

Third quarter 2008 report

Strong technical result but weak return on investments

Highlights (compared with the same period in 2007)

	Q3 2008	YTD 2008
• Gross premiums written	NOK 119,2m (NOK 156,3m)	NOK 636m (NOK 539,1m)
• Combined ratio net	82,9% (89,6%)	90,9% (81,5%)
• Operating result	NOK -9,1m (NOK 29,3m)	NOK 58,2m (NOK 83,6m)
• Net return on investments	NOK -33,3m (NOK 16,3m)	NOK 8,6m (NOK 28,7m)

Financial highlights and key ratios

[1.000 NOK]	Q3 2008	Q3 2007	YTD 2008	YTD 2007	FY 2007
Gross premiums written	119 168	156 305	636 046	539 133	664 941
Gross premiums earned	184 674	180 434	553 744	476 181	649 635
Gross claims incurred	(110 040)	(107 508)	(391 588)	(386 359)	(533 555)
Earned premiums, net of reinsurance	126 805	109 983	478 758	268 258	375 778
Claims incurred, net of reinsurance	(81 588)	(78 142)	(381 486)	(192 113)	(268 807)
Net commission income	3 879	4 440	29 491	43 996	47 125
Operating expenses	(27 399)	(24 796)	(83 354)	(70 454)	(101 070)
Other income/costs	2 434	1 597	6 241	5 192	6 926
Net financial income	(33 270)	16 251	8 593	28 696	40 152
Operating profit before security provision etc	(9 138)	29 333	58 243	83 575	100 104
Claims ratio, net of ceded business	(1) 64,3 %	71,0 %	79,7 %	71,6 %	71,5 %
Expense ratio, net of ceded business	(2) 18,5 %	18,5 %	11,3 %	9,9 %	14,4 %
Combined ratio, net of ceded business	(3) 82,9 %	89,6 %	90,9 %	81,5 %	85,9 %
Retention rate	(4) 68,7 %	61,0 %	86,5 %	56,3 %	57,8 %
Solvency capital	(5)		575 000	649 484	642 572
Capital adequacy ratio (risk weighted)	(6)		39 %	89 %	121 %
Operating profit before security provision etc per share	(7) (0,10)	0,28	0,62	0,91	1,06

(1) Claims incurred, net of reinsurance in % of earned premiums, net of reinsurance

(2) Operating expenses in % of earned premiums, net of reinsurance

(3) Net claims ratio + net expense ratio

(4) Earned premiums, net of reinsurance in % of gross earned premiums

(5) Equity + security provision etc

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

(7) Operating profit before security provision etc. divided by weighted number of shares

Premiums

In Q3 2008, gross premiums written totalled NOK 119.2m against NOK 156.3m in Q3 2007. Gross premiums written within the commercial/public sector totalled NOK 39.5m, corresponding to a decline of 6% over Q3 2007. The decline in premiums is mainly due to loss of one large customer. Within the affinity segment, gross premiums written totalled NOK 79.7m, a 30% decline relatively to Q3 2007. The decline is mainly due to loss of a large affinity arrangement and a lower turnover rate in the estate market. Lower turnover rate in the estate market hits the premium income within change of ownership insurance. Premiums earned for own account totalled NOK 126.8m, corresponding to growth of 15% over the same period in 2007.

Year-to-date, gross premiums written totalled NOK 636m, representing a 18% growth compared to the same period in 2007. Premium growth within the commercial/ public sector was 37% and within affinity 1%. Premiums earned for own account totalled NOK 478.8m corresponding to a growth of 78% over the same period in 2007. 35 percentage points of the growth is a one-off, due to changes in the reinsurance structure

(Q1 2008). Premiums earned for own account, adjusted for the one-off, represented 70% of gross premiums earned compared to 56% in the year-earlier period.

With effect from April 1st 2008, new policies sold within change of ownership will be on risk at the date when the purchase contract of the property is signed, and not as earlier at the takeover date. The product change will give 4-6 weeks in extra premium in 2008. At the end of Q3, the effect is NOK 24m (+ NOK 33m in Q2 and – NOK 9m in Q3). Due to a lower turnover rate in the estate market, the year-end-effect is expected to be NOK 10m, NOK 10m lower than reported in the Q2 report.

Change in reinsurance structure

With effect from January 1st, the level of risk transfer has been reduced (at Dec 31 2007) by NOK 92.7m. The reduction in ceded business has no effect on the operating result or solvency capital. In the income statement for Q1 2008, both the reinsurers' share of provisions for unearned premiums and the reinsurers' share of gross claims provisions are reduced by NOK 92.7m. In the balance sheet, the liabilities in connection with reinsurance are reduced by NOK 92.7m with a corresponding reduction of NOK 92.7m in the reinsurers' share of gross claims provisions.

