FONDSFINANS

Protector

Target Price: NOK 100

Initiation of Coverage 08 August 2016

Share Price: NOK 73

Growing insurance float: the subliminal seducer

- **Long history of strong underwriting profitability**
- **Geographical expansion drives further growth**
- **Accumulating capital with a negative funding cost (the float)**

SELL HOLD **BUY**

HIGH - CREDIT RISK - LOW

5	4	3	2	1

Distinct market position

Protector follows a distinct strategy, which they have executed with great continuity and vigorous zeal historically. They only distribute through brokers, and they are probably the best P&C insurer in the Nordics at this distribution method. Protector has top-scores in the qualitative dimensions valued by brokers and an undisputed cost advantage. Their strategy has resulted in massive and profitable growth. We believe Protector will continue to leverage their cost and quality advantages and grow much faster than the market the coming years.

Trouble in paradise

2016 has been a weak year by Protector standards. Troubles in the COI segment and Denmark have resulted in run-off losses and a high combined ratio. However, we believe these problems are transitory and that Protector will achieve a combined ratio of roughly 90% in 2017 (93% 2016E).

Long-term value generator & other people's money

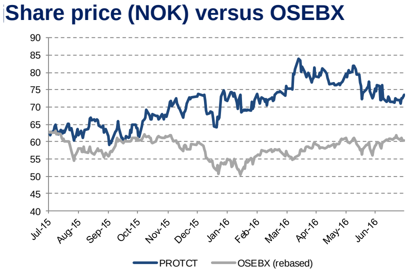
We argue that Protector is not a fit with the standard Nordic peer group. Their growing float (cash received from customers, but not paid out yet) is a substantial value contributor and currently undervalued. We initiate coverage with a NOK 100 target and BUY.

Key figures (NOKm)	2014	2015	2016E	2017E	2018E	2Q16	3Q16E
Earned premiums (net)	**1,775**	**2,176**	**2,770**	**3,297**	**3,791**	**720**	**727**
Claims (net)	-1,440	-1,861	-2,537	-2,840	-3,272	-679	-640
OPEX (net)	-60	-69	-46	-106	-122	4	-48
Technical result	**275**	**246**	**188**	**350**	**397**	**45**	**39**
Other items	28	30	-9	-23	-23	-3	-6
Net investment result	**237**	**304**	**326**	**311**	**384**	**221**	**68**
Non-technical items	-65	-44	-15	-11	-11	-7	-3
Pre-tax profit	**476**	**537**	**490**	**627**	**748**	**255**	**99**
Tax	-93	-71	-101	-138	-164	-31	-22
Net income	**383**	**466**	**388**	**489**	**583**	**224**	**77**
EPS	4.6	5.5	4.5	5.7	6.8	2.6	0.9
BPS	12.0	18.7	25.5	29.5	33.8	23.8	24.7
DPS	2.0	2.3	1.7	2.4	3.0	0.0	0.0
Combined ratio (net)	84 %	89 %	93 %	89 %	90 %	94 %	95 %
Claims ratio (net)	81 %	86 %	92 %	86 %	86 %	94 %	88 %
Expense ratio (net)	3 %	3 %	2 %	3 %	3 %	-1 %	7 %
RoE	43 %	36 %	21 %	21 %	21 %		
P/E	8.3	13.4	15.9	12.6	10.6		
P/B	3.2	4.0	2.8	2.4	2.1		
Div. yield	5.2 %	3.1 %	2.4 %	3.4 %	4.2 %		

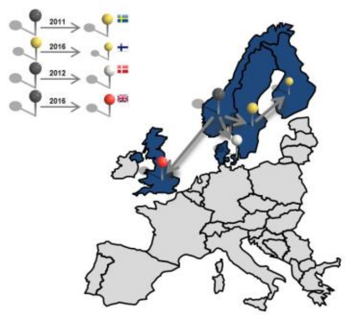
Source: Fondsfinans Research

Share data	
Sector	Financials
Bloomberg ticker	PROTCT NO
Risk rating	Medium
Outstanding shares (m)	86
Market Cap. (NOKm)	6,139
Shareholder equity (NOKm)	2,051
Total assets (NOKm)	9,693

Share price (NOK) versus OSEBX



Geographical presence



Ulrik Årdal Zürcher
Fondsfinans AS
TEL: +47 21 01 70 13
uaz@fondsfinans.no

Geir Kristiansen
Fondsfinans AS
TEL: +47 23 11 30 11
gk@fondsfinans.no

Company Overview

Investment Case

Market position
Protector follows a distinct cost- and quality leadership strategy, combined with a target of profitable growth and 'top 3' position in its defined niche markets. They have succeeded beyond expectations with their strategy the last years, and are now poised to take on the UK – a potentially massive market.

Promote the float
For insurers, technical profitable growth is extra valuable, as you rapidly increase the amount of cash you hold that you are going to pay out as claims. A Ponzi scheme – without the negative connotations. This is the float.

Long-term value generator
We believe Protector's ability to increase their float organically is undervalued. Protector is currently valued at roughly 2016E NAV + float. Thus, as the float is not funded by equity (negative funding cost if CR < 100%), NAV + Float is only fair if you believe the float will not grow and underwriting to break-even. Based on our growth estimates we initiate coverage with a NOK 100 target.

Business Overview

Market mix
Protector defines its lines of business as commercial, public and change of ownership (COI) insurance. The commercial segment underwrites standardized products and targets the SMB segment. Protector's public segment is the leading in Scandinavia. COI is an affinity program sold through real estate brokers in Norway.

Geographical presence
Protector has offices in Norway (HQ), Sweden, Denmark, Finland and the UK. The UK and Finland are new markets as of 2016. The different country divisions are run by natives, yet with a high emphasis on systematic implementation of the "Protector culture".

Market outlook
The current ultra-low interest rates in all of Protector's markets are likely to keep combined ratios under 100% the coming years. We do not expect much market growth, due to the challenging economic times, yet this is immaterial for the 'challenger' Protector.

SWOT Analysis

Strengths

- Cost base
- IT
- Perception among brokers

Weaknesses

- Size (less diversified vs. other listed insurers)
- Low barriers to entry (excl. COI segment)
- Very reliant on certain key personnel

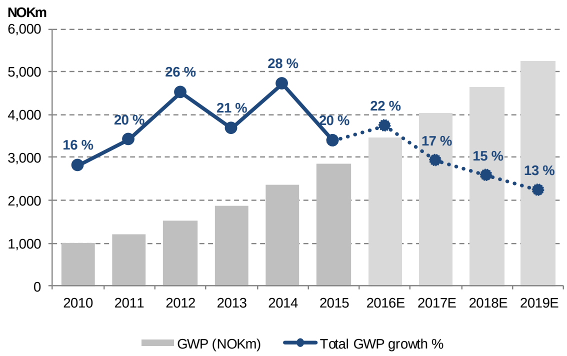
Opportunities

- Take further market shares in current markets
- Expand geographically
- Lower costs further

Threats

- Key personnel leaving
- Competitors gunning for CR > 100%
- Deteriorating internal underwriting

Gross written premium (GWP) growth



Sources: Fondsfinans Research

Peer table

Company	M.cap (NOKbn)	P/B 16E	RoE 16E	RoE 17E	P/E 16E	P/E 17E	Div. Yield 16E	Div. Yield 17E
PROTCT (FF)	6.1	2.8x	21 %	21 %	15.8x	12.5x	2.4 %	3.4 %
PROTCT @ target	8.6	3.9x	21 %	21 %	22.2x	17.6x	1.7 %	2.4 %
PROTCT (cons.)		2.7x	23 %	22 %	13.6x	11.4x	3.4 %	3.6 %
GJF	69.9	3.0x	19 %	18 %	16.2x	16.5x	6.3 %	6.0 %
TOP	21.8	3.4x	25 %	26 %	14.0x	12.6x	7.3 %	7.7 %
Tryg	45.2	3.7x	23 %	25 %	15.9x	14.9x	5.0 %	5.3 %
SAMAS	196.2	1.8x	13 %	13 %	13.4x	13.3x	6.1 %	6.3 %
Average		2.9x	20 %	21 %	14.9x	14.3x	6.2 %	6.3 %
Median		3.2x	21 %	22 %	14.9x	14.1x	6.2 %	6.2 %

10 Largest Shareholders	No. Shares (m)	%
Stenshagen Invest	6.6	7.6 %
Swedbank Robur	6.2	7.2 %
Odin Norge	4.5	5.2 %
Ojada	3.6	4.1 %
Tjongsfjord Invest	2.8	3.3 %
Handelsbanken	2.7	3.2 %
Alfred Berg	2.0	2.3 %
MP Pensjon	1.9	2.3 %
Artel	1.9	2.2 %
Vevlen Gård	1.9	2.1 %
Total 10 largest	34.0	39.4 %
Other	52.2	60.6 %
Total	86.2	100.0 %

Management & Board of Directors

Executive Management	
CEO	Sverre Bjerkeli
CFO (interim)	Vibeke Krane
Commercial & Public (dep. CEO)	Henrik Høye
Dir. Change of Ownership	Merete C. Bernau
CM Sweden	Hans Didring
CM Denmark	Flemming Conrad
Board of Directors	
Chairman	Jostein Sørvoll
Deputy chairman	Erik G. Braathen
Board member	Else Bugge Fougner
Board member	Jørgen Stenshagen
Board member	Randi Helene Røed
Board member (employee rep.)	Fredrik H. Øyan
Board member (employee rep.)	Cecilie Westby

Valuation summary – Bloat the Float

Don't underestimate the float

In our opinion, the Protector share's real value proposition is continued growth over several years (increasing float), with a small probability of combined ratios over 100%, due to the current ultra-low interest rates.

Target NOK 100

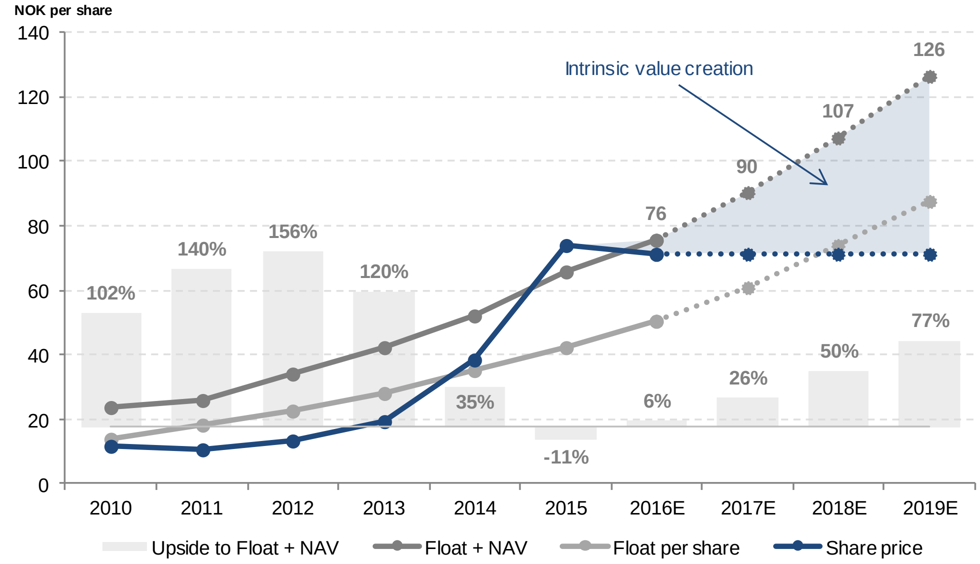
We believe a fair estimate of Protector's minimum intrinsic value is the Float + NAV (adjusted for debt and dividends), which assumes the float has a zero to negative funding cost – which is reasonable if the combined ratio is expected to remain < 100%. Based on our conservative valuation approach we arrive at a NOK 100 target per share – driven by expected growth in the float (see more details on page 30).

Furthermore, we argue that peer based valuation is futile, as Protector does not have any real peers. However, if we disregard Protector's increasing float value we get to an intrinsic value of NOK 90, which is very sensitive to terminal value variables, but also investment return assumptions.

Creating long-term value for shareholders

Profitable growth is extremely valuable for insurers

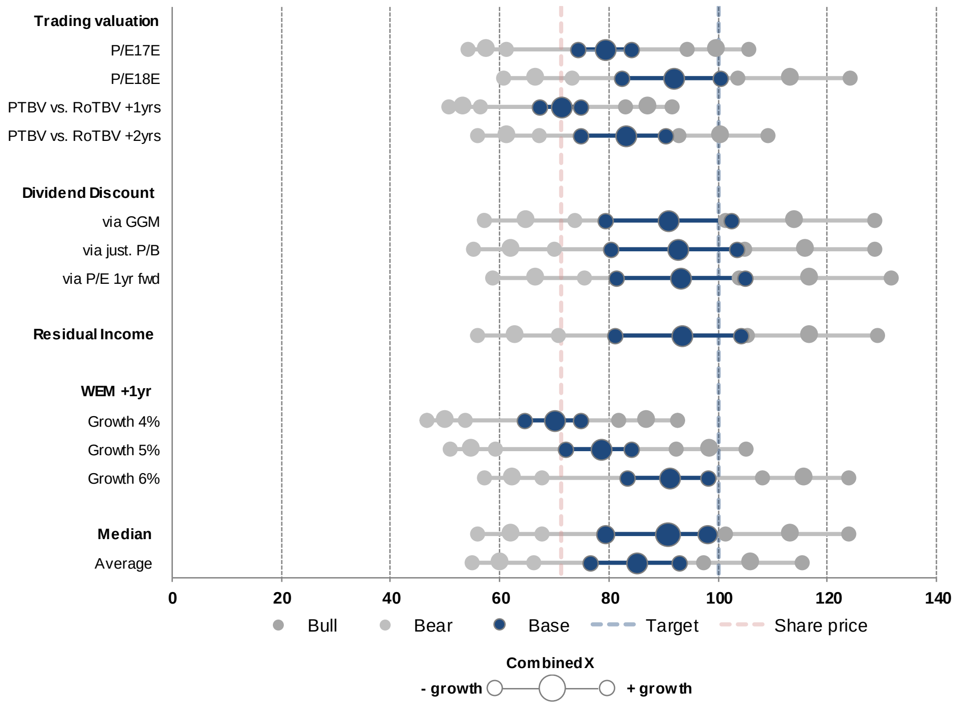
Float (a.k.a other people's money) valuation



Source: Fondsfinans Research, Bloomberg

DCF (DDM + RI) and 2018 trading multiples support NOK 90

Football field – valuation summary



Scenarios:
Combined ratio X = Base combined +/- 5%
Growth +/- 5%

Source: Fondsfinans Research, Bloomberg, company data

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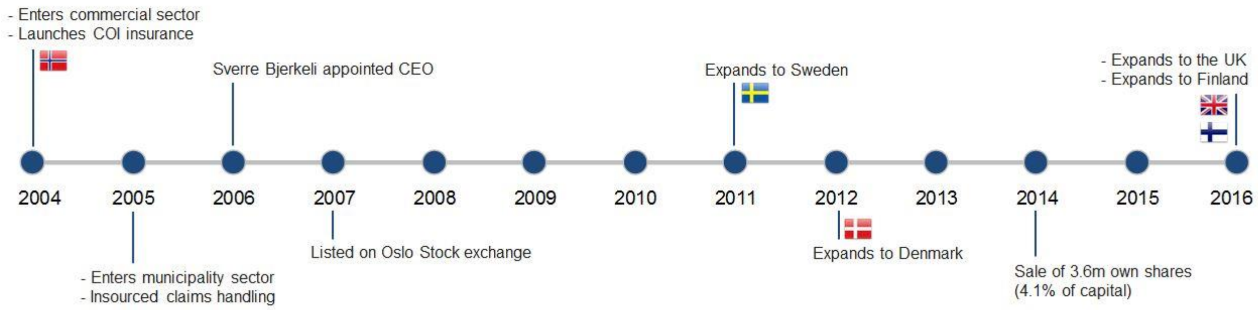
Corporate Profile

History

Protector is a high-flying niche/specialist P&C insurance company that started operating in 2004. Its gross written premium (GWP) CAGR 2008-2015 is an impressive 21.5% (23.6% the last two years). The company has never reported a yearly gross or net combined ratio above 100% since at least 2008 (listed in 2007). This could be related to the Nordic market's current position in the underwriting cycle (hard market), but is impressive regardless given its growth rate.

The company has the last five-years ventured out of Norway; first to the rest of Scandinavia, then to Finland and the UK this year. This has been an important part of the growth strategy as they have (close to) maxed-out in terms of gains in the public and change of ownership (OCI) lines of business in Norway.

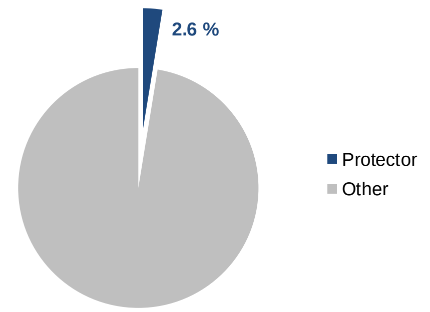
Timeline



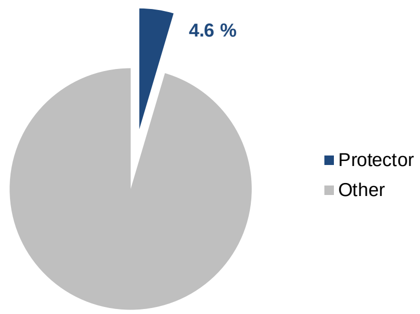
Sources: Fondsfinans Research, Protector

#1 in some segments, niche specialist overall

Total market (Norway)

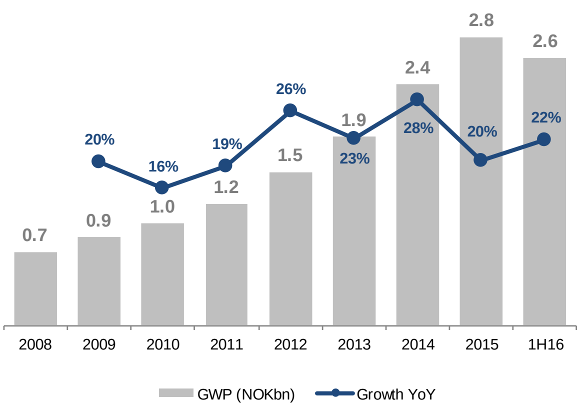


Total commercial market (Norway)



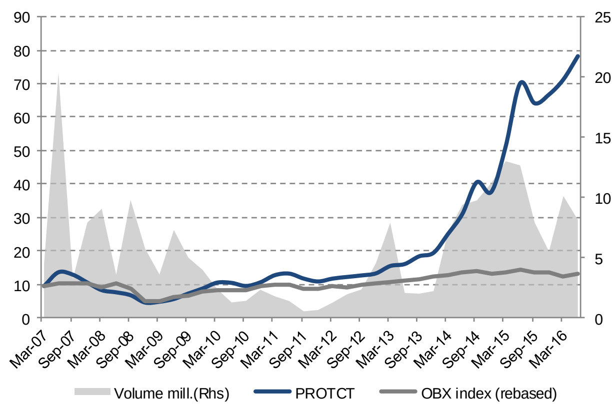
Sources: Fondsfinans Research, Finans Norge. Based on premiums written per 1Q16

Gross written premiums (GWP) & growth



Sources: Fondsfinans Research, Protector

Quarterly avg. share price & volume



Sources: Fondsfinans Research, Bloomberg

Market mix

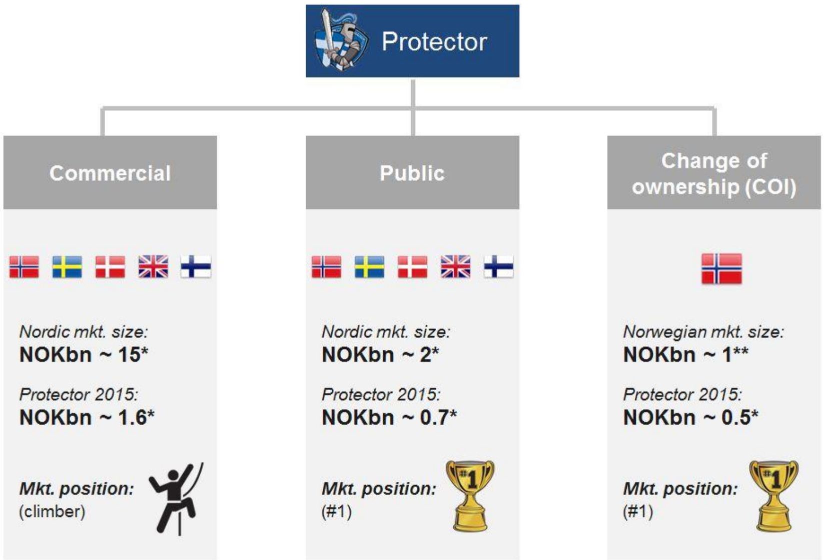
Commercial insurance is considered the primary segment

Protector defines its lines of business as *commercial, public and change of ownership (COI)* insurance. The commercial segment underwrites standardized products and targets the SMB segment (sized a minimum NOK 0.2m). This segment is Protector's primary segment. Protector's public segment is the leading in Scandinavia and they target mainly municipalities. COI is a type of insurance Protector only underwrites in Norway and it is number one in the market. The private market insurance Protector underwrites (i.e. COI) is all distributed through affinity agreements (excl. COI, this makes up a small part of their business).

