PROTECTOR
forsikring

SOLVENCY AND FINANCIAL CONDITION REPORT 2018

PROTECTOR FORSIKRING ASA

This document is prepared in accordance with the requirements of the Norwegian Supervisory Authority for SFCR reporting as described in the regulation on supplementary rules to the Solvency II regulation (Forskrift om utfyllende regler til Solvens II-forskriften). *The English document is translation; the Norwegian document is the official version.*

Contents

Summary

The company decided to exit the change of ownership insurance (COI) market in as described in chapter A.2.

Development of Protector's solvency ratio in 2018 was affected by weak result as well as buy-back of own shares. Various profitability measures were implemented in 2018 which are expected to lead to better technical results going forward. The company's solvency situation is assessed as adequate at solvency capital ratio of 175% pr. 31.12.2018 calculated using Solvency II standard formula.

Protector Forsikring works continuously with risk management systems in the company and this has been a focus area in 2018. Established processes and reporting systems ensure that Protector's risk management system is adequately organized and that the company's risk profile is followed up on a regular basis.

A. Business and Performance

A.1 Business

Protector Forsikring ASA, org. nr. 985279721, business address Støperigata 2, 0250 Oslo, Norge, is a general insurance company organized as public limited liability company and listed on the Oslo Stock Exchange. The company operates in Norway, Sweden, Denmark, the UK and Finland. This report is presented in TNOK, which is the company's reporting currency unless otherwise stated.

Name and contacts of the company's public supervisory authority
Name: The Norwegian Supervisory Authority
Business address: Revierstredet 3, 0151 Oslo, Norway
Phone: 22 93 98 00

Company's external auditor per 31.12.2018
Name: Ernst & Young AS
Business address: Dronning Eufemias street 9, 0191 Oslo, Norway
Phone: 91 66 90 00

A.2 Underwriting performance

The company’s operating result per geographic segment is provided in Table 1. Protector has decided to exit the change of ownership insurance (COI) market due to the product's recent years weak technical performance, and due to the significant uncertainty related to the product's future premium development and profitability. COI is the only product in the company that directly represents the consumer market and accounted in 2018 for 12% of the company's total business and would account for less than 10% in 2019. Table 1 presents results per segment exclusive of COI.

The company’s growth was 19% in 2018 compared to 2017. Growth is driven by Sweden (7,5% pp) and the UK (7,0% pp). Combined ratio for own account from continued operations was 98,6% compared to 93,6% in 2017. Combined ratio for own account including COI was 106,9% compared to 93,1% in 2017.

Gross combined ratio from continued operations in 2018 was 101,7%, down from 117,8% which was affected by mainly Grenfell Tower fire in the UK. Gross combined ratio including BSF was 107,2% in 2018 compared to 113,9% in 2017. Various profitability measures were implemented in 2018 which are expected to lead to better technical results going forward. For more information about the company’s results and development in 2018, refer to Protector’s annual report for 2018 which is available at the company’s home page www.protectorforsikring.no.

Table 1 Geographic distribution of the company’s 2018-2017 results

	Norge ex. BSF		Sweden		Denmark		UK		Finland	
[1.000 NOK]	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Gross written premiums	1 508 711	1 517 415	1 350 348	1 078 346	792 533	703 622	504 603	252 945	129 885	60 332
Gross earned premiums	1 520 819	1 418 273	1 277 010	915 768	784 951	699 988	380 440	154 692	176 393	66 265
Gross claims incurred	(1 583 169)	(1 157 958)	(1 124 431)	(719 738)	(713 724)	(676 463)	(254 067)	(955 955)	(183 932)	(63 814)
Earned premiums for own account	1 161 805	1 144 829	820 314	663 891	513 034	467 429	184 656	74 610	138 027	52 015
Other insurance related premiums	21 269	3 687	971	56	1 433	943	990	373	879	53
Incurred claims for own account	(1 085 827)	(1 003 423)	(722 606)	(523 148)	(512 778)	(523 960)	(189 150)	(97 493)	(147 967)	(45 727)
Sales expenses	(45 711)	(35 898)	(105 078)	(84 344)	(13 422)	(16 156)	(39 316)	(13 611)	(2 099)	(1 538)
Insurance related adm. expenses	(35 741)	(14 909)	(38 219)	(38 556)	(31 633)	(26 489)	(25 095)	(20 503)	(12 440)	(8 319)
Commissions from reinsurers	46 421	50 318	83 265	68 783	56 297	57 528	40 164	24 616	3 013	3 169
Other insurance related expenses	(4 161)	(7 424)	(13 895)	(214)	462	(85)	(2 393)	(247)	(214)	(236)
Net financial income	(50 492)	291 359	29 026	35 315	(2 399)	11 163	1 155	1	2 908	(2)
Other income/cost	(49 060)	(46 476)	(175)	(280)	(78)	3	0	-	(49)	(121)
Profit before tax	**(41 497)**	**382 063**	**53 604**	**121 503**	**10 916**	**(29 623)**	**(28 988)**	**(32 253)**	**(17 942)**	**(706)**
Claims ratio, net of ceded business	93,5 %	87,6 %	88,1 %	78,8 %	100,0 %	112,1 %	102,4 %	130,7 %	107,2 %	87,9 %
Expense ratio, net of ceded business	3,0 %	0,0 %	7,3 %	8,2 %	-2,2 %	-3,2 %	13,1 %	12,7 %	8,4 %	12,9 %
Combined ratio, net of ceded business	**96,5 %**	**87,7 %**	**95,4 %**	**87,0 %**	**97,8 %**	**108,9 %**	**115,6 %**	**143,4 %**	**115,6 %**	**100,8 %**
Gross claims ratio	104,1 %	81,6 %	88,1 %	78,6 %	90,9 %	96,6 %	66,8 %	618,0 %	104,3 %	96,3 %
Gross expense ratio	5,4 %	3,6 %	11,2 %	13,4 %	5,7 %	6,1 %	16,9 %	22,1 %	8,2 %	14,9 %
Gross combined ratio	**109,5 %**	**85,2 %**	**99,3 %**	**92,0 %**	**96,7 %**	**102,7 %**	**83,7 %**	**640,0 %**	**112,5 %**	**111,2 %**

The company’s underwriting results in 2018 and 2017 are presented in Table 2 and Table 3 accordingly.