Results

In Q3 2008, the operating result was negative by NOK 9.1m, compared to a profit of NOK 29.3m in Q3 2007. In the first nine months the operating profit was NOK 58.2m, compared to NOK 83.6m in Q3 2007. The decline in operating profit is driven by a weak financial result in Q3 due to the turbulent financial markets.

The combined ratio net was in Q3 82.9%, 6.7 percentage points lower than the 89.6% reported in the year-earlier period. Net run-off-losses in Q3 amounted to NOK 0.2m against run-off-gains of NOK 1.2m in Q3 2007. Net claims ratio was 64.3% down from 71% in Q3 2007. Net cost ratio was 18.5%, unchanged relatively to the same period last year.

Year-to-date, the combined ratio net was 90.9%, compared with 81.5% in the same period last year. Net claims ratio was 79.7% compared to 71.6% the year-earlier period. Year-to-date, net run-off losses amounted to NOK 37 compared to losses of NOK 5.3m in the year-earlier period. The run-off losses year-to-date had a negative impact on the claims ratio of 7.7 percentage points. Commercial and public lines of business saw run-off gains of NOK 10.2m, while change of ownership insurance has been strengthened with NOK 47.2m to meet a continued expected growth in material and labour costs.

Within the commercial and public sector the technical result in Q3 and year-to-date is satisfactory. The technical result in Q3 and year-to-date within affinity is acceptable despite the run-off-losses within change of ownership insurance.

Investment return

The investment portfolio amounted to a total of NOK 1.26b at 30 September. Year-to-date, investment activities yielded a total return of NOK 8.6m compared with NOK 28.7m in the first nine months of 2007. The decline was primarily attributable to a loss in the value of equities of NOK 26m in aggregate, against a NOK 4m gain in the same period of 2007.

In the third quarter of 2008, the investment result amounted to a net loss of NOK 33.3m against a net profit of NOK 16.3m in the same period of 2007. Equities accounted for a NOK 45.3m loss in the third quarter of 2008 against a NOK 4m gain in Q3 2007.

Protector re-entered in July gradually the equity market. End of Q3, 16% of Protector's financial assets were invested in equities. The weight of equity investments is approximately at the same level as at the beginning of April 2008.

Capital and shareholder issues

The solvency capital, defined as the total equity and total security provision, has in 2008 decreased by NOK 67.6m to NOK 575m. Purchase of own shares in 2008 has a NOK 106.8m negative effect on the solvency capital.

The capital adequacy ratio was end of Q3 39%, which exceeds the minimum requirement by NOK 282.6m.

Protector purchased 7.691.000 own shares in Q3 at an average price of NOK 6.54. In the first nine months Protector has purchased a total of 14.762.900 shares at an average price of NOK 7.23. The AGM April 2nd 2008 resolved to reduce the share capital by NOK 7.674.047 by means of the cancellation of 7.674.047 own shares. The capital reduction was registered in the Register of Business Enterprises July 11th and new registered share capital is NOK 95.690.005. End of Q3, Protector holds 9.534.400 own shares.

The EGM October 8th 2008 resolved to reduce the share capital by NOK 9.534.400 by means of the cancellation of 9.534.400 own shares. The capital reduction is expected to be registered in the Register of Business Enterprises in the second half of December 2008.

The Board of Directors holds a mandate granted by Protector's EGM October 8th 2008 to purchase up to 8.615.560 own shares. The authorization is valid until the AGM in 2009.

Prospects

The Board is satisfied with the premium growth and the technical result for the first nine months. Quarter four operating profit will be influenced by the turmoil in the financial markets. A slow real estate market is expected to continue in Q4 and will influence volume development negatively. Despite the challenging market, the Board expects good technical results for the full year and a 10% accumulated premium growth.