Overview - products and market

#1 in certain niche markets

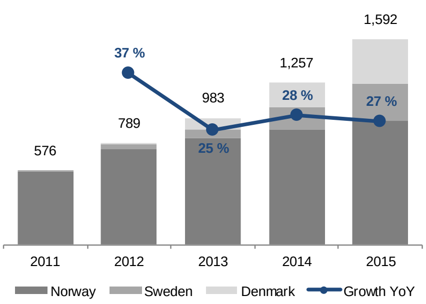
Challenger in the commercial segment and growing rapidly



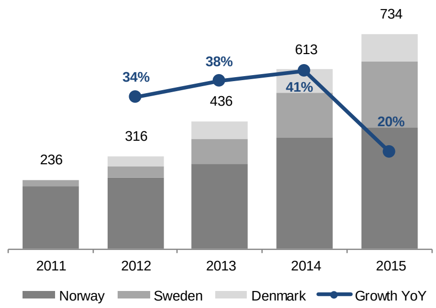
Sources: Fondsfinans Research, Protector. * Based on Protector's market definitions; ** Based on Protector holding >50% of the market

Growth driver recently has been the commercial segment

Commercial (NOKm)

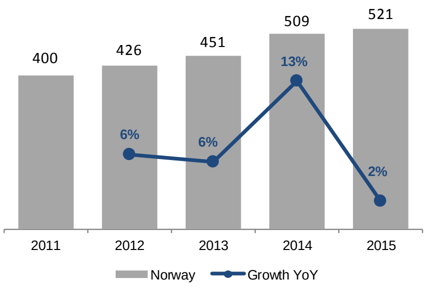


Public (NOKm)

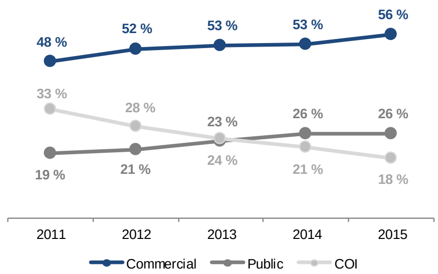


Not possible to grow COI much anymore

Growth COI (NOKm)



Percentage of total GWP



Sources: Fondsfinans Research, Protector

Geographical presence & company structure

Pan-Nordic, Anglo-Saxon operator

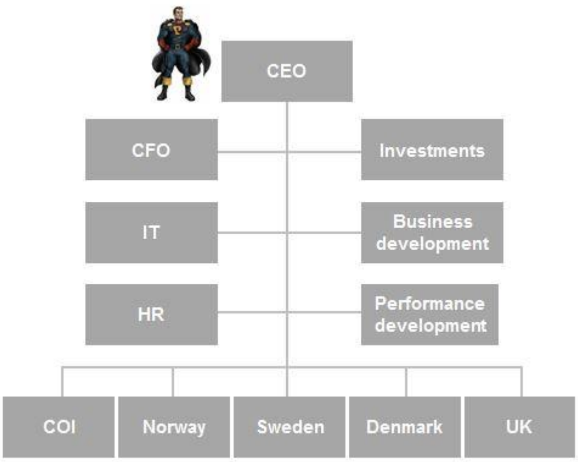
Protector has offices in Norway (HQ), Sweden, Denmark, Finland and the UK. The UK and Finland are new markets as of 2016, with a currently immaterial effect on earnings – thus the segments fall in under "Norway" in the 1Q/2Q16 reports. Finland is under 'project lead' from Sweden, which makes sense given their geographical and cultural proximity. The different country divisions are run by natives, yet with a high emphasis on systematic implementation of the "Protector culture".

The majority of 'local' employees work with underwriting and claims handling. Underwriting in the public segment is centralized from Oslo.

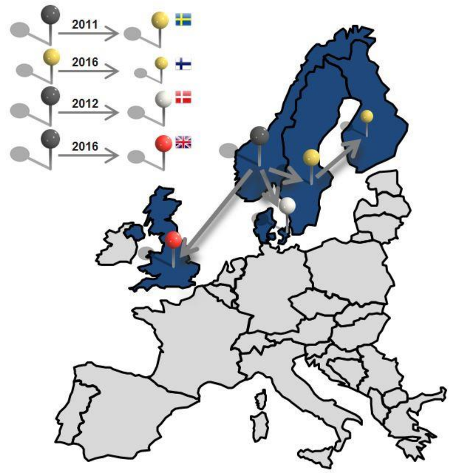
Develops IT solutions in-house

Protector develops its IT solutions in-house, which given its size is a little bit of a peculiarity – yet given their cost efficiency and underwriting history it appears they have managed to turn the IT department into a competitive advantage. Older, larger, more mature competitors will obviously have to struggle with legacy-system issues every time they implement a larger system upgrade.

Organizational structure



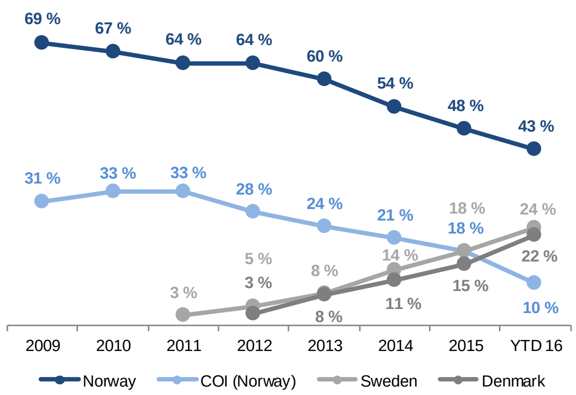
Geographical presence



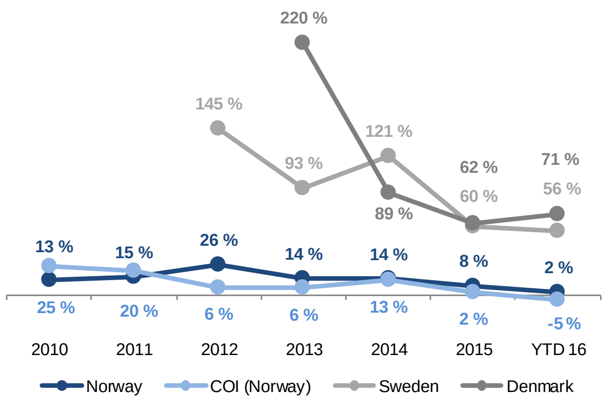
Sources: Fondsfinans Research, Protector

An important strategy for insurance companies is geographical and product diversification. Protector is no different, and the trend is clearly towards less reliance on the Norwegian market. Denmark and Sweden are now slightly larger than Norway in the commercial and public segments in terms of GWP. In addition, the COI segment is heading towards marginalization (in total GWP), especially after the weak volume start in 2016.

GWP per country in % of total



Growth GWP per country



Sources: Fondsfinans Research, Protector

Strategy – description and evaluation

Strategy: Cost- and quality leadership

Protector follows a distinct cost- and quality leadership strategy, combined with a target of profitable growth and 'top 3' position in its defined niche markets. As Protector only distributes through brokers (and affinity agreements) the strategy is basically tailored to be as attractive as possible towards brokers – making cost leadership the most crucial part of their strategy to uphold.

Clearly defined and vigorously followed

The part of Protector's strategy we find the most enticing is the zeal and continuity at which the strategy has been applied. The avid reader can go back almost a decade and read one of the company's old presentations and find that the core-concepts are close to a perfect match to current presentations.

(i) Distribution strategy – Purebred

No direct sales

Protector does not distribute by means of direct sales, but relies primarily on brokers. The affinity segments distributes through the use of something similar to agents in that they have exclusive distribution deals with Protector.

Distribution through brokers and affinity arrangements

The clients of brokers are not the insurance company, but the insurance customer. They are predominantly used due to the complexity of larger insurance contracts, or as the association of Norwegian insurance brokers put it:

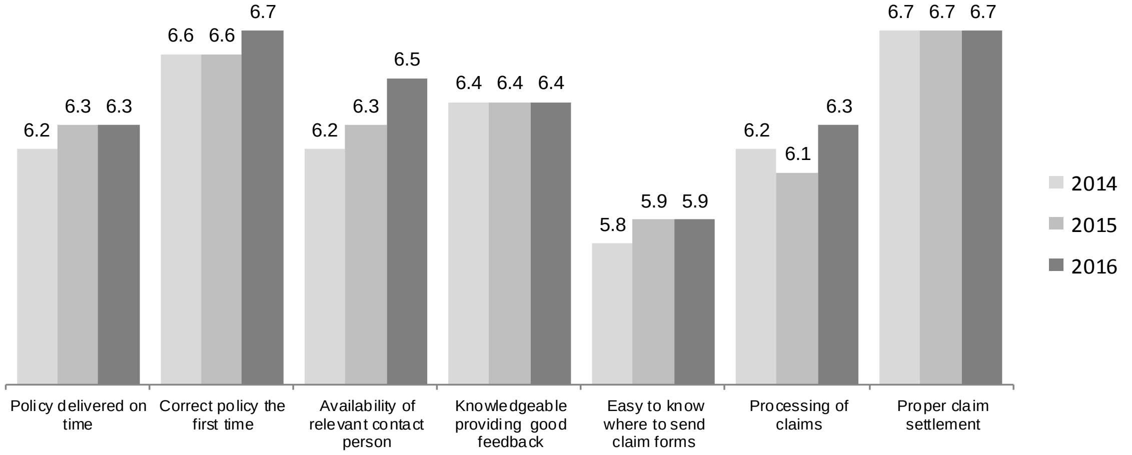
"Through his skills and knowledge of the insurance market, the broker will provide the most appropriate insurance solution at the best possible price"

It is our impression that the 'quality' part of Protector's strategy relates primarily to how they are perceived by the brokers. The company's unique selling proposition (USP) aimed at brokers is; *easy to do business with, commercially attractive, and trustworthy*. Commercially attractive is foremost a question about price, for which we can easily evaluate Protector's standing amongst competitors by comparing cost ratios. The one with the lowest cost ratio can offer the most commercially attractive terms.

A relative evaluation of how easy it is to do business with Protector and how trustworthy they are is more difficult to determine. Protector provide ample of TNS Gallup surveys in their investor presentations – showcasing how high their standing is amongst the brokers in Scandinavia. However, for due diligence purposes we cannot rely solely on these surveys as they are ordered by Protector.

Luckily, Forsikringsmeglerne (Norwegian Association of Brokers) complete its own survey, for which we have access to the latest three years. Below is a description of the qualitative dimensions the association find the most important and the weight of importance the brokers put at each dimension:

How important is it to brokers? Scale 1-7. 7 = Very important



Sources: Fondsfinans Research, Forsikringsmeglerne (Norwegian Association of Brokers)

Leadership 'quality' position

Protector has won the association's satisfaction survey the last three years, with substantially higher scores than the average of the other insurance companies. This implies that they are doing a very good relationship-building job in Norway – or that they are succeeding with the 'quality' part of their strategy. According to the Norwegian association of insurance brokers, Protector is the most attractive insurer to do business with.

Protector and 'others' score in the broker satisfaction surveys

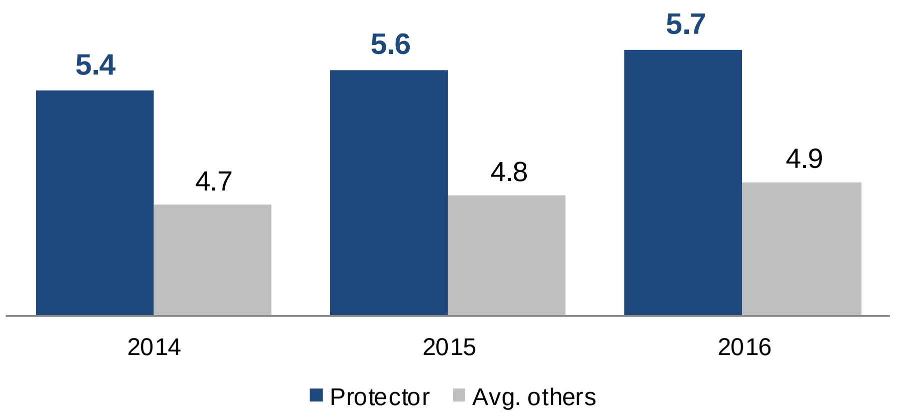
	2014		2015		2016	
	Protector	Avg. others	Protector	Avg. others	Protector	Avg. others
Policy delivered on time	6.1	4.6	6.1	4.7	6.3	4.8
Correct policy the first time	5.4	4.5	5.8	4.7	5.8	4.8
Availability of relevant contact person	5.5	4.8	5.7	4.8	5.8	4.8
Knowledgeable providing good feedback	4.9	4.8	5.1	4.8	5.2	4.9
Easy to know where to send claim forms	5.7	4.9	5.7	4.8	5.8	4.9
Processing of claims	5.4	4.6	5.5	4.7	5.7	4.8
Proper claim settlement	5.2	4.8	5.2	4.9	5.4	5.0
Average	**5.5**	**4.7**	**5.6**	**4.8**	**5.7**	**4.9**
Weighted average*	**5.4**	**4.7**	**5.6**	**4.8**	**5.7**	**4.9**

Sources: Fondsfinans Research, Forsikringsmeglerne. *Weighted according to the importance brokers put on each question

Another interesting feature of the surveys is that Protector's scores are increasing. The other insurers' scores are increasing too, albeit at a slightly lower phase the last three years. This provides comfort that Protector is: (i) doing the right things operationally; (ii) will maintain their quality leadership going forward.

Development in 'weighted average' scores

Satisfaction is increasing



Sources: Fondsfinans Research, Forsikringsmeglerne

For the rest of Scandinavia we do not have access to independent surveys, yet it would be surprising if Swedish and Danish brokers value different qualitative factors compared to Norwegian brokers.

Likely one of the best in Scandinavia at dealing with brokers

According to Protector's TNS Gallup surveys, they have been the quality leader in Norway 9 years in a row, Sweden 4 years in a row, and Denmark 3 years in a row.

Overall, it appears Protector is highly skilled at satisfying the needs of brokers. In Scandinavia they are one of the best insurers at dealing with brokers – if not the best. This makes sense as they are a successful 'distribution through brokers' specialist.

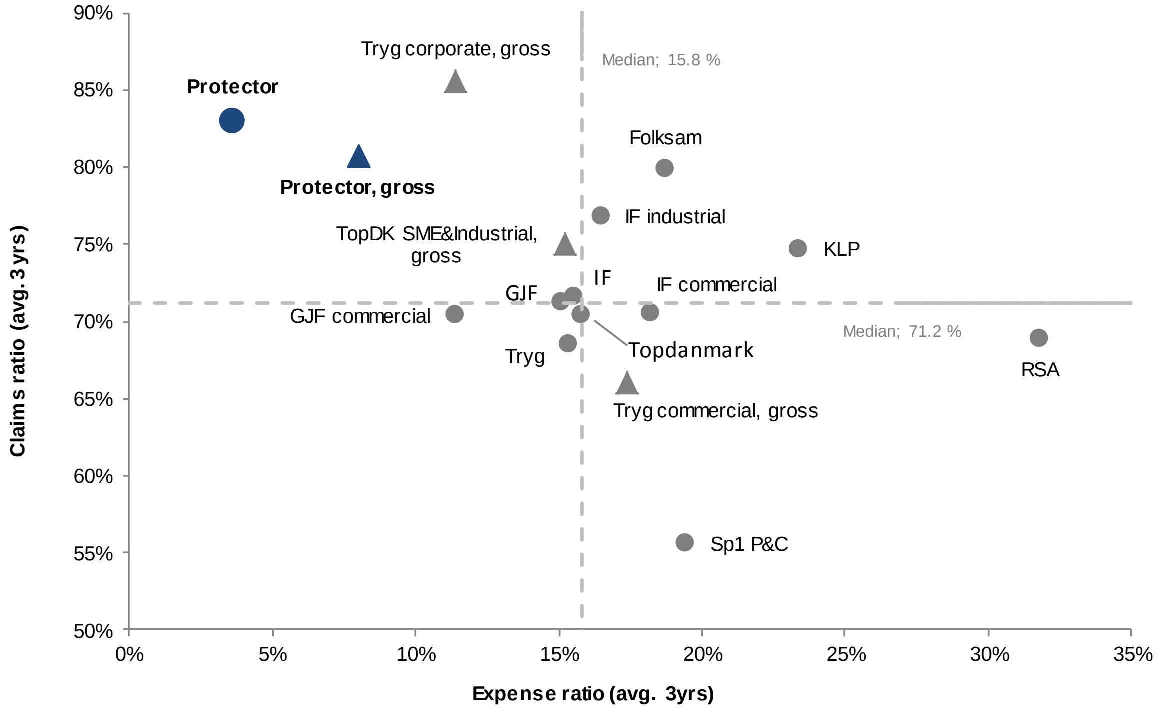
The other part of Protector's core strategy is cost leadership. There's no doubt that Protector has the lowest cost base on a net ratio basis. Interestingly, it appears they have the lowest cost ratio on a gross basis too, even when comparing Protector's gross expense ratio to other insurer's net ratios.

Lowest costs in Scandinavia

We believe Protector's costs can be kept at such a low level due to their: (i) IT solutions and costs; (ii) specialist distribution channel strategy; (iii) performance based culture.

In the exhibition below, we are comparing "apples and oranges," as e.g. the private market has different claims/expense ratio dynamics. Therefore, we added several commercial/industrial/corporate segments for competitors that report the data needed.

Claims ratios vs. Expense ratios*



Sources: Fondsfinans Research, respective companies. * The quadrants are based on the net ratios on group levels, thus segments and gross numbers does not affect the median

Cost leadership in action

The exhibition above clearly illustrates how Protector takes advantage of their cost leadership to price themselves lower than peers. Their claims ratios are higher than most of their peers while their cost ratios are lower. Based on our technical reserve analysis we do not believe Protector's high claims ratio is due to mispricing of risks – they simply offer lower prices as they can afford to.

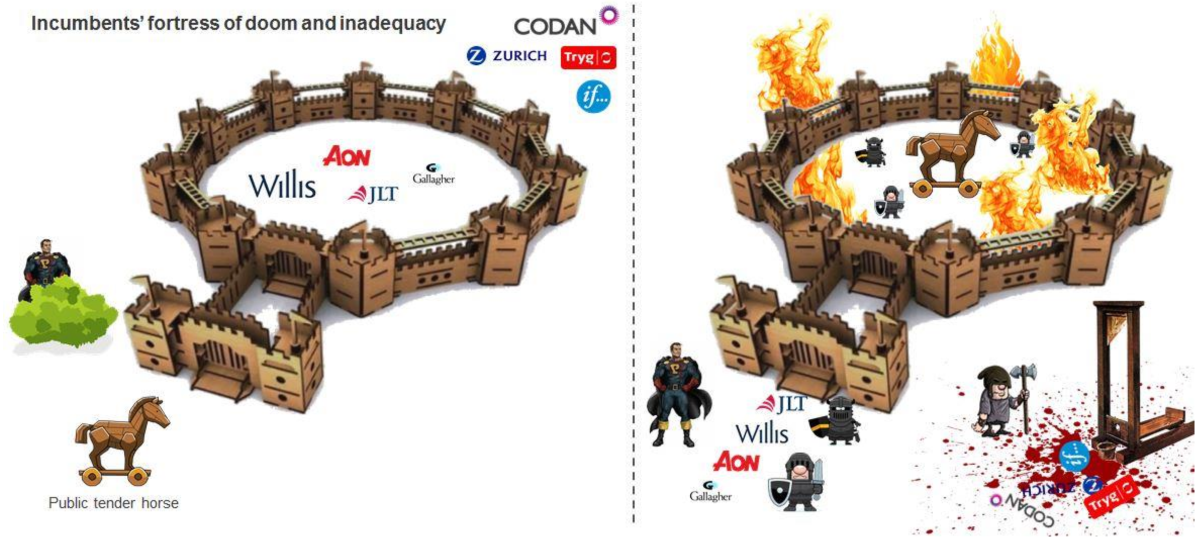
The cost leadership (and probably quality leadership too, but harder to be certain they have an actual leadership position) is highly valuable in a 'challenger' position. Protector has, and will continue, to utilize these advantages to grow their business.

(ii) Growth strategy – Trojan horse & profits

Public tenders as beachheads

Protector's primary segment is *commercial*, yet this is not their point of entry into new markets. They use public tenders to establish beachheads. Public tenders are usually more transparent and cost a significant factor, thus Protector can utilize its biggest advantage (cost leadership) and gain traction/ establish relationship with brokers through these processes.

Entry strategy illustration – Public tendering

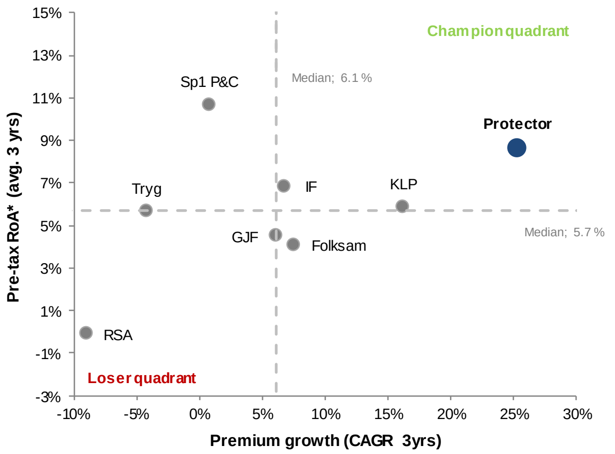


Sources: Fondsfinans Research. *Willis, Aon, JLT are large brokers.

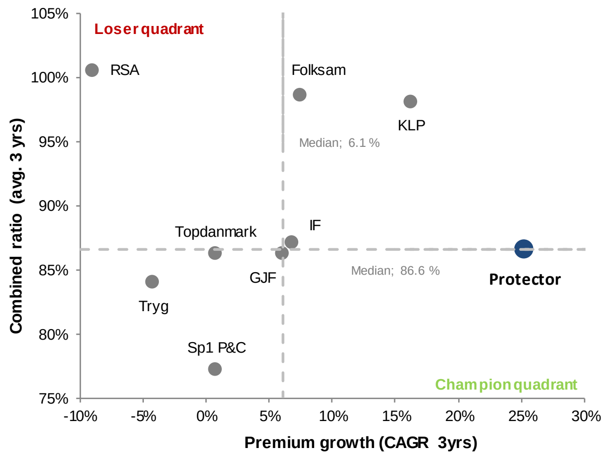
Profitable growth

Furthermore, Protector states they will not sacrifice profits for growth. History tells an interesting story regarding this point; Protector is not only the fastest growing insurer in the Nordics (incl. listed and larger unlisted companies) it is also one of the most profitable.

Pre-tax RoA* vs. Premium growth



Combined ratio vs. Premium growth



*Sources: Fondsfinans Research, company data. * RoA = return on assets net of reinsurer assets. ** SP1 P&C had large reserve releases in 2014 and 2015*

Protector follows a distinct cost- and quality leadership strategy, combined with a target of profitable growth and 'top 3' position in its defined niche markets. As illustrated on the preceding pages, they have executed their strategy with great success historically. The strategy lends itself easily to foreign ventures and markets, so we believe it is unlikely that Protector's growth momentum will fade the coming years.

Our opinion on the share's value proposition

The current ultra-low interest rates of today are likely to persist for some time, which will put further pressure on the investment returns of insurers, and especially P&C players as they invest primarily in ST interest rate instruments. Thus, the industry could struggle to maintain its profitability going forward.