Table 2 The company's 2018 results per line of business

	General insurance									Life insurance	
	Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Miscelaneous financial loss	Group life	**Total**
Premium income[1]											
Premiums written	175 967	223 349	602 960	458 126	834 733	12 114	1 331 066	330 866	1 455	315 442	**4 286 080**
Premiums writen ceded	-21 905	-25 059	-64 827	-88 505	-70 301	-1 133	-1 067 994	-54 674	-145	-32 157	**-1 426 701**
Premiums written for own account	154 062	198 290	538 133	369 621	764 432	10 981	263 072	276 192	1 310	283 286	**2 859 379**
Premium earned											
Gross premiums earned	177 991	219 230	653 264	406 916	808 905	11 330	1 251 514	296 542	1 453	312 468	**4 139 612**
Reinsurers' share of gross premiums earned	-21 496	-31 078	-64 827	-88 505	-70 301	-1 133	-958 888	-53 246	-145	-32 157	**-1 321 776**
Premiums earned for own account	156 496	188 152	588 437	318 411	738 603	10 197	292 626	243 296	1 308	280 311	**2 817 836**
Gross claims incurred											
Occurred this year	173 667	214 906	655 913	476 069	637 111	6 343	1 315 452	235 722	1 603	328 928	**4 045 714**
Occurred previous years	-6 651	-28 561	-51 880	-64 541	21 148	278	-113 579	24 464	-28	32 957	**-186 392**
Total for the accounting year	167 017	186 345	604 033	411 528	658 260	6 621	1 201 873	260 186	1 575	361 885	**3 859 322**
Claims incurred for own account											
Gross claims	167 017	186 345	604 033	411 528	658 260	6 621	1 201 873	260 186	1 575	361 885	**3 859 322**
Reinsurers' share of gross claims	-16 437	-15 210	-59 792	-44 496	-64 612	-667	-929 465	-31 797	-158	-38 360	**-1 200 996**
Total claims for own account	150 579	171 134	544 241	367 032	593 648	5 955	272 408	228 388	1 417	323 526	**2 658 327**

1 Premiums comprise insurance premiums in Norway, Sweden, Denmark, Finland and the UK. Gross written premiums in Norway consitute NOK 1.508,7 million (35,2%), in Sweden NOK 1.350,3 million (31,5%), in Denmark NOK 792,5 million (18,5%), in the UK 504,6 million (11,8%) and in Finland NOK 129,9 million (3,0%)

Table 3 The company's 2017 results per line of business

	General insurance									Life insurance	
	Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Miscelaneous financial loss	Group life	**Total**
Premium income[1]											
Premiums written	82 857	290 465	580 816	289 517	715 751	9 924	1 067 667	231 483	332	343 848	**3 612 660**
Premiums writen ceded	43 980	-94 207	-34 692	-15 701	-38 817	-497	-775 420	-24 774	-22	-18 426	**-958 575**
Premiums written for own account	126 836	196 258	546 124	273 816	676 934	9 427	292 247	206 709	310	325 422	**2 654 084**
Premium earned											
Gross premiums earned	82 147	259 403	585 362	255 756	632 285	9 291	880 778	199 901	322	349 740	**3 254 985**
Reinsurers' share of gross premiums earned	38 742	-86 885	-34 692	-15 701	-38 817	-497	-671 139	-24 774	-22	-18 426	**-852 210**
Premiums earned for own account	120 889	172 518	550 671	240 055	593 468	8 794	209 639	175 127	301	331 313	**2 402 775**
Gross claims incurred											
Occurred this year	119 918	174 012	576 171	203 239	529 421	7 148	993 369	660 281	354	326 785	**3 590 698**
Occurred previous years	-27 767	25 025	13 168	10 637	-860	1 095	-57 093	26 153	37	-7 165	**-16 770**
Total for the accounting year	92 151	199 037	589 339	213 876	528 561	8 243	936 276	686 434	392	319 620	**3 573 928**
Claims incurred for own account											
Gross claims	92 151	199 037	589 339	213 876	528 561	8 243	936 276	686 434	392	319 620	**3 573 928**
Reinsurers' share of gross claims	20 505	-53 934	-2 205	-89	-220	-	-854 864	-494 666	-	5 294	**-1 380 178**
Total claims for own account	112 657	145 103	587 134	213 787	528 341	8 243	81 412	191 768	392	324 915	**2 193 751**

1 Premiums comprise insurance premiums in Norway, Sweden, Denmark, Finland and the UK. Gross written premiums in Norway consitute NOK 1.517,4 million (42,0%), in Sweden NOK 1.078,3 million (29,8%), in Denmark NOK 703,6 million (19,5%), in the UK252,9 million (7,0%) and in Finland NOK 60,3 million (1,7%)

A.3 Investment performance

The company's net investment results per asset class is presented in Table 4.

Table 4 Investment result 2018-2017 per asset class

Investment portfolio	FY 2018	FY 2017
Avg. investment portfolio	10 182 677	8 813 347
Equities	1 473 939	1 612 697
Bonds	8 708 739	7 200 650
Share equities	14 %	18 %
Share bonds	86 %	82 %
Result equities	-12,0%	12,1%
Result bonds	1,4%	3,1%
Return equities	-176 995	195 021
Return bonds	120 770	224 442
Investment result, net	**-56 225**	**419 463**
Return, net	**-0,6%**	**4,8%**

Average share invested in equities was 14% in 2018 compared to 18% in 2017. Protector's investments in equities comprises mainly investments in companies listed on stock exchange in Sweden, Norway, Finland and the UK. Return on equity investment was -12,0% in 2018, affected by a combination of weak development in equities markets as well as weak underlying development in the investment companies. Return on bonds was positively affected by increase in short nibor rates. Credit spreads were stable throughout the year with a credit spread increase in Q4 2018 for portfolio and in the Nordic bond markets. Total portfolio credit risk is assessed at A+ rating at the end of 2018. Total investment return was -0,6% in 2018 compared with 4,8% in 2017.

The company's investment portfolio is accounted for at fair value through profit and loss , and the company had no investment gains or losses which were accounted for against shareholder capital.

A.4 Performance of other activities

The company had no significant income or expenses from other activities.

A.5 Any other information

In connection to the Grenfell Tower there is a disagreement with one of the reinsurer regarding interpretation of the reinsurance contract. The disagreement can in the worst case increase Protector's share of Grenfell claims by NOK 80 million. Protector's assessment is that probability of losing the case is less than 50% and therefore no provisions are accounted for in 2017 financial accounts.

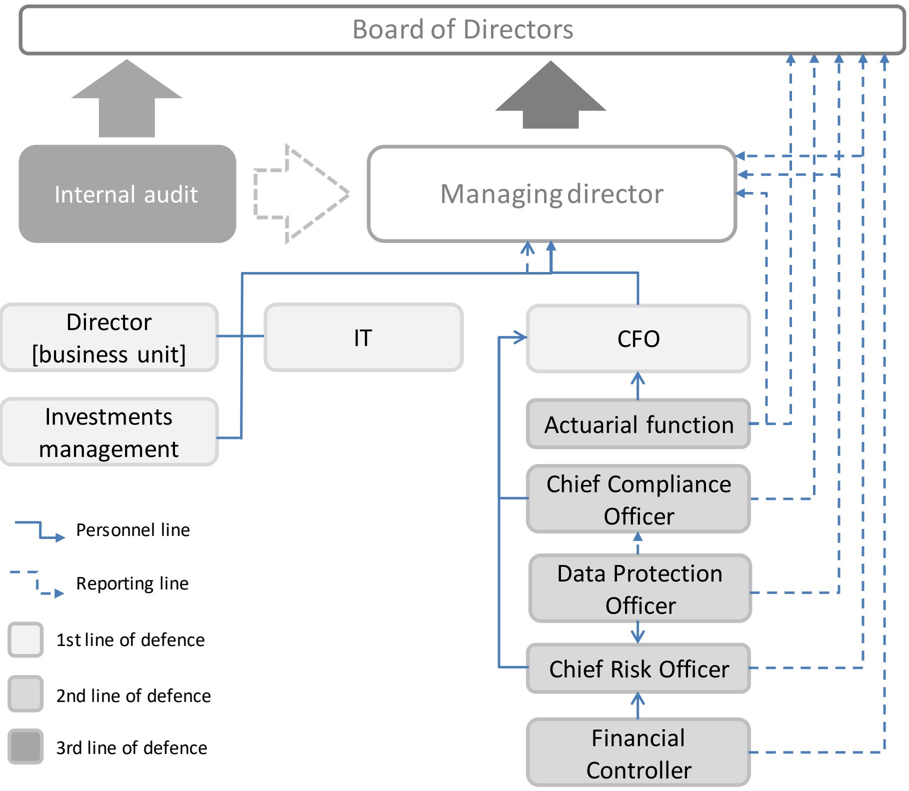
Protector has decided to exit the change of ownership insurance (COI) in 2018 as described in chapter A.2.

