

# Mid-quarter update

March 15<sup>th</sup> 2021

**PROTECTOR**  
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## Our DNA

### Vision

The Challenger

### Business Idea

This will happen through unique relationships, best in class decision-making and cost effective solutions

### Main targets

Cost and quality leadership

Profitable growth

Top 3

### Values

Credible

Innovative/Open

Bold

Committed



## New information

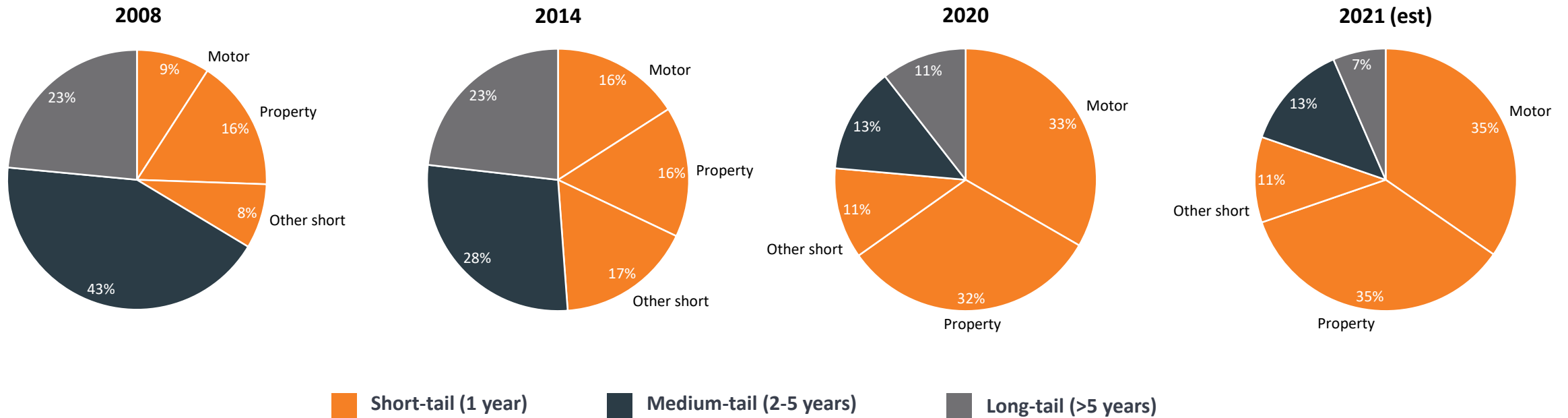
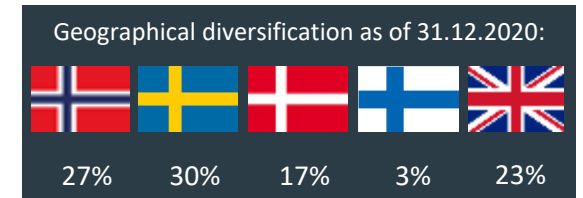
SCR-ratio up 19% points, YTD equity return > MNOK 350, 3-year CR 90-92%

- New BNOK 1.9 reinsurance deal on WC Denmark/Norway signed March 9th
  - The deal confirm reserve quality
  - Protector's SCR-ratio increases with 19%-points, everything else equal
  - Very attractive cost of capital
- YTD equity portfolio return > MNOK 350
  - Remember, these gains are mainly unrealized and volatility must be expected
- Long-term (3 years) combined ratio target changed from 94% to 90-92%
- New dividend policy decided in the board
  - A flexible policy where priority 1 is Insurance growth if possible
  - Excess capital (SCR-ratio > 180%) will be distributed to shareholders over time
  - Quarterly dividend will be considered (but remember, flexibility comes first)

# Product mix development<sup>1</sup> – towards short tail

Reduced risk profile and reduced capital consumption

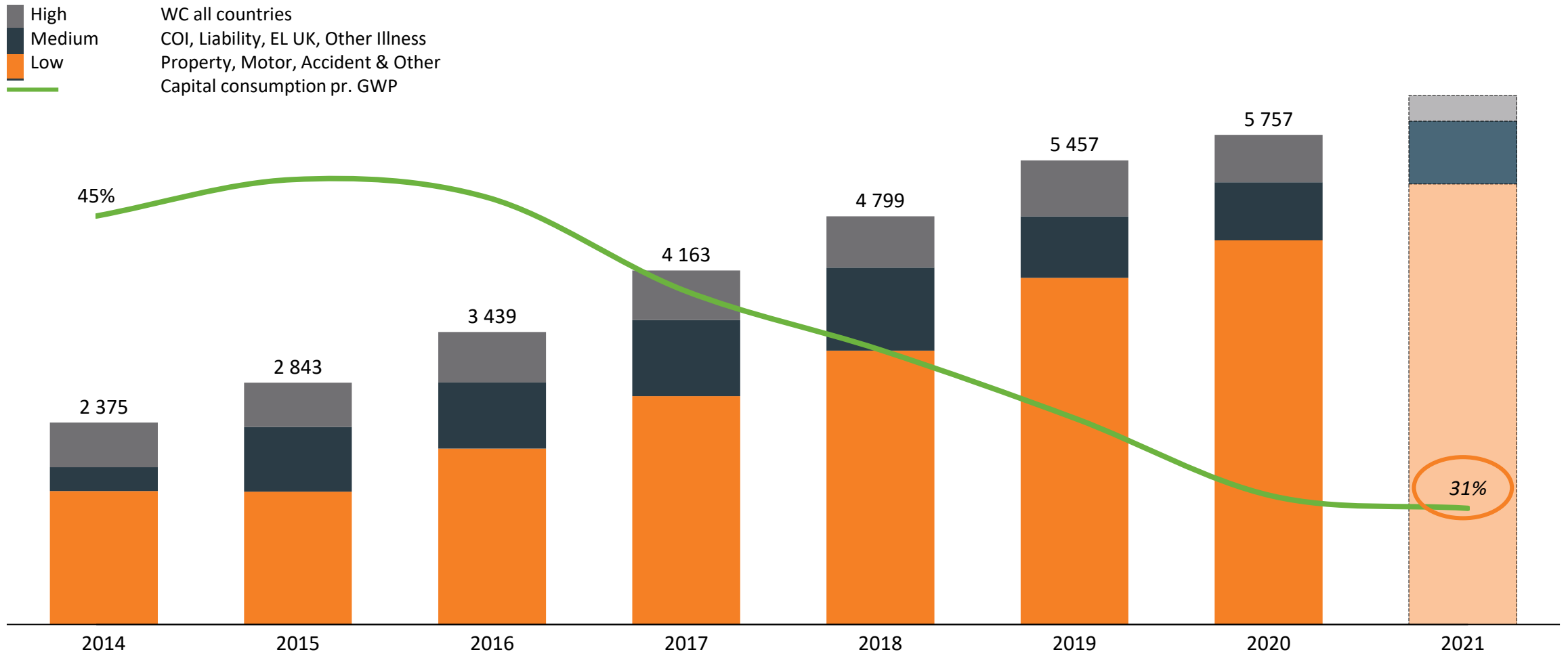
- Short tail from **34%** in 2008 to **80%** in 2021
- Long tail attractiveness decreasing as risk free interest rate decline or disappear.
- Geographical diversification increased; four countries at critical mass
- Motor increasing from 9% in 2008 to 35% in 2021
- Avg. capital consumption per GWP in current portfolio at 31%, versus 45% in 2014



