



INSURANCE IN LITHUANIA ANNUAL REPORT

2010

INSURANCE SUPERVISORY COMMISSION OF THE REPUBLIC OF LITHUANIA



Mission

To carry out state supervision of the insurance market, to ensure reliability and stability of the insurance market and consumer protection as well as to actively participate in the formation and implementation of state insurance and insurance supervision policy in a professional manner.



Vision

A state institution whose experienced and highly-qualified personnel forms and carries out clear, transparent and consistent supervision and legal regulation of the insurance market in compliance with the best practice in insurance supervision as well as the most advanced international standards and cooperation values.



ABBREVIATIONS

VAU	Value of accounting unit
GDP	Gross domestic product
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors
EBA	European Banking Authority
ECB	European Central Bank
EU	European Union
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
ESAs	European Supervisory Authorities
ESFS	European System of Financial Supervision
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EURIBOR	Euro Inter-bank Offered Rate
Eurostat	Statistical Office of the European Union
Unit-linked life insurance	Life insurance linked to investment funds
Casco insurance	Motor vehicles insurance
UCITS	Undertakings for Collective Investments in Transferable Securities
QIS	Quantitative impact study for “Solvency II” requirements
PF	Pension funds
PAC	Pension accumulation company
DS	Debt securities
MTPL insurance	Motor Third Party Liability Insurance
Traditional insurance	Other than unit-linked life insurance
VILIBOR	Vilnius Inter-Bank Offered Rate, average interbank interest rate for which banks are willing (ready) to lend funds in litas to other banks
GDS	Government debt securities

This publication was submitted for printing on 16 August 2011.

The relevant data as of 1 July 2010 are used in the market overview 2010. Unless stated otherwise, these data comprise the operating results of both insurance undertakings registered in Lithuania and branches of insurance undertakings of other EU Member States established in Lithuania.

Data of insurance undertakings registered in Lithuania at the end of 2010 provided here are compared with the data of the same undertakings from the previous year, i.e. by excluding the undertakings which no longer operated at the end of 2010. For this reason and due to statistical adjustments the comparative data of 2009 and of the previous periods may deviate from those published in the market overview 2009.

Unless stated otherwise, the overview employs data and calculations of the Insurance Supervisory Commission of the Republic of Lithuania.

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Insurance Supervisory Commission (left to right): Deputy Chairman of the Commission Ramūnas Baravykas, Member of the Commission Darius Andriukaitis, Member of the Commission Irmina Judickaitė, Member of the Commission Laurynas Mindaugas Stankevičius and Chairman of the Commission Mindaugas Šalčius.

I hope that 2010 was the last year of the economic downturn in Lithuania. Although slowly, signs of economic recovery are becoming distinct in the country's overall economy, and the insurance business sector is not an exception. Preceded by a tremendous market recession in 2009, last year should be considered a period of market stabilisation. The overall recession of the insurance market stopped and the amount of insurance premiums written in the market was, although symbolically, slightly higher than that in the previous year. On the other hand, for the insurance business this still was a very challenging year: the volume of business remained far below that in the pre-crisis period, the loss ratio of the main types of non-life insurance activity increased and the total market profit was the lowest in the past five years. Thus the real recovery period of the insurance market still lies ahead of us, but I am sure it comes in the nearest future.

Last year the Lithuanian insurance market celebrated its symbolic twentieth anniversary since the first law on insurance was adopted in independent Lithuania, paving the way for the insurance business to come into existence under free market conditions. Did anything change in those twenty years? In my view, changes are numerous, and naming all of them is probably impossible. But as the head of an insurance supervisory authority I would like to stress the most significant result of those two decades of market development - we have a sufficiently stable and reliable insurance market in Lithuania today. Stable and reliable activities of financial institutions and their ability to properly meet assumed commitments is the fundamental principle for the functioning of financial markets. At the time of the country's economic downturn this factor becomes even more significant, therefore I would like to emphasise that under the conditions of an economic crisis not a single insurance undertaking operating in Lithuania faced liquidity problems and they all met their commitments assumed under insurance contracts, although the losses incurred by some sectors of the insurance business (for instance, credit insurance) were tremendous. On the contrary, on frequent occasions an insurance service contributed to facilitating the burden of economic downturn for others.

Shortly from now we all (the insurance business and the insurance supervisory authority) will be going through complicated and conceptual changes relating to the implementation of the Solvency II system and to the reform of the Lithuanian financial market supervision system. This means that although the wave of the economic downturn is retreating, the coming year will inevitably bring many new challenges. I am convinced that with the help of industrious and creative people who work in the insurance business and at the insurance supervisory authority the short-term challenges will be resolved fluently. I would also like to take the opportunity to thank the ISC team for their excellent job and to wish success to the insurance business in putting new operational standards for insurance undertakings into practice and in seeking their goals.