B. System of Governance

B.1 General information on the system of governance

The company's overall system of governance is presented in Figure 1.

Figure 1 The company's system of governance



The figure presents an overview of key functions and reporting lines in the company. All risk management and compliance functions report directly to the managing director with an exception of internal audit which reports directly to the Board of Directors. Chief Compliance Officer, Chief Risk Officer and actuarial function has right and duty to report directly to the Board of Directors in special cases. The company's Data Protection Officer reports to Chief Compliance Officer and has right and duty to report to the Board of Directors directly in special cases. Financial Controller reports to the managing director and the Board of Directors.

Responsibilities of the Board of Directors. The Board of Directors has the ultimate responsibility for Protector Forsikring having established appropriate and effective processes for risk management and internal control. The Board of Directors shall ensure that these processes are adequately established, implemented and followed up.

Through establishment of the company's goals, strategies and risk appetite the Board of Directors define framework for types and extent of risks the company can be exposed to. The Board of Directors at least annually makes sure that significant risks are continually identified, assessed, and managed in a systematic way, and that the risks are acceptable and within defined framework. The above is ensured through internal control and ORSA processes. The company's Board of Directors has Audit and Risk sub-committees. These sub-committees support the Board of Directors in its execution of its responsibilities for the company's total risk management and control.

Responsibilities of a managing director. The managing director ensures that risk management and internal control in Protector Forsikring is carried out, documented, monitored and followed up in a satisfactory way. The managing director defines for this purpose descriptions and guidelines for how the company's risk management and internal control shall be implemented in practice as well as establishes adequate control functions and processes.

The managing director follows up continuously changes in the company's risk exposure and informs the Board of Directors about significant changes. The managing director ensures that the company's risks are secured or in compliance with the Board of Directors' guidelines, and ensures that leaders for all the significant business areas follow up implementation of internal control.

Responsibilities of leaders. All leaders are responsible for that risk management and internal control within own area of responsibility is sufficient. This entails:

- having overview of all significant risks within own area of responsibility at all times,
- following up implementation of and compliance with corresponding control measures,
- adjusting general requirement for risk management and control to type, extent and complexity within own area, hereunder assessing need for more detailed instructions or guidelines.

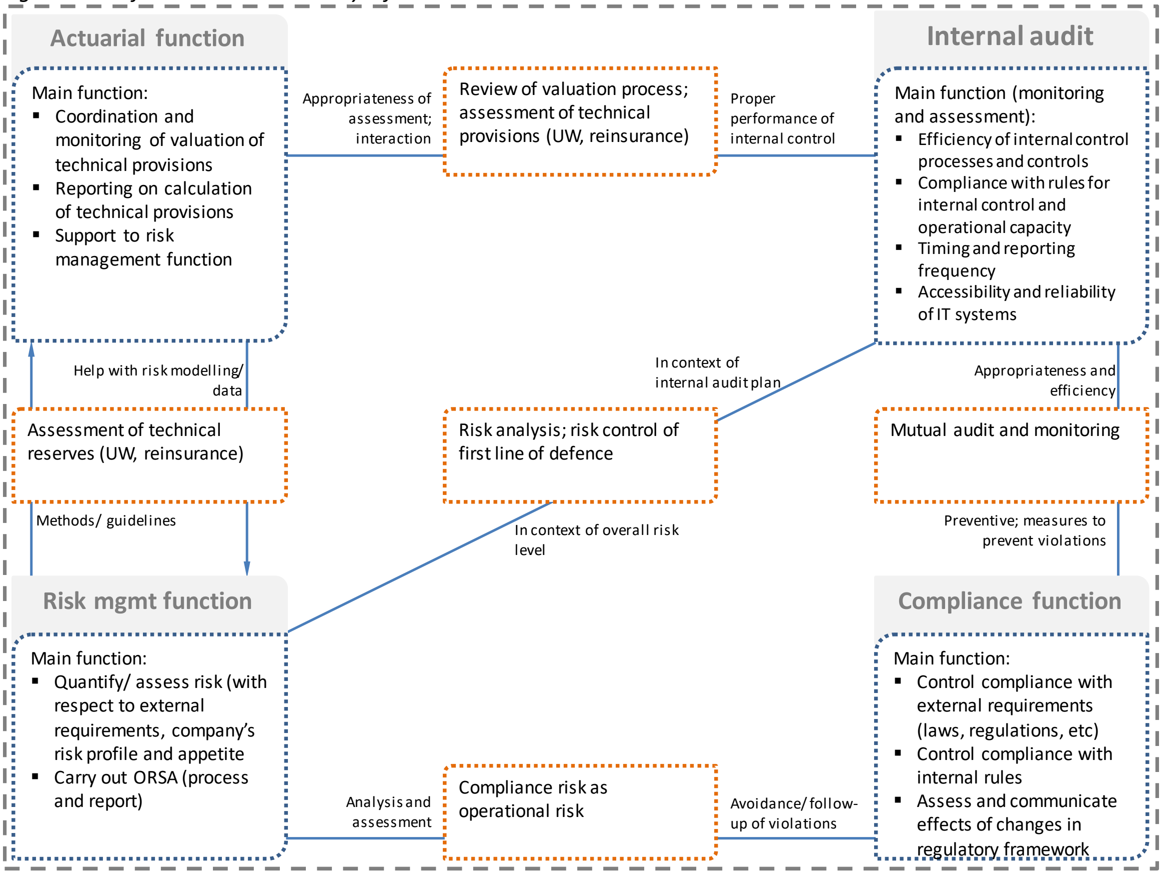
Leaders shall be able to substantiate that adequate control of risks is established and functions. Leaders for significant business areas carry out and document an annual risk assessment according to the company's requirements as well as follow up earlier control measures.

Risk management function. The company's risk management function is responsible for monitoring the company's risk management system and for having an overview of the risks the company is or can be exposed to. Chief Risk Officer ensures that the company's management and the Board of Directors are adequately informed about the company's risk profile at all times and that it is within the company's risk appetite. Risk management function is responsible for the managing director and the Board of Directors receive relevant and timely information about implementation of the company's risk management. Risk management function shall ensure that in case of significant changes or establishment of new products and significant routines risk assessment is carried out before activities are started. Risk management function shall facilitate the annual ORSA process.