<sup>1</sup> Incl. Change of Ownership Insurance (COI)

# Capital consumption going down quickly

Increased ROE and shareholder distribution



\* Incl. Change of Ownership Insurance (COI)

# Nordics – Back on track

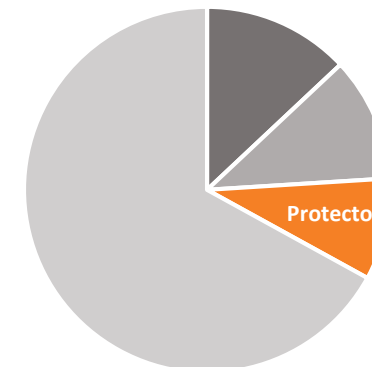
## Profitability improvements continuing

- Profitability entering 2021
  - Cost efficiency measures
  - Quality towards market
  - Price increases in 2021
  - Underwriting discipline
  - Nordic profitability outlook 2021
  - Growth opportunities in the Nordics
- Turn-around completed
- Cost ratio down 1.5%-points in 2022
- Measured monthly through "Broker Instant Feedback".
- 4-5%-points higher than claims inflation
- Further de-risking, but now on a moderate level
- Combined ratio < 90%
- Maintain discipline, low single digit 2021

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insurance








Margin  
Management





# Price increases

Will improve profitability 4-5% in 2021

		2020	2021
	Very low churn on P&C. High churn on Workers Comp.	≈ 14.5%	Slightly less than 2020
	Very large variation on products and segments. Motor much lower. Real estate average +40%.	≈ 13.0%	Less than 2020 in total. Larger variation.
	Very high churn driven by Workers Comp. Deliberate due to capital consumption.	≈ 11.9%	Slightly less than 2020
	Very low churn on all products.	≈ 21.7%	Less than 2020
	Low churn. Majority unprofitable.	≈ 13.7%	8.7% in January Higher going forward.

- Average claims inflation (all products) 3-4 % in the Nordics, higher on Motor and Real Estate

# UK Summary 2016-2020

A disciplined Team Journey has just begun

- £10bn market in scope, £3bn market in focus, many years of growth ahead

- Three segments

- Public UW & cost advantage
- Housing: UW & cost advantage
- Commercial: Careful entry, one team

# 3 today

# 3 today

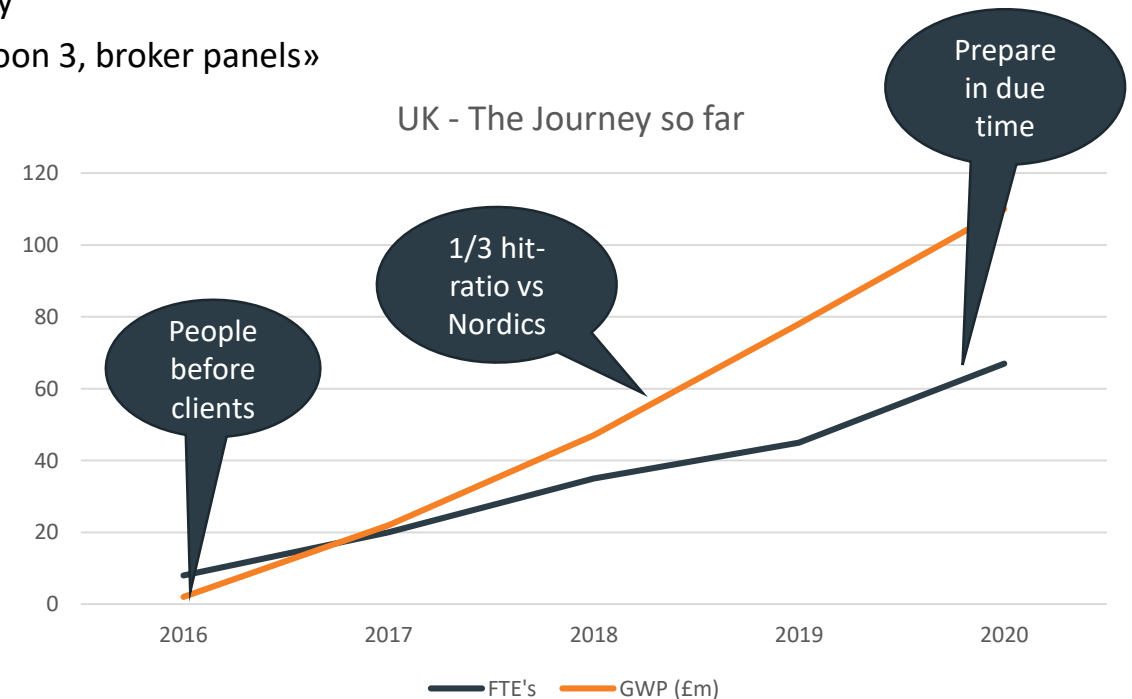
«on 2, soon 3, broker panels»

- Profitable in 2019 and 2020

- Profitable in year 4 and 5 (like in Sweden)
- Some luck on large losses
- Good underlying profitability
- Improved Reinsurance terms

