861
Proportion of security provision	109 630	81 898
Proportion of Natural perils fund (25%)	8 326	6 222
<b>Solvency margin capital</b>	<b>427 651</b>	<b>358 982</b>
Solvency margin minimum requirement	160 414	108 262
<b>In excess of requirement</b>	<b>267 237</b>	<b>250 719</b>
Solvency margin capital in percent of requirement	267 %	332 %

# DECLARATION BY THE MEMBERS OF THE BOARD AND THE CEO

We confirm, to the best of our knowledge, that the financial statements for the period 1 January to 31 December 2009 have been prepared in accordance with current applicable accounting standards, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the entity taken as a whole.

We also confirm that the Directors' Report includes a true and fair review of the development and performance of the business and the position of the entity, together with a description of the principal risks and uncertainties facing the entity.

Oslo, 10 March 2010

The Board of Directors of Protector Forsikring ASA

Translation – not to be signed

Jostein Sørvoll  
(Chairman)

Jørgen Stang Heffermehl

Benedicte Bakke Agerup

Erik G. Braathen

Giuditta Cordero Moss

Hege Gran

Tor-Åge Schei

Sverre Bjerkeli  
(CEO)

# AUDITOR'S REPORT



PricewaterhouseCoopers AS  
Postboks 748 Sentrum  
NO-0106 Oslo  
Telephone +47 95 26 00 00  
Telefax +47 23 16 10 00

To the Annual Shareholders' Meeting of Protector Forsikring ASA

## Auditor's report for 2009

We have audited the annual financial statements of Protector Forsikring ASA as of December 31, 2009, showing a profit of NOK 193 363 thousand. We have also audited the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit. The annual financial statements comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The regulations of the Norwegian accounting act and accounting standards, principles and practices generally accepted in Norway have been applied in the preparation of the financial statements. These financial statements are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the laws, regulations and auditing standards and practices generally accepted in Norway, including standards on auditing adopted by The Norwegian Institute of Public Accountants. These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements have been prepared in accordance with the law and regulations and give a true and fair view of the financial position of the company as of December 31, 2009, and the results of its operations and its cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway
- the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information in accordance with the law and good bookkeeping practice in Norway
- the information given in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit are consistent with the financial statements and comply with the law and regulations.

Oslo, 10 March 2010  
**PricewaterhouseCoopers AS**

Magne Sem  
State Authorised Public Accountant (Norway)

Note: This translation from Norwegian has been prepared for information purposes only.

Alta Arendal Bergen Bodø Drammen Egersund Flora Fredrikstad Feiring Gardermoen Gol Hamar Hønefoss Høysund Kongsberg Kongsberg Kristiansand Kristiansund Lyngdal Mandal Molde Mo i Rana Molde Mosjøen Miljø Namsos Oslo Sandefjord Sogndal Stavanger Stryn Tønsberg Trondheim Tysvær Ulsteinvik Ålesund  
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# CONTROLL COMMITTEE'S STATEMENT

To the Board of Representatives' and the Annual Shareholders' Meeting of Protector Forsikring ASA

## CONTROL COMMITTEE'S STATEMENT FOR 2009

The Control Committee has examined the company's activities, including the Board's disposition, and confirms that the company has followed the laws, regulations and provisions as well as the articles of association and resolutions passed by the company's decision-making bodies.

The Control Committee has reviewed the Board of Director's proposals for the 2009 annual report and the audit report of 10 March 2010. With reference to the audit report, the Control Committee recommends full acceptance of the submitted annual statement as Protector Forsikring ASA's annual report for 2009.

Oslo, 11 March 2010

Translation – not to be signed

Anne Merete Nicolaysen (chair)

Tore G. Clausen

Truls Holthe

# BOARD OF REPRESENTATIVES' STATEMENT

To the Annual Shareholders' Meeting of Protector Forsikring ASA

## THE BOARD OF REPRESENTATIVES' STATEMENT FOR 2009

The Board of Directors' proposed annual report and the annual accounts, together with the auditor's report and the Control Committee's statement have, in the manner required by law, been presented to the Board of Representatives. The Board of Representatives recommends that the Annual General Meeting approve the Board of Directors proposed Annual Report and Accounts of Protector Forsikring ASA.