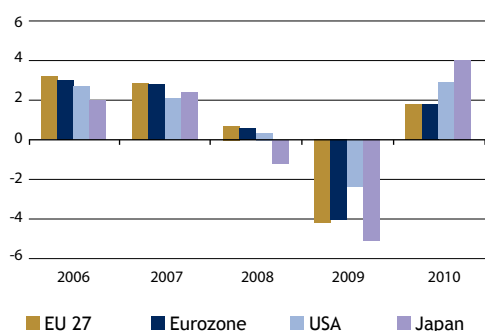
Mindaugas Šalčius
Chairman of the Insurance
Supervisory Commission



Overview of the Insurance Market in 2010 and Its Development Prospects

Overview of Main Global and National Macroeconomic Indicators in 2010

Figure 1. Dynamics of Changes in Global GDP, %



Source: International Monetary Fund

Figure 2. Dynamics of Brent Oil Price in 2010, USD



After a 0.5% drop in 2009, in 2010 the global economy grew by 5.1%. GDP growth was more moderate in developed states (3%) and rapid in emerging and developing economies as they were less affected by the crisis (7.4%). The GDP of Japan rose by 4%, USA 2.9%, China 10.3%, Russia 4%, the average of the EU and the euro area was 1.8% and that of Central and Eastern European countries stood at 4.5%.

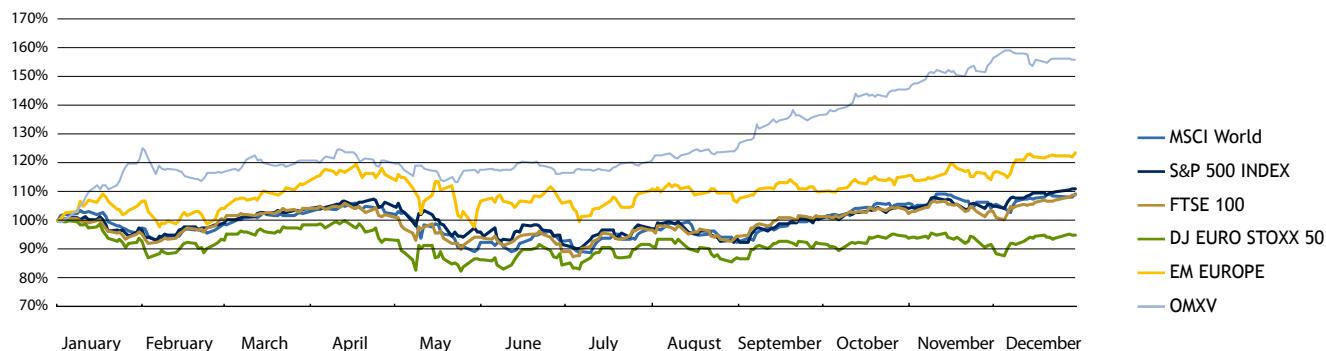
Economy growth was stimulated by consumption, which, despite its drop at the time of crisis, started heading upwards, and from the intensifying international trade. In Europe GDP growth was more moderate due to the fiscal problems in individual peripheral countries within the euro area. After becoming the major subject of concern in the markets, the issue of sustainability of public finances started to be addressed at EU level (see Box 1).

Prices of oil and other raw materials rose in response to global demand, which increased along with the grown economy, and to the fluctuations in the supply of individual goods. At the end of 2010, the price of Brent crude oil surpassed 90 USD per barrel. Wheat price grew by more than 70%. Uncertainty on financial markets persisting, the price for gold, which is traditionally considered a safe investment, went up by nearly 30%.

Rising prices of oil, other raw materials and food products produced the greatest effect on the increase in inflation. The change in the Consumer Price Index stood at 1.6% in developed economies and at 6.1% in the developing ones.

Affected by the positive macroeconomic indicators, good actual and projected business results of undertakings and expectations regarding the persisting low interest rates and despite concerns about the sustainabi-

Figure 3. Dynamics of Global Stock Market Index in 2010, %

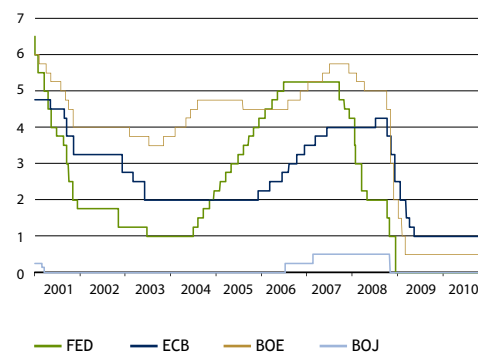


lity of the recovery of the economy, in 2010, the indices of global stock markets were rising, the yield spreads of corporate debt securities were decreasing whereas the lending terms of banks in the major developed economies were becoming less restrictive. And yet, the activity of real estate markets and the indicators of household earnings were still poor.