- Culture is key

- Quality leader
- Up-front investment in people for future

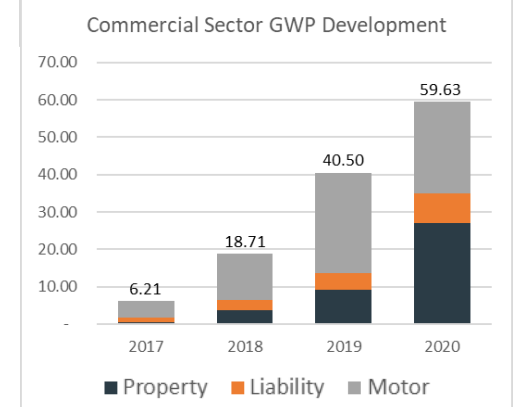
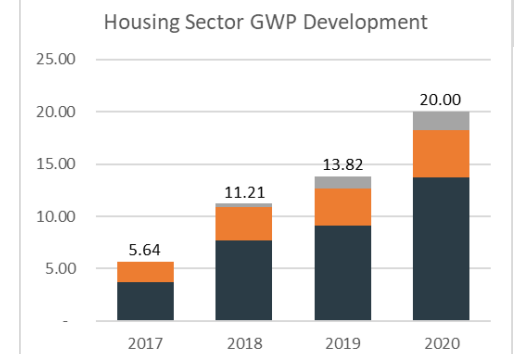
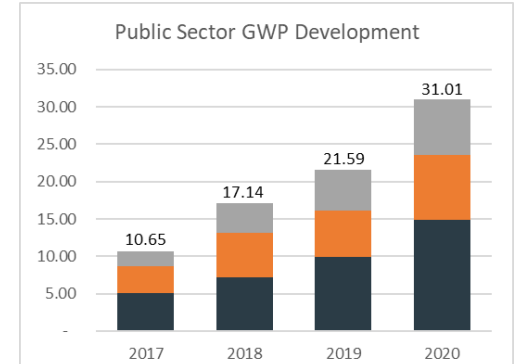
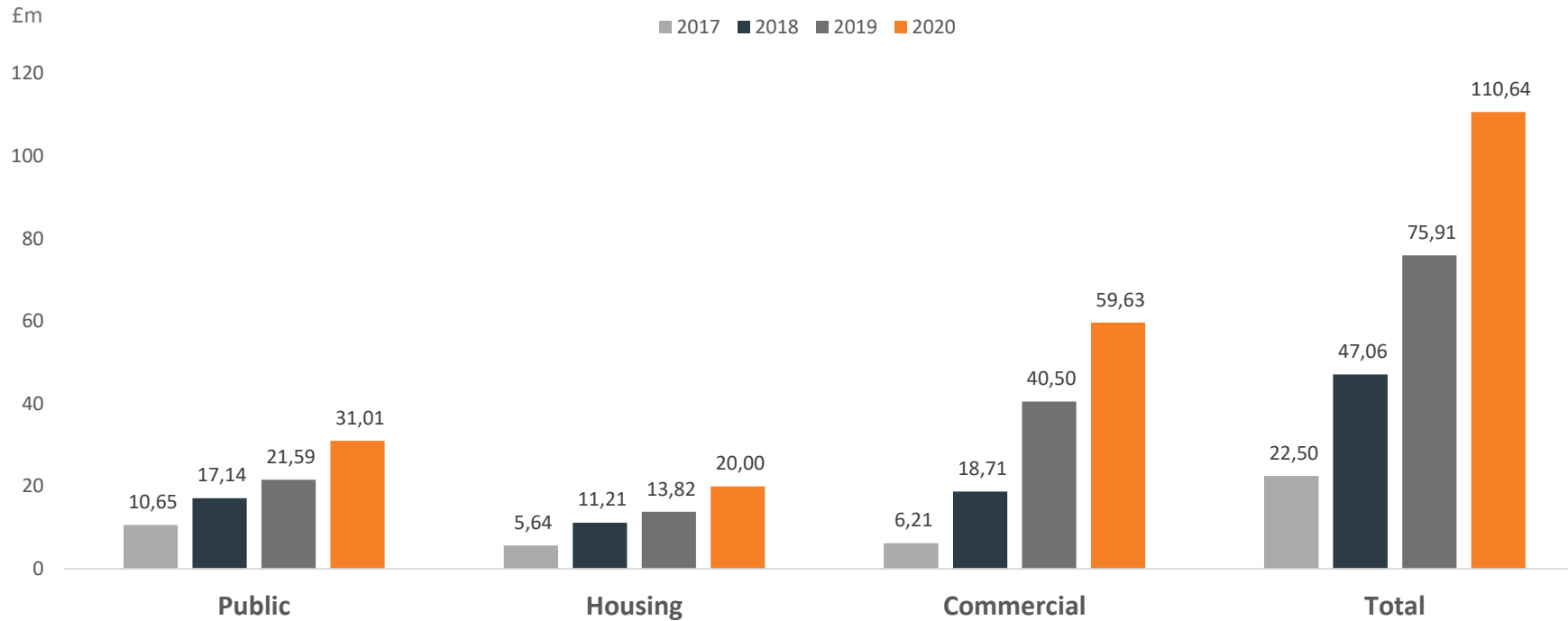




# Disciplined growth in a large market

61% avg. annual growth since 2017 with lots more potential

## UK GWP Growth

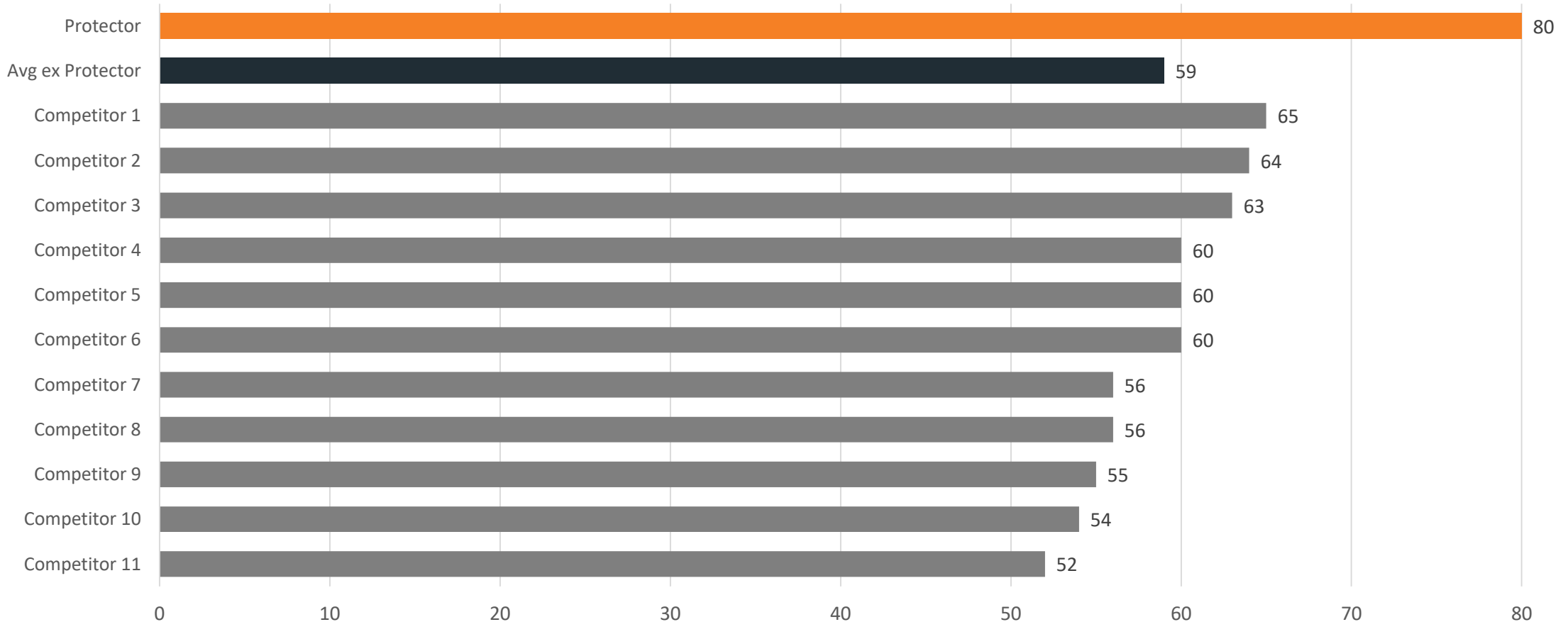


<b>COR:</b>	110%	97%	73%	87%	109%	108%	119%	97%	86%	112%	99%	86%
<b>Market (in focus) Share:</b>	2.9%	3.6%	5.2%	3.7%	4.6%	6.7%	0.9%	2.0%	2.8%	1.6%	2.6%	3.8%

# Broker Satisfaction

Perception is reality, strong results in 2020, never compromise on quality

BSI UK 2020 - Totality



How did it happen?

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” Culture eats strategy for breakfast!