Information about compliance, internal audit and actuarial functions is provided in chapters B.4 Internal control system, B.5 Internal audit function and B.6 Actuarial function.

Figure 2 describes interaction between the key Solvency II functions.

Figure 2 Interfaces between Solvency II functions



Protector Forsikring works continuously with risk management systems in the company and this area has been in focus in 2018.

Remuneration. The company's Board of Directors prepares a separate statement about determination of salary and other remuneration for senior managers, ref. Public Limited Companies Act § 6-16a. An advisory voting is held in general meeting on the Board of Directors guidelines for senior executives' salary determination for the upcoming fiscal year, ref. Limited Companies Act § 5-6 (3) and as long as the guidelines are linked to the share-based initiatives, these are also approved by the general meeting. The Board of Directors has since 2010 had a separate Compensation Committee which consists of three members: the chairman of the Board of Directors and two Board members. The Compensation Committee prepares cases for the Board of Directors and puts forward cases related to remuneration to senior executives and cases related to significant personnel-related cases in the company.

The purpose of Protector's salary policy is to attract employees with the necessary competence, further develop and maintain the key competence and motivate for long-term and continued progress in order to achieve Protector's business goals. Protector's policy shall, first and foremost, be directed towards proposition of a total remuneration which is competitive so that the company can attract and maintain the best senior executives.

Salary to the managing director and other economic benefits are established by the Board of Directors based on the proposition from the compensation committee. Terms and approval for other senior executives are established by the managing director within the framework approved by the Board of Directors.

The total remuneration to senior executives consists of fixed salary, variable salary, pension, and other benefits.

The fixed salary is reviewed annually and determined based on salary development in the society in general and financial sector in particular.

The total remuneration to senior executives shall be competitive and reflect work efforts, responsibilities and professional challenges that are related to the leadership responsibilities in a company of the size of Protector and the branch.

The variable salary (bonus) to senior executives can be paid based on a concrete result measurement of the defined goal areas derived from the company's strategy and goals. The review takes into account a combination of the company's total targeted result, relevant business unit as well as estimation of a personal contribution, thereof a total valuation with regards to the compliance with the company's vision, values and leadership principles. Variable salary for senior executives is set by the Board of Directors on the basis of levels set by the compensation committee.

The company in 2013 established a long-term bonus policy for the senior executives and other key persons where the distributed bonus is converted to synthetic shares based on the Protector's share price pr. 31.12 of the year earned. The conversation does not give separate employees the right to buy shares in the company. The synthetic share holdings are distributed with 1/5 in cash while the remaining 4/5 are accounted for as a contingent capital. The cash part is paid out based on the weighted average share price of the company's shares during the first seven trading days after the last of the dates of the general meeting and the publication of first quarter results. The contingent capital is paid out by 1/5 of the share capital over four years effective from the year after the cash part is paid out. The payment is based on the weighted average share price of the company's shares during the first seven trading days after the last of the dates of the general meeting and the publication of first quarter results. Share price calculation for the cash payment and contingent capital shall be adjusted for dividend paid out between the conversion of bonus to share holdings (31.12 of the year earned) and the payment date. The unpaid contingent variable remuneration can be reduced if later results and development indicate that it was based on wrong assumptions. Individual variable salary can total up to 50 per cent of the annual loan. The variable salary is not included in pension schemes.

Any fringe benefits shall have connection with one's functions in the company and shall be in line with general practices in the market.

Senior executives' pension age is 67 years in Norway, 65 years in Sweden and 70 years in Denmark. In Norway the senior executives are participants in the company's defined contribution pension plan. The managing director has in addition an agreement about top pension which totals maximum 70%

of the salary up to 12G for the amount which exceeds 12G (i. e. 8.4G). Senior executives in Sweden and Denmark have defined contribution pension arrangement which is a standard for the branch.

The managing director and his management team have an agreement for 6-month termination notice and up to 12-month salary after termination of employment relationship. This salary after termination of employment relationship is established to ensure clear guidelines in case the wish of ending the employment.

Information about remuneration for 2018 as well as overview of transactions between members of administrative, managing or control bodies is provided in note 21 in Protector Forsikring's annual report for 2018.

B.2 Fit and proper requirements

The company has prepared "Policy for fit and proper assessment in Protector Forsikring ASA" in order to ensure that key personnel, including members of administration, the Board of Directors and senior management have adequate qualifications, knowledge and relevant experience for managing the company in a prudent way.

Education and personal traits as well as competence and experience requirements for key functions are specified in relevant position descriptions as well as guidelines for functions. During recruitment process potential candidates are assessed against requirements for competence and experience before decision is taken. In cases of new information indicating need for renewed assessment, changes in regulatory framework, new requirements for corporate governance, changes in key functions or changes in the composition of the Board of Directors, Protector Forsikring carries out a new fit and proper assessment. The company in any case assesses need for new fit and proper assessment even if persons are the same.

Fit and proper assessment of relevant leading and key persons is carried out according to the Financial Supervisory Authority's regulatory framework.

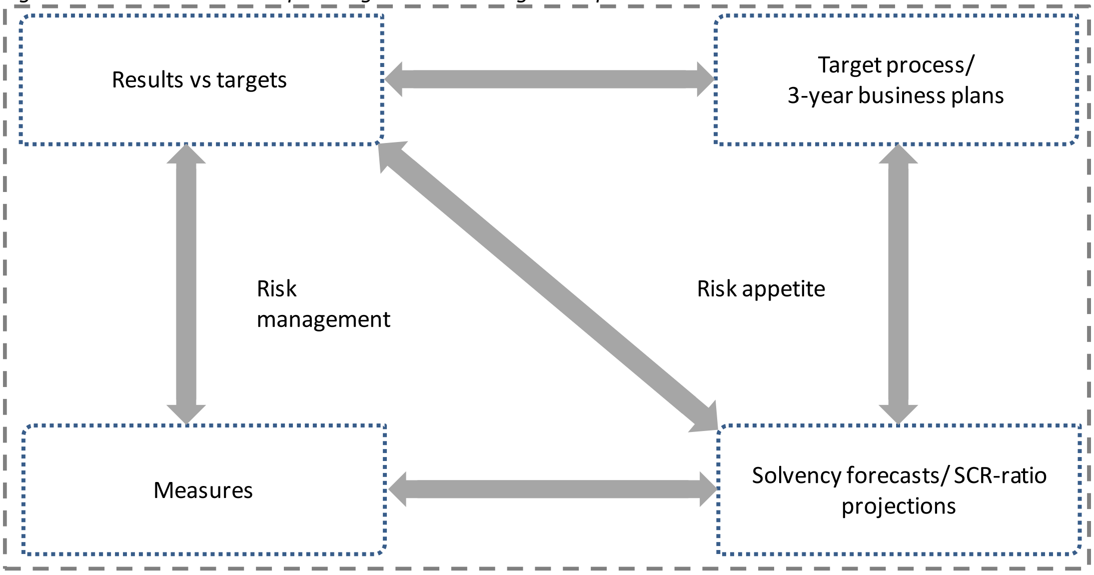
B.3 Risk management system including the own risk and solvency assessment

Protector Forsikring has prepared risk management policy which is the main tool for fulfilling own and society's requirements for god risk management. The policy is prepared to correspond to current regulatory framework for insurance companies and financial institutions and in addition to cover requirements in Solvency II regulatory framework.