The Board of Representatives raises no objections to the Board's proposal regarding the allocation of the profit for the year of Protector Forsikring ASA.

Oslo, 23 March 2010

Translation – not to be signed

Halgrim Thon  
Chair of the Board of Representatives

# CORPORATE GOVERNANCE

Protector Forsikring ASA is a Norwegian general insurance company (P&C) listed on the Oslo Stock Exchange. The company is required to hold a licence to engage in general insurance and is subject to legislation for finance institutions that ensures strict regulation and follow-up of its business activities. The continuous monitoring of Norwegian finance institutions is covered by Norwegian laws and regulations and implemented by The Financial Supervisory Authority of Norway.

The company's principles for corporate governance were first agreed by the Board 4 May 2007 and revised at a board meeting 10 March, 2010. The principles shall contribute towards creating the greatest possible return on investment for shareholders over time, strengthened confidence in the company through a transparent corporate culture, and a good reputation. To a large degree, the principles follow the laws and regulations by which the company is governed. In addition, they are based on the Norwegian Code of Practice for Corporate Governance of 21 October 2009.

The following presentation of corporate governance in Protector Forsikring mainly follows the general structure and form of the Norwegian Code of Practice for Corporate Governance of 21 October 2009.

## CORE VALUES AND ETHICAL GUIDELINES

Protector sets out to challenge the established insurance companies. The company will achieve this goal through unique business relations (easy to do business with, competitive, reliable and trustworthy), good decision-making and cost-effective solutions. Protector shall establish a reputation as a considerable and competent provider of risk-reducing solutions.

Protector has defined 4 core values as the basis for developing a corporate culture and which will guide the day-to-day running of the business. These core values are: Trustworthy, Accommodative, Brave and Enthusiastic.

**TRUSTWORTHY:** Protector endeavours to develop competence at all levels, ensure that deadlines are kept, and that we are honest and upright in everything we do. By putting ourselves in the client's position we show that we take the client seriously and thus create confidence.

**ACCOMMODATIVE:** Protector's employees shall be positive, open and flexible. This means that we look for opportunities, not problems, and are solution-oriented in everything we do.

**Brave:** Protector's employees shall stand for what the company believes in. Each and every one is urged to exercise the decision-making powers at their disposal. We shall never avoid the truth, and shall be transparent and clear in all communications.

**ENTHUSIASTIC:** Protector's employees are urged to participate in company matters and take initiatives. We wish to provide a good and honourable service. We will achieve this by thoroughly getting to grips with cases and keeping the client continually informed. We shall also endeavour to give each other feedback internally.

Protector has established a set of ethical guidelines to govern what is acceptable behaviour for employees and others who represent the company. The aim of the guidelines is to create a solid corporate culture as well as look after Protector's integrity by helping employees to exercise good business practice. The guidelines are also meant as a tool for evaluating our individual performances, as well as a means for developing our corporate identity.

## BUSINESS

The articles of association describe the company's business and objectives. Protector's objective is to provide general insurance and reinsurance and the company has a licence to operate within all classes except classes 14 credit insurance and 5 guarantee insurance. The company's prioritised market segments include the commercial and public sector and the market for affinity insurance. The company's annual report provides more information about the company's objectives, and the main features of its business strategy and activity.

## SOLVENCY CAPITAL AND DIVIDENDS

The company has continuous focus on ensuring that the solvency margin capital matches Protector's objectives, strategy and risk profile. The company shall endeavour to optimise its capital while at the same time maintain sufficient capital to satisfy the regulatory capital requirements, shareholders' confidence and flexibility for growth and development.