It's our DNA -  
We are  
The Challenger



# The real secret

Know, understand and live our DNA – every day

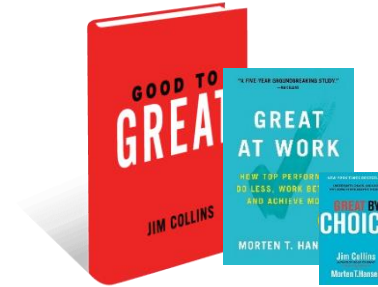


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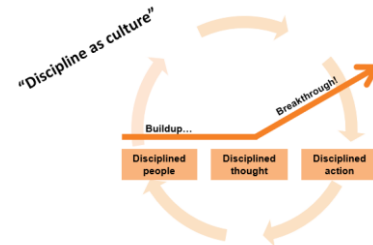
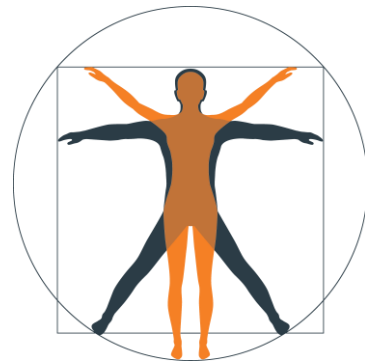
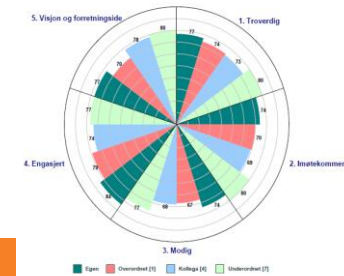
Values

Credible

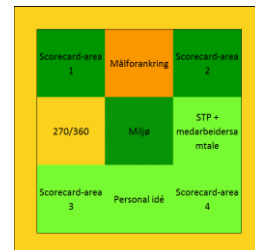
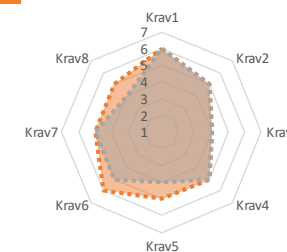
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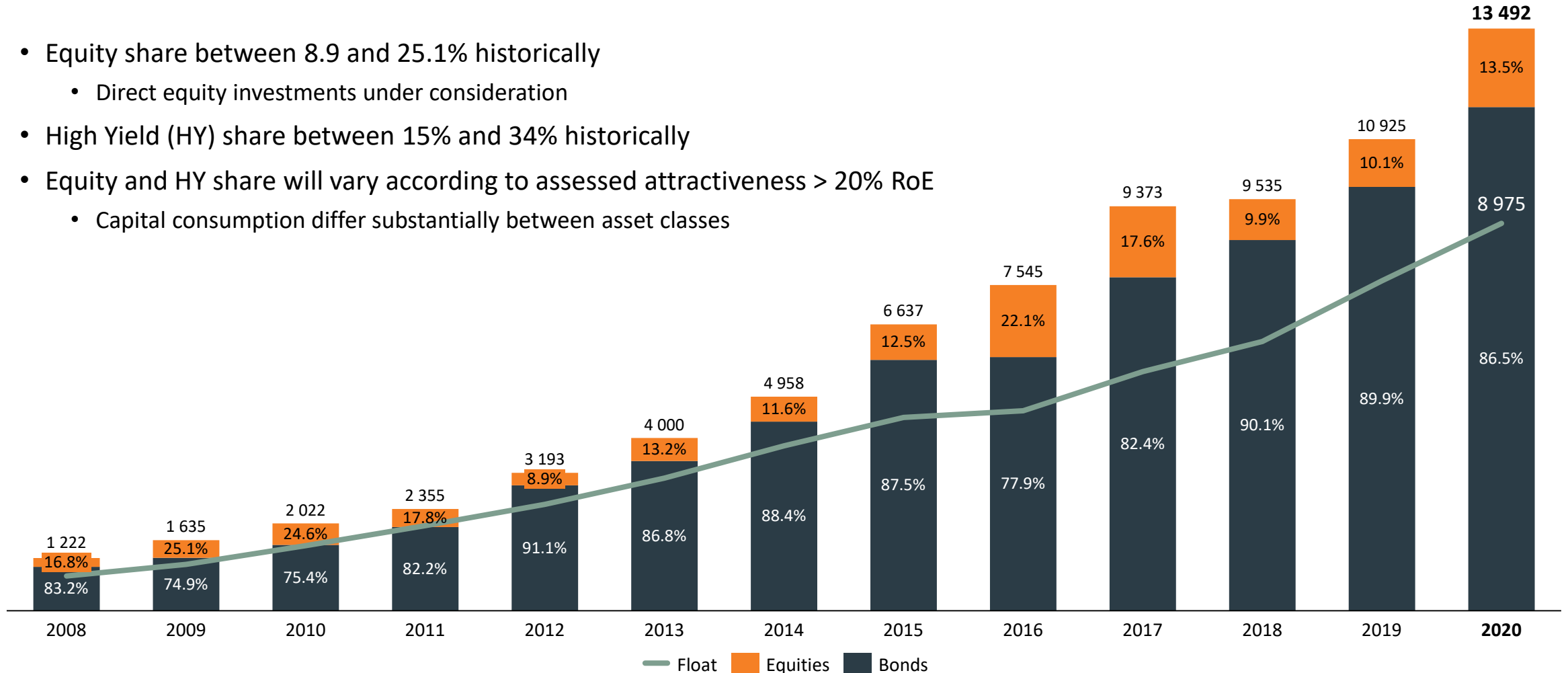
Protector Profile



# Investment is core

CAGR AUM last 5 years of 15.2%

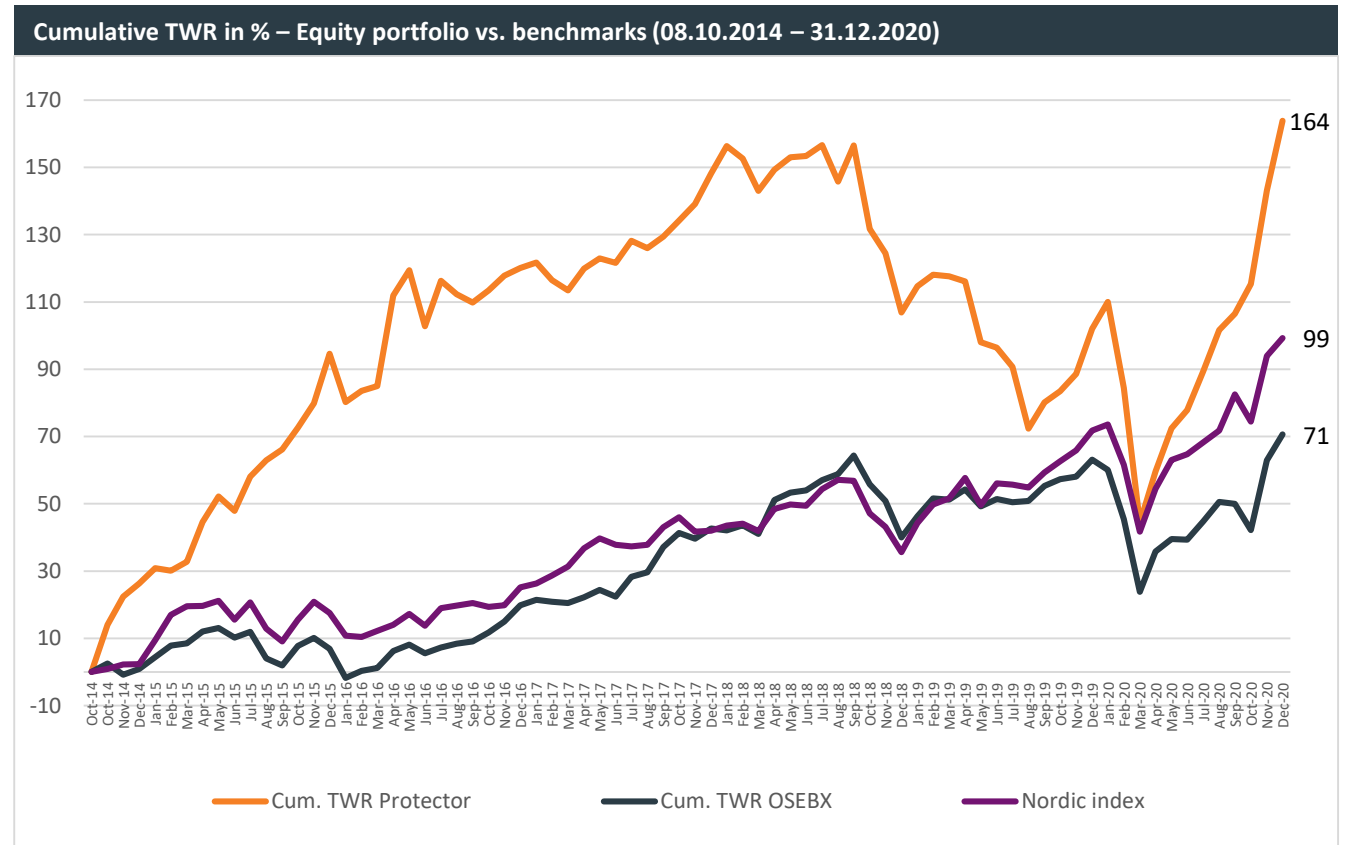
- Equity share between 8.9 and 25.1% historically
  - Direct equity investments under consideration
- High Yield (HY) share between 15% and 34% historically
- Equity and HY share will vary according to assessed attractiveness > 20% RoE
  - Capital consumption differ substantially between asset classes