Long-term value creation

However, we argue that this makes Protector an excellent investment:

(i) Low interest rates mitigates pressure on the combined ratio

(ii) Protector can continue to grow at a much faster rate than the industry

- a. Cost- and quality advantage
- b. Geographical expansion

(iii) If combined <100% then the float has a negative funding cost

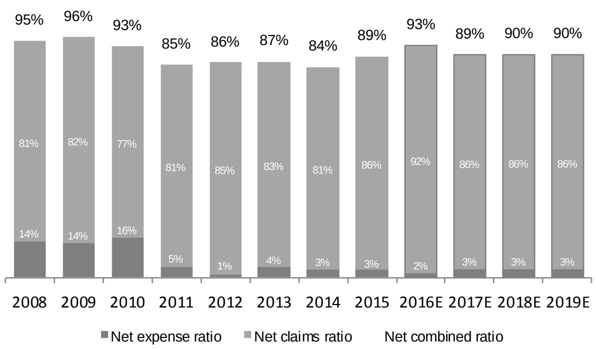
- a. Float = "money not paid out as claims yet, but received"
- b. $100 in float is worth more than $100 of assets if CR < 100%

(iv) Protector's float is growing rapidly due to high GWP growth

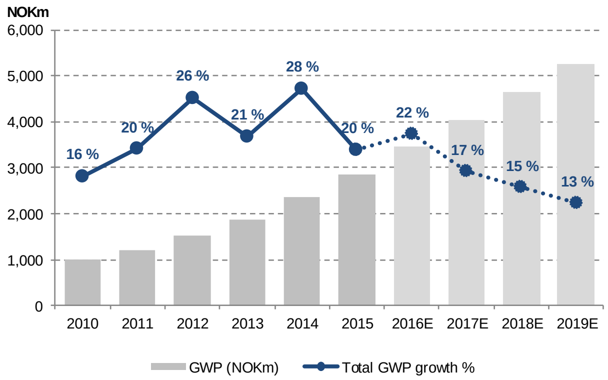
(v) A substantial premium to invested assets is warranted (given CR < 100%)

- a. Growing the float itself + investment returns
- b. Profitable technical underwriting

Combined ratio

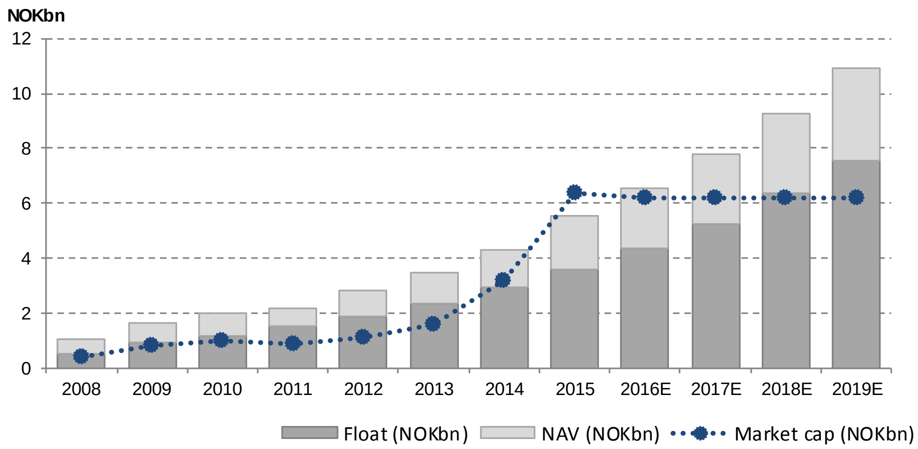


GWP growth



Sources: Fondsfinans Research, Protector

Protectors Float, NAV and Market capitalization (NOKbn)



Sources: Fondsfinans Research

Management

- **CEO – Sverre Bjerkeli** (appointed 2006)
  - Worked in Protector since 2004
  - Director for the private and corporate markets in Storebrand/If
  - Was involved in establishment and management of Storebrand Bank
  - CEO in Torinno and Ementor Norge (IT)
  - Handball player and trainer on international level

- **CFO (interim) – Vibeke Krane** (from Aug. 2016)

- **Dir. Change of Ownership – Merete C. Bernau** (joined in 2005)
  - Experience from Storebrand/If as a lawyer within liability insurance

Consistency at the top (excl. CFO)

- **Commercial & Public / Deputy CEO – Henrik Høye** (joined in 2007)
  - Responsible for the building of Protector´s public sector initiative
  - Last position was director public sector in Protector

- **CM Sweden – Hans Didring** (joined in 2011)
  - Experience from various positions in If and Länsförsäkringar
  - Last position as Head of Broker and Sales and Service at If in Stockholm

- **CM Denmark – Flemming Conrad** (joined in 2012)
  - 38 years of experience in the insurance industry
  - Worked in companies such as Hafnia, Codan, Provinzial, Trekroner and Nykredit
  - Latest positions was director in Gjensidige' s branch in Denmark

There's plenty of consistency in top positions, except for the position of CFO. The dark side of consistency is that Protector is exposed to some personnel risk, yet we believe this is partly mitigated by their clearly defined culture.

Well incentivized

In our opinion, management is well incentivized with a variable salary structure that ensures they work to create long-term values. For example, in 2013 Protector established a long-term bonus policy for the senior executives and other key personnel, which is tied directly to share price developments. The bonus is paid out over four years and can be reduced if later results and developments indicate that the bonus was based on wrong assumptions.

We also note that the CEO is a major shareholder.

Management ownership

		# of shares	Ownership
Tjongsfjord Invest AS	CEO, Sverre Bjerkeli	2,811,809	3.3 %
Merete C. Bernau	Director for ownership change insurance	50,200	0.1 %
Flemming Conrad	Country Manager Denmark	23,456	0.0 %
Hans Didring	Country Manager Sweden	20,097	0.0 %
Henrik Wold Høye	Director for commercial insurance	10,100	0.0 %
Total		**2,915,662**	**3.4 %**

Sources: Fondsfinans Research, Protector

Board of Directors & corporate governance

- **Chairman – Jostein Sørvoll**
  - Chairman of the Board at Gabler Rådgivning AS
  - Previously been CEO at Gabler Wassum AS, Protector Forsikring AS, Norske Liv AS and worked in leading positions at Storebrand

- **Board member, deputy chairman – Erik G. Braathen**
  - Chairman of the Board at Holmen Fondsforvaltning AS
  - Board member at Fly Leasing Ltd, Cenzia AS, Peer Gynt Tours AS, Nort Sea PSV and Opera Technologies ASA
  - Previously been Chairman of the Board at Norwegian Air Shuttle

Staggered board with consistency

- **Board member – Elise Bugge Fougner**
  - Partner at the law firm Hjort DA
  - Chairman of the Board at Kommunalbanken and Eksportkreditt
  - Member of the Board at Aberdeen, Eiendomsfond Norge II ASA and Aker Kværner Holding AS

- **Board member, leader of the Audit Committee – Randi Helene Røed**
  - Currently the Director of Development at Norsk Tipping and has earlier worked seven years as the CFO
  - Long-time Board Member and leader of the Audit Comittee at Bouvet ASA

- **Board member – Jørgen Stenshagen**
  - Currently the head of Stenshagen Invest

- **Employee electives**
  - Fredrik H. Øyan
  - Cecilie Westby

In our opinion, Protector's Board of Directors and corporate governance is of the highest standard. There's some small issues, e.g. that the chairman is a former insider and some small transactions between Protector and board member affiliates – but we consider all of this immaterial. The board of Protector works for the shareholders.

No bullshit

We have read all the yearly auditors report back to 2008, and there's absolutely no issues regarding reporting quality. We believe that Protector is more transparent than the average company – open about their problems and victories. This, of course, gives confidence that the information the market receives is both timely and accurate. For example, we know that Protector's current problems areas are in Denmark and COI, and we know exactly what they are doing to turn it around.

Protector's principles for corporate governance "shall contribute towards creating the greatest possible return on investment for shareholders over time; strengthen confidence in the company through a transparent corporate culture, and a good reputation." In our opinion, they execute the principles, not only on paper, but in action too.

Board members' ownership

		# of shares	Ownership
Stenshagen Invest	Board member, Jørgen Stenshagen	6,550,000	7.6 %
Ojada AS	Board member, Erik G. Braathen	3,563,116	4.1 %
Alsøy Invest AS	Chairman of the Board, Jostein Sørvoll	1,002,751	1.2 %
Havest Holding AS	Board member, employees`representative, Cecilie Gretha Westby	27,000	0.0 %
Cecilie Gretha Westbye	Board member, employees`representative	100	0.0 %
Total		**11,142,967**	**12.9 %**

Sources: Fondsfinans Research, Protector

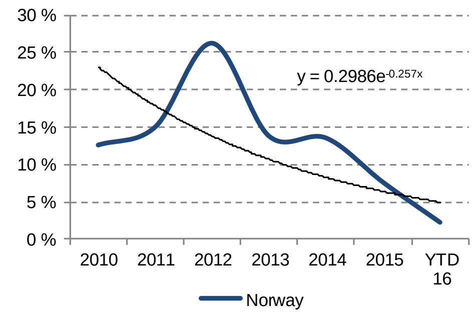
Country analysis + COI

Norway (excl. COI)

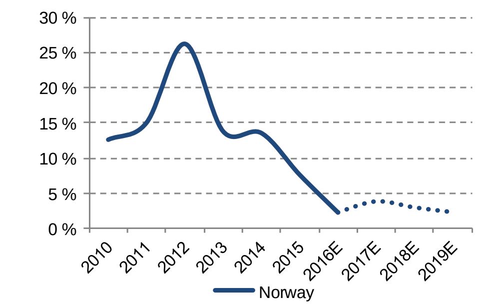
The Norwegian market is close to maturity for Protector. As of 1Q16 they had a market share of 4.6%, making them the 4th largest commercial insurer in Norway after IF (24.3%), GJF (27.4%) and Tryg (14.0%). We do not expect much growth contribution from Norway, and the risk to our growth estimate is probably on the downside. The rest of the Nordics and the UK will drive the growth going forward.

Bottom-up estimation of expected growth

GWP growth Norway

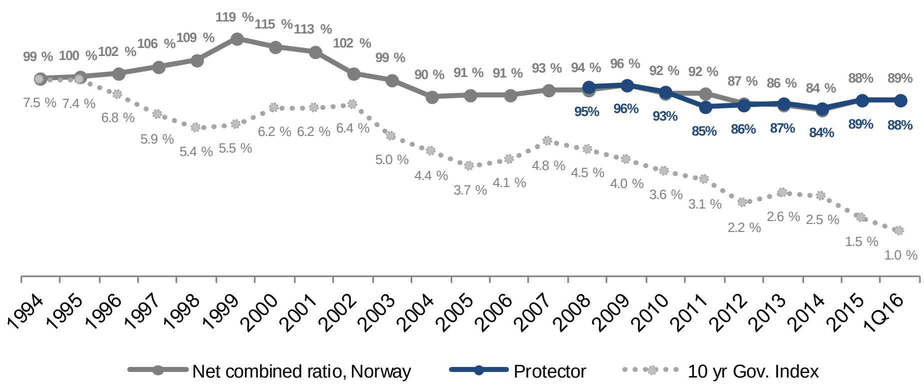


Estimated GWP growth



Combined ratios are following rates downwards

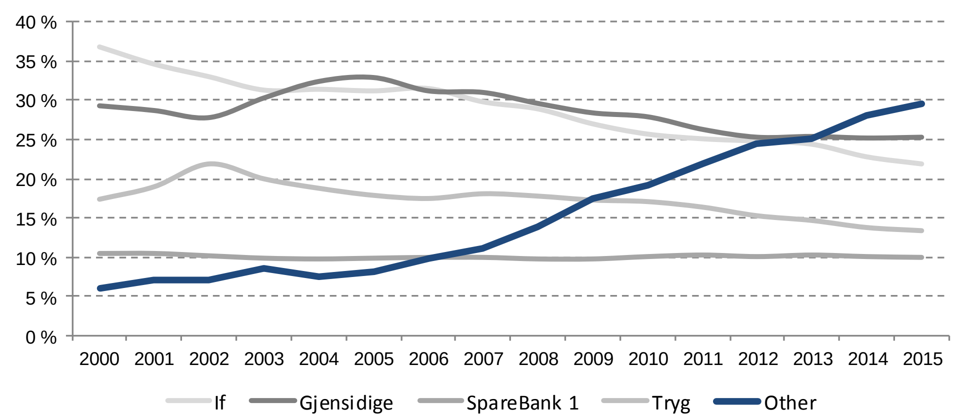
Combined ratios and interest rate level



Sources: Fondsfinans Research, Protector, Finance Norway

"Hard" market, incumbents goes for return over market share

Total market shares (%)



Sources: Fondsfinans Research, Finans Norway

Sweden

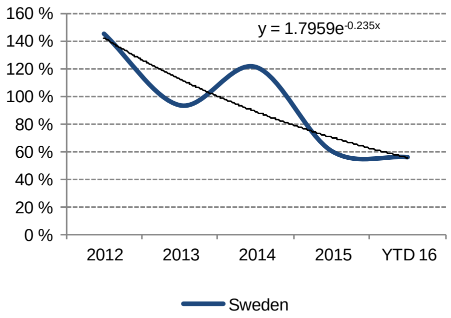
Protector's Swedish business is, as far as we know, running very well. YTD it has made up 24% of Protector's GWPs. Up from 18% in 2015 and 14% in 2014. Protector considers the brokered insurance market in Sweden to be around SEK 8bn, with its own short-term risk appetite at SEK 3-5bn. YTD GWP in Sweden has been NOK 633m, thus the potential is substantial for new business. We consider the risk to our growth estimate to be on the upside in Sweden.

Roughly 50% of GWPs in Sweden are car fleet insurance and they are number one in the Swedish bus market. The experience acquired in these segments could prove valuable when Protector enter the same segments in the UK.

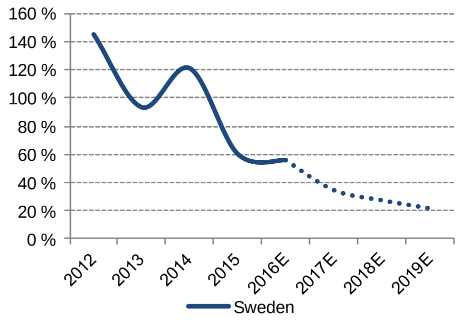
The Swedish insurance market is more consolidated compared to the Norwegian market, with 19% market share held by other companies than the four largest ones (Norway 30%).

Bottom-up estimation of expected growth

GWP growth Sweden

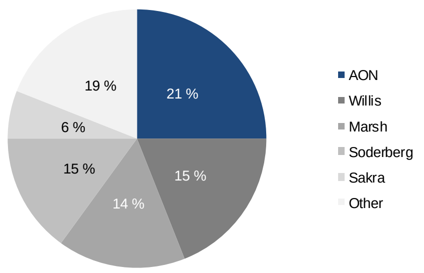


Estimated GWP growth

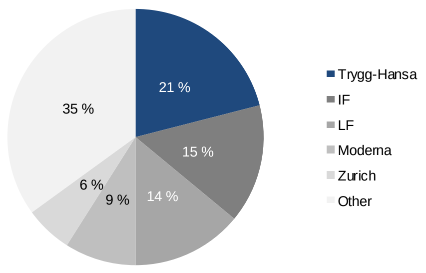


Protector's SEK 8bn insurance market in Sweden

Brokers share of market (%)



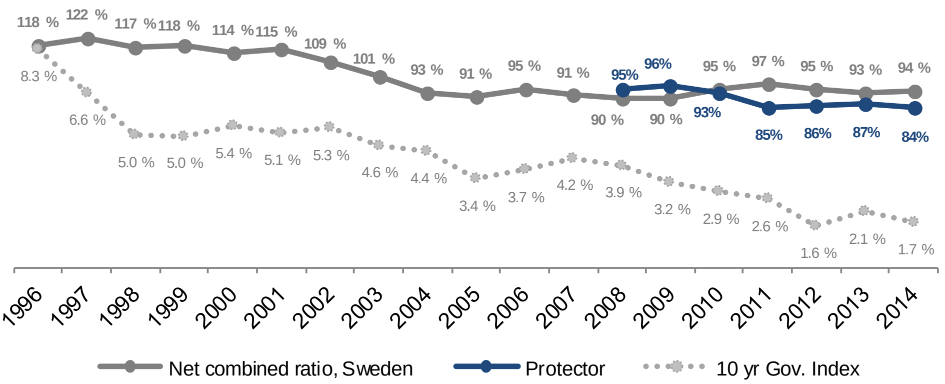
Share of brokered market (%)



Sources: Fondsfinans Research, Protector

Combined ratios and interest rate level

Same story as in Norway, combined ratio is following rates downwards



Sources: Fondsfinans Research, Svenskaforsakring

Denmark

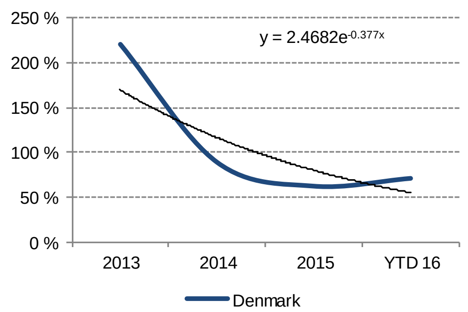
Trouble in paradise

In terms of GWP growth, Protector's Danish operations have outperformed their Swedish counterpart at the same stage in the development. YTD Denmark has made up 22% of Protector's total GWP, with most of the volume written in the first quarter. However, problems have emerged in Denmark which experienced a 106% net claim ratio in 2Q16, and management has been open about some operational difficulties they are experiencing in some of their facilities / affinity programs. Steps have been taken to clean up the operations, including some management changes, and improvements are expected in 2017. The caveat is that a large percentage of the Danish business is workers compensation (WC), for which duration is 1.5 to 4 years (long tailed for P&C insurers). Thus, it will take some time before the real profitability of the WC product is revealed.

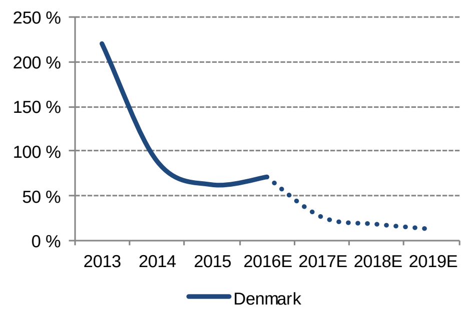
Their Danish operations will remain one the equity story's major risk factors until they return to technical profitability.

Bottom-up estimation of expected growth

GWP growth Denmark

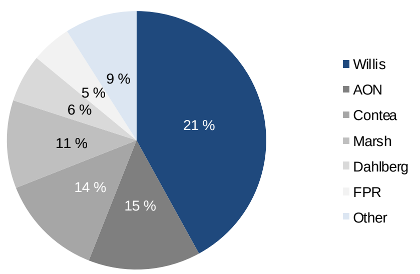


Estimated GWP growth

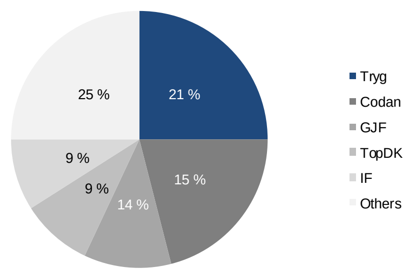


Protector's DKK 8bn insurance market in Denmark

Brokers share of market (%)



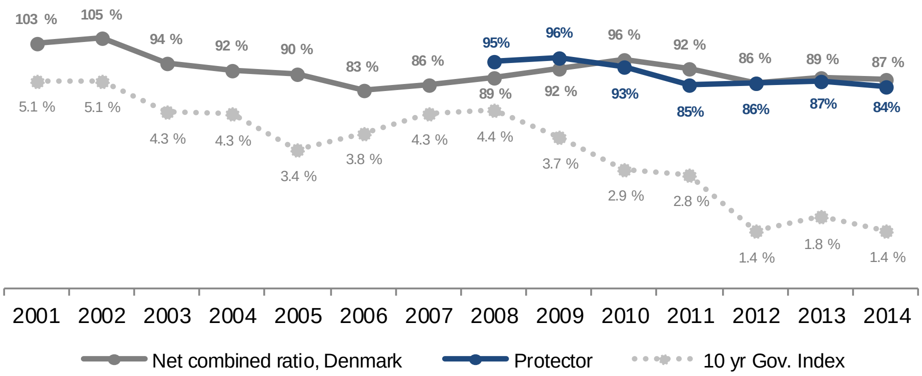
Share of brokered market (%)



Sources: Fondsfinans Research, Protector

Modest combined ratio pressure in Denmark

Combined ratios and interest rate level



Sources: Fondsfinans Research, Danish association for insurance and pension

UK & Finland

Both the UK and Finland branches opened for business in 1Q16. Out of these two new markets the UK is the most promising, as insurance brokers in Finland have a very low market penetration (8.7% in 2014, The Finnish Insurance Broker Association). In the UK the situation is the opposite, with 54% of general insurance and 78% of all commercial insurance being sold by insurance brokers (BIBA).

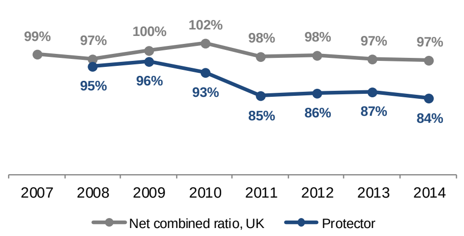
UK has the potential to become a major growth contributor

The key metric determining how competitive Protector is/will be in the UK market is its cost base versus competitors. The major players in the UK market are humongous international insurer, thus it is difficult to find data on the costs of UK specific commercial/ industrial segments. However, it is clear that Scandinavian P&C insurer are cost leading in Europe – thus it is reasonable to assume Protector will have an edge in the UK too. E.g. Direct Line Group (one of the larger commercial insurers in the UK) had a gross commercial expense ratio in 2015 of 20.3%. Protector believes they can achieve a gross cost ratio of 4.5% in the UK, due to the contracts being larger than in Scandinavia.

For our growth estimates we assume the UK business will mimic the rates achieved in Denmark. This estimate is potentially extremely conservative, but we will stick with this rate until Protector proves us wrong.

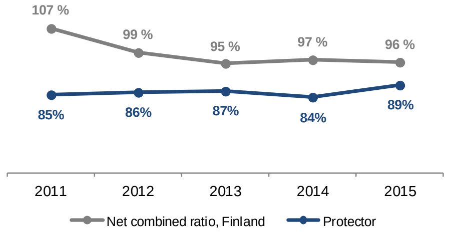
Combined ratios in the UK are higher than the Nordics

Combined ratio UK



Sources: Fondsfinans Research, ABI

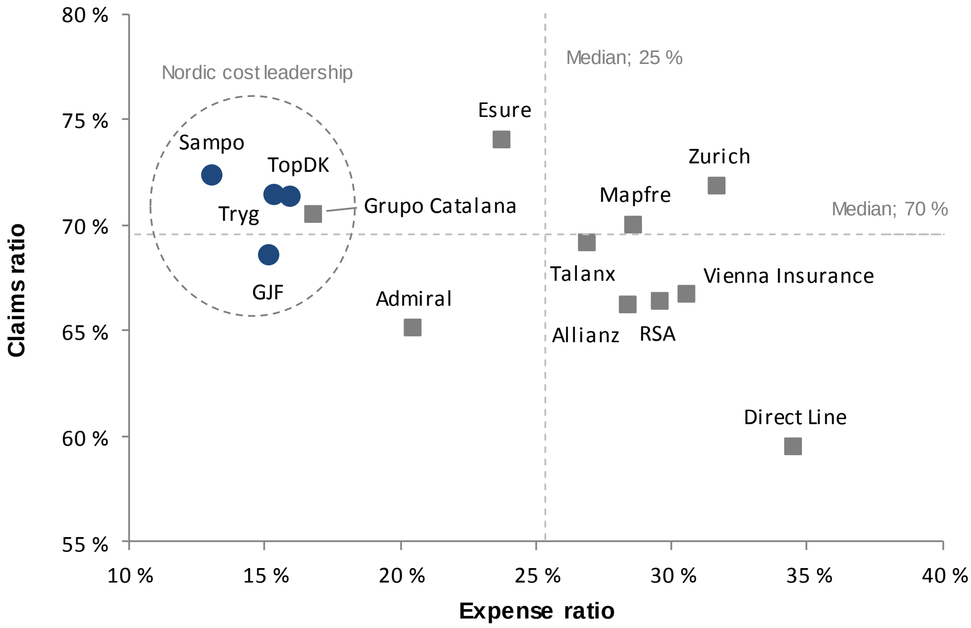
Combined ratio Finland



Sources: Fondsfinans Research, Finland's FSA

Nordic P&C insurers have a cost advantage versus European peers

Claims vs expense ratio (Bloomberg competitive peer group)



Sources: Fondsfinans Research, Bloomberg

Change of Ownership Insurance (Norway)

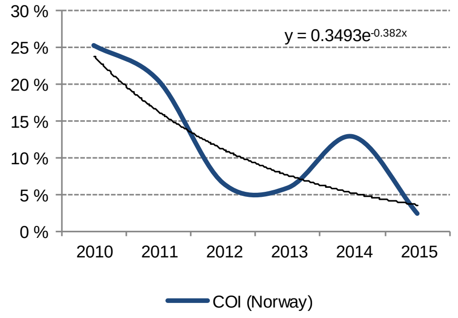
Fading importance

The COI segment has historically been important to Protector, making up over 30% of total GWP in 2009. In 2015 it made up 18% of total GWP, and after a weak start to this year, it makes up barely 10% of total GWP.