Greater instability in the peripheral states of the euro area was raising concern also in terms of the potential negative feedback between the sectors of public finances and banking, which lead to increased yield spreads of securities of individual states and banks, but the turbulences did not spread beyond those states.

In 2010, the world's major central banks did not raise the interest rates, which had been reduced during the crisis, to facilitate recovery of the economy. The interest rate of the main refinancing operations of the European Central Bank (ECB) was 1%, the interest rate of the US Federal Reserve System (FED) 0.25%, that of the Bank of England (BOE) 0.5% whereas the Bank of Japan (BOJ) further reduced its basic interest rates down to 0% - 0.1%.

Figure 4. Base Interest Rates of Central Banks, percentage points



Box 1. The European Stability Mechanism

The budget deficit and debt of individual states, which increased during the economic downturn caused by the financial crisis from 2007 (actions taken to save the financial sector and to promote the economy decreased the tax earnings and lifted public borrowing) raised doubts about the possibilities of individual states to meet their obligations. Back at the end of 2008, rating agencies started bringing down the credit ratings for some states within the euro area. In 2010, tension in the securities markets of states continued growing. In May 2010, Member States of the euro area together with the International Monetary Fund agreed to grant Greece a loan valued at EUR 110 billion. The European Central Bank approved the Securities Markets Programme, which allows for making interventions in debt securities markets of the public and the private sector within the euro area to ensure liquidity in the non-functioning segments of the market. By the end of 2010, the securities of the euro area states bought under this programme totalled EUR 73.5 billion. The Economic and Finance Affairs Council (ECOFIN) decided to set up the European Financial Stabilisation Mechanism (EFSM), which can grant around EUR 60 billion in loans. Furthermore, the euro area states agreed on the establishment of the European Financial Stability Facility (EFSF), which enables participating Member States to finance another EUR 440 billion in loans. These facilities were used to grant a EUR 85 billion loan to Ireland. In December 2010, the European Council decided to set up the European Stability Mechanism (ESM), which will start operating in 2013, when EFSM and EFSF come to an end, and will serve as an additional measure to reduce the probability of crises in the future. The operating mechanism of ESM can also involve private creditors. Despite creation of international financial assistance mechanisms and the fiscal consolidation commitments assumed by the states, tension regarding the public finances of many states remained in 2011.

Meanwhile, lead by the expectations that in the nearest future ECB will start raising the official interest rates and with intensified concerns whether peripheral states within the euro area will meet their obligations, the money markets interest rates in Europe started rising in the second half of 2010. Over the year, the three-month interbank interest rate EURIBOR increased by 30 base points.

In 2010, Lithuanian economy started recovering as well: the real GDP increased by 1.3%. Added value recorded the highest growth in the sectors of industry and energy (5.6%) as well as trade, transport and communications services (3.1%) whereas construction saw the greatest decrease