# Equity portfolio statistics

## Good performance since inception in 2014

- Equity share of total portfolio varies depending on available investment opportunities reaching hurdle
- Discount to estimated intrinsic value 26% at YE20
- Concentrated portfolio where top 5 positions will normally be 30-50% of total
  - No travel-, oil- or oil service companies



# Bond portfolio statistics

Immaterial losses the last 5 years. Higher risk in 2020 and start of 2021

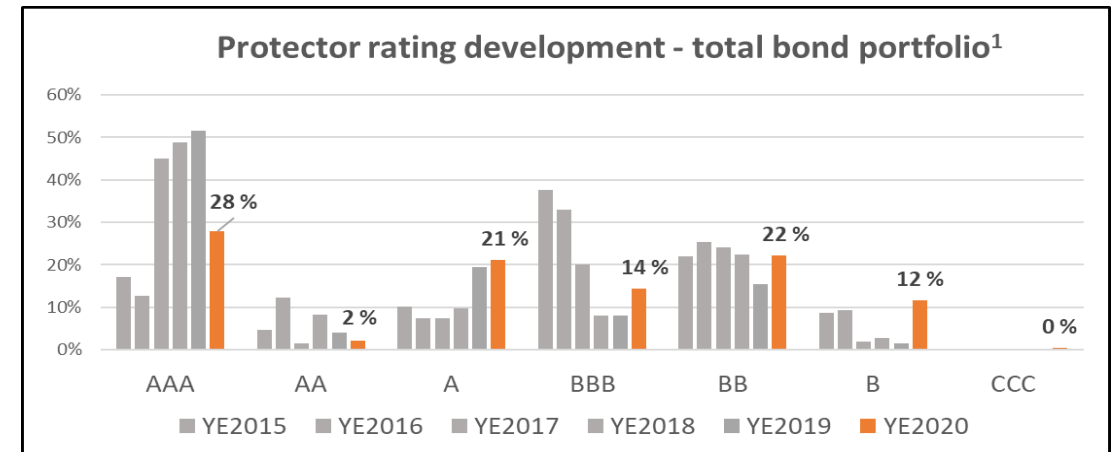
- Low losses, -0.11% or less, every year since insourcing in 2015
  - Higher risk in 2020 than avg. last 5 years with losses of -12m or -0.11%
    - A year with higher volatility and higher losses for the general market
- “Normalized” annual loss expectation through cycle, -0.2% to -0.5%
  - Expect losses to be “chunky” with low losses in most years
  - Actual losses of course dependent on risk taking
- Avg. A- rated portfolio and risk up compared to pre-Covid
  - High-yield portfolio of NOK 4bn
- Running yield at 2.3%, before cost of risk
- Strong returns historically and relative to capital consumption
  - Avg. annual return for high yield portfolio Q115-Q420 at 7.5%

Portfolio data	31.12.20	30.09.20	31.12.19
Size bond & cash eq. (MNOK) <sup>1</sup>	11 603	11 788	9 757
Avg. ref. rate (NIBOR, STIBOR, etc.)	0.2%	0.1%	1.2%
Avg. spread/risk premium (bps)	210	205	89
Yield	2.3%	2.1%	2.1%
Duration	0.4	0.3	0.4
Credit duration <sup>2</sup>	1.4	1.6	2.0
Avg. rating <sup>3</sup>	A-	A	A+

<sup>1</sup> Size excludes forward foreign currency contracts

<sup>2</sup> Avg. includes bank deposits

<sup>3</sup> Avg. based on official rating (>60%) and ‘Protector rating’ (<40%) & is based on linear rating (as usual). WARF methodology would give a somewhat lower IG-rating