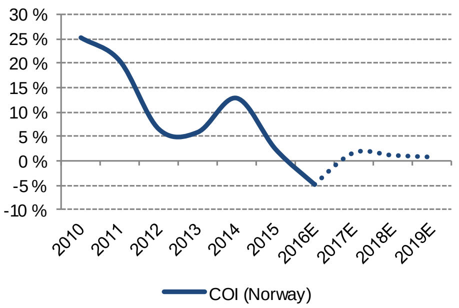
The segment was unprofitable in 2015, due to natural fluctuations and challenges in claims handling. It is our understanding that a backlog (in claims) occurred in the first half of 2015 and that this triggered a more extensive review; which uncovered more severe problems stemming from 2013 and 2014.

We expect little to no growth going forward

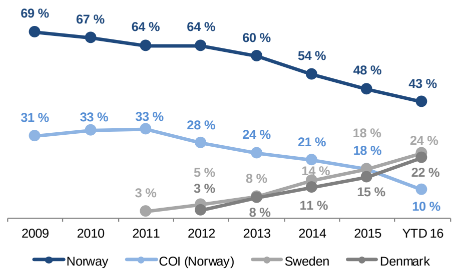
GWP growth COI



Estimated GWP growth



COI in % of total GWP



Short on COI

- Insurance linked to property
- Seller of property buys the insurance
- Premium is a small %age of sales sum
- Covers substantial hidden defect for 5yrs
- Max. claim limited to NOK 10m
- Distribution through real-estate brokers

Sources: Fondsfinans Research, Protector

Problem fixer

After discussions with management, we believe Protector has relatively good control over the COI segment. Several initiatives for improvement have been taken. The relatively large run-off losses YTD is well illustrated below; which shows how Protector has been working to clean up the COI segment. Management expects this "clean-up" process to be completed by year-end.

COI claims backlog

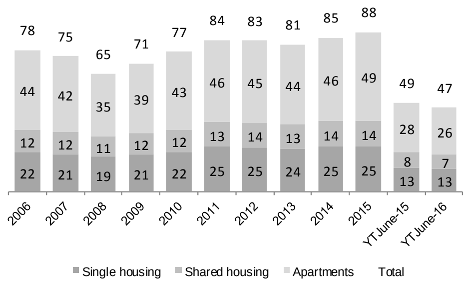
Source: Protector 2Q16 presentation

In contrast to other P&C products, which are almost considered commodities, the COI product is protected by relatively high barriers to entry. Distribution is done via real estate brokers, thus the market share of 'your' brokers roughly determines the market share achieved in the COI market. It has historically never been any major changes in the underwriters the real estate brokers utilizes, thus from a competitive perspective the market is stable. Also, claims are determined based on the damages' effect on the property value, which makes claims handling complicated.

Moreover, the price is fixed as a small percentage of the sales price. Thus, the revenue function is: (i) House prices; (ii) the number of real estate transactions; (iii) hit-ratio (penetration of the product among sellers); (iv); the market share of your brokers. Your profits depend on your underwriting skills and claims handling.

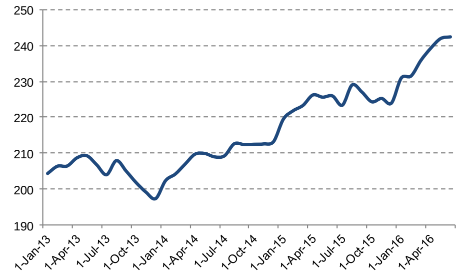
Norwegian real estate has performed well despite oil crisis

Real estate transactions ('000)



Sources: Fondsfinans Research, Eiendom Norge

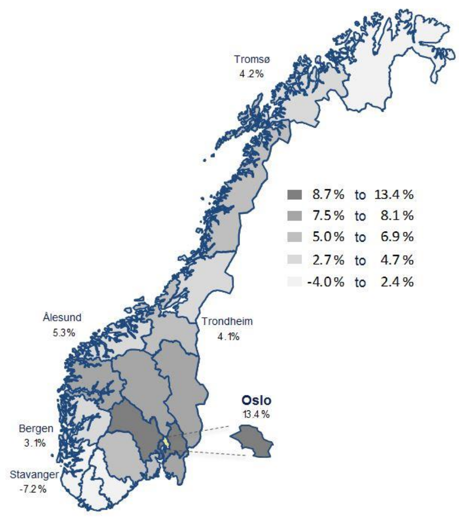
Nominal house price index*



Sources: Fondsfinans Research, Eiendom Norge

Regional differences affects COI volume

YoY change in house prices (June)



Sources: Fondsfinans Research, Eiendom Norge

In terms of transactions and price, the last years have been good. However, there have been some regional differences. This hit Protector when one of their brokers lost overall market share, due to them being big in the oil exposed western region of Norway.

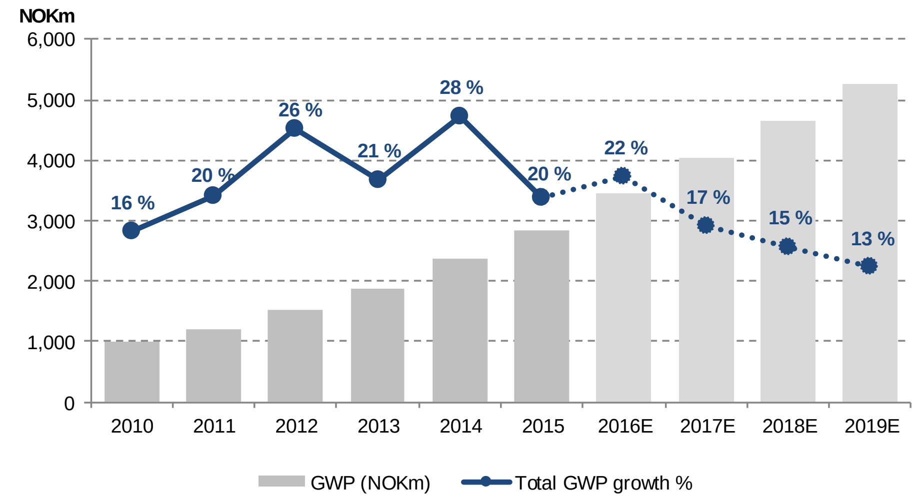
According to Protector, hit-ratios have been improving from 70% in 2008 to 80% in 2015.

In terms of GWP, Protector's COI volume is down 5% in 1H16 compared to 1H15.

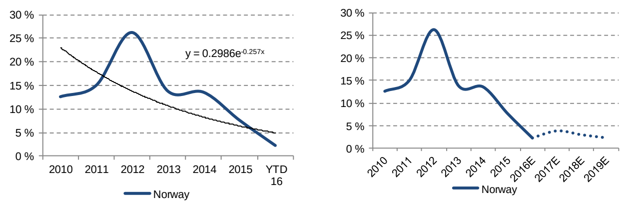
Growth ability - sum of the parts

Protector's historical growth rates are relatively volatile (both in magnitude and period-on-period direction). Our best guestimate of future growth is based on the assumption that there's a convex earnings momentum in the different segments/countries. Furthermore, we assume the UK business will follow the same premium pattern as Denmark. Protector has a long-term growth target of 10% yearly. For valuation purposes, our model calculates the outcomes around the base case with a +/- 5% growth sensitivity.

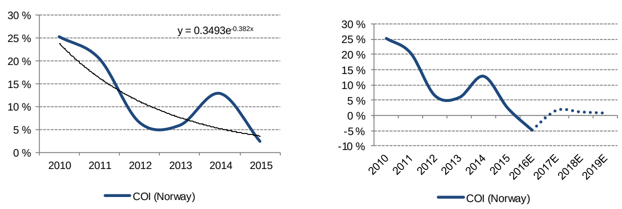
Estimated GWP growth



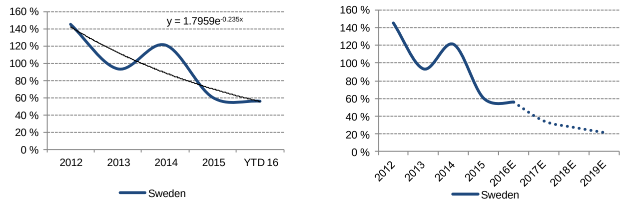
Norway (excl. COI)



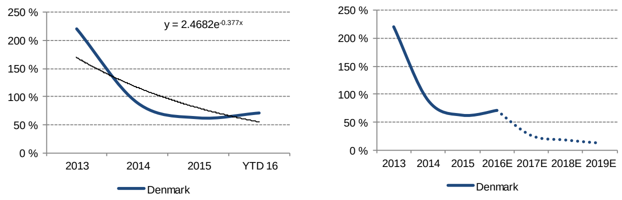
COI



Sweden



Denmark



Sources: Fondsfinans Research

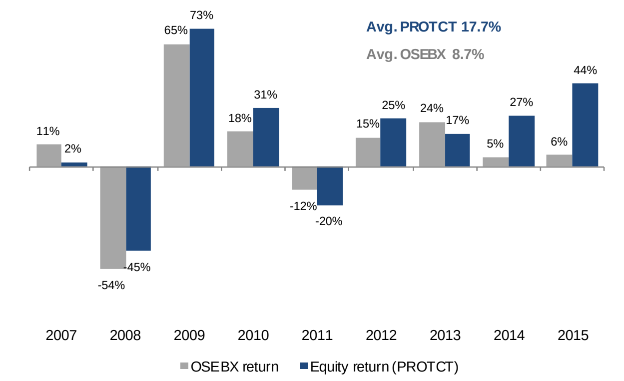
Asset management

Equities

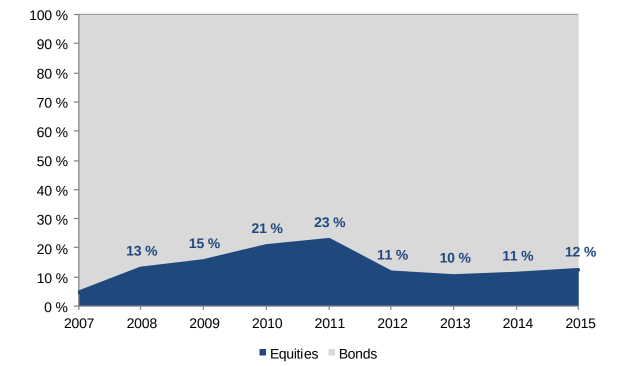
Protector's assets are primarily managed in-house. Additionally, they actively manage the equity side (no index funds etc.). In terms of allocations to equity versus fixed income, we do not believe Protector takes on more risks than other P&C insurers. At the end of 2015 GJF had 83% in interest bearing assets, IF 87%, Tryg 89%, TopDanmark 78%, and Sp1 P&C 80%. Protector currently holds roughly 20% of their investment portfolio in equities and has stated they will maintain this proportion going forward.

In terms of non-risk adjusted returns, Protector has performed very well historically. Risk adjusted returns are difficult to assert, yet we note that a simple ex-post sharp ratio for Protector's annual equity returns since 2007 is roughly 0.4 while OSEBX delivered roughly 0.2. We will show later that only KLP had a larger RoE contribution from investment returns than Protector.

Protector vs. OSEBX



Avg. equity share of financial assets (%)



Sources: Fondsfinans Research, Protector, Bloomberg

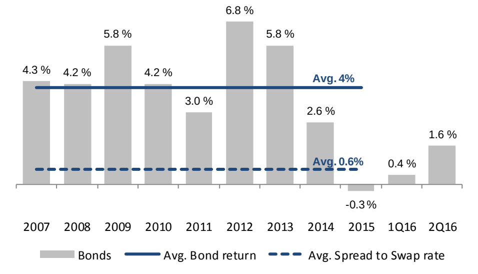
Fixed income

Protector's fixed income portfolio is nothing controversial. The interest-rate duration is low (probably lots of variable rate instruments in there) and the credit duration is mainly more defensive than the claims duration would necessitate. Additionally, the average spread to the 2-years swap rate is 0.6%, which is in the ballpark of what we would expect from an on average BBB grade fixed income portfolio.

Key characteristics fixed income

	2009	2010	2011	2012	2013	2014	2015
Duration of provisions	3.56	3.6	3.46	3.4	3.25	3.28	3.21
Duration of interest-rate portfolio	0.16	0.26	0.26	0.88	0.56	1.47	1.25
Duration of credit	1.99	2.12	2	3.1	3.23	3.29	2.8
Average credit rating	BBB+/A-	BBB+/A-	BBB+	BBB	BBB	BBB	BBB

Fixed income returns



Protector does not have any specific duration target – they underwrite the products they believe will result in the greatest technical profit. This implies that Protector does not explicitly manage their float. From a pure float perspective it's beneficial to push the duration as far as possible, however, this would again increase the underwriting and market risk – which might not be prudent for a rapidly growing insurer.

Sources: Fondsfinans Research, Protector, Bloomberg

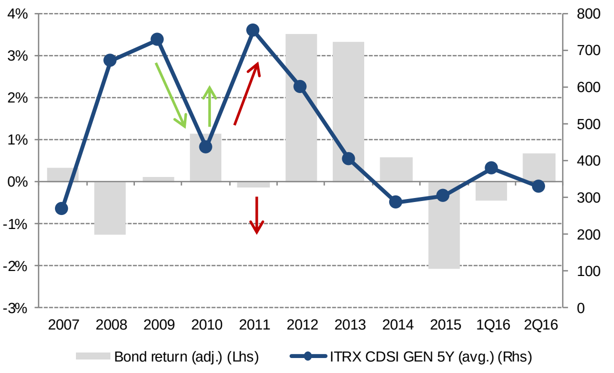
Future investment returns

Making an unbiased estimate of the expected returns of an actively managed portfolio is extremely difficult. For our base estimate for future equity returns we put emphasis on two things: (i) past performance is not indicative of future performance; (ii) Protector's asset management will probably add future value above index returns. The result is simply that we take the average of the OSEBX return and Protector's equity returns since 2007, and split it in the middle.

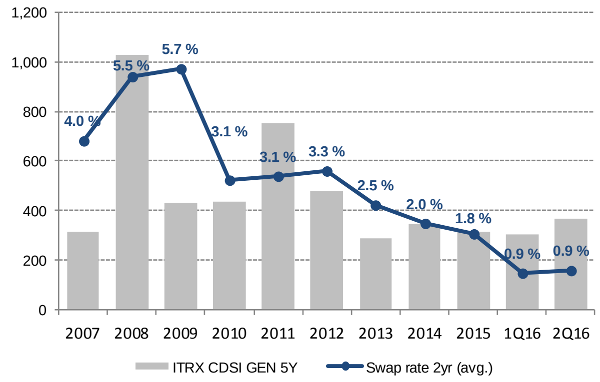
Returns on the fixed income portfolio depends on the general level of interest rates in the economy and the credit spread (movement and level). We illustrate in the graph under to the left how movement in a spread proxy (the ITRX CDSI) affects Protector's bond returns (the returns are adjusted for the 2-yrs swap rate).

The problem going forward is obviously that rates and the credit spread are at very low levels – thus there's not much upside or returns to be found in fixed income instruments. Yet, as this is a problem for any investor, we argue that it should not affect the value of Protector's float.

Adj. bond returns and credit spreads



Credit spreads and 2-yrs swap rate

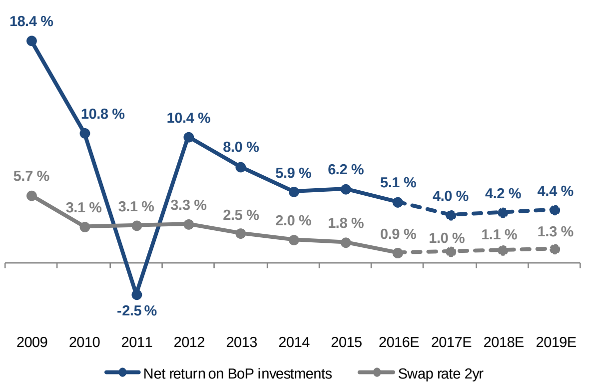


Sources: Fondsfinans Research, Bloomberg, Protector

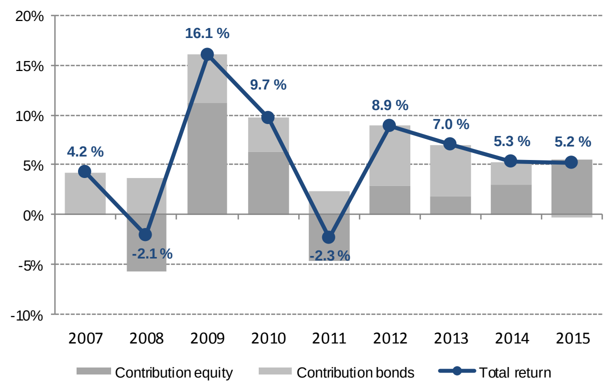
Our base case estimate for future returns from the fixed income portfolio is the forward 2-year swap rate plus a spread of 0.6%.

The end result is that we expect a historically low return rate from investments going forward. It should be noted that the non-float based valuation of Protector is highly sensitive to assumptions regarding future investment returns, which is the reason we are reluctant to rely too much on 'classic' valuation methods.

Return on BoP investments



Contribution to total returns



Sources: Fondsfinans Research, Protector

Earnings ability

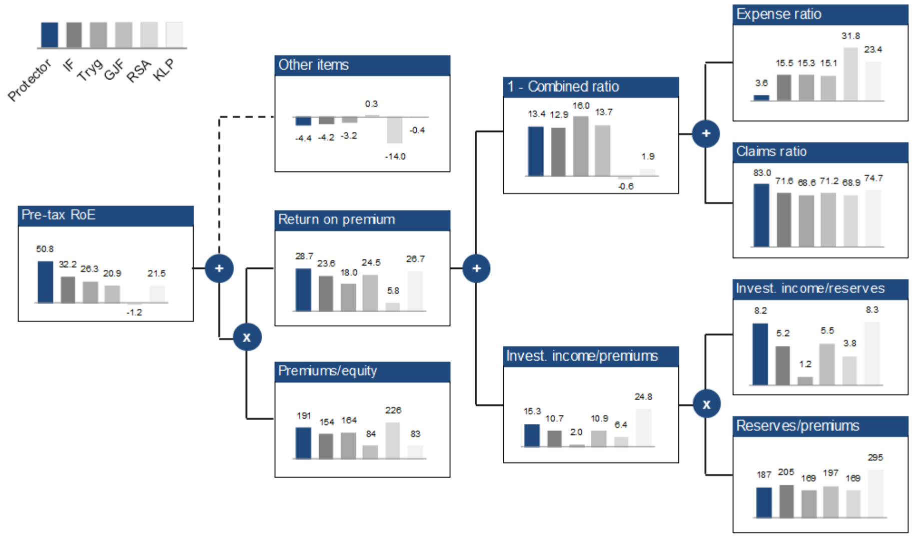
Earnings drivers

Good scores in technical and investments return brackets drives returns

Protector's earnings have not been generated by taking on more risk than comparable insurers. As illustrated below, the superior RoE appears to be driven by a higher Premiums/Equity ratio – implying that Protector is more exposed to underwriting errors. However, if we adjust for the security provisions, that Protector has transferred (excl. tax) to equity now, we get another picture. Now it appears Protector keep their reserve level at a very low level, but that the insurance leverage is very low. However, this is a consequence of Protector's much higher GWP growth. In the profit mechanics graphs we use average values of balance sheet items (due to RoE being the outcome), if we use end of year values (next page) it is clear that Protector is relatively risk adverse. End of year value is more appropriate when judging the reserve adequacy of growing firms. The most comparable peers are IF and Tryg - as the numbers for GJF are on group level and KLP is an overcapitalized outlier.

Risk picture is misleading when looking at average values

Profit mechanics vs. peers (% and avg.)



Adjusting for the security provisions

Profit mechanics Protector (adjusted**, % and avg.)

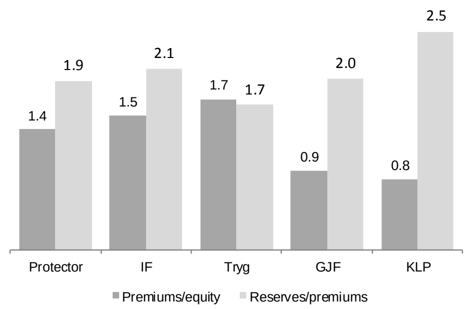
*Sources: Fondsfinans Research, company data. **Adjusted for the security provision effect*

As Protector's returns are not generated by excessive risk taking (given that they are not provisioning aggressively) as illustrated below, it is clear that it's the mix of their top-notch assets returns and top-notch combined ratio that's their source of superior returns. Neither the investment contribution, nor the combined ratio, is best-in-class on average – but together they have generated best-in-class returns to shareholders.

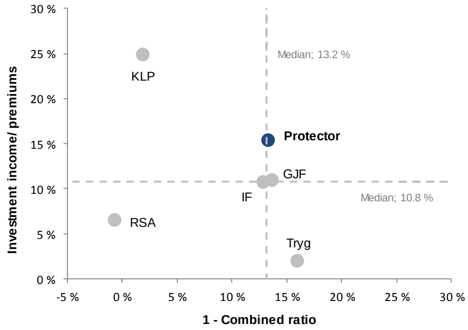
Truly profitable growth

Going forward, we believe 2016 will be a weak year by Protector standards. The reserve strengthening in the COI segment and problems in Denmark drags the result down. In 2017 they should have cleared up in the COI segment and starting to see results in Denmark again, which leads to a RoE boost from a lower claims ratio (vs. 2016). As discussed in the previous section, we are not super optimistic regarding their investment returns, so this will be a RoE drag in 2017.