Oslo, November 5th 2008

The Board of Directors of Protector Forsikring ASA

Income statement

[1.000 NOK]	Q3 2008	Q3 2007	YTD 2008	YTD 2007	FY 2007
Premium income					
Gross written premiums	119 168	156 305	636 046	539 133	664 941
Ceded insurance premiums	(23 965)	(32 402)	(88 785)	(242 902)	(266 559)
Change in provisions for unearned premiums	65 506	24 129	(82 303)	(62 952)	(15 307)
Change in reinsurers' share of provisions for unearned premium:	(33 903)	(38 049)	13 800	34 979	(7 297)
Earned premiums, net of reinsurance	126 805	109 983	478 758	268 258	375 778
Allocated return on investment transferred from non-technical account	9 170	4 306	23 516	10 814	15 528
Claims incurred					
Claims paid	(81 854)	(66 668)	(294 398)	(222 969)	(307 086)
Reinsurers' share of paid claims	29 358	26 211	112 047	114 489	152 091
Change in provisions for claims	(28 187)	(40 840)	(97 190)	(163 390)	(226 468)
Change in reinsurers' share of claims provisions	(906)	3 156	(101 945)	79 757	112 657
Claims incurred, net of reinsurance	(81 588)	(78 142)	(381 486)	(192 113)	(268 807)
Operating expenses					
Sales costs	(1 293)	(2 099)	(11 081)	(10 871)	(13 215)
Administration costs	(27 399)	(24 796)	(83 354)	(70 454)	(101 070)
Commission from reinsurers	5 173	6 539	40 572	54 867	60 340
Total operating expenses, net of reinsurance	(23 520)	(20 356)	(53 863)	(26 458)	(53 945)
Technical result before changes in security provision etc.	30 867	15 791	66 925	60 501	68 554
Changes in security provision etc.	(10 313)	(4 499)	(33 181)	(20 681)	(51 891)
Technical result	20 554	11 292	33 745	39 819	16 663
Net income from financial assets	(33 270)	16 251	8 593	28 696	40 152
Allocated return on investment transferred to technical	(9 170)	(4 306)	(23 516)	(10 814)	(15 528)
Other income	2 434	1 597	6 241	5 192	6 926
Non-technical result	(40 006)	13 542	(8 682)	23 074	31 550
Profit before tax	(19 451)	24 834	25 062	62 893	48 213
Tax	(14 720)	(6 954)	(21 527)	(12 675)	(10 533)
Profit before components of comprehensive income	(34 171)	17 880	3 535	50 218	37 680
Profit for the period	(34 171)	17 880	3 535	50 218	37 680
Earnings per share	(0,37)	0,17	0,04	0,54	0,40
Earnings per share, diluted	(0,36)	0,17	0,04	0,53	0,39

Balance Sheet

[1.000 NOK]	30.09.2008	30.09.2007	31.12.2007
Assets			
Intangible fixed assets			
Goodwill	806	1 164	1 074
Other intangible fixed assets	2 098	2 371	2 422
Total intangible fixed assets	2 904	3 534	3 496
Financial assets			
Financial fixed assets			
Bonds held to maturity	245 574	145 126	144 809
Financial current assets			
Shares	204 630	104 033	151 666
Bonds	800 318	830 810	841 861
Other financial assets	9 141	15 314	4 637
Total financial assets	1 259 662	1 095 283	1 142 973
Reinsurers share of gross technical provisions			
Reinsurers share of gross premium provisions	73 605	97 636	55 574
Reinsurers share of gross claims provisions	252 728	321 848	354 674
Total reinsurers share of gross technical provisions	326 333	419 484	410 248
Receivables			
Direct insurance receivables	69 414	55 064	33 433
Total receivables	69 414	55 064	33 433
Other assets			
Tangible fixed assets	3 766	3 470	3 658
Cash and bank deposits	122 665	117 264	91 214
Pensionfunds	-	41	-
Total other assets	126 432	120 776	94 872
Total prepaid expenses and accrued interest	19 605	24 029	23 699
Total assets	1 804 349	1 718 170	1 708 720
Equity and liabilities			
Shareholders' equity			
Share capital [95.690.005 shares]	95 690	103 364	103 364
Own shares [9.534.400 shares]	(9 534)	(524)	(2 452)
Share premium account	-	242 523	242 204
Other paid-in equity	9 139	5 448	6 645
Total paid-in equity	95 294	350 812	349 761
Earned equity			
Technical provisions	90 147	58 401	60 610
Other equity	283 471	182 582	151 024
Tax on transfer of technical provisions	(25 241)	(16 352)	(16 971)
Total earned equity	348 377	224 630	194 663
Total equity	443 671	575 442	544 424
Technical provisions			
Provisions for unearned premiums	171 356	136 699	89 053
Provisions for claims	742 439	581 452	645 248
Security provision etc.	131 329	74 042	98 148
Total technical provisions	1 045 124	792 193	832 450
Provisions for other risks and liabilities			
Pension liabilities	1 992	-	1 992
Deferred tax liability	28 541	20 575	18 431
Total provisions for other risks and liabilities	30 533	20 575	20 423
Liabilities			
Liabilities in connection with insurance	3 932	6 589	10 012
Liabilities in connection with reinsurance	198 511	290 467	276 883
Other liabilities	77 918	28 812	9 724
Total liabilities	280 361	325 868	296 619
Incurred expenses and prepaid income			
Other incurred expenses and prepaid income	4 661	4 092	14 804
Total incurred expenses and prepaid income	4 661	4 092	14 804
Total equity and liabilities	1 804 349	1 718 170	1 708 720