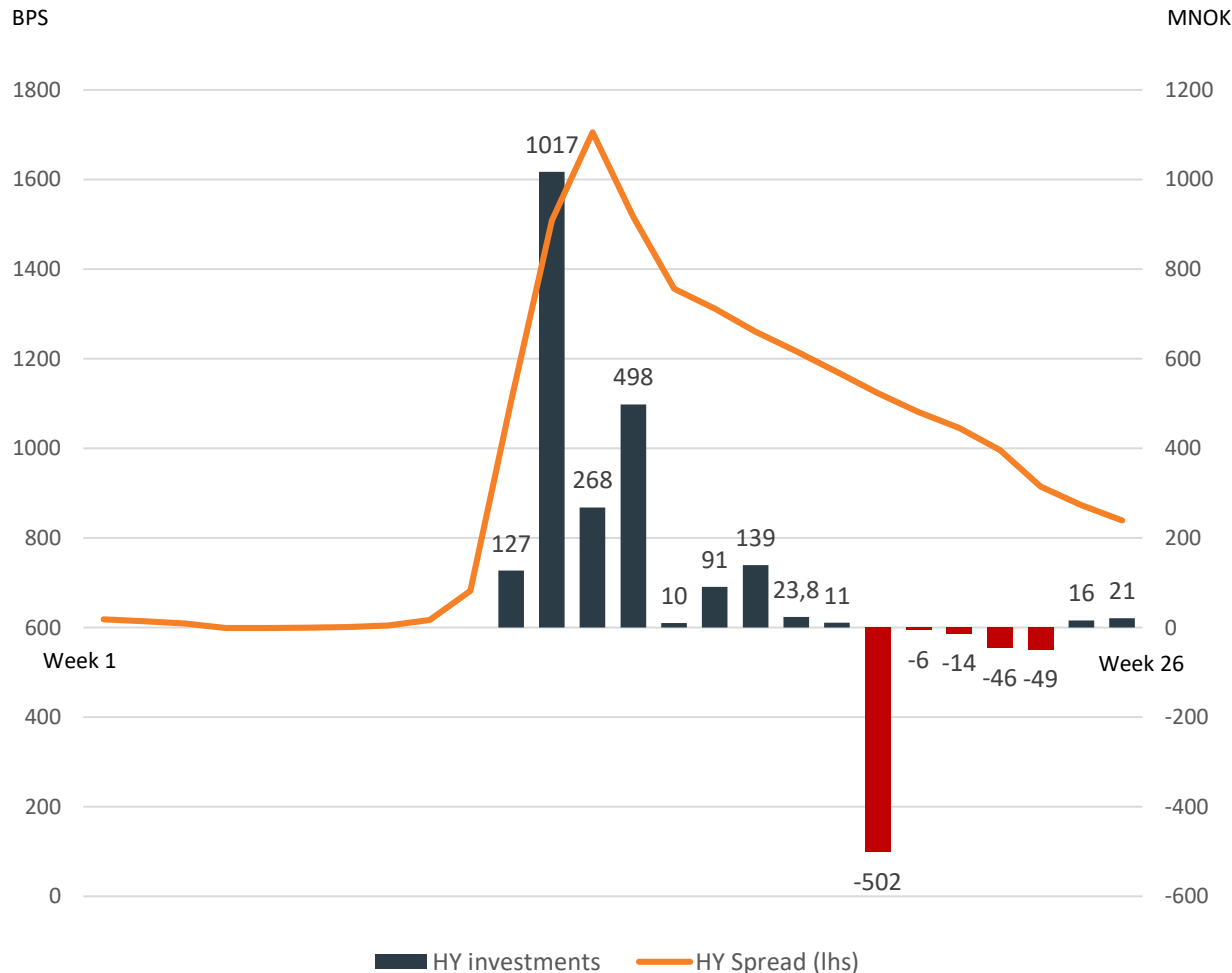


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# HY bond transactions January to June 2020

Protector will invest aggressively in rare situations when our assessment is outstanding risk/reward



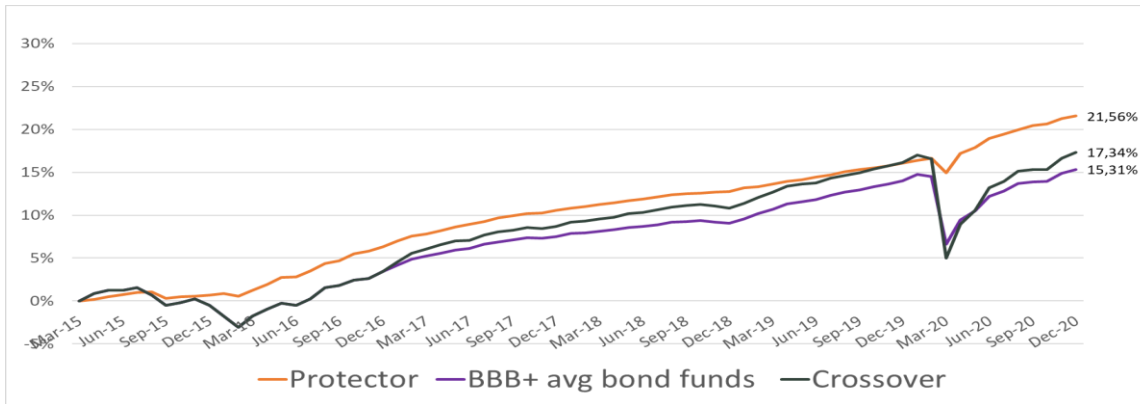
- Severe stress tests avoids forced selling
- No “customer” will withdraw money
- We hedge all currency and have no risk of forced selling if banks demand more collateral.
- We typically have some excess capital to deploy when opportunity arise
- Flexible investment model. In March we bought High Yield. In the next crises it could be equities, buy-backs or something else
- Close cooperation with CEO, CFO and CRO ensures adequate risk evaluation
- All company capital allocation alternatives evaluated at all times

Spread line is Spb1 Markets’ ‘Norsk Xover Replika’

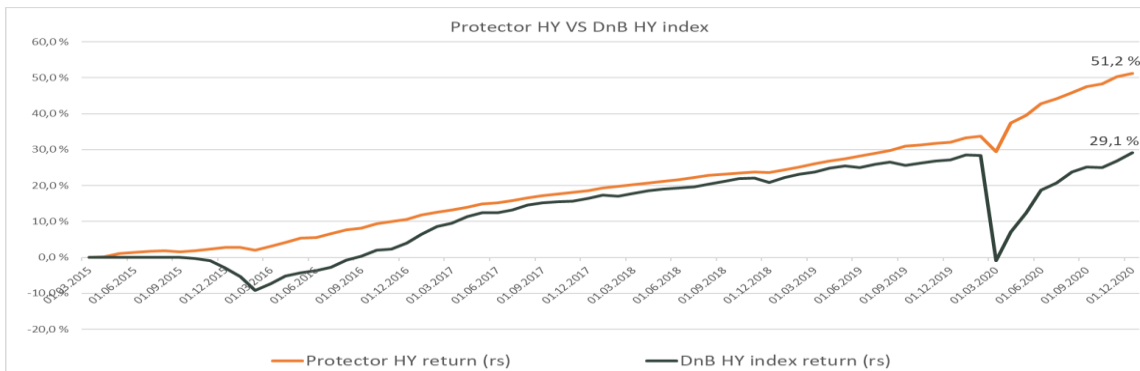
# Bond portfolio – return and capital consumption

Focus on return on capital consumed

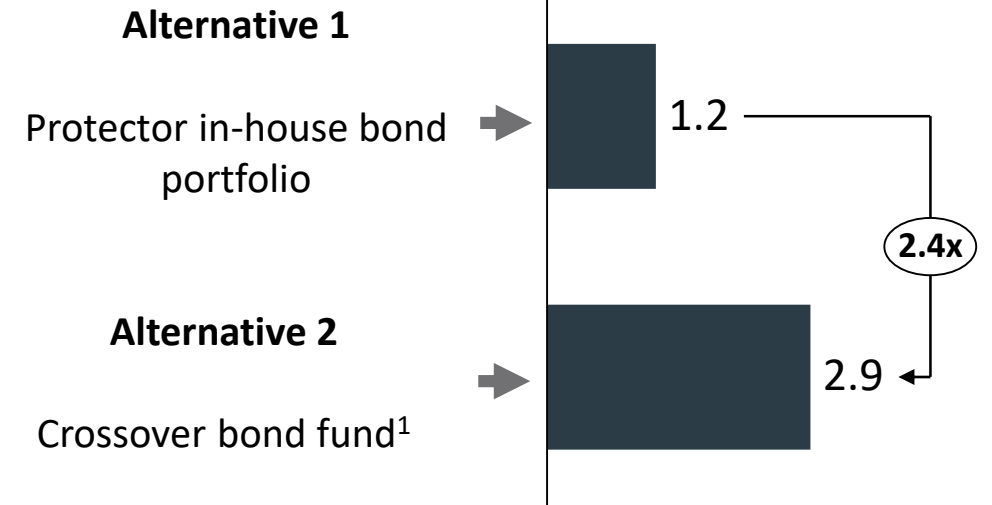
Protector return ex investments in HY bond funds from March '15



Protector HY return ex investments in HY bond funds from March '15



Capital consumption NOK bn<sup>2</sup>



**HTD outperformance at lower risk and capital consumption**

<sup>1</sup> Carnegie Corporate bond fund used as proxy for crossover bond funds

<sup>2</sup> Capital consumption before any diversification effects = after tax loss in stress + capital consumption under SII