End of year risk (2015) ratios

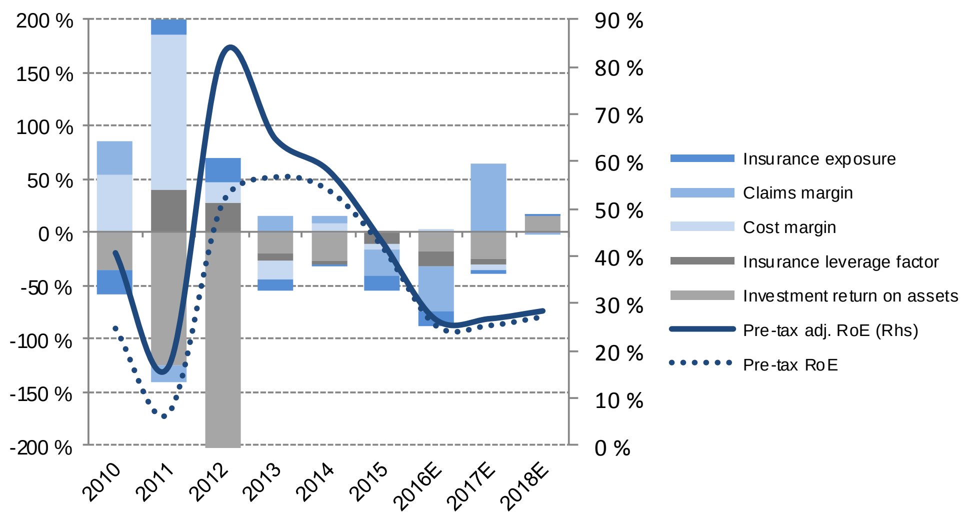


Return on Premium determinants*



Sources: Fondsfinans Research, company data. * Average 2013 - 2015

Percentage change in RoE determinants (as "reported"**)



Sources: Fondsfinans Research. ** Transfer of the security provisions to equity contributes to the fall in the RoE in 2016.

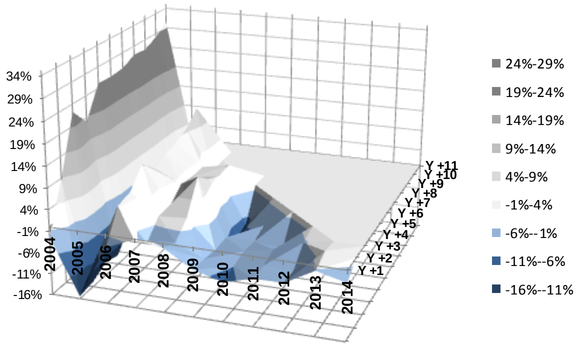
Technical risk profile

Reserve adequacy

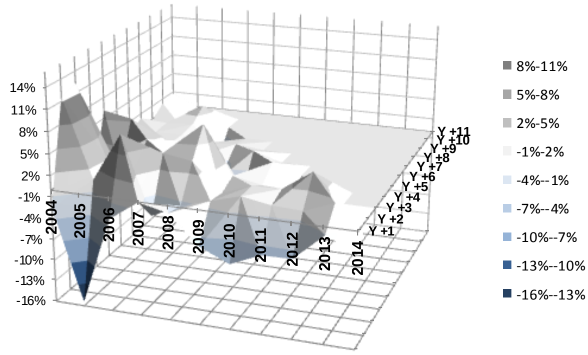
Less diversification benefits in the first years of operations

Since Protector is a relatively young insurance company, we analyzed their loss triangles since inception (2004). What we looked for was evidence of aggressive or conservative provisioning. In the 'cumulative reserve changes' charts below, it appears to be two regimes present; (i) in the early years the initial reserves appeared to be inadequate (aggressive provisioning); (ii) then after 2008 the provisioning have become more conservative – which is more in-line with the rest of the sector.

(i) Cumulative reserve changes (%)



(ii) Reserve changes (%)



(i) Cumulative reserve changes (%)

Blue indicate reserve release

Cumulative % change in gross estimated claims cost	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Y +1	-2.5 %	-15.4 %	-2.9 %	-0.1 %	-1.0 %	-5.0 %	-6.8 %	-5.0 %	-4.9 %	-1.1 %	-2.8 %	
Y +2	8.8 %	-14.9 %	4.3 %	-3.5 %	-2.5 %	-5.3 %	-6.0 %	-4.8 %	-4.9 %	0.5 %		
Y +3	22.2 %	-12.9 %	5.2 %	0.3 %	0.7 %	-5.9 %	-5.1 %	-3.8 %	-1.2 %			
Y +4	17.9 %	-13.8 %	9.5 %	0.2 %	8.0 %	-5.5 %	-5.6 %	-6.0 %				
Y +5	25.2 %	-9.2 %	6.3 %	3.2 %	5.3 %	-8.5 %	-4.2 %					
Y +6	25.0 %	-8.8 %	7.3 %	2.7 %	3.7 %	-7.3 %						
Y +7	25.3 %	-8.0 %	8.3 %	2.9 %	4.1 %							
Y +8	26.8 %	-7.0 %	9.7 %	-0.5 %								
Y +9	26.5 %	-7.1 %	12.9 %									
Y +10	28.1 %	-6.9 %										
Y +11	30.3 %											

(ii) Reserve changes (%)

Grey indicate reserve strengthening

Percentage change in gross estimated claims costs	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average	Median
Y +1	-2.5 %	-15.4 %	-2.9 %	-0.1 %	-1.0 %	-5.0 %	-6.8 %	-5.0 %	-4.9 %	-1.1 %	-2.8 %		-4.3 %	-2.9 %
Y +2	11.6 %	0.6 %	7.4 %	-3.5 %	-1.5 %	-0.3 %	0.9 %	0.2 %	0.0 %	1.7 %			1.7 %	0.4 %
Y +3	12.3 %	2.3 %	0.9 %	4.0 %	3.3 %	-0.7 %	0.9 %	1.0 %	3.9 %				3.1 %	2.3 %
Y +4	-3.5 %	-1.0 %	4.1 %	-0.1 %	7.2 %	0.4 %	-0.5 %	-2.3 %					0.5 %	-0.3 %
Y +5	6.1 %	5.4 %	-2.9 %	3.0 %	-2.5 %	-3.1 %	1.4 %						1.1 %	1.4 %
Y +6	-0.1 %	0.4 %	1.0 %	-0.5 %	-1.5 %	1.2 %							0.1 %	0.1 %
Y +7	0.2 %	0.9 %	0.9 %	0.2 %	0.4 %								0.5 %	0.4 %
Y +8	1.3 %	1.1 %	1.3 %	-3.3 %									0.1 %	1.2 %
Y +9	-0.2 %	-0.1 %	2.9 %										0.9 %	-0.1 %
Y +10	1.3 %	0.3 %											0.8 %	0.8 %
Y +11	1.7 %												1.7 %	1.7 %

Sources: Fondsfinans Research, Protector

Another interesting feature is the apparent overprovisioning and subsequent reserve release after the first year (marked blue in the overview above). This is probably not anything special, but rather a function of strict requirements from the FSA and short tailed policies (40%+ of disbursements are made by the second policy year; see below).

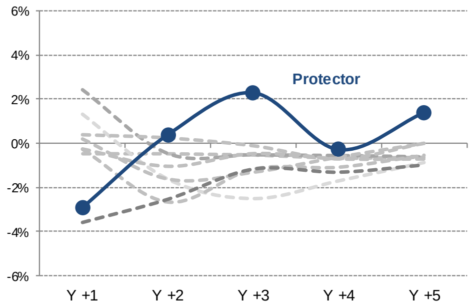
Disbursement as percentage of initial gross estimated claims cost													Average	Median	W. Avg	W. Med
Y 0						23.1 %	24.2 %	20.5 %	24.1 %	26.3 %	27.7 %	28.6 %	24.9 %	24.2 %	0.25	0.24
Y +1						23.7 %	18.7 %	20.9 %	18.6 %	20.8 %	21.4 %		20.7 %	20.8 %	0.41	0.42
Y +2					13.9 %	10.9 %	12.8 %	11.4 %	11.1 %	13.8 %			12.3 %	12.1 %	0.37	0.36
Y +3				11.4 %	13.6 %	8.1 %	8.7 %	11.2 %	12.1 %				10.9 %	11.3 %	0.43	0.45
Y +4			7.5 %	9.2 %	9.9 %	10.2 %	7.2 %	8.1 %					8.7 %	8.7 %	0.44	0.43
Y +5		6.3 %	3.1 %	7.1 %	5.5 %	3.8 %	7.8 %						5.6 %	5.9 %	0.33	0.35
Y +6	3.6 %	2.6 %	5.0 %	4.0 %	4.5 %	3.6 %							3.9 %	3.8 %	0.27	0.27
Y +7	4.4 %	2.0 %	3.9 %	2.1 %	2.9 %								3.1 %	2.9 %	0.24	0.23
Y +8	0.4 %	1.5 %	1.5 %	-2.9 %									0.1 %	0.9 %	0.01	0.08
Y +9	0.9 %	0.3 %	3.9 %										1.7 %	0.9 %	0.17	0.09
Y +10	1.5 %	0.0 %											0.8 %	0.8 %	0.08	0.08
Y +11	2.0 %												2.0 %	2.0 %	0.24	0.24
													Avg. duration proxy		3.26	3.26

Sources: Fondsfinans Research, Protector

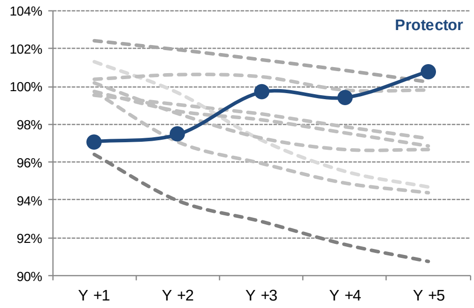
We compare Protector's provisioning to much larger insurers, thus we would expect Protector's reserve changes to be more volatile. This is exactly what we observe. We only show the first five years as longer periods are too dependent on a few observations.

Pattern affected by early years of operations

Median reserve change (%)



Median cumulative reserve change (%)



Median reserve change	Y +1	Y +2	Y +3	Y +4	Y +5
Protector	-2.9 %	0.4 %	2.3 %	-0.3 %	1.4 %
Gjensidige	-0.4 %	-0.5 %	-0.5 %	-0.7 %	-0.6 %
Tryg	2.4 %	-0.5 %	-0.5 %	-0.6 %	-0.6 %
RSA	1.3 %	-1.6 %	-2.5 %	-1.7 %	-0.9 %
SPB 1 Group	-0.3 %	-2.7 %	-1.2 %	-1.1 %	-0.5 %
IF	-0.3 %	-1.0 %	-0.5 %	-0.7 %	-0.7 %
Topdenmark	0.4 %	0.2 %	-0.1 %	-0.7 %	0.0 %
LF SAK Group	0.2 %	-1.6 %	-1.3 %	-0.6 %	0.0 %
STB	-3.6 %	-2.5 %	-1.2 %	-1.3 %	-1.0 %
Average (excl. PROTCT)	0.0 %	-1.3 %	-1.0 %	-0.9 %	-0.5 %
Median (excl. PROTCT)	0.0 %	-1.3 %	-0.8 %	-0.7 %	-0.6 %

Median cumulative reserve change	Y +1	Y +2	Y +3	Y +4	Y +5
Protector	97.1 %	97.5 %	99.7 %	99.4 %	100.8 %
Gjensidige	99.6 %	99.1 %	98.6 %	97.9 %	97.2 %
Tryg	102.4 %	102.0 %	101.4 %	100.9 %	100.2 %
RSA	101.3 %	99.7 %	97.2 %	95.5 %	94.7 %
SPB 1 Group	99.7 %	97.1 %	95.9 %	94.9 %	94.4 %
IF	99.7 %	98.7 %	98.2 %	97.6 %	96.9 %
Topdenmark	100.4 %	100.6 %	100.5 %	99.8 %	99.8 %
LF SAK Group	100.2 %	98.6 %	97.3 %	96.7 %	96.7 %
STB	96.4 %	94.0 %	92.9 %	91.7 %	90.8 %
Average (excl. PROTCT)	100.0 %	98.7 %	97.8 %	96.9 %	96.3 %
Median (excl. PROTCT)	100.0 %	98.9 %	97.8 %	97.1 %	96.8 %

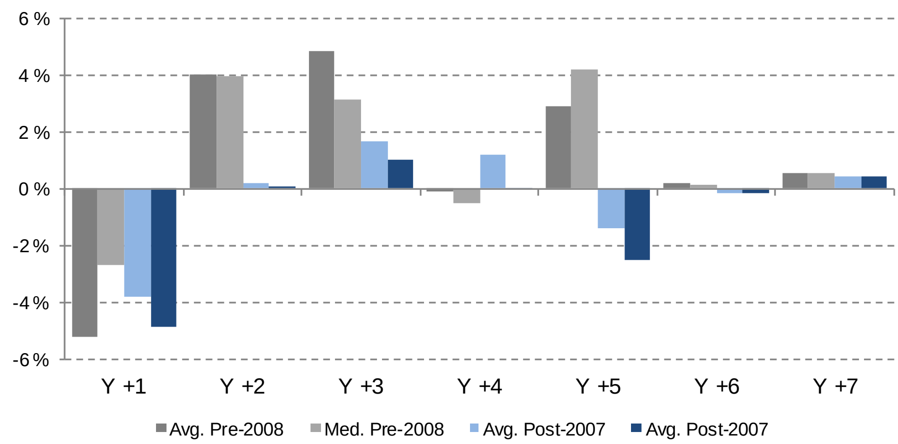
Sources: Fondsfinans Research, company data

Overall, we believe it's highly unlikely that Protector manages its earnings through reserves. Additionally, we believe that the provisioning is unbiased. That is, no unusual persistent pattern in cumulative reserve changes excl. the very first years of operations.

Below is an overview of the two regimes we observed and the corresponding difference in reserve volatility. We expect the volatility to decrease further as their diversification effect becomes stronger; with increased size and geographical exposure. There will obviously be abnormal quarters connected to unforeseen events like the claims handling difficulties in COI that caused an abnormal 12% of net earned premium run-off loss in 1Q16.

Reserve change volatility is decreasing

The two reserve regimes



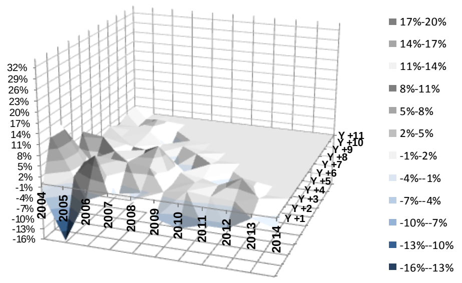
Sources: Fondsfinans Research, Protector

In the graphs below are visual representations of reserve changes for several P&C insurers. It shows how it becomes easier to diversify away much of the reserve risk as you grow. The by far most volatile ones are Sp1 P&C and Protector, which are also the two smallest ones.

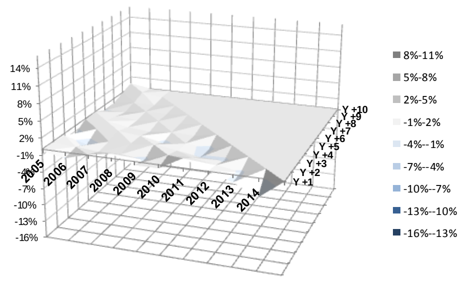
Moreover, it also shows why Sp1 P&C did so well in our RoE and RoA comparisons earlier, as they had substantial reserve releases the last couple of years.

Percentage change in gross estimated claims costs

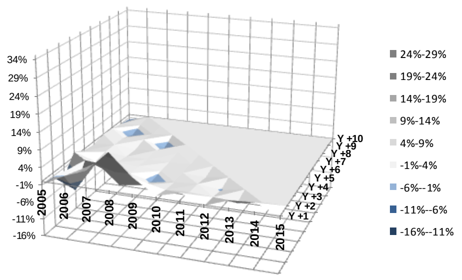
Protector



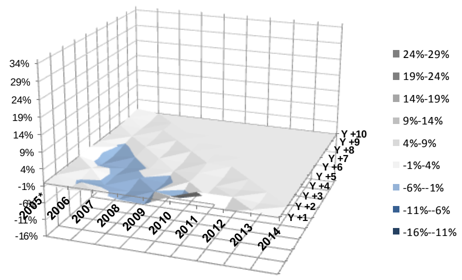
Gjensidige



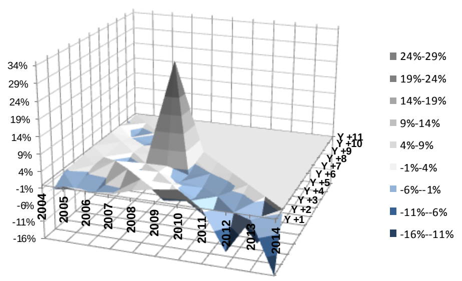
Tryg



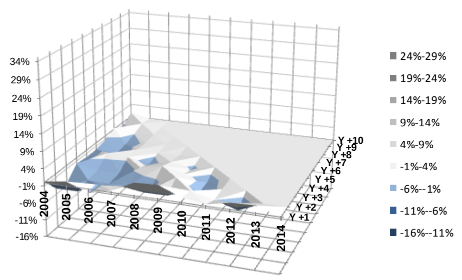
IF



Sparebanken 1 P&C



RSA

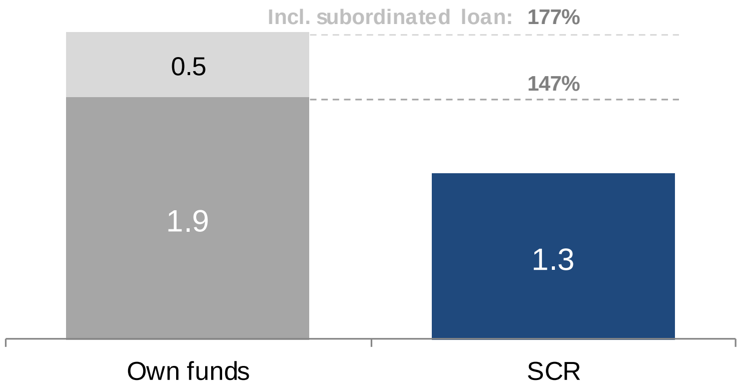


Sources: Fondsfinans Research, company data

Solvency

The Solvency II information we have received from the company is sparse to say the least. We know the solvency margin is around 180% and that we will receive more information at the CMD (August 18th). Protector uses the standard formula.

Solvency II requirements "day 1" (NOKbn)



Sources: Fondsfinans Research, Protector

The Solvency II margin of comparable firms varies a lot. GJF is around 150% with the standard formula and 190% with the partial internal model. Tryg is around 170% with the standard formula and 206% with the partial internal model. Sampo (owns IF) is at 154%. Sp1 P&C is at 262%, but only 156% on group level.

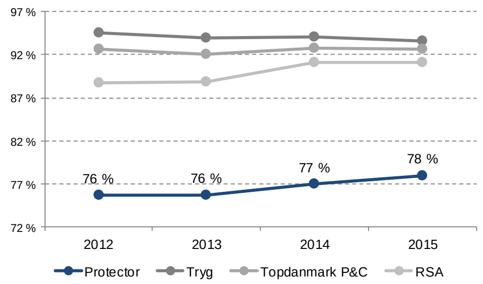
We do not believe Protector lacks capital for growth, as they can take several steps to increase their own funds or decrease their SCR. For example, subordinated debt can be increased (can be up to 50% of the SCR); the investment mix can be changed; payout ratio can be lowered etc... Still, there's a slight risk of surprises until we receive more information.

Reinsurance

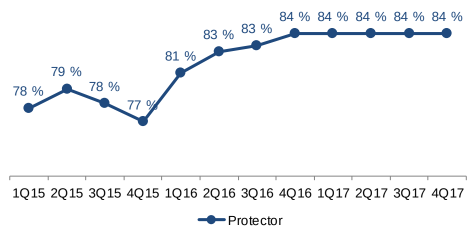
Protector cedes more of its premiums than other larger insurers, which is natural as it protects them from some of the provisioning risks we discussed earlier. The larger and more diversified Protector becomes, the more they will retain.

The counterparty risk is minimal with a 1Q16 average S&P rating of A+ of its risk carriers. Protector usually limits their own account risk to NOK 20m per event, and they use a combination of XL and quota reinsurance.

Retention ratio yearly



Retention ratio quarterly



Sources: Fondsfinans Research, company data

Valuation

The float

No "real" peers

Protector has no valuation peers. This is as close to a fact as you get in finance. Valuation in the Scandinavian and European insurance sector is characterized by a close to perfect fit between RoTBV and PTBV – implying that future growth is not valued. This makes sense as most listed companies are "super-mature" and high growth could be associated with excessive risk taking. However, Protector has a clearly defined growth strategy based on a sustainable cost advantage and quality excellence. Thus, they do not fit into the prevailing valuation regime.

Float description

A rapidly growing insurance company will build float quickly. Float is basically the cash received from customers that have not been paid out for claims and expenses yet. You calculate it by summing all insurance related liabilities and subtracting insurance related assets (not included the investment portfolio). What you are left with is "free-money" if the combined ratio is under 100%; i.e. assets with a negative funding cost as you make a technical profit while investing the float or OPM (other people's money). A negative funding cost implies the "liability" is actually an asset.

Float is extremely valuable, but difficult to value

Valuing a float is difficult. These are not our words, but Warren Buffet's words, and he is an expert on the topic – since building float with Berkshire Hathaway and investing the free money is how he got super-wealthy. What we can deduct is that $100 of float is better than $100 in assets even if the combined ratio is 100%, as you can grow the float in addition to getting the investment returns. Although, you have to tax the investment income on the corporate level, which diminishes the value of a float versus private investments. Still, when the combined ratio is likely to stay under 100%, a growing insurer should trade at a substantial premium to current net invested assets.

We account for the float in a conservative manner

Our approach to valuing Protector is based on an exit value in 2019, discounted to today. The float is backed by BBB investment grade fixed income instruments, thus the appropriate discount rate is roughly the 3-year SWAP rate plus 0.6% (1.6%). We use a 10% CoE for the NAV (which is tangible equity now after the security provision was converted) and dividends. We do not assume any further debt issuances, thus we subtract the current debt per share (adjusted for the tax shield) from the sum above.

Some important aspects to note regarding our approach:

(i) We actually assume no growth in the float past 2019!

   a. The present value of the float is calculated in such a way that post-2019 growth has no value. This implies that, the PV of the float is what an investor would pay today to own the float with growth until 2019 and without growth after 2019.

   b. The exit value of shareholder's equity is assumed to be tangible book value, which is backed by e.g. financial assets at fair value.

We consider our approach conservative, as we do not add any additional value to float building after 2019, and we do expect the fair value of Protector's NAV to be higher than one excluded the float value (yet we do not account for this, which is probably more prudent in the long-run).