The Board will propose for the general meeting a future dividend policy where the intention is to distribute 5 – 15% of the solvency capital as cash dividends, after taken into consideration the profit for the year, capital requirements inclusive acceptable buffers and necessary flexibility for growth and development of the company. Any excess capital after distribution of dividends may be returned to the shareholders in the form of a share buy back programme.

The Board is also authorised to repurchase 8 615 560 own shares. This corresponds to approximately 10% of the company's total share capital. This authority expires with the ordinary general meeting in 2010. The Board of Directors' will purpose for the general meeting that the authorisation is renewed. At year-end 2009, the company has a holding of 3,348,920 own shares.

#### EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH CLOSE ASSOCIATES

The company has only one class of shares and all shareholders are treated equally.

Existing shareholders have re-emption rights to subscribe for shares in the event of an increase in capital, unless the Board finds it expedient and in the interest of the shareholders to waive this right. If the Board proposes to the general meeting to waive this pre-emption right, then such a proposal must be fully justified.

Any transactions carried out by the company in its own shares shall be carried out through the stock exchange whenever possible. The company is listed on the Oslo Stock Exchange under the ticker PROTCT.

The company has established rules for trading in the company's shares by primary insiders or close associates of any such parties (defined as transactions that involve shareholders, board members, executive managers, members of the control committee or auditor and close associates of these). There are also insider rules for other employees in the company.

The company is generally reserved about transactions by shareholders, board members, executive managers and their close associates. To avoid damaging the company's reputation, the Board believes it essential to be open and cautious about transactions that could be perceived as doubtful in terms of the closeness between the parties. The members of the board and management shall therefore give the board by the chairman written notification if they have significantly direct or indirect interests in transactions undertaken by the company.

In general, the company will endeavour to follow the principles for equal treatment and transactions with close associates that are laid down in the Norwegian Code of Practice for Corporate Governance.

#### FREELY NEGOTIABLE SHARES

There is no restriction on negotiability of the company's shares beyond the provisions of the Financial Institutions Act.

#### GENERAL MEETINGS

Protector holds its AGM no later than the end of June each year. All shareholders with a known address receive written notice of the AGM by post, sent out no later than 21 days before the AGM. The notice calling the meeting and supporting papers are published on the company's website 21 days before the general meeting. All shareholders are

entitled to attend general meetings, and arrangements are also made for proxy voting. The company should to the extent possible, prepare a form for the appointment of a proxy, which allows separate voting instructions to be given for each matter to be considered by the meeting and for each of the candidates nominated for election.

The Chairman of the board, the Chairman of the committee of representatives, the nomination committee and the auditor shall be present at the meeting. An independent chairman shall be elected to conduct the meeting. By this is meant that a chairman and his/her close associates (Public Limited Liability Companies Act § 1-5) must not have substantial personal or financial interests in resolutions to be dealt with by the general meeting concerned.

#### NOMINATION COMMITTEE

Protector's articles of association regulate the company's nomination committee, which has three members. The shareholders at the general meeting elect the members of the committee. The nomination committee is independent of the company's board of directors and management, and its composition aims to ensure broad representation of shareholder interests.

The nomination committee is responsible for proposing candidates to the board of representatives, the board of directors, the control committee and the nomination committee, and the remuneration of the members of these bodies. The committee must give reasons for their recommendations. The committee shall operate in accordance with the Norwegian Code of Practice for Corporate Governance.

#### BOARD OF REPRESENTATIVES

The Board of Representatives in Protector is a legal requirement, and has 12 members, of which 8 are elected by the general meeting and 4 by the company's employees. Members are each elected for a two-year term of office so that half the members retire each year. It is a statutory requirement that the members elected by the general meeting shall reflect the company's interest groups, customer structure and its function in society.

The duties of the board of representatives include making recommendations to the AGM on the Board's proposal for the annual report and accounts, electing the shareholder nominated directors, including the chairman and deputy chairman, to the board of directors, determining the fees paid to the directors, electing the company's auditor and determining the auditor's fee, issuing the mandate for the work of the control committee and considering reports from the control committee. The board of representatives is entitled to make recommendations to the board of directors on any matter.