# New long-term financial objectives – 3Y perspective

Profitable growth with a Combined Ratio 90-92%

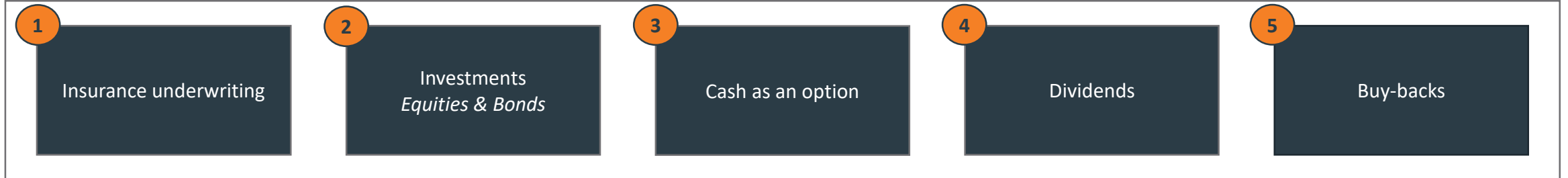
Long-term financial objectives	Old	New	Guiding 2021
Net Combined Ratio:	94 %	90-92%	90-92%
Return on Equity (ROE):	> 20 %	> 20%	
Gross Written Premium (GWP) growth:	5 %	Disciplined	10%
Solvency II Capital Ratio (SCR):	> 150 %	> 150%	



# Capital allocation – maximize shareholder return

Priority 1: Always profitable growth in insurance, if possible

Main capital allocation alternatives:

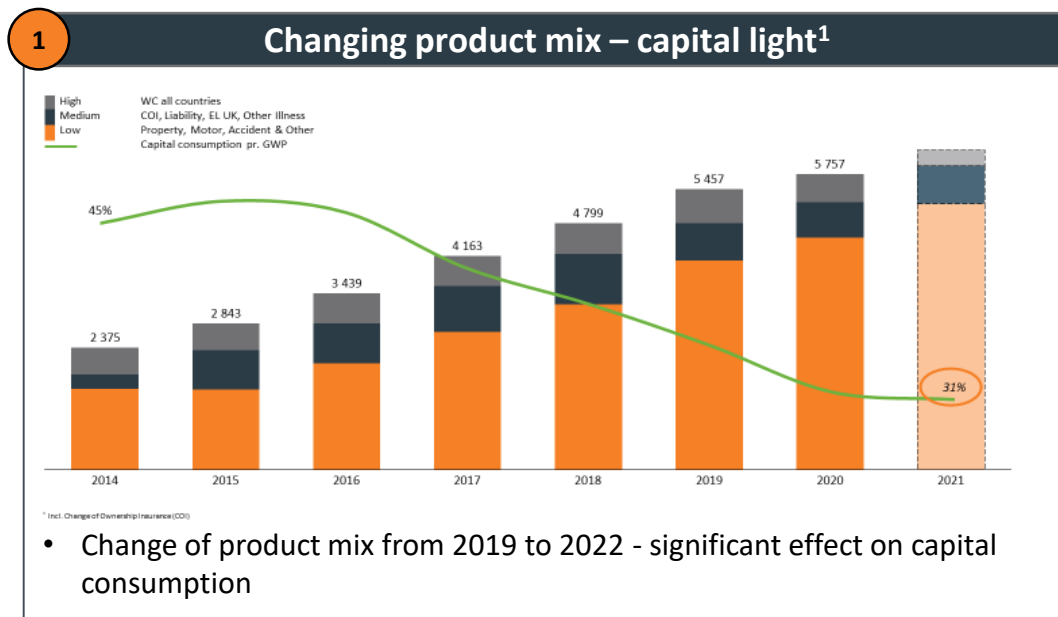


- 1 Allocation towards profitable growth is preferred; stay disciplined
- 2 Challenging to allocate capital in times of low credit spreads and all-time-high stock markets
- 3 How much capital should be kept for future financial market crises?
- 4 Capital base discipline; flexible distribution of excess capital if allocation cannot be made elsewhere
- 5 An attractive alternative if meeting hurdle; will normally have to bid with significant premium

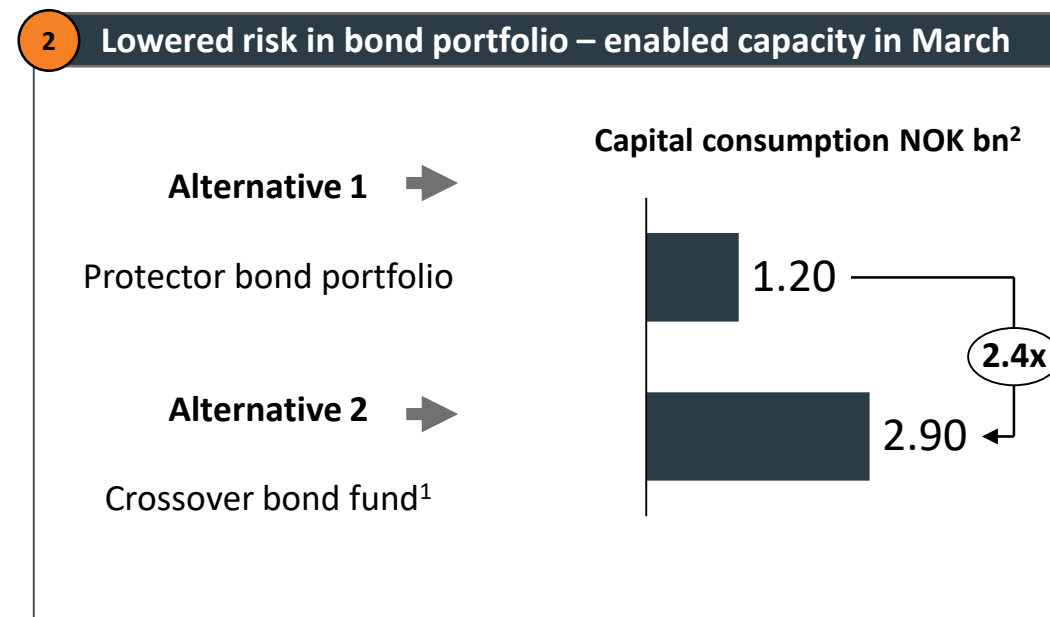
Capital allocation approach	<ul style="list-style-type: none"><li>• Determine minimum hurdle rate (RoE&gt;20%)</li><li>• Calculate returns for all internal and external allocation alternatives available, by return and risk</li><li>• Deploy capital in the most attractive alternatives above hurdle.</li><li>• Release underperforming capital (COI, Price increases, WC Denmark and Norway as example)</li></ul>
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# Capital allocation alternatives – what have we done?