There's some uncertainty, of course, related to our future float estimate. Back-testing revealed our base case to be a bit aggressive when comparing GWP growth and float growth, which is due to a higher retention ratio and higher provisioning compared to historical numbers. Yet, we created an "Explicit" scenario for the float, where the float mimics the GWP growth to account for this uncertainty. The "Implicit" scenario is based on our model.

Target NOK 100

We set our target at NOK 100, based on the mid-point between our "Explicit" and "Implicit" float forecasts (see next page).

Target NOK 100, based on mid-point between the two float estimates

Base CoE at 10%

A substantial part of an insurer's value is in its float

Float valuation

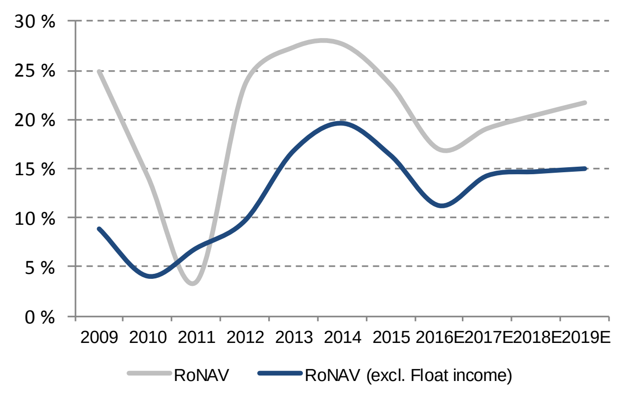
NOK per share	2016E	2017E	2018E	2019E
Implicit float				
Float	50	61	74	88
NAV	25	29	34	39
DPS	1.7	2.4	3.0	
Intrinsic value				
+ PV float @ SWAP + 0.6%	83.1			
+ PV NAV @ CoE	27.7			
+ PV DPS @ CoE	1.5			
- Debt (1-tax)	-5.6			
SUM	**106.7**			
CoE	*8 %*	*9 %*	*11 %*	*12 %*
SUM	**108.5**	**107.5**	**105.8**	**105.0**
Explicit float				
Float	50	59	68	77
NAV	25	29	34	39
DPS	1.7	2.4	3.0	
Intrinsic value				
+ PV float @ SWAP + 0.6%	72.4			
+ PV NAV @ CoE	27.7			
+ PV DPS @ CoE	1.5			
- Debt (1-tax)	-5.6			
SUM	**96.0**			
CoE	*8 %*	*9 %*	*11 %*	*12 %*
SUM	**97.8**	**96.9**	**95.1**	**94.3**

Sources: Fondsfinans Research. *19E DPS is included in the 19E NAV

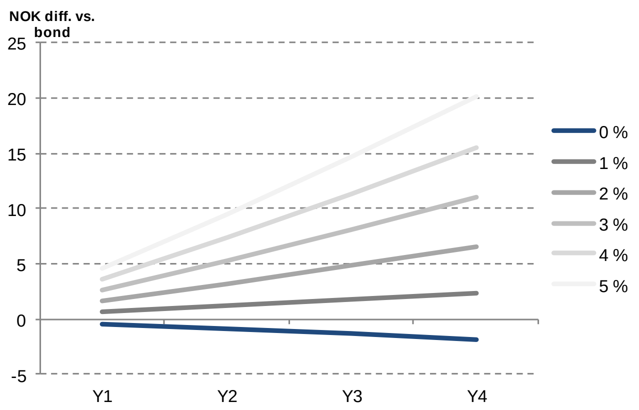
Below we have charted the return on net assets (RoNAV) for Protector, with and without, the float income. We observe that the non-float RoNAV is probably a bit higher on average than what anyone would consider an appropriate CoE for Protector – thus an NAV multiple of one excluded the float might be conservative.

Below to the right we have modelled an illustration of the float's superiority over owning a normal bond. The underlying yield is 1.6%; we assume different growth rates of float and a tax rate of 25%. The simulation shows that float is more valuable, as long as you can grow it. For example, If you can grow the float 5% yearly you will have NOK 20 (face value 100) more than a normal bond after four years – even after the double taxation!

RoNAV (excl. float income) & RoNAV*



The value of insurance float included taxes**



Sources: Fondsfinans Research.*Normalized effective tax rate **Since you must operate as an insurance company to generate float, the investment income is taxed twice

Growth in intrinsic value

NOK per share	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E
Implicit										
Float	14	18	23	28	35	42	50	61	74	88
NAV (incl. DPS)	11	9	13	17	21	30	34	40	47	55
SUM	**25**	**27**	**36**	**45**	**57**	**72**	**84**	**101**	**120**	**142**
Growth intrinsic value (%)		10 %	30 %	26 %	26 %	28 %	17 %	19 %	19 %	18 %
NAV CAGR 2010-2015	**22 %**									
NAV CAGR 2015-2019	16 %									
Float CAGR 2010-2015	**25 %**									
Float CAGR 2015-2019	20 %									
Explicit										
Float	14	18	23	28	35	42	50	59	68	77
NAV (incl. DPS)	11	9	13	17	21	30	34	40	47	55
SUM	**25**	**27**	**36**	**45**	**57**	**72**	**84**	**99**	**114**	**131**
Growth intrinsic value (%)		10 %	30 %	26 %	26 %	28 %	17 %	17 %	16 %	15 %
NAV CAGR 2010-2015	**22 %**									
NAV CAGR 2015-2019	16 %									
Float CAGR 2010-2015	**25 %**									
Float CAGR 2015-2019	16 %									

Float is a major value contributor

Sources: Fondsfinans Research

Why the float is not discounted with the cost of equity (CoE)

Capital structure of insurers is different from other sectors

The sources of capital for insurers consist of equity, debt and the float (other people money). The float is in accounting terms designated as a liability, yet it is not an economic reality given that the insurer will not shrink its float, makes a consistent underwriting profit, and is a going-concern. The float only costs money if it is called upon to pay claims and can be a substantial value contributor if unencumbered.

For example, consider an insurer that uses its float to purchase assets. Equity holders have not funded these assets – customers of the company have. Thus, if unencumbered (combined < 100%), this is the equivalent of free money. The accumulation of returns and growth in the float is, therefore, extremely valuable.

CAPM breaks down if CR consistently < 100%

Determining the correct discount rate to use for a profitable insurer is challenging, as the CAPM breaks down. The negative cost of the float and its size can easily lead to a negative or unrealistically low WACC. A common approach to get around this problem is to discount the float with the risk-free rate and add this to the current NAV adjusted for debt. For example, if we expect the float to grow 2% in perpetuity, achieve a return of 4%, and that 4% is the long-term risk-free return – Protector's float value would be NOK 63 at the end of 2015 (NOK 42 in float per share times 4%*(1-tax), divided by 4% minus 2%). Adding the 2015 NAV of NOK 24 and subtracting debt (less tax shield) would yield an intrinsic value of NOK 81. This approach is commonly used to value e.g. Berkshire Hathaway and other insurers that are growing their float fast and have a history of technical profitable underwriting (or at least break-even). For insurers that are not growing their float, an approach could simply be to not discount the float.

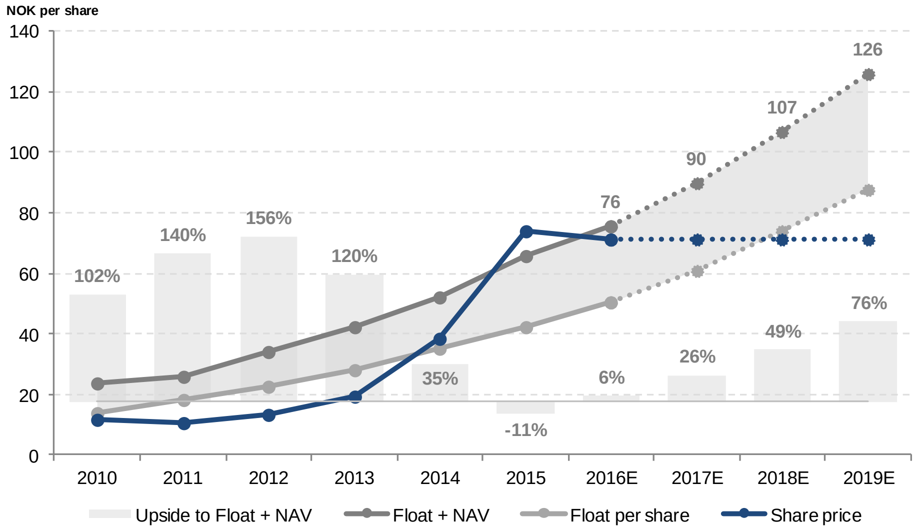
We did not apply the aforementioned approach, as we feel it is too sensitive to the underlying assumptions. For example, changing the return assumption to 3% (vs. 4%) would result in an intrinsic float value of NOK 95 – 50% higher than assuming 4%!

We try to avoid an overreliance on terminal value. Therefore, we estimate future values of the capital structure and discount these values based on the price an investor would buy these values for today. Obviously there will be uncertainty related to our estimates, yet we feel these uncertainties are lower than a terminal value approach.

It is our opinion that the value of Protector cannot be determined without considering its extremely valuable float growth (past, present and future).

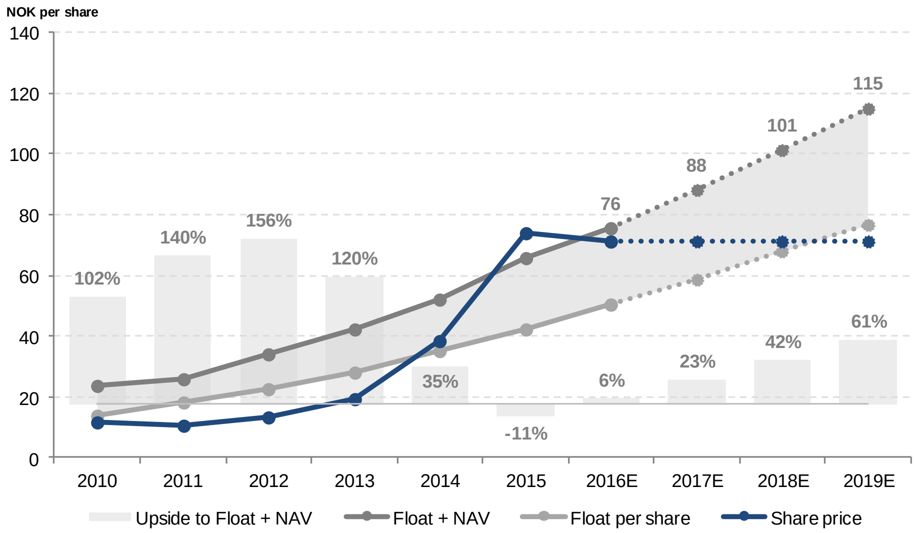
Our "intrinsic" float estimate

Float per share + TBVP



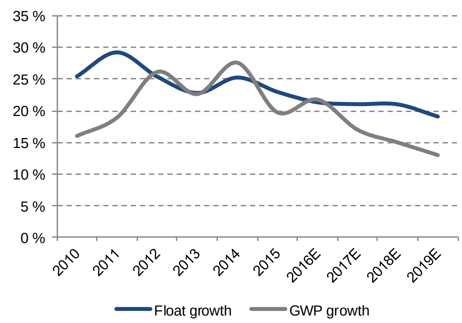
Our "explicit" float estimate

Float per share + TBVP (Float growth set equal to GWP growth)

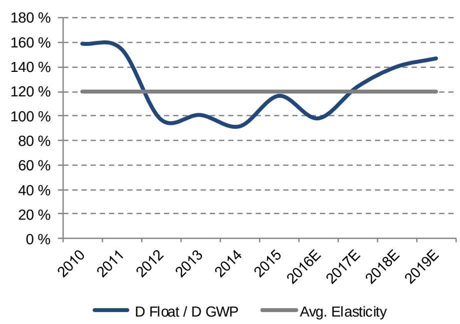


Risk of estimation errors

Float and GWP growth



Elasticity: Δ Float / Δ growth



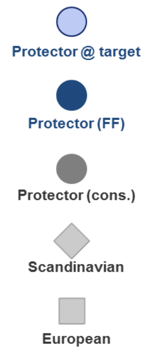
Sources: Fondsfinans Research

As illustrated in the graphs above, the float does not necessarily follow the growth of GWP. The float depends on many factors e.g. duration of provisions, GWP growth, retention ratio, provisions vs. GWP growth etc... Our bottom Float + TBVP graph on this page sets the float growth equal to the GWP growth.

Peer valuation

Protector currently trades at discount to both the Scandinavian and European insurance sectors. On the surface, this appears to be connected to expected dividend yield, as the market clearly put a premium on dividend yield and the certainty of said dividends. The P/E multiples illustrate what puny amount of growth is currently expected – strengthening our belief that Protector does not fit in among these "peers."

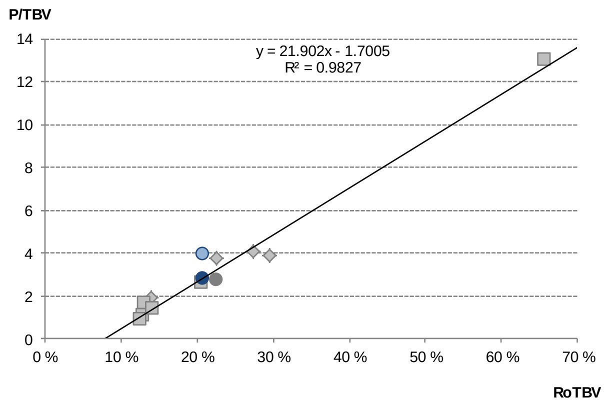
Peer valuation



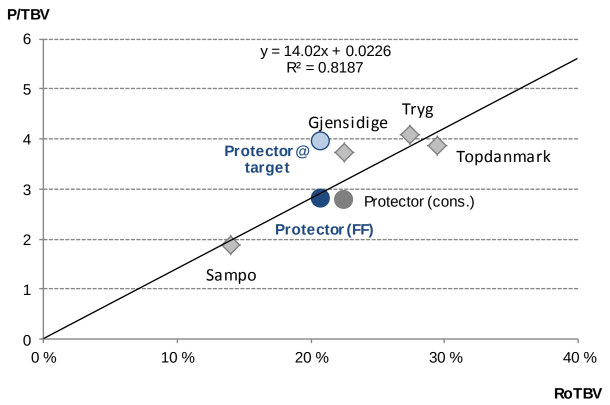
	P/E			P/B			P/TBV			Div. Yield		
	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
Protector (FF)	**15.8x**	**12.5x**	**10.5x**	**2.8x**	**2.4x**	**2.1x**	**2.8x**	**2.4x**	**2.1x**	**2.4 %**	**3.4 %**	**4.2 %**
Protector @ target	**22.2x**	**17.6x**	**14.8x**	**3.9x**	**3.4x**	**3.0x**	**3.9x**	**3.4x**	**3.0x**	**1.7 %**	**2.4 %**	**3.0 %**
Protector (cons.)	13.6x	11.4x	9.9x	2.7x	2.4x	2.1x	2.8x	2.4x	2.1x	3.4 %	3.6 %	4.1 %
Gjensidige	16.2x	16.5x	15.8x	3.0x	3.0x	3.0x	3.7x	3.7x	3.7x	6.3 %	6.0 %	5.9 %
Topdanmark	14.0x	12.6x	11.7x	3.4x	3.1x	2.8x	3.9x	3.6x	3.2x	7.3 %	7.7 %	6.5 %
Tryg	15.9x	14.9x	14.5x	3.7x	3.6x	3.6x	4.1x	4.1x	4.1x	5.0 %	5.3 %	5.5 %
Sampo	13.4x	13.3x	13.0x	1.8x	1.7x	1.7x	1.9x	1.8x	1.8x	6.1 %	6.3 %	6.6 %
Average	**14.9x**	**14.3x**	**13.7x**	**2.9x**	**2.9x**	**2.8x**	**3.4x**	**3.3x**	**3.2x**	**6.2 %**	**6.3 %**	**6.1 %**
Median	**14.9x**	**14.1x**	**13.7x**	**3.2x**	**3.1x**	**2.9x**	**3.8x**	**3.6x**	**3.4x**	**6.2 %**	**6.2 %**	**6.2 %**
RSA	18.1x	12.7x	11.1x	1.4x	1.4x	1.4x	1.7x	1.6x	1.6x	2.7 %	3.6 %	4.5 %
Admiral	20.6x	19.6x	18.8x	10.3x	10.1x	9.8x	13.0x	12.7x	12.2x	5.2 %	5.5 %	5.2 %
Allianz	8.5x	8.1x	7.8x	0.9x	0.8x	0.8x	1.1x	1.0x	1.0x	6.0 %	6.3 %	6.5 %
AXA	7.3x	7.1x	6.9x	0.6x	0.6x	0.6x	0.9x	0.9x	0.8x	6.6 %	7.1 %	7.5 %
Zurich	11.1x	10.1x	9.3x	1.1x	1.1x	1.1x	1.4x	1.4x	1.3x	6.9 %	7.1 %	7.1 %
Prudential	11.5x	10.5x	9.8x	2.3x	1.7x	1.5x	2.6x	1.8x	1.6x	3.1 %	3.4 %	3.6 %
Average (incl. Nordic)	**13.7x**	**12.6x**	**11.9x**	**2.8x**	**2.7x**	**2.6x**	**3.4x**	**3.3x**	**3.1x**	**5.5 %**	**5.8 %**	**5.9 %**
Median (incl. Nordic)	**13.7x**	**12.7x**	**11.4x**	**2.0x**	**1.7x**	**1.6x**	**2.2x**	**1.8x**	**1.7x**	**6.0 %**	**6.1 %**	**6.2 %**

Sources: Fondsfinans Research, Bloomberg

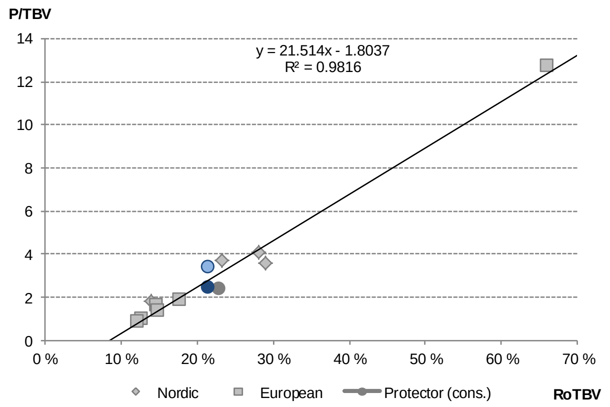
P/TBV (16E) vs. RoTBV (17E)



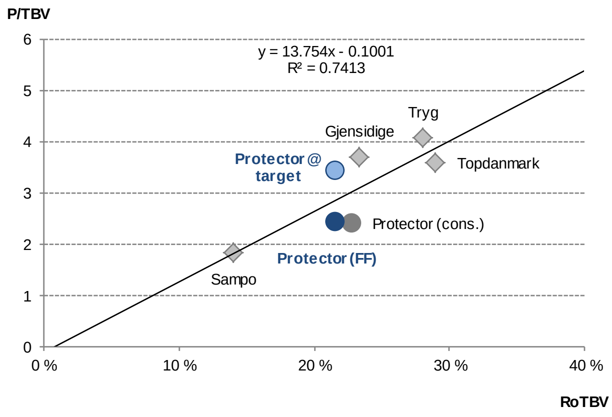
P/TBV (16E) vs. RoTBV (17E)



P/TBV (17E) vs. RoTBV (18E)



P/TBV (17E) vs. RoTBV (18E)



*Sources: Fondsfinans Research, Bloomberg. * The companies are the same as in the table above.*

DCF & valuation summary

The trading multiples we use are highly sensitive to what year we apply them to Protector, as the peers are not growing much. Higher valuations if we look to 2018 than 2017 etc... Our theoretical models (DDM cash flow based with different exit values and Residual income) imply a fair value of NOK 90. The warranted equity method (WEM) +1yr, which disregard estimates after 2017, indicate NOK 67 to 86 per share.

Disregarding the float approach, our estimate of the intrinsic value is NOK 90, as we put more weight on the theoretical models and 2018 peer pricing than the aggregate football field.

For a sensitivity analysis we have nine scenarios for how the technical result might develop. The base case is a combined of 90%, then we have base case combined +/- 5%. Around these combined ratios we vary the growth with +/- 5%. We note that Protector has target combined of 90% and 10% growth in the long-term.