The company's risk appetite which is set by the Board of Directors forms the basis for risk monitoring and management in the company. The Board of Directors approves framework for market, insurance, operational and compliance, business risks as well as counterparty risk. Risk appetite defines either lower or upper limit as well as ranges, or any other definition of risk exposure which is accepted by the Board of Directors in order to achieve the company's strategic goals.

Figure 3 gives an overview of interaction between planning and risk management processes in the company.

Figure 3 Interaction between planning and risk management processes



Own policies and/ or strategy documents are prepared for different types of risks. These documents are part of the total corporate governance in the company.

In order to ensure that the company's corporate governance system is organized in an adequate way and that the company's risk profile is within the approved limits, Protector Forsikring has established various processes and reporting systems.

Quarterly risk reports summarizing exposure to main risk compared to the defined limits are prepared on a quarterly basis. The Board of Directors, together with the management, carries out the company's strategy process at least annually. Based on it the company prepares different scenarios that forecast probable development of result and capital as well as risk exposure. The company estimates the necessary shareholders capital to cover risk exposure as well as its capacity to fulfil its obligations related to insurance contracts based on this view of risks. The company also assess how well standard formula reflects the company's risk profile and how capital requirement calculated using standard model compares with the company's own assessment of capital requirement. At least annually Protector Forsikring prepares ORSA report in accordance with the company's ORSA policy which is reviewed by the Board of Directors.

B.4 Internal control system

Protector Forsikring has prepared policy and guidelines for operational and compliance risk. Responsibility of compliance function is to contribute to low compliance risk in Protector Forsikring. This is ensured through seeing to that managers and employees have adequate insight into and understanding of compliance risk as well as through identification, assessment, monitoring, reporting about and advising on management of compliance risk in different business areas. Compliance function ensures that all business areas at least annually carries out a systematic assessment of if risk management and internal control are adequate for management of identified risks in an appropriate way. Compliance contributes to compliance with laws and rules and informs management about all factors that have or may have significant importance for compliance with laws and rules without encouragement.

Compliance function is the company's whistle-blowing institution and is responsible for investigating any irregularities or fraud.

All business areas have appointed compliance-responsible who assist compliance function in its work.

The company's Data Protection Officer ensures compliance with General Data Protection Act.

In accordance with policy and guidelines for operational and compliance risk internal control in the company is carried out according to the annual plan for internal control. The company's internal control is based on identifying operational events which can prevent achievement of goals and these are placed into risk groups based on probable frequency and consequence. Internal control system implies that a complete revision of each business area and administrative units is carried out annually. Timing of completion is coordinated with the audit of the company by the external auditor and occurs in autumn. It is the responsible for each business area who presents the results of the current year's analysis in a form of an updated risk matrix and a verification to the managing director. This verification shall also include an assessment of the last year's planned measures with respect to implementation and realized effect. This process is initiated, managed and coordinated by the company's Chief Compliance Officer who also provides the necessary information to the managing director's verification of the internal control to the Board of Directors as a part of area of responsibility described in the job description for the company's chief compliance officer.

B.5 Internal audit function

Internal audit is an independent, objective function for verification and advising and carries out only internal audit in the company. The internal audit is responsible for being independent and objective in its exercise of activities, and for carrying out its work according to acknowledged standards for internal audit. Work of the internal audit is based on a Board-approved, risk-based annual plan which takes into account type, extent and complexity of business activities as well as established internal control. Changes in the company's risk situation and development in demanding business-wise initiatives may lead to need for revision of the internal audit's annual plan. At least once a year the internal audit function reports to the Board of Directors and the managing director about the company's risk management and control.

B.6 Actuarial function

Actuarial function is carried out in accordance with the Article 272 through continuous dialog with the company's actuary in order to discuss data quality, development of premiums and claims in various lines of business and insurance markets that the company is exposed to. The actuarial function gives feedback to control activities in order to ensure that the underlying data for estimating technical provisions is complete, accurate and appropriate. The actuarial function contributes also with control activities which ensure that the underlying data used for calculation of the technical provisions is satisfactory, and that estimated technical provisions correspond to the amounts in the financial accounts. The actuarial function contributes as discussions partner to the choice of models and assumptions underlying estimation of the technical provisions within various lines of business and insurance markets that the company is exposed to. In connection to the quarterly estimation of the technical provisions underlying data and results are exchanged between the company's actuary and the actuarial function. The actuarial function gives feedback on results of the calculations carried out by the company's actuary and, in cases where assessment deviates, assumptions and choice of models are discussed, and final results are based on assumptions and model choices that both the company's actuary and the actuarial function find appropriate. The actuarial function ensures that the technical provisions are sufficient. Quarterly reports describing underlying data, assumptions and results of calculation of the technical provisions are prepare by the actuarial function. The report includes process and results assessment by both the company's actuary and the actuarial function. The actuarial function prepares a more extensive report in connection with annual reporting which shall cover all areas of responsibilities covered by the actuarial function in accordance with Article 272.

B.7 Outsourcing

Protector Forsikring has prepared policy and guidelines for outsourcing which defines extent, areas of responsibility, monitoring and reporting in case of outsourcing of business activities. It is not allowed to outsource core business. Core business means product development and work related to take over and underwriting of insurance risk.

The company is fully responsible for all part of the outsourced business and shall have competence and resources to assess risk related to the outsourced business activities itself at all times.

Following principles underlie assessment and any implementation of outsourcing in the company:

- Outsourcing shall be prudent, and relevant information for analysis and assessment shall be gathered before final decision.
- Public requirements and external regulations which the company has to satisfy shall be ensured also when outsourcing.
- Outsourcing shall contribute to providing the company with access to cost-efficient and qualitatively good services, products and distribution channels.
- Outsourcing shall occur in a way that gives the company flexibility with respect to changes in its outsourcing strategy.

The company has chosen to outsource the internal audit to KPMG and the actuarial function to Analysetjenester AS.