Figure 5. Dynamics of Changes in Real GDP, %

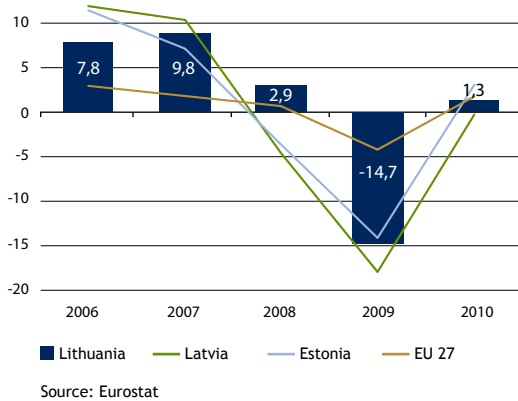


Figure 6. Inflation, %

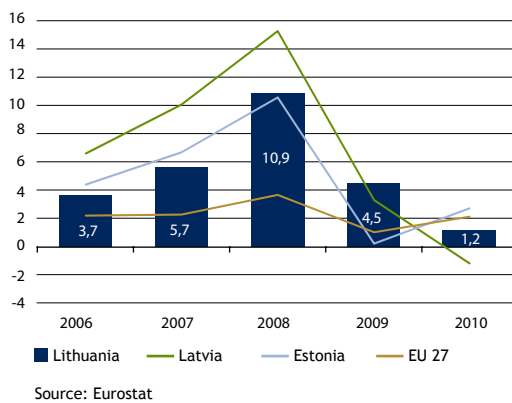
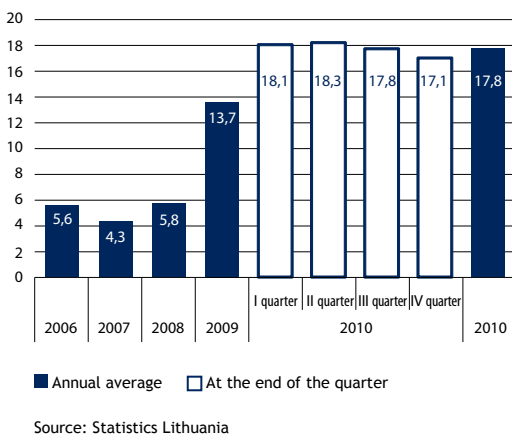


Figure 7. Unemployment Rate in Lithuania, %



in activity (7.2%): construction of both residential and non-residential buildings dropped for the second year in a row.¹ Development of the manufacturing industry and transport sectors was mostly affected by the increasing external demand and the recovering international trade. Export of goods and services saw a 16.3% growth. Meanwhile, uncertainty about the future and an unfavourable situation on the labour market prevented internal consumption and investment from increasing in 2010. The turnover of undertakings oriented towards internal demand only but stabilised and started recovering gradually. And yet, the profitability rates of all economy sectors improved last year. Public sector debt rose by 9.2% over one year, totalling LTL 36.6 billion, i.e. 38.7% of GDP.² In 2010, public debt grew in many EU Member States.

Average annual inflation calculated according to the harmonised consumer price index stood at 1.2% in 2010 and was lower than in 2009, but higher than that of the EU. Key inflation factors included increased prices for food products, fuel and administered prices, which recorded the highest weight in the consumer price index.

In Lithuania, like in many other countries, economy growth was impeded by high unemployment rate. In 2010, the country's unemployment rate was 17.8%, i.e. surpassing the one in 2009 by 4.1 percentage points. In comparison, the unemployment rate in 2010 stood at 11.9% in the EU, 16.9% in Estonia, and 18.7% in Latvia.³ The income indicators of households did not turn to the better: based on the evaluation of Statistics Lithuania, the average monthly wage before tax in 2010 dropped by 3.2% down to LTL 1,990.

In 2010, the portfolio of loans granted by commercial banks continued to shrink regularly, but not as much as in the previous year, by a total of 4.9%: the loan portfolio of non-financial undertakings was decreasing at a slower and that of households at a faster pace. The quality of the loan portfolio stabilised. The financial situation of business entities slightly improved last year, but owing to the still high unemployment rate, increasing risk of inflation and non-growing wages the insolvency risk of households stayed increased. According to the figures of the Bank of Lithuania, the lending conditions of commercial banks remained tight.

From the onset of the real estate crisis in 2008 until the beginning of 2010, real estate prices in Lithuania dropped by around 40%. Over 2010, they declined by another 10%. Due to low real estate prices and better expectations of market participants the real estate market started stabilising following a three-year downturn: 2010 no longer saw a decrease in the number of housing purchase and sales transactions whereas slightly positive price changes were already recorded at the beginning of 2011.⁴

Growth of interbank interest rates in euros in the second half of 2010 did not raise the interest rates in litas. Over one year, three-month interbank interest rates in litas, VILIBOR, shrank by 22 base points. Interest

¹ Source: Statistics Lithuania.

² Source: Ministry of Finance of the Republic of Lithuania.

³ Sources: Eurostat, the Estonian Statistics Authority, the Latvian Central Statistics Bureau.

⁴ Sources: Centre of Registers, Ober-Haus.

rates in litas fell behind EURIBOR due to higher liquidity in the Lithuanian banking system and Lithuania's increased borrowing on international financial markets. The reduced gap between VILIBOR and EURIBOR led to the assumption that actors of financial markets placed more reliance on the litas and on the Lithuanian financial system.

The assets of the Lithuanian financial system shrank by another 3.1% in the course of 2010. The decisive factor, like previously, was the assets of banks and leasing companies brought down by losses incurred during the economic downturn. The share of assets of insurance undertakings in the general financial system decreased from 3.3% to 2.8% over 2010. The reason for this was the reduced number of insurance undertakings when one of the undertakings changed its form of activity from an undertaking registered in the Republic of Lithuania into a Lithuania-based branch of the insurance undertaking of another EU Member State (hereinafter referred to as branch of an EU insurance undertaking). With increased value created in the country's economy, the assets managed by the financial system decreased slightly in 2010 relative to GDP and accounted for 104.4%. Respectively, the assets of insurers relative to GDP stood at 2.9%. (3.7% in 2009).