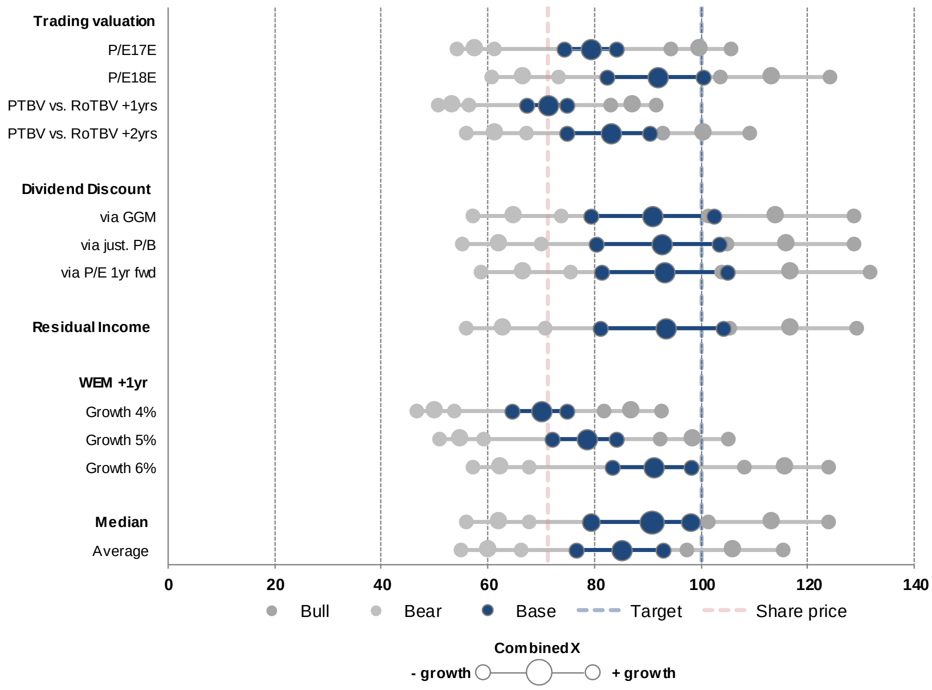
Assumptions:

CoE 10%

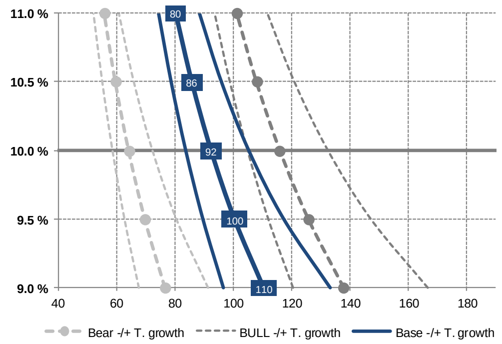
T. growth 5% (2020)

Target leverage 4.6x

Football field – valuation summary



Sensitivity to CoE



Football field – the numbers

	Base +Growth	Base combined	Base -Growth	Bear +Growth	Bear combined	Bear -Growth	Bull +Growth	Bull combined	Bull -Growth
Trading valuation									
P/E17E	84	**79**	74	61	58	54	106	100	94
P/E18E	100	**92**	82	73	67	61	124	113	104
PTBV vs. RoTBV +1yrs	75	**71**	67	56	53	51	91	87	83
PTBV vs. RoTBV +2yrs	90	**83**	75	67	61	56	109	101	93
DDM									
via GGM	102	**91**	79	74	65	57	129	114	101
via just. P/B	103	**93**	80	70	62	55	129	116	105
via P/E 1yr fwd	105	**93**	81	76	67	59	132	117	104
RI	104	**93**	81	71	63	56	129	117	105
WEM +1yr									
Growth 4%	75	**70**	65	54	50	47	93	87	82
Growth 5%	84	**78**	72	59	55	51	105	99	92
Growth 6%	98	**91**	83	68	62	57	124	116	108
Median	**98**	**91**	**79**	**68**	**62**	**56**	**124**	**113**	**101**
Average	**93**	**85**	**76**	**66**	**60**	**55**	**115**	**106**	**97**

Sources: Fondsfinans Research, Bloomberg

As we do not have a lot of information regarding the SCR or Own Funds (Solvency II), we use total leverage as a constraint in our DCFs. The leverage in 1Q16 and 2Q16 is roughly 4.6x, and we assume this will be sufficient going forward:

Base case	2015	2016E	2017E	2018E	2019E
Premium growth YoY	20 %	22 %	17 %	15 %	13 %
Net Combined Ratio	89 %	93 %	89 %	90 %	90 %
Net income	466	388	492	591	707
Total assets	7,740	9,542	11,181	13,067	15,252
Intangible assets	16	16	16	16	16
Total equity	1,574	2,199	2,691	3,282	3,988
Leverage	4.9x	4.3x	4.2x	4.0x	3.8x

Excess capital method

DDM	2016E	2017E	2018E	2019E
Equity BoP	1,574	2,040	2,359	2,720
Assets BoP	7,740	9,382	10,849	12,513
Loss of investment yield (Div)		-8	-15	-26
Net income	388	484	575	681
Equity EoP pre-div.	2,199	2,524	2,934	3,401
Assets EoP pre-div.	9,542	11,014	12,727	14,688
Leverage pre-div.	4.3x	4.4x	4.3x	4.3x
Target leverage	4.6x	4.6x	4.6x	4.6x
Dividend	**160**	**165**	**214**	**266**
	0.41	0.34	0.37	0.39

Residual income	2016E	2017E	2018E	2019E
Equity BoP	2,022	2,040	2,359	2,720
CoE	202	204	236	272
Net income	388	484	575	681
Excess earnings	**186**	**280**	**339**	**409**
Adj. RoE	18.4 %	21.2 %	21.7 %	22.3 %
Adj. RoTBV	18.5 %	21.3 %	21.8 %	22.3 %

Base combined +Growth	2015	2016E	2017E	2018E	2019E
Premium growth YoY	20 %	24 %	22 %	20 %	18 %
Net Combined Ratio	89 %	93 %	89 %	89 %	89 %
Net income	466	394	520	646	798
Total assets	7,740	9,548	11,268	13,330	15,814
Intangible assets	16	16	16	16	16
Total equity	1,574	2,205	2,725	3,371	4,169
Leverage	4.92	4.33	4.14	3.95	3.79

Excess capital method

DDM	2016E	2017E	2018E	2019E
Equity BoP	1,574	2,040	2,373	2,769
Assets BoP	7,740	9,383	10,916	12,736
Loss of investment yield (Div)		-8	-16	-28
Net income	394	512	630	771
Equity EoP pre-div.	2,205	2,552	3,003	3,540
Assets EoP pre-div.	9,548	11,095	12,970	15,208
Leverage pre-div.	4.3x	4.3x	4.3x	4.3x
Target leverage	4.6x	4.6x	4.6x	4.6x
Dividend	**165**	**179**	**234**	**298**
	0.42	0.35	0.37	0.39

Residual income	2016E	2017E	2018E	2019E
Equity BoP	2,022	2,040	2,373	2,769
CoE	202	203.98	237	277
Net income	394	512	630	771
Excess earnings	**192**	**308**	**392**	**494**
Adj. RoE	18.6 %	22.3 %	23.4 %	24.4 %
Adj. RoTBV	18.7 %	22.4 %	23.5 %	24.5 %

Base combined -Growth	2015	2016E	2017E	2018E	2019E
Premium growth YoY	20 %	19 %	12 %	10 %	8 %
Net Combined Ratio	89 %	93 %	90 %	90 %	90 %
Net income	466	383	461	532	611
Total assets	7,740	9,535	10,932	12,463	14,171
Intangible assets	16	16	16	16	16
Total equity	1,574	2,194	2,655	3,186	3,797
Leverage	4.92	4.35	4.12	3.91	3.73

Excess capital method

DDM	2016E	2017E	2018E	2019E
Equity BoP	1,574	2,039	2,299	2,579
Assets BoP	7,740	9,381	10,577	11,863
Loss of investment yield (Div)		-7	-17	-28
Net income	383	454	515	583
Equity EoP pre-div.	2,194	2,493	2,814	3,162
Assets EoP pre-div.	9,535	10,771	12,099	13,560
Leverage pre-div.	4.3x	4.3x	4.3x	4.3x
Target leverage	4.6x	4.6x	4.6x	4.6x
Dividend	**154**	**194**	**236**	**274**
	0.40	0.43	0.46	0.47

Residual income	2016E	2017E	2018E	2019E
Equity BoP	2,022	2,039	2,299	2,579
CoE	202	203.94	230	258
Net income	383	454	515	583
Excess earnings	**181**	**250**	**285**	**325**
Adj. RoE	18.2 %	20.0 %	20.1 %	20.3 %
Adj. RoTBV	18.2 %	20.1 %	20.2 %	20.4 %

BEAR combined	2015	2016E	2017E	2018E	2019E
Premium growth YoY	20 %	22 %	17 %	15 %	13 %
Net Combined Ratio	89 %	97 %	94 %	95 %	95 %
Net income	466	333	357	427	512
Total assets	7,740	9,479	10,799	12,308	14,060
Intangible assets	16	16	16	16	16
Total equity	1,574	2,144	2,501	2,928	3,440
Leverage	4.92	4.42	4.32	4.20	4.09

Excess capital method

DDM	2016E	2017E	2018E	2019E
Equity BoP	1,574	2,037	2,305	2,607
Assets BoP	7,740	9,372	10,603	11,992
Loss of investment yield (Div)		-5	-9	-15
Net income	333	352	418	497
Equity EoP pre-div.	2,144	2,389	2,723	3,104
Assets EoP pre-div.	9,479	10,688	12,108	13,738
Leverage pre-div.	4.4x	4.5x	4.4x	4.4x
Target leverage	4.6x	4.6x	4.6x	4.6x
Dividend	**106**	**84**	**116**	**150**
	0.32	0.24	0.28	0.30

Residual income	2016E	2017E	2018E	2019E
Equity BoP	2,022	2,037	2,305	2,607
CoE	202	203.75	231	261
Net income	333	352	418	497
Excess earnings	**131**	**148**	**188**	**236**
Adj. RoE	16.0 %	15.9 %	16.6 %	17.4 %
Adj. RoTBV	16.0 %	16.0 %	16.7 %	17.5 %

BEAR combined +Growth	2015	2016E	2017E	2018E	2019E
Premium growth YoY	20 %	24 %	22 %	20 %	18 %
Net Combined Ratio	89 %	97 %	94 %	94 %	94 %
Net income	466	337	378	469	581
Total assets	7,740	9,483	10,868	12,521	14,518
Intangible assets	16	16	16	16	16
Total equity	1,574	2,148	2,526	2,995	3,576
Leverage	4.92	4.42	4.30	4.18	4.06

Excess capital method

DDM	2016E	2017E	2018E	2019E
Equity BoP	1,574	2,038	2,317	2,648
Assets BoP	7,740	9,373	10,659	12,179
Loss of investment yield (Div)		-5	-10	-16
Net income	337	373	459	565
Equity EoP pre-div.	2,148	2,411	2,776	3,213
Assets EoP pre-div.	9,483	10,753	12,308	14,170
Leverage pre-div.	4.4x	4.5x	4.4x	4.4x
Target leverage	4.6x	4.6x	4.6x	4.6x
Dividend	**110**	**94**	**129**	**169**
	0.33	0.25	0.28	0.30

Residual income	2016E	2017E	2018E	2019E
Equity BoP	2,022	2,038	2,317	2,648
CoE	202	203.76	232	265
Net income	337	373	459	565
Excess earnings	**135**	**169**	**227**	**300**
Adj. RoE	16.2 %	16.8 %	18.0 %	19.3 %
Adj. RoTBV	16.2 %	16.8 %	18.1 %	19.3 %

BEAR combined -Growth	2015	2016E	2017E	2018E	2019E
Premium growth YoY	20 %	19 %	12 %	10 %	8 %
Net Combined Ratio	89 %	97 %	95 %	95 %	95 %
Net income	466	329	336	389	450
Total assets	7,740	9,474	10,731	12,103	13,632
Intangible assets	16	16	16	16	16
Total equity	1,574	2,140	2,476	2,865	3,315
Leverage	4.92	4.43	4.33	4.22	4.11

Excess capital method

DDM	2016E	2017E	2018E	2019E
Equity BoP	1,574	2,037	2,293	2,567
Assets BoP	7,740	9,372	10,547	11,810
Loss of investment yield (Div)		-5	-8	-14
Net income	329	331	380	436
Equity EoP pre-div.	2,140	2,369	2,673	3,004
Assets EoP pre-div.	9,474	10,623	11,916	13,334
Leverage pre-div.	4.4x	4.5x	4.5x	4.4x
Target leverage	4.6x	4.6x	4.6x	4.6x
Dividend	**102**	**76**	**106**	**134**
	0.31	0.23	0.28	0.31

Residual income	2016E	2017E	2018E	2019E
Equity BoP	2,022	2,037	2,293	2,567
CoE	202	203.73	229	257
Net income	329	331	380	436
Excess earnings	**127**	**128**	**151**	**180**
Adj. RoE	15.8 %	15.0 %	15.3 %	15.7 %
Adj. RoTBV	15.9 %	15.1 %	15.4 %	15.7 %

BULL combined	2015	2016E	2017E	2018E	2019E
Premium growth YoY	20 %	22 %	17 %	15 %	13 %
Net Combined Ratio	89 %	89 %	84 %	85 %	85 %
Net income	466	444	620	737	871
Total assets	7,740	9,605	11,222	13,075	15,225
Intangible assets	16	16	16	16	16
Total equity	1,574	2,255	2,875	3,612	4,483
Leverage	4.92	4.26	3.90	3.62	3.40

Excess capital method

DDM	2016E	2017E	2018E	2019E
Equity BoP	1,574	2,042	2,319	2,631
Assets BoP	7,740	9,392	10,666	12,104
Loss of investment yield (Div)		-10	-26	-45
Net income	444	610	711	826
Equity EoP pre-div.	2,255	2,652	3,030	3,458
Assets EoP pre-div.	9,605	10,999	12,503	14,236
Leverage pre-div.	4.3x	4.1x	4.1x	4.1x
Target leverage	4.6x	4.6x	4.6x	4.6x
Dividend	**213**	**333**	**399**	**464**
	0.48	0.55	0.56	0.56

Residual income	2016E	2017E	2018E	2019E
Equity BoP	2,022	2,042	2,319	2,631
CoE	202	204.16	232	263
Net income	444	610	711	826
Excess earnings	**242**	**406**	**480**	**563**
Adj. RoE	20.8 %	26.0 %	26.6 %	27.1 %
Adj. RoTBV	20.8 %	26.1 %	26.7 %	27.2 %

BULL combined +Grov	2015	2016E	2017E	2018E	2019E
Premium growth YoY	20 %	24 %	22 %	20 %	18 %
Net Combined Ratio	89 %	89 %	84 %	84 %	84 %
Net income	466	451	655	805	983
Total assets	7,740	9,613	11,311	13,337	15,779
Intangible assets	16	16	16	16	16
Total equity	1,574	2,262	2,917	3,722	4,705
Leverage	4.92	4.25	3.88	3.58	3.35

Excess capital method

DDM	2016E	2017E	2018E	2019E
Equity BoP	1,574	2,042	2,331	2,674
Assets BoP	7,740	9,393	10,725	12,299
Loss of investment yield (Div)		-10	-27	-48
Net income	451	645	778	935
Equity EoP pre-div.	2,262	2,687	3,109	3,608
Assets EoP pre-div.	9,613	11,080	12,734	14,720
Leverage pre-div.	4.2x	4.1x	4.1x	4.1x
Target leverage	4.6x	4.6x	4.6x	4.6x
Dividend	**220**	**355**	**436**	**522**
	0.49	0.55	0.56	0.56

Residual income	2016E	2017E	2018E	2019E
Equity BoP	2,022	2,042	2,331	2,674
CoE	202	204.19	233	267
Net income	451	645	778	935
Excess earnings	**249**	**441**	**545**	**667**
Adj. RoE	21.1 %	27.3 %	28.6 %	29.8 %
Adj. RoTBV	21.1 %	27.4 %	28.7 %	29.8 %

BULL combined -Grov	2015	2016E	2017E	2018E	2019E
Premium growth YoY	20 %	19 %	12 %	10 %	8 %
Net Combined Ratio	89 %	89 %	85 %	85 %	85 %
Net income	466	437	586	675	772
Total assets	7,740	9,596	11,134	12,824	14,710
Intangible assets	16	16	16	16	16
Total equity	1,574	2,247	2,833	3,508	4,280
Leverage	4.92	4.27	3.93	3.66	3.44

Excess capital method

DDM	2016E	2017E	2018E	2019E
Equity BoP	1,574	2,041	2,306	2,591
Assets BoP	7,740	9,390	10,607	11,916
Loss of investment yield (Div)		-10	-25	-42
Net income	437	576	650	730
Equity EoP pre-div.	2,247	2,617	2,956	3,320
Assets EoP pre-div.	9,596	10,919	12,282	13,785
Leverage pre-div.	4.3x	4.2x	4.2x	4.2x
Target leverage	4.6x	4.6x	4.6x	4.6x
Dividend	**206**	**311**	**365**	**414**
	0.47	0.54	0.56	0.57

Residual income	2016E	2017E	2018E	2019E
Equity BoP	2,022	2,041	2,306	2,591
CoE	202	204.14	231	259
Net income	437	576	650	730
Excess earnings	**234**	**372**	**419**	**471**
Adj. RoE	20.5 %	24.7 %	24.7 %	24.7 %
Adj. RoTBV	20.5 %	24.8 %	24.8 %	24.8 %

Sensitivity to growth and cost of equity

Base case

DDM

GGM	Growth				
CoE	3.0 %	4.0 %	5.0 %	6.0 %	7.0 %
9.0 %	76	90	112	148	219
9.5 %	70	83	100	128	177
10.0 %	66	76	91	113	149
10.5 %	62	71	83	101	129
11.0 %	59	66	77	91	113

Just. P/B	Growth				
CoE	3.0 %	4.0 %	5.0 %	6.0 %	7.0 %
9.0 %	90	101	117	145	199
9.5 %	82	91	104	123	159
10.0 %	76	83	93	107	131
10.5 %	71	76	84	95	112
11.0 %	66	70	76	85	98

P/E 1yr fwd	Growth				
CoE	3.0 %	4.0 %	5.0 %	6.0 %	7.0 %
9.0 %	94	95	96	97	97
9.5 %	93	94	94	95	96
10.0 %	91	92	93	94	95
10.5 %	90	91	92	93	93
11.0 %	89	90	90	91	92

RI	Growth				
CoE	3.0 %	4.0 %	5.0 %	6.0 %	7.0 %
9.0 %	90	101	117	144	199
9.5 %	83	91	104	123	159
10.0 %	77	84	93	108	132
10.5 %	72	77	85	96	113
11.0 %	67	72	78	86	99

Base case combined +growth

DDM

GGM	Growth				
CoE	3.0 %	4.0 %	5.0 %	6.0 %	7.0 %
9.0 %	85	102	126	167	248
9.5 %	79	93	113	144	200
10.0 %	74	86	102	127	168
10.5 %	70	80	94	114	145
11.0 %	66	75	87	103	128

Just. P/B	Growth				
CoE	3.0 %	4.0 %	5.0 %	6.0 %	7.0 %
9.0 %	100	112	131	162	225
9.5 %	91	101	116	138	179
10.0 %	84	92	103	120	148
10.5 %	78	85	93	106	127
11.0 %	73	78	85	95	110

P/E 1yr fwd	Growth				
CoE	3.0 %	4.0 %	5.0 %	6.0 %	7.0 %
9.0 %	106	107	108	109	110
9.5 %	105	106	106	107	108
10.0 %	103	104	105	106	107
10.5 %	102	103	103	104	105
11.0 %	100	101	102	103	104

RI	Growth				
CoE	3.0 %	4.0 %	5.0 %	6.0 %	7.0 %
9.0 %	100	112	131	162	225
9.5 %	92	102	116	139	179
10.0 %	85	93	104	121	149
10.5 %	79	86	94	107	128
11.0 %	74	79	87	97	112

Base combined –growth

DDM

GGM	Growth				
CoE	3.0 %	4.0 %	5.0 %	6.0 %	7.0 %
9.0 %	67	79	97	128	189
9.5 %	62	72	87	111	153
10.0 %	58	67	79	98	129
10.5 %	55	62	73	88	112
11.0 %	52	58	67	80	99

Just. P/B	Growth				
CoE	3.0 %	4.0 %	5.0 %	6.0 %	7.0 %
9.0 %	79	88	101	124	169
9.5 %	72	79	90	106	135
10.0 %	67	72	80	92	112
10.5 %	62	67	73	82	96
11.0 %	58	62	66	73	84

P/E 1yr fwd	Growth				
CoE	3.0 %	4.0 %	5.0 %	6.0 %	7.0 %
9.0 %	82	83	84	84	85
9.5 %	81	82	82	83	84
10.0 %	80	81	81	82	83
10.5 %	79	79	80	81	81
11.0 %	78	78	79	80	80

RI	Growth				
CoE	3.0 %	4.0 %	5.0 %	6.0 %	7.0 %
9.0 %	79	88	101	124	169
9.5 %	73	80	90	106	135
10.0 %	67	73	81	93	113
10.5 %	63	68	74	83	97
11.0 %	59	63	68	75	85

Bear combined

DDM

GGM	Growth				
CoE	3.0 %	4.0 %	5.0 %	6.0 %	7.0 %
9.0 %	54	65	80	106	159
9.5 %	50	59	72	92	128
10.0 %	47	54	65	81	107
10.5 %	44	51	59	72	93
11.0 %	42	47	55	66	82

Just. P/B	Growth				
CoE	3.0 %	4.0 %	5.0 %	6.0 %	7.0 %
9.0 %	63	69	79	95	127
9.5 %	57	62	70	81	101
10.0 %	53	57	62	70	84
10.5 %	49	52	56	62	72
11.0 %	46	48	51	56	62

P/E 1yr fwd	Growth				
CoE	3.0 %	4.0 %	5.0 %	6.0 %	7.0 %
9.0 %	67	68	69	69	70
9.5 %	66	67	68	68	69
10.0 %	65	66	67	67	68
10.5 %	65	65	66	66	67
11.0 %	64	64	65	65	66

RI	Growth				
CoE	3.0 %	4.0 %	5.0 %	6.0 %	7.0 %
9.0 %	63	69	79	95	127
9.5 %	58	63	70	81	102
10.0 %	54	57	63	71	85
10.5 %	50	53	57	63	73
11.0 %	47	49	52	57	64

Bear combined +growth

DDM

GGM			Growth		
CoE	3.0 %	4.0 %	5.0 %	6.0 %	7.0 %
9.0 %	61	73	91	121	180
9.5 %	57	67	81	104	145
10.0 %	53	62	74	92	122
10.5 %	50	57	67	82	105
11.0 %	47	54	62	74	93

Just. P/B			Growth		
CoE	3.0 %	4.0 %	5.0 %	6.0 %	7.0 %
9.0 %	70	77	89	108	146
9.5 %	64	70	78	92	116
10.0 %	59	63	70	80	96
10.5 %	54	58	63	70	82
11.0 %	51	54	57	63	71

P/E 1yr fwd			Growth		
CoE	3.0 %	4.0 %	5.0 %	6.0 %	7.0 %
9.0 %	76	77	78	79	79
9.5 %	75	76	77	77	78
10.0 %	74	75	76	76	77
10.5 %	73	74	75	75	76
11.0 %	72	73	73	74	75

RI			Growth		
CoE	3.0 %	4.0 %	5.0 %	6.0 %	7.0 %
9.0 %	70	77	89	108	146
9.5 %	64	70	79	92	116
10.0 %	59	64	71	80	97
10.5 %	55	59	64	71	83
11.0 %	52	55	59	64	73

Bear combined –growth

DDM

GGM			Growth		
CoE	3.0 %	4.0 %	5.0 %	6.0 %	7.0 %
9.0 %	60	72	90	120	180
9.5 %	56	66	81	103	144
10.0 %	52	61	57	91	121
10.5 %	49	57	67	81	104
11.0 %	46	53	61	74	92

Just. P/B			Growth		
CoE	3.0 %	4.0 %	5.0 %	6.0 %	7.0 %
9.0 %	56	62	70	83	111
9.5 %	52	56	62	71	88
10.0 %	48	51	55	62	73
10.5 %	44	46	50	55	62
11.0 %	41	43	45	49	54

P/E 1yr fwd			Growth		
CoE	3.0 %	4.0 %	5.0 %	6.0 %	7.0 %
9.0 %	59	60	60	61	61
9.5 %	58	59	60	60	61
10.0 %	58	58	59	59	60
10.5 %	57	57	58	58	59
11.0 %	56	57	57	58	58

RI			Growth		
CoE	3.0 %	4.0 %	5.0 %	6.0 %	7.0 %
9.0 %	56	62	70	83	111
9.5 %	52	56	62	71	88
10.0 %	48	51	56	63	74
10.5 %	45	47	51	56	63
11.0 %	42	44	47	50	56

Bull combined

DDM

GGM			Growth		
CoE	3.0 %	4.0 %	5.0 %	6.0 %	7.0 %
9.0 %	96	114	140	183	270
9.5 %	90	104	126	159	219
10.0 %	84	97	114	141	185
10.5 %	79	90	105	126	160
11.0 %	75	85	97	115	142

Just. P/B			Growth		
CoE	3.0 %	4.0 %	5.0 %	6.0 %	7.0 %
9.0 %	111	125	146	181	252
9.5 %	102	113	129	155	201
10.0 %	94	103	116	135	168
10.5 %	88	95	105	120	143
11.0 %	82	88	96	108	125

P/E 1yr fwd			Growth		
CoE	3.0 %	4.0 %	5.0 %	6.0 %	7.0 %
9.0 %	118	119	120	121	122
9.5 %	117	118	119	120	121
10.0 %	115	116	117	118	119
10.5 %	113	114	115	116	117
11.0 %	112	113	114	115	116

RI			Growth		
CoE	3.0 %	4.0 %	5.0 %	6.0 %	7.0 %
9.0 %	111	125	146	181	252
9.5 %	102	113	130	155	202
10.0 %	95	104	117	136	168
10.5 %	89	96	106	121	144
11.0 %	83	89	98	109	127

Bull combined +growth

DDM

GGM			Growth		
CoE	3.0 %	4.0 %	5.0 %	6.0 %	7.0 %
9.0 %	108	128	157	207	305
9.5 %	101	117	141	179	247
10.0 %	95	109	129	158	208
10.5 %	89	101	118	142	180
11.0 %	84	95	109	129	160

Just. P/B			Growth		
CoE	3.0 %	4.0 %	5.0 %	6.0 %	7.0 %
9.0 %	122	138	162	202	281
9.5 %	112	125	143	172	225
10.0 %	104	114	129	151	187
10.5 %	96	105	117	134	160
11.0 %	90	97	107	120	140

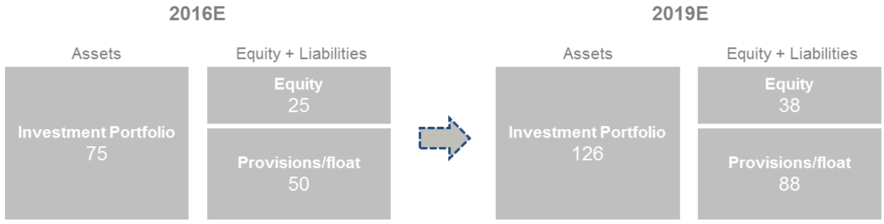
P/E 1yr fwd			Growth		
CoE	3.0 %	4.0 %	5.0 %	6.0 %	7.0 %
9.0 %	133	134	135	137	138
9.5 %	131	132	134	135	136
10.0 %	129	131	132	133	134
10.5 %	128	129	130	131	132
11.0 %	126	127	128	129	130

RI			Growth		
CoE	3.0 %	4.0 %	5.0 %	6.0 %	7.0 %
9.0 %	122	138	162	201	281
9.5 %	112	125	144	173	225
10.0 %	104	115	129	151	188
10.5 %	97	106	118	135	161
11.0 %	91	98	108	121	141

The equity story’s risk factors

Certain criteria must be met for a float based valuation to be an indicator of intrinsic value: the float should be growing and underwriting should consistently at least break even. If this is true the following *stylized* minimum intrinsic value of Protector should hold. (Where the float is much more valuable than equity, as it is free money).