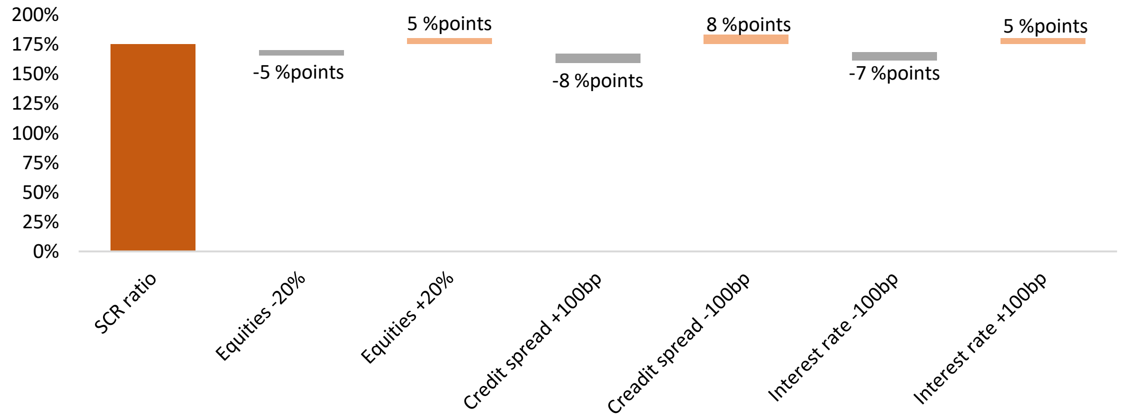
B.8 Any other information

Protector Forsikring's assessment is that the company's risk management and internal control system is appropriate with respect to types, extent and complexity of the risks related to the company's business.

C. Risk Profile

Protector Forsikring is exposed to insurance, market, credit and counterparty, liquidity and operational risks (se chapter E.2 Solvency Capital Requirement and Minimum Capital Requirement for relevant risks). These risks are monitored continuously. Table below shows SCR ratio sensitivities to changes in the market value of investments in equities, credit spread and interest rate levels.

Figure 4 SCR ratio sensitivities per 31.12.2018



The company carries out stress test analysis as a part of ORSA process. Choice of factors for stress test scenarios is risk-based with the company's 3-year business plans and focus areas as a starting point. Scenarios are compared to estimated capital requirement and estimated available capital based on a set of basic assumptions which correspond to the company's 3-year business plans. Methods used for stress testing are based on an assumption that it is only the defined assumptions that are stressed in concrete scenarios which are changed while all other assumptions remain constant. Total results are summarized and processed by the Board of Directors at least once a year in connection with submission of ORSA report.

C.1 Underwriting risk

Underwriting risk represents the risk directly related to the insurance business. This includes the risk that premium payments will not sufficiently cover future claims and related costs, and the risk that reserves will not be sufficient to cover costs related to claims already incurred. Additionally, it includes the risk of extraordinary events like catastrophe scenarios and lapse risk.

The company assesses underwriting risk individually through underwriting process before an agreement with a customer is concluded. Continuous follow-up of development in profitability is carried out, including calculation and assessment of technical provisions.

Assessment of catastrophe risk is an important part of the company's risk management. The company's exposure to large risks is assessed against current reinsurance program in order to ensure that exposure to catastrophe risk is within defined framework.

Lapse risk is assessed not to be a significant risk for the company as the company underwrites insurance of business and public customers. The agreements are normally termed contracts, running until maturity unless extraordinary circumstances arise giving right to terminate contracts prematurely.

All business areas are reviewed on a regular basis according to internal reporting routines. Profitability within different lines of business and segments is assessed, and measures are implemented if certain lines of business/ segments are assessed not to contribute with adequate expected future profitability.

Courses and training in claims-reducing measures are carried out by the company's initiative. The company uses reinsurance largely to reduce risk. Reinsurance is used primarily within liens of business which are estimated to be most exposed to large claims. There are reinsurance agreements in place for all lines of business, limiting loss potential for catastrophic scenarios. Assessment of adequacy of the company's reinsurance programs is carried out at least annually.

The company is exposed to natural catastrophe events in Norway proportional to the company's market share of fire insurance amounts. The company's geographical concentration of exposure in Norway has therefore little significance for the company's natural catastrophe risk. The company participates in the reinsurance program of the Norwegian Natural Perils Pool.

The company also ensures that assets are sufficient to cover liabilities in all exposed currencies at all times. It is not desirable to expose insurance liabilities to unnecessary currency risk, therefore investments portfolio is calibrated on a quarterly basis so that assets correspond to liabilities within foreign currencies.

Solvency capital requirement for insurance risk was TNOK 2 139 084 pr. 31.12.2018 whereof capital requirement for health underwriting risk was TNOK 995 216 and for non-life underwriting risk was TNOK 1 143 868. Underwriting risk is distributed between premium and reserves risk as well as catastrophe and lapse risk.

C.2 Market risk

Protector Forsikring is exposed to market risk: risk of loss in the market value of investment portfolio as a result of fluctuations in share prices, interests, credit spreads, exchange rates, property prices, prices of commodities and energy, and changes in technical provisions as a result of change in interest rates.

Protector Forsikring manages its investment according to “prudent person’s” principles and within the quantitative framework defined in the investment management mandate approved by the Board of Directors. Requirements are defined among other things for exposure limits in the portfolio per assets class, individual issuers and rating. Investments portfolio is managed with respect to currency mix, and foreign exchange forwards are used for adjustment of currency mismatch between commitments and investment assets if needed.

Individual investments are analysed and assessed using defined criteria before investment decision is taken. Development in the market value and compliance with the quantitative requirements defined in the investments management mandate are monitored and reported on a regular basis. Capital requirement for market risk is calculated quarterly or in case of significant changes in risk profile.

Protector Forsikring started using put options in 2018 for further management of market risk related to management of investments portfolio.

At the end of 2018 net investment portfolio totalled NOK 9,5 billion compared to NOK 9,4 billion a year ago. Entire portfolio was managed in-house. At the end of 2018 equity share of investments was 9,9% while interest-bearing securities and bank deposits constituted 90,1%. Total credit risk of the portfolio was A+ at the end of 2018.

Protector Forsikring’s exposure to market risk comprised mainly exposure to equities, spread, concentration and currency risks pr. 31.12.2018. Total capital requirement for market risk was TNOK 664 926.

C.3 Credit risk

Credit risk is the risk of a rated counterparty defaulting on its commitments. Counterparty risk module covers exposure that is not covered in the spread risk module within market risk.

Protector Forsikring is exposed to counterparty risk mainly in connection to is reinsurance programs and bank deposits. The company has a minimum rating requirement for its reinsurers and bank in order to reduce risk related to counterparty risk. The company works with reinsurers which have a solid rating from internationally acknowledged rating agencies. Before contracts are concluded Protector Forsikring assesses business partners on an individual basis. Protector Forsikring’s bank has a solid rating from various acknowledged rating agencies. Bank rating is monitored on a regular basis. Summary of risk assessment in relation to the company’s defined limits is reported on a regular basis.

Capital requirement for counterparty risk was TNOK 108 554 pr. 31.12.2018.

C.4 Liquidity risk

Liquidity risk is the risk that the company is unable to meet its running commitments and/or to finance changes in the allocation of assets without incurring substantial additional costs in the form of a price decrease of assets that need to be realized (sold) or in form of an extra expensive financing.

Protector Forsikring has routines for management of daily cash flows in order to manage and optimize liquidity. Liquidity management in a longer run is based on long-term strategic planning with respect to earnings, development of balance composition and solvency projections. The company manages its assets with respect to requirement for security, liquidity and risk diversification.