Cash flow statement

[1.000 NOK]	Q3 2008	Q3 2007	YTD 2008	YTD 2007	FY 2007
Net cashflow from operational activities	109 913	30 661	321 981	196 804	231 750
Net invested in financial assets	(58 187)	(5 771)	(178 117)	(406 038)	(457 320)
Net cashflow from investment activities	(50 799)	1 078	(107 909)	(9 550)	(29 622)
Net cashflow from financial activities	0	(38)	0	264 095	263 776
Net change in cash and cash equivalents	928	25 930	35 955	45 311	8 583
Cash and cash equivalents at the beginning of the period	130 878	106 649	95 851	87 268	87 268
Cash and cash equivalents at the end of the period	131 806	132 579	131 806	132 579	95 851

Notes to the interim accounts

NOTE 1 ACCOUNTING PRINCIPLES

These interim accounts have been prepared in accordance with Norwegian Accounting Standard (NRS) 11 on interim reporting, and in line with the accounting principles described in the annual report for 2007, with the following amendments: With effect from 1 January 2008 accounting regulations for Norwegian insurance companies was changed. The changes in the regulations were made to harmonize the valuation principles in the Norwegian regulations with International Financial Reporting Standards (IFRS) in certain areas. The most important changes to Protector were that the administration provision, natural perils fund and guarantee scheme was reclassified from liabilities (security provision etc) to equity (earned equity) as those provisions was not considered to satisfy the definition of a liability under IFRS. Comparable figures for 2007 are restated. The implementation effect in the balance sheet at 1 January 2007 was a reduction of security provisions etc of NOK 33.7 million, an increase in equity of NOK 24.3 million and an increase in the deferred tax liabilities of NOK 9.4 million. The comparable figures for profit after tax 2007 increased by NOK 19.4 million from NOK 18.3 million to NOK 37.7 million.

From January 1st 2008 Norwegian insurance companies were required to implement the classification and valuation principles of International Accounting Standard (IAS) 39 in relation to financial instruments. This is not considered to have any effect on the accounts of Protector as the relevant principles of valuation in IAS 39 agree with the existing accounting practice for Protector.

NOTE 2 RECONCILIATION OF CHANGES IN EQUITY

[1.000 NOK]	Share Capital	Own shares	Share Premium Account	Unreg. reductions in share premium account	Other paid-in equity	Technical provisions	Other equity	Tax on transfer of technical provisions	Total
Equity at 31.12 2006	81 792		136 991	(27 516)	1 769		53 544		246 581
Change in accounting principles						33 710		(9 439)	24 271
Equity at 01.01.2007	81 792		136 991	(27 516)	1 769	33 710	53 544	(9 439)	270 851
Change in accounting principles							(4 464)		(4 464)
Capital raising related to exercised subscription rights	1 432								1 432
Capital write-down			(27 516)	27 516					-
Profit for the period 01.01 - 31.03.						5 361	21 046	(1 501)	24 907
Equity at 31.03 2007	83 224	-	109 475	-	1 769	39 071	70 127	(10 940)	292 726
Option cost, effect on equity					2 810				2 810
Capital raising related to exercised options	140		188						328
Capital write-down				(109 475)			109 475		-
Private placement in May	20 000		242 374						262 374
Own shares		(750)					(9 517)		(10 267)
Profit for the period 01.04 - 30.06.						6 182	2 980	(1 731)	7 431
Equity at 30.06 2007	103 364	(750)	352 036	(109 475)	4 580	45 253	173 065	(12 671)	555 402
Option cost, effect on equity					868				868
Capital write-down			(109 475)	109 475					-
Private placement in May			(38)						(38)
Own shares		226					1 102		1 329
Profit for the period 01.07 - 30.09.						13 148	8 414	(3 681)	17 880
Equity at 30.09 2007	103 364	(524)	242 523	-	5 448	58 401	182 582	(16 352)	575 442
Option cost, effect on equity					1 197				1 197
Private placement in May			(319)						(319)
Own shares		(1 929)					(17 430)		(19 359)
Profit for the period						2 209	(14 128)	(619)	(12 538)
Equity at 31.12 2007	103 364	(2 452)	242 204	-	6 645	60 610	151 024	(16 971)	544 424
Option cost, effect on equity					1 215		-		1 215
Own shares		(5 222)					(36 637)		(41 859)
Profit for the period						17 183	(15 424)	(4 811)	(3 052)
Equity at 31.03 2008	103 364	(7 674)	242 204	-	7 860	77 794	98 963	(21 782)	500 728
Option cost, effect on equity					1 279				1 279
Own shares		(1 843)					(12 781)		(14 625)
Capital write-down			(242 204)				242 204		-
Profit for the period						4 353	37 624	(1 219)	40 758
Equity at 30.06 2008	103 364	(9 517)	-	-	9 139	82 146	366 009	(23 001)	528 140
Own shares		(7 674)	(17)				(42 606)		(50 297)
Profit for the period						8 001	(39 932)	(2 240)	(34 171)
Equity at 30.09 2008	95 690	(9 534)	-	-	9 139	90 147	283 471	(25 241)	443 671