## Maximizing shareholder return



Differing values from P&Ls due to exchange rates applied



Differing values from P&Ls due to exchange rates applied

### 3 Dividends

- Dividends of 14.45 per share paid out pre 2020

Dividends	2009	2010	2012	2013	2014	2015	2016	2017	2020
Per share	1.25	1.50	1.20	1.75	2.00	2.25	2.25	2.25	3.00

### 4 Buy backs

- Historical buy backs – in all 26.2m shares

Buy backs	2007	2008	2009	2010	2018
# shares	2 718 645	14 762 900	3 348 920	955 782	4 404 622
Average price	10.91	7.22	6.00	9.67	57.50

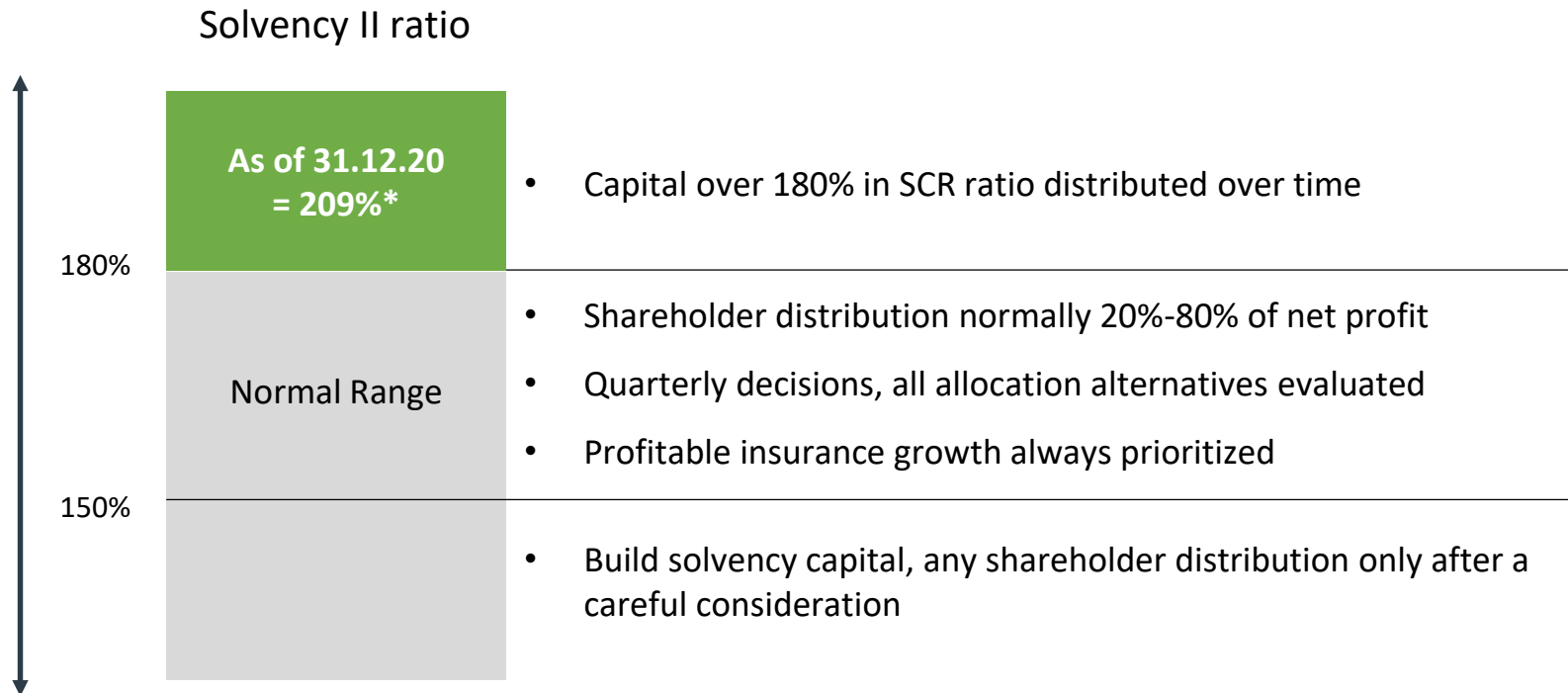
## Other capital allocation initiatives

### Optimize sources and cost of capital

- T1 and T2 issuances
- Buying additional Large Loss Reinsurance with "0 risk" for capital reasons
- Solvency based Reinsurance, incl. retroactive option in financial turmoil
- Sale of COI reserves
- Sale of WC reserves
- Put options / investment hedging

# New dividend policy in Protector decided March 4<sup>th</sup>

Flexible Shareholder distribution policy – profitable growth in insurance always priority nr 1





# Value creation in the long run

We have only just begun

- Cost leader in the world – not good enough
- Quality leader in Scandinavia & UK
- Average CR last 10 years at 91.6 %
- Price increases still higher than claims inflation entering 2021, churn back to normal in Nordics
- Growing organically from 0 to > 5.5 BNOK in premiums; building a significant float
- UW discipline and Claims Handling are moments of truth
- Investment is core and delivers better than benchmark
- It's also a story of capital consumption and risk
  
- HTD ROE at 19%
- HTD CAGR share price at 27%

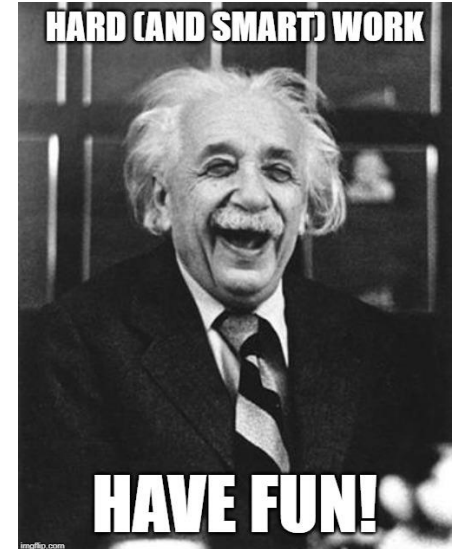


# Succession: McKinsey on “Last 100 days of an CEO”

**We started succession many years ago**

- Fight the intuitive feeling of “a need to step back” to leave the floor to next CEO
- Continue acting as a CEO and leave the company stronger
- Do not postpone strategy development
- Act on prioritized improvement possibilities (cost cutting, new business, etc.)
- **Involve management and board in a transparent structured transfer of roles and responsibilities**
- Update new CEO on organization and people
- Make your (Sverre, Henrik, Hans and management) priority action plan for the last 100 days
- Have fun (added by Sverre)

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# Succession is about 'The Team'

Involve management in a transparent structured transfer of roles and responsibilities

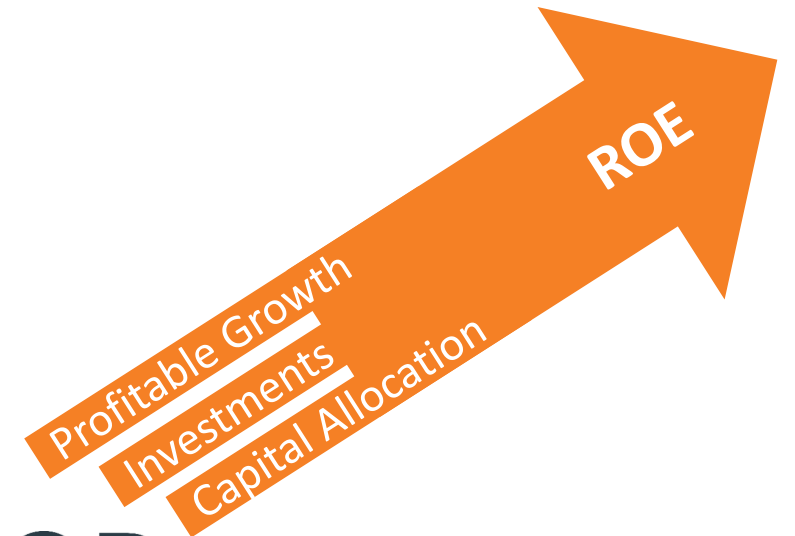


Henrik Høye CEO in September, Hans Didring nr. 2 – One Team approach is what matters

Summary of today – we have only just begun

HTD ROE is 19% - new target is Combined ratio 90-92% and ROE 20%

- Thank you for listening
- HTD CAGR share price at 27% - what's your call ?





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