The company has right to demand larger amounts with short maturity from its reinsurers in case of larger payments. Further the company has allocated a part of its investments in liquid assets with high quality which provides possibility to match larger unplanned pay-outs. In order to manage liquidity in a longer run Protector Forsikring has prepared a list of management actions to raise additional financing if needed.

Liquidity risk is not quantified in Solvency II calculations of capital requirement.

C.5 Operational risk

Operational risk is the risk of losses as a result of insufficient or failing internal processes or systems, human errors or external events.

All managers in the company have responsibility for identification and management of operational risk in their own area of responsibility. Main risk factors are identified, assessed and reported on a regular basis through established processes and procedures. Internal control report identifying main risks based on probability and consequence at company level is prepared at least annually based on internal control processes. With these processes and procedures as a starting point, risk-reducing measures are implemented if needed and followed up in connection with the established reporting routines. Significant deviations are registered in the deviations management database and are followed up on a regular basis.

Solvency capital requirement calculated under Solvency II rules constituted TNOK 223 210 pr. 31.12.2018.

C.6 Other material risks

The company has not identified other significant quantifiable risks in 2018.

C.7 Any other information

It was not uncovered other significant circumstances related to the company’s risk profile in 2018.

D. Valuation for Solvency Purposes

The company's Solvency II balance is valued at market value, ref Solvency II Directive 2009/138/EC article 75, 1(a) and (b) with respect to requirement for valuation of:

- technical provisions as specified in article 76-81;
- assets and liabilities other than technical provisions as specified in regulation on supplementary rules to the Solvency II regulation, article 9-16.

Guarantee scheme for Solvency II reporting purposes is reported according to 19.06.2014 clarification from the Norwegian Financial Supervisory Authority.

The company's assessment is that statutory balance mainly consists of assets and liabilities accounted for at market value with exceptions as described below. Need to change valuation methods and need to take into account any clarifications and/ or feedback from the Norwegian Financial Supervisory Authority is assessed at every reporting.

D.1 Assets

Summary of the company's Solvency II balance compared to statutory balance is provided in Table 5.

Table 5 Overview of the company's assets in Solvency II and statutory balance pr. 31.12.2018

Eiendeler	Solvency II	Statutory accounts
Intangible assets	0	28 069
Investments	9 542 688	9 543 377
Reinsurers' share of gross technical provisions	2 035 548	2 307 917
Other assets	1 163 333	952 690
Total assets	**12 741 569**	**12 832 053**

The company's investment portfolio constituted the largest share (75%) of the company's total assets. Investments portfolio in Protector Forsikring's statutory accounts is accounted for at market value based on reports from asset managers. These values are used for Solvency II balance.

Reinsurers' share of the company's technical provisions constituted 16% of total assets. Solvency II value of reinsurers' share of technical provisions deviates from statutory values due to recalculation of these to market value by discounting and with respect to expected profit in future premiums, ref Solvency II Directive, Article 81.

Intangible assets have 0 Solvency II value, ref regulation FOR-2015-12-21-1807 on supplementary rules to the Solvency II regulation, article 2, pct 2.

D.2 Technical provisions

Best estimate of claims provisions are equal to claims provisions for own account at valuation date as follows from «Best Estimate» valuation. In connection to Solvency II valuation of claims provisions, provisions are discounted on the basis of expected line of business-specific run-off pattern and relevant interest rate yield curve for different countries/ currencies where the company has claims provisions. As a starting point regulatory framework allows also for a different valuation of nominal amounts. This has been discussed but assessed that there is a direct relationship between expected values and amounts accounted for in statutory accounts so that no other adjustments of claims provisions than discounting are taken.

It is assumed that statutory claims provisions including ULAE will be adequate for covering liabilities related to claims payments and claims handling costs for claims incurred at calculation date. It is also assumed that interest yield curves are adequate and provide a correct picture of future inflation. The same payments pattern as used for estimation of claims provisions is used for discounting.

Uncertainty related to claims provisions comprises mainly assumptions about future run-off patterns. The same line of business-specific run-off patterns are used both for valuation in statutory accounts and for discounting for solvency purposes. For individual lines of business the company has no sufficiently long run-off history for estimation of future run-off pattern based on own experience only. This is especially the case for “new” lines of business or lines of business in “new countries” where it is initially assumed future run-off pattern corresponding to experienced run-off pattern in Norway until own data is assessed to be sufficient.

Best estimate of premiums provisions is calculated per Solvency II line of business by using calculation method taking into account future premiums (which include unearned premiums and other future premiums that the company has committed itself to) and expected future claims and costs that are related to these premiums. This results in premiums provisions being significantly lower in Solvency II valuation than statutory valuation where technical premiums provisions are equal to unearned premium.

It is assumed that the company’s estimate of future claims and costs form a realistic view of the future in valuation of premiums provisions.

Uncertainty related to premiums provisions comprises mainly assumptions about expected future profitability (combined ratio) which is estimated per line of business. Even if uncertainty related to estimated combined ratio at company’s level is lower, uncertainty is significant per line of business which may be of essential importance in valuation of premium provisions for solvency purpose.

Risk margin is calculated by calculating future SCR given a hypothetical run-off of the company, for every year until all claims are expected to be fully paid, and capital cost related to having capital requirement for the company in run-off, given a 6% cost of capital.

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Uncertainty related to risk margin comprises both assumptions about future run-off patterns and assumptions about future expected profitability, with assumption about future run-off pattern estimated to have the largest significance.

Risk margin is calculated for solvency purpose and does not exist in in statutory accounts. Overview of net claims and premiums provisions and risk margin is provided in Table 6.

Table 6 Net provisions for claims, premiums and risk margin per line of business

Insurance class	Best estimate, net Tech. claims provisions	 Tech. premiums provisions	Risk margin
Medical expense insurance	199 101	13 398	17 802
Income protection insurance	398 230	53 705	34 206
Workers' compensation insurance	2 080 346	6 374	267 858
Motor vehicle liability insurance	395 450	72 548	52 791
Other motor insurance	146 630	159 221	14 211
Marine, aviation and transport insurance	4 090	1 362	215
Fire and other damage to property insurance	1 265 365	153 355	65 910
General liability insurance	399 915	44 050	28 751
Miscelaneous financial loss	585	57	804
Group life	107 979	74 694	345
Totalt	**4 997 691**	**578 764**	**482 893**

Total difference between net Solvency II claims provisions and claims provisions in statutory accounts was TNOK 139 413. Expected profit in future premiums was in total TNOK 233 315 pr. 31.12.2018.

Receivables stemming from reinsurance agreements constitute of difference between technical provisions at gross level and technical provisions calculated for own account and are assumed to apply to technical claims and premiums provisions, and not relevant for risk margin.

Amount receivable in accordance with reinsurance agreements for claims was TNOK 1 884 783 per 31.12.2018. Amount receivable in accordance with reinsurance agreements for premiums was TNOK 150 765 per 31.12.2018.

D.3 Other liabilities

Table 7 provides an overview of other liabilities with valuation different from statutory balance.