#### THE BOARD OF DIRECTORS

According to the company's articles of association the board of directors shall consist of minimum 3 and maximum 9 directors including the number of deputy directors decided by the board of representatives. The

company's employees shall appoint at least 1 member and one deputy director. If a director elected by the employees resigns from the company, the director shall resign from the board of directors. The directors of the board of directors and the deputy directors are elected for two – 2 – year terms. When retiring there will be a drawing of lots among those having served for an equal length of time. The Chairman of the board and Deputy Chairman are elected for one year at a time.

In 2009, the Board consisted of 7 members, 5 members elected by the shareholder's at the general meeting and 2 members elected by and from among the employees. From 2010, the board of representatives shall elect the shareholder nominated directors, including the Chairman and Deputy Chairman.

The company's intention with the composition of the company's board is that the members are elected in light of an evaluation of the company's needs for expertise, capacity and balanced decisions, and with an intention to ensure that the board can perform independent of any special interests and that the board can function effectively as a collegiate body. Moreover, at least half of the board members shall be independent of the company's executive management and material business contacts. At least two of the board members elected by shareholders shall be independent of the company's main shareholders. The board of directors shall not include representatives of the company's executive management. An assessment of independence shall take into consideration whether the board member; has been employed in the company, has share options in the company, has cross-relations with other board members or general management, has close family links or otherwise has represented or represents material business relations with the company. Information about the individual board member's qualifications, capacity and independence are given at page 18-22. Moreover, note 10 to the annual accounts states how many shares the individual shareholder owns in the company. Members of the board are encouraged to buy shares in the company. The nomination committee's proposals for individuals as board members will be based on the above-mentioned guidelines.

In the company's opinion the current board of directors satisfies the requirements set by the Norwegian Code of Practice for Corporate Governance to the members' independence of the company's executive management and material business relations.

#### CONTROL COMMITTEE

The Control Committee of Protector is a legal requirement, and has three members. The control committee shall ensure that the company carries out its business in an appropriate and reassuring manner in accordance with relevant laws, regulations and guidelines. The committee is entitled to look into any matter, and has access to all relevant documentation and information. The committee has the power to demand information from any employee and any member of the company's corporate bodies. The control committee has no decision-making powers.

#### THE WORK OF THE BOARD OF DIRECTORS

In accordance with Norwegian law, the board of directors has the ultimate responsibility for the management at the company and for supervising its day-to-day management and activities in general. In addition to the mandatory requirements, the board of directors shall operate in accordance with the company's written instructions for the board. The instructions stipulate rules for administrative procedure, confidentiality, competency and responsibility for establishing a control system to ensure that the company is run in accordance with relevant laws and regulations. A deputy chairman shall be elected for the purpose of chairing the board in the event that the chairman cannot or should not lead the work of the board. In accordance with its instructions, the board of directors shall, to the extent it is necessary, agree to strategies, business plans and budgets for the company. In addition, the board shall ensure that the company has a good management with a clear internal allocation of responsibilities and duties. In this connection, a set of instructions has been prepared for the CEO.

Each year, the board of directors agrees a concrete meeting and work plan for the following year. The plan includes strategy work, other relevant business problems and control work. Further information about the work of the board of directors is provided in the directors' report.

#### BOARD COMMITTEES

The audit committee is a legal requirement and shall according to the company's articles of association consist of 3 members elected by and among the members of the board of directors. The majority of the members of the audit committee shall be independent of the company and its business. The audit committee shall perform the duties stipulated in the Act on Insurance Activity section 5-11. The audit committee will be established after the next election of members to the board of directors and not later than 30 June 2010.

The board will not establish sub-committees beyond the legal requirements. The size of the board and the frequency of its meetings mean that such committees are not required.