Market value is the investment portfolio if underwriting break even and float does not shrink



#1 risk to the equity story is growth

Therefore, the biggest risk factor is growth. If we did not expect Protector to grow much faster than the market, we would rely on peer pricing to value the share. We believe the risk to growth is mitigated by Protector’s low cost base. Protector’s cost advantage is not easy to mimic and they are not under a current threat from “Fintech” insurance, as they underwrite mainly in the B2B segment where brokers are used due to the complexity of contracts (machines can’t replace brokers yet).

#2 risk is underwriting profitability

Then there’s the risk that competitors will simply accept a lower underwriting margin than what Protector is willing to accept. Profitable growth is important to Protector, and we believe they will sacrifice growth for profitability if it comes to it. In general, we believe this risk is mitigated by ultra-low interest rates. However, there are some competitors that appear to accept a claims ratio that’s too high, even for Protector. Additionally, it is possible that Protector does not manage to turn their Danish operations around (see Denmark segment), which could result in lower volumes coming out of Denmark in the future or (and) lower profitability. Lastly, their UK operations are unproven, but we assume a very modest growth from this market. Thus, we do not consider this a major risk – more a potential upside.

#3 risk is related to personnel

If the CEO Mr. Bjerkeli were to quit, or for some reason unable to continue in his role, we believe the share price would experience an adverse reaction. Mr. Bjerkeli has been the captain of the Protector ship for a decade, which is over 80% of the firm’s operating history. Thus, a departure would create some uncertainty. The same is true for country/segment management and other more senior management positions. In our opinion, the personnel risk is partly mitigated by a well-defined culture/mission and a strong board.

#4 is our own estimation errors

Lastly, there’s a risk that we overestimate the float growth, which is a crucial part of our intrinsic value estimate. We have taken several steps to reduce the effects of such errors, as we do not assume any real terminal value of an increasing float, even as this is common in float based valuations. Furthermore, we assume the tangible equity is only worth its face value, which is conservative given that the ex-float income RoE is likely higher than the CoE (conceptualize this as what equity would trade at if the float was separated into another company/ securitized).

In the view of our BUY rating, we believe there’s a relatively large margin of safety, when considering the above risk factors.

Evaluation of current problem products

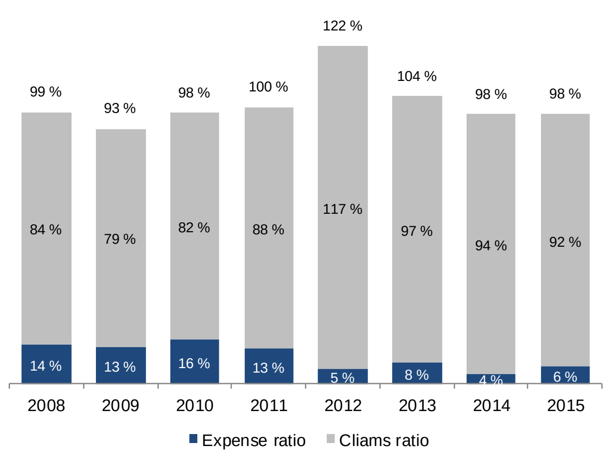
Protector's 2016 problem products/ segments have been COI and Denmark, with workers compensation (WC) making up a large portion of the Danish business. We do not have clean segment information for the COI, but we know it makes up most of the "other private" segment in the annual reports. Furthermore, we do not know what percentage of total WC is being underwritten in Denmark.

While the WC product does not appear to be very profitable historically (1), we note that the reserve adequacy risk appear to be moderate (4). The COI segment appears to be much more profitable than the WC segment (2), but the reserve adequacy risk is higher (4).

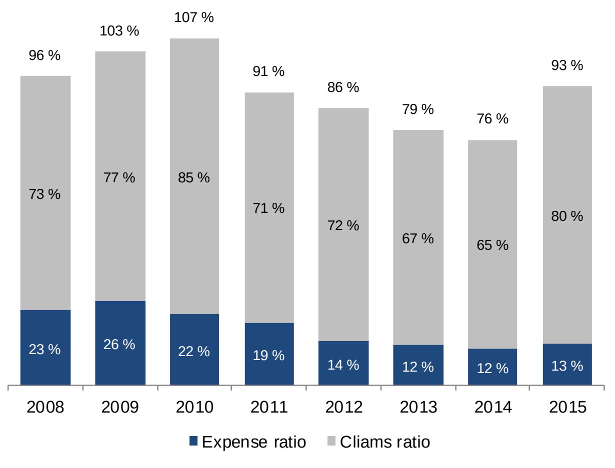
As previously discussed, the COI product is becoming much less important for Protector, which will have a positive impact on Protector's overall probability of reserve inadequacy (3+4). However, the WC product's share of total gross earned premiums (GEP) is stable, which is due to Protector's growth in Denmark. WC will probably stay at the current GEP percentage until the UK potentially kick-in as the major growth contributor.

Although WC is probably the most risky product Protector currently underwrites (based on historical profitability), we note that Protector does not discount their claim provisions. Thus, accounting earnings will be much lower than economic earnings (given adequacy of the provisions) when they are growing rapidly, as earned premiums are amortized ("discounted"). In other words, expenses are charged fully at once, while total earnings are recognized at the same time.

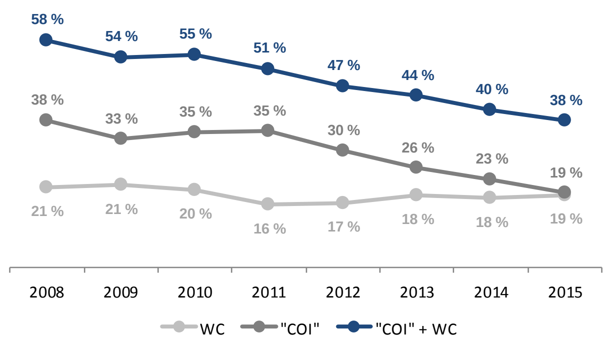
1. Gross combined ratio WC



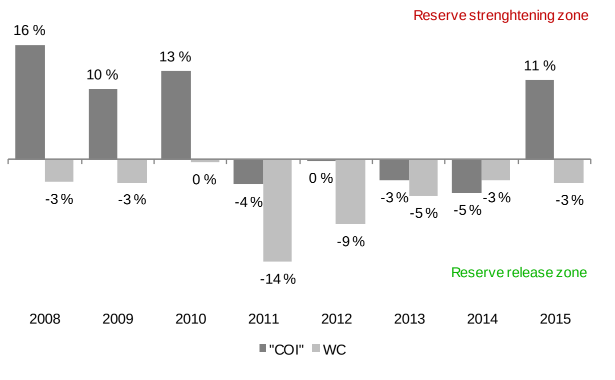
2. Gross combined ratio "COI"



3. %age of total gross earned premiums (GEP)



4. Run-off gains/losses (% of GEP)



Sources: Fondsfinans Research, Protector

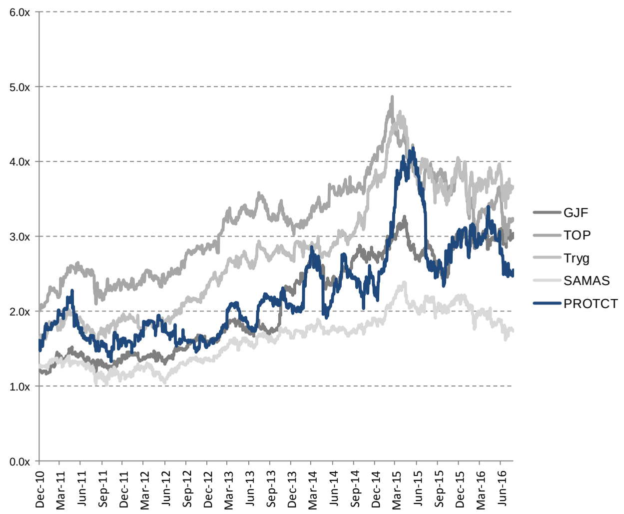
Appendix

Abbreviations

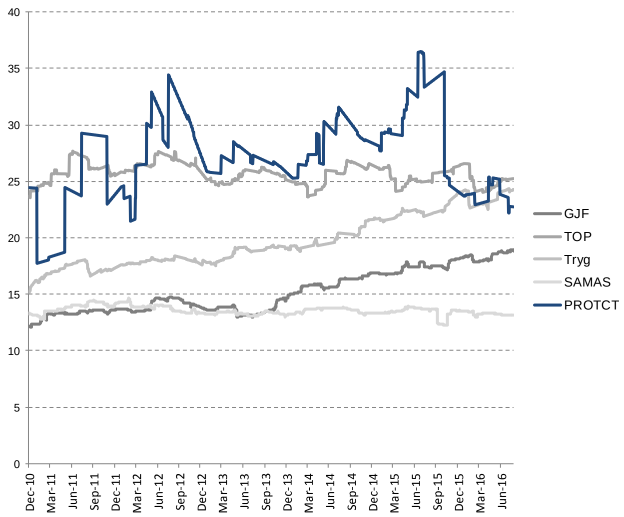
COI	-	Change of ownership insurance
Claims ratio	-	Claims / Earned premiums
CoE	-	Cost of equity
Combined ratio	-	Technical profit / earned premiums
DPS	-	Dividend per share
Expense ratio	-	Technical expenses / earned premiums
Float	-	Insurance related liabilities minus insurance related assets
		Makes up part of an insurers capital structure
GWP	-	Gross written premiums
NAV	-	Net asset value (usually per share in this report)
NEP	-	Net earned premiums
P/TBV	-	Price / tangible book value
PV	-	Present value
RoE	-	Return on equity
RoNAV	-	Return on net asset value
RoTBV	-	return on tangible book value
UPS	-	Unique selling proposition
DCF	-	Discounted cash flow
DDM	-	Dividend discount model
via GGM	-	Terminal value calculated via the Gordon Growth Model
via justified P/B	-	Terminal value calculated via a justified P/B multiple
via P/E 1yr forward	-	Terminal value calculated based on the current 1yr forward multiple
RI	-	Residual income method, a.k.a excess return on equity
WEM +1yr	-	Warrented equity method
		Based on justified P/B multiples in 1yr
Justified P/B	-	RoE - Growth / CoE - Growth

Historical pricing

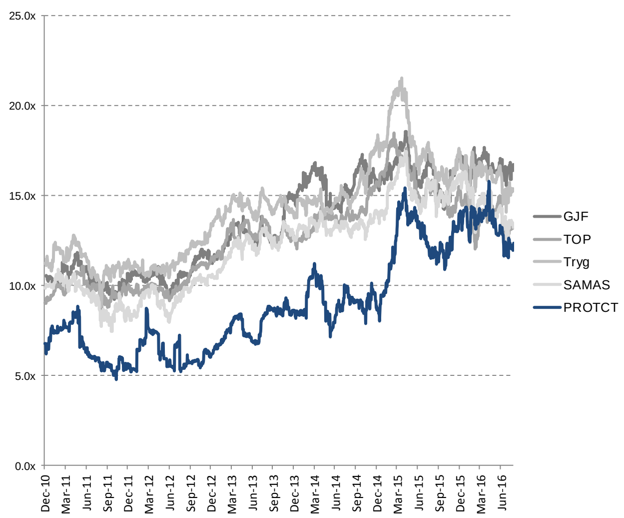
1-year forward P/B



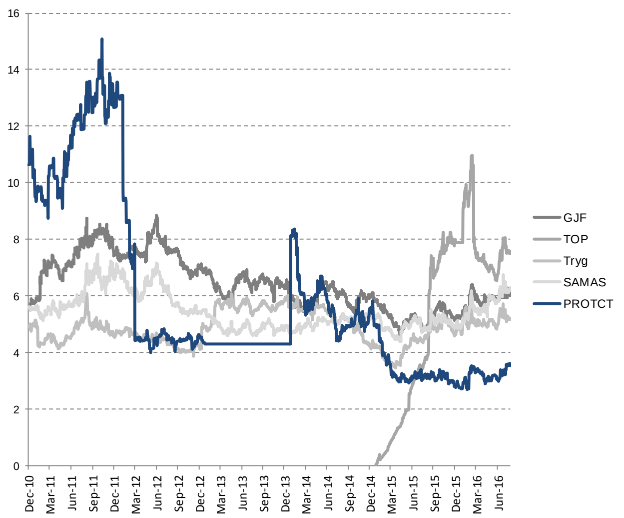
1-year forward RoE



1-year forward P/E



1-year forward dividend yield (%)



Sources: Fondsfinans Research, Bloomberg

Protector

Income statement (NOKm)	2013	2014	2015	2016E	2017E	2018E	3Q15	4Q15	1Q16	2Q16	3Q16E
Gross earned premiums	**1,815**	**2,307**	**2,791**	**3,354**	**3,925**	**4,513**	**720**	**699**	**783**	**873**	**876**
Growth YoY	24 %	27 %	21 %	20 %	17 %	15 %	22 %	18 %	18 %	24 %	22 %
Net earned premiums	**1,374**	**1,775**	**2,176**	**2,770**	**3,297**	**3,791**	**562**	**535**	**632**	**720**	**727**
Growth YoY	24 %	29 %	23 %	27 %	19 %	15 %	23 %	18 %	22 %	29 %	29 %
Retention rate	76 %	77 %	78 %	83 %	84 %	84 %	78 %	77 %	81 %	83 %	83 %
Net claims	**-1,134**	**-1,440**	**-1,861**	**-2,537**	**-2,840**	**-3,272**	**-462**	**-476**	**-610**	**-679**	**-640**
Gross cliams ratio	80 %	80 %	82 %	87 %	83 %	83 %	81 %	88 %	90 %	90 %	84 %
Net claims ratio	83 %	81 %	86 %	92 %	86 %	86 %	82 %	89 %	97 %	94 %	88 %
Net OPEX	**-57**	**-60**	**-69**	**-46**	**-106**	**-122**	**-37**	**-41**	**52**	**4**	**-48**
Gross expense ratio	9 %	8 %	8 %	7 %	7 %	7 %	6 %	10 %	6 %	5 %	6 %
Net expense ratio	4 %	3 %	3 %	2 %	3 %	3 %	7 %	8 %	-8 %	-1 %	7 %
Technical result	**183**	**275**	**246**	**188**	**350**	**397**	**64**	**18**	**74**	**45**	**39**
Other insurance related items	3	28	30	-9	-23	-23	-13	64	6	-3	-6
Net investment result	**257**	**237**	**304**	**326**	**311**	**384**	**-20**	**153**	**-32**	**221**	**68**
Other non-technical items	-57	-65	-44	-15	-11	-11	-11	-10	-3	-7	-3
Pre-tax profit	**385**	**476**	**537**	**490**	**627**	**748**	**20**	**224**	**45**	**255**	**99**
Tax	-91	-93	-71	-101	-138	-164	12	-31	-29	-31	-22
Net income	**294**	**383**	**466**	**388**	**489**	**583**	**32**	**194**	**16**	**224**	**77**
Balance sheet (NOKm)	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**	**3Q15**	**4Q15**	**1Q16**	**2Q16**	**3Q16E**
Financial assets	4,000	4,958	6,623	8,409	9,737	11,278	6,369	6,623	7,560	8,262	8,339
Excl. derivatives	4,000	4,898	6,371	7,748	9,075	10,616	6,259	6,371	7,183	7,600	7,677
Reinsurers' share of provisions	406	529	666	617	683	698	701	666	885	805	704
Intangible assets	11	13	16	16	16	16	16	16	16	16	16
Other assets	327	452	435	500	574	661	451	435	577	611	467
Total assets	**4,744**	**5,953**	**7,740**	**9,542**	**11,009**	**12,652**	**7,537**	**7,740**	**9,038**	**9,693**	**9,525**
Subordinated loan capital	148	148	148	648	648	648	148	148	148	648	648
Technical provisions	3,369	4,113	4,891	5,050	6,048	7,189	5,182	4,891	5,571	5,551	5,353
Other liabilities	450	700	1,127	1,644	1,775	1,904	843	1,127	1,297	1,442	1,395
Total liabilities	**3,967**	**4,961**	**6,166**	**7,342**	**8,471**	**9,741**	**6,173**	**6,166**	**7,015**	**7,642**	**7,396**
Total equity	**777**	**992**	**1,574**	**2,199**	**2,539**	**2,912**	**1,365**	**1,574**	**2,022**	**2,051**	**2,129**
Key figures	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**	**3Q15**	**4Q15**	**1Q16**	**2Q16**	**3Q16E**
Gross combined ratio	**89 %**	**88 %**	**89 %**	**94 %**	**90 %**	**90 %**	**88 %**	**98 %**	**96 %**	**95 %**	**90 %**
Gross claims ratio	80 %	80 %	82 %	87 %	83 %	83 %	81 %	88 %	90 %	90 %	84 %
Gross expense ratio	9 %	8 %	8 %	7 %	7 %	7 %	6 %	10 %	6 %	5 %	6 %
Net combined ratio	**87 %**	**84 %**	**89 %**	**93 %**	**89 %**	**90 %**	**89 %**	**97 %**	**88 %**	**94 %**	**95 %**
Net claims ratio	83 %	81 %	86 %	92 %	86 %	86 %	82 %	89 %	97 %	94 %	88 %
Net expense ratio	4 %	3 %	3 %	2 %	3 %	3 %	7 %	8 %	-8 %	-1 %	7 %
Return on investments	7 %	5 %	5 %	4 %	3 %	4 %	0 %	2 %	0 %	3 %	1 %
RoE	43 %	43 %	36 %	21 %	21 %	21 %	10 %	53 %	4 %	44 %	15 %
RoTBV	44 %	44 %	37 %	21 %	21 %	22 %	10 %	53 %	4 %	44 %	15 %
RoA	7 %	7 %	7 %	4 %	5 %	5 %	2 %	10 %	1 %	10 %	3 %
∆ % gross reserve	26 %	25 %	21 %	17 %	19 %	18 %	7 %	4 %	4 %	4 %	6 %
∆ % net reserve	23 %	24 %	20 %	21 %	23 %	22 %	7 %	2 %	4 %	5 %	7 %
Premium leverage	1.3x	1.3x	1.3x	1.2x	1.2x	1.2x	1.1x	1.3x	1.2x	1.1x	1.1x
Reserve leverage	1.1x	1.1x	1.2x	1.1x	1.1x	1.1x	1.2x	1.2x	1.2x	1.2x	1.2x
Underwriting leverage	1.8x	1.9x	1.4x	1.3x	1.3x	1.3x	0.2x	0.2x	0.8x	0.3x	0.2x
Leverage	6.1x	6.0x	4.9x	4.3x	4.3x	4.3x	5.5x	4.9x	4.5x	4.7x	4.5x
Net leverage	5.6x	5.5x	4.5x	4.1x	4.1x	4.1x	5.0x	4.5x	4.0x	4.3x	4.1x
Float	**2,319**	**2,906**	**3,574**	**4,337**	**5,249**	**6,353**					
P/B	2.0x	3.2x	4.0x	2.8x	2.4x	2.1x					
P/TBV	2.1x	3.3x	4.0x	2.8x	2.4x	2.1x					
P/E	5.4x	8.3x	13.4x	15.9x	12.6x	10.6x					
TBPS	9.3	11.8	18.5	25.3	29.3	33.6					
BPS	9.4	12.0	18.7	25.5	29.5	33.8					
EPS	3.6	4.6	5.5	4.5	5.7	6.8					
Div. yield	9 %	5 %	3 %	2 %	3 %	4 %					
Payout ratio	49 %	43 %	42 %	39 %	43 %	45 %					

Definitions of ratings

Buy	>	10%
Hold	From	-10% to 10%
Sell	<	-10%

Target: Our valuation as of today.
Time frame of target: Target is what we value the share as of today.

Recommendation distribution as of 15.04.16:

Recommendation	Percent
Buy	65 %
Hold	35 %
Sell	0 %
Total	100 %

Companies in each recommendation category that have been investment banking clients over the past 12 months:

Recommendation	Percent
Buy	9 %
Hold	0 %
Sell	0 %
Total	

Our intention is to issue preview and update research on a quarterly basis.
Our investment recommendation is elaborated in accordance with "The Norwegian Securities Dealers Associations" standards.

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