Table 7 Overview of other liabilities pr. 31.12.2018

Other liabilities	Solvency II	Statutory accounts
Financial derivatives	7 958	8 583
Subordinated debt	1 265 179	1 243 285
Other liabilities	631 441	542 978

Solvency II value of subordinated debt is accounted for at nominal value in statutory accounts and reported at market value in Solvency II framework.

The value of other liabilities in Solvency II balance is different from statutory values due to reclassification of guarantee scheme from own capital to liabilities, ref 19.06.2014 clarification from the Norwegian Financial Supervisory Authority.

Deferred tax position is assessed to be accounted for at market value as a starting point and constituted TNOK 105 421 pr. 31.12.2018.

D.4 Alternative methods for valuation

The company does not use alternative valuation methods.

D. Any other information

It was not uncovered other significant circumstances related to the company's valuation for solvency purposes in 2018.

E. Capital Management

E.1 Own funds

The main purpose of capital management is to support the strategy of Protector Forsikring and ensure that the company is well capitalized in order to resist downturn in macro economy and/ or downturn in the company's business. Protector Forsikring's capital projections are based on company's 3-year strategic plans and are updated on a regular basis as a part of the company's ORSA process. Overview of the company's available and eligible capital for coverage of solvency capital requirement and minimum capital requirement pr. 31.12.2018 and 31.12.2017 is provided in Table 8.

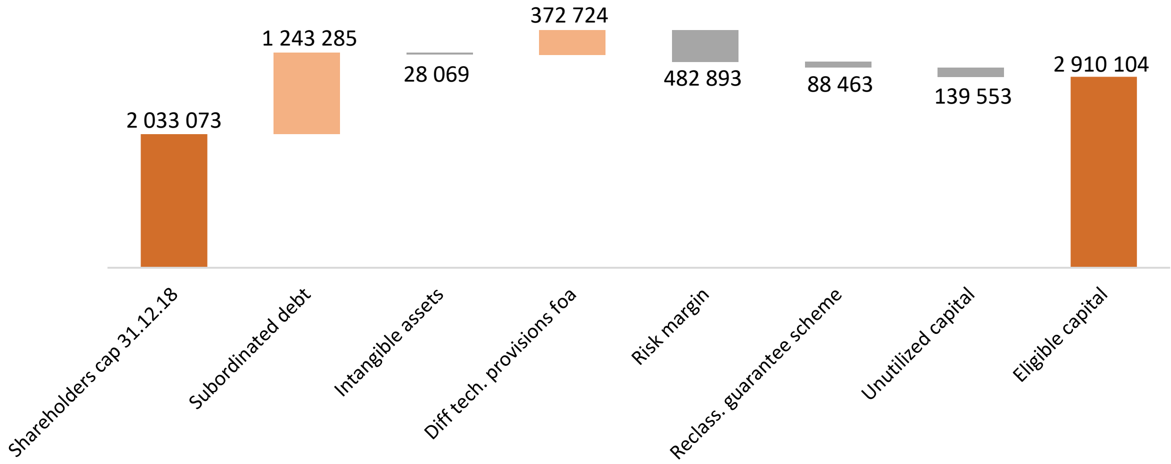
Table 8 Overview of available and eligible capital 2018-2017

Available own funds to meet the SCR	31.12.2018	31.12.2017
Tier 1 - unrestricted	1 729 601	2 381 322
Tier 1 - restricted	350 821	357 920
Tier 2	969 171	950 142
Total available own funds to meet SCR	3 049 594	3 689 384
Available own funds to meet the MCR		
Tier 1 - unrestricted	1 729 601	2 381 322
Tier 1 - restricted	350 821	357 920
Tier 2	969 171	950 142
Total available own funds to meet the MCR	3 049 594	3 689 384
Eligible own funds to meet the SCR		
Tier 1 - unrestricted	1 729 601	2 381 322
Tier 1 - restricted	350 821	357 920
Tier 2	829 682	916 998
Total eligible own funds to meet the SCR	2 910 104	3 656 240
Eligible own funds to meet the MCR		
Tier 1 - unrestricted	1 729 601	2 381 322
Tier 1 - restricted	350 821	357 920
Tier 2	149 343	154 684
Total eligible own funds to meet the MCR	2 229 765	2 893 927

The company's available capital decreased by 20% due to weak 2018 results and share buy-back in Q3 2018.

Figure 5 provides reconciliation between the company's shareholders equity and Solvency II capital.

Figure 5 Overview of Solvency II capital compared to shareholders equity in statutory accounts



Main differences arise due to:

- Difference in valuation of assets and liabilities in Solvency II balance compared to statutory accounts as described above;
- Inclusion of subordinated debt as capital available for covering of solvency capital requirement and minimum capital requirement.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

Overview of the company's solvency capital requirement and its composition and minimum capital requirement calculated using Solvency II standard formula pr. 31.12.2018 and 31.12.2017 is provided in Table 9.

Table 9 Composition of Solvency II capital requirement and minimum capital requirement

Solvency capital requirement (SCR)	31.12.2018	31.12.2017
Total market risk	664 926	1 085 177
Total counterparty default risk	108 554	55 305
Total health underwriting risk	995 216	938 596
Total non-life underwriting risk	1 143 868	956 392
Diversification	-994 689	-1 007 325
Basic Solvency Capital Requirement	1 917 875	2 028 144
Total capital requirement for operational risk	223 210	193 074
Loss-absorbing capacity of deferred taxes	-481 721	-387 208
Total solvency capital requirement	**1 659 364**	**1 834 011**
Minimum capital requirement		
Totalt minimum capital requirement	**746 714**	**773 470**

Protector Forsikring does not use any simplifications nor any company-specific parameters for calculation of solvency capital requirement.

The company uses applicable solvency capital requirement for calculation of lower and upper boundaries for minimum capital requirement. For calculation of minimum capital requirement for non-life insurance (inc. health-related insurance) written premiums for own account per line of business during last 12 months before reporting date are used as well as best estimate for claims provisions for own account per line of business at reporting date. Each of these amounts are multiplied by defined percentage parameters, and sum yields minimum capital requirement based on premium income and claims provisions for non-life insurance (inc. health-related insurance). In addition, minimum capital requirement is calculated for lines of business defined as life insurance (group life). Calculation of the component related to life insurance includes best estimate of claims provisions for own account at reporting date and the total risk sum at reporting date. Risk sum is the amount which the company will pay in case of death of the insured, reduced by receivables in accordance with the company's reinsurance agreements. Each of these amounts are multiplied by defined percentage parameters, and sum yields minimum capital requirement for life insurance (limited within lower and upper boundaries for minimum capital requirement).

Reduction in the solvency capital requirement and minimum capital requirement from 2017 to 2018 is driven primarily by lower market risk as a result of lower share of investments in equities in the investments portfolio, usage of put options and reduced risk profile in bond portfolio.

E.3 Use of duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

The company does not use duration-based submodule for equities risk in calculation of solvency capital requirement.

E.4 Differences between the standard formula and any internal module used

The company does not use internal models.

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

No significant deviations from the company's solvency capital requirement have occurred in the reporting period. Available capital has been larger than solvency capital requirement at all times.

E.6 Any other information

No other significant circumstances related to the company's capitalization in 2018 were uncovered.