#### RISK MANAGEMENT AND INTERNAL CONTROL

The company is subject to strict requirements for risk management and internal control. This includes a requirement for an annual review of the company's most important areas of exposure to risk and its internal control arrangements. In connection with the annual review of the company's internal control, a complete assessment of all routines and procedures is implemented, including an updating of the risk to which the management believes the company is exposed and accompanying control measures. As a finance institution the company is subject to Regulation no. 1057 of 20 June 1997 relating to the clarification of responsibility for control, documentation and review of the company's internal control. The company has established routines that are in accordance with the regulation.

#### REMUNERATION OF THE BOARD OF DIRECTORS

The board of representatives determines the fees paid to the board of directors following a proposal from the nomination committee. The remuneration shall reflect the board's responsibility, expertise, time

commitment and the complexity of the company's business. The board receives a fixed annual fee for its work, and has no share options. Details of the amounts paid to the individual board members are provided in the annual report. As a rule, members of the board, or companies to whom they are linked, shall not take on assignments beyond the work done by the board for the company. If they nevertheless take on such assignments, they must inform the entire board. Substantial payments from the company over and above the fixed board fees shall be presented to the general meeting for approval. Information about the scope and costs linked to such work shall also be provided in that payments beyond the normal fee shall be specified separately in the annual report. The company does not give loans to members of the board of directors.

#### REMUNERATION OF THE EXECUTIVE MANAGEMENT

The company's instructions to the board of directors stipulate that the board in plenum shall determine the salary and other remunerations to the CEO. The board shall also establish guidelines for the remuneration to other members of the executive management. These guidelines are communicated to the annual general meeting and are included in the notes to the annual accounts. The board of directors shall ensure the remuneration to the executive management reflects any positive value creation for shareholders. In line with the provisions of the Accounting Act, details of salaries and other remunerations to the CEO and certain other executive managers shall be stated in the notes to the annual accounts.

#### INFORMATION AND COMMUNICATIONS

For the communication of financial and other price-sensitive information, the board of directors has based its policy on the requirements of the stock market regulations and provisions of the Acts relating to accounting and securities trading. In addition, Protector has a corporate culture based on openness, which means that all relevant information about the company's business activity will be published on the company's website, including annual and quarterly reports. Annual and quarterly reports are also made available via the Oslo Stock Exchange's reporting system. The company also aims to provide open presentations in connection with the publishing of annual and quarterly reports. The company has a financial calendar on its homepage and will provide the same information via the Oslo Stock Exchange's reporting system. This overview will contain the date for the annual general meeting as well as dates for the publishing of quarterly reports. With the presentation of company information for individual shareholders or other interested parties, only publicly available information is presented.

#### TAKE-OVERS

In the event of a take-over bid for the company, the board of directors shall evaluate the situation thoroughly and with consideration for the rules relating to equal treatment of all shareholders. The board shall gather all relevant information, including the views of the employees, in order to undertake the best possible assessment of such an event. The board will thereafter give the individual shareholders the best possible advice with underlying information that ensures that each individual

shareholder is able to take a position on an eventual bid.

The board of directors will not seek to hinder or obstruct take-over bids for the company's activities or shares unless there are particular reasons for this.

Any transaction that is in effect a disposal of the company's activities shall be decided by a general meeting.

The company has no clauses that can exclude it from the restrictions under the Securities Trading Act § 6-17 concerning "Restriction of the offeree company's freedom of action" in a take-over process. Nor has the general meeting given the board of directors or CEO any special authority for use in such situations.

#### AUDITOR

The auditor shall submit the main features of the plan for the audit of the company to the board of directors annually. The auditor shall take part in meetings with the board of directors that deal with the annual accounts. At these meetings, the auditor shall review any material changes in the company's accounting principles, comment on any material estimated accounting figures and report all material matters on which there has been disagreement between the auditor and the executive management of the company.

The board of directors will meet the auditor at least once a year to go through a report on the auditor's views on areas of risk, internal control routines, etc. The board shall arrange an annual meeting with the auditor that excludes the executive management.

The board of directors shall approve services over and above a mandatory audit in advance.

Information about the auditor's fees for a mandatory audit and other payments shall be presented to the board of representatives and stated in the annual report.

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