Meanwhile, capitalisation of the securities market saw a 26.2% growth, accounting for 19.9% of GDP. The Stock Exchange OMXV index grew by 56.5% over 2010. These indicators can be explained by the improving business results of undertakings and optimistic expectations of investors in respect of the prospects of the Lithuanian economy.

In consideration of the fact that Lithuania was already recovering from the abrupt economic downturn and that it was one of the several EU states which had no need for assistance to the banking sector in the form of additional financial instruments, in the spring of 2010 Standard & Poor's, Moody's and Fitch Ratings upgraded the outlook of Lithuanian borrowing ratings and changed it from negative to stable. Lower risk indicators not only enable cheaper financing of meeting the obligations of the state, but also facilitate the loan burden for business entities and households.

Figure 8. 3-month VILIBOR and EURIBOR Average Interest and Dynamics of Their Difference in 2010

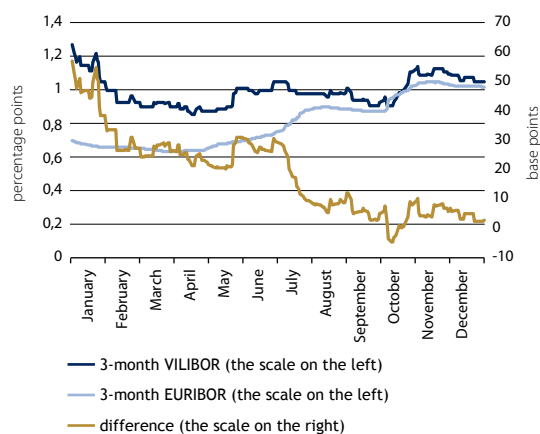
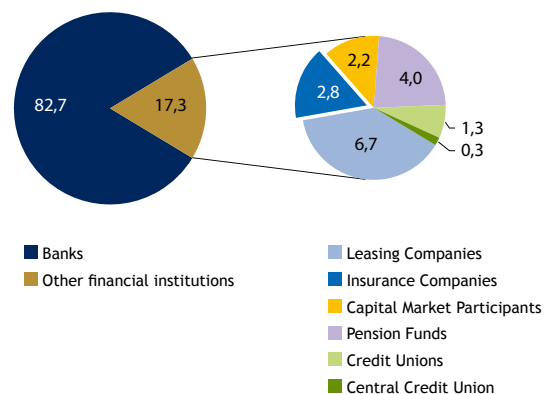


Figure 9. Asset Share in the Lithuanian Financial System, %



Source: Bank of Lithuania

To summarise the previous year, 2010, I would like to note that after a dramatic decline of the market the situation has now stabilised. The most challenging part of the economic crisis is already in the past, but the insurance sector still faced a variety of challenges in 2010. Weak economy restricted the growth opportunities, hence retention of capital and market share became priority goals for many undertakings. The credit insurance market found itself in the most tricky situation, and yet other classes of insurance faced the negative effects of raging natural disasters and other events.

Given this situation, insurers continued keeping a watchful eye on the market and its needs and were searching for internal reserves to gain competitive advantage in the variable and challenging environment. Apart from all that, insurers also face essential changes to capital requirements, accounting standards and regulatory regime, which will have a greater impact on their business in the coming periods, although huge contributions to proper preparation for these changes are demanded already now.

While the insurance market is recovering, an apparent strive of the market towards improvement is noticeable. The term “new normal” is not new, but has been used in the field of finance with particular frequency after the turmoil in the markets and the economic downturn. This is understandable - while the economy recovers, not everything will return on the usual track and there will be changes, first of all in terms of risk assessment. To a large extent, these will be brought about by the new requirements of Solvency II.

The previous system for assessing the solvency of insurance undertakings, in principle, looked exclusively at insured risk. However, as the insurance market developed, there were no large incentives for insurers to manage risks adequately, i.e. to invest into development and implementation of risk management systems. This situation faced substantial changes over the period of downturn.

To ensure that cash flows are balanced and risk is assumed for an adequate price, the need for insured risk management systems progressed from the “good to have” to the “must have” phase. With recovery of the market this need will not vanish whereas the range of new solvency requirements continues to expand as one needs to assess not only insured risk, but also market, credit, liquidity, operational and other types of risks.

This is where new challenges for insurers step into action - getting to know a broader range of risks and being able to manage them. Furthermore, each risk will require a higher share of capital on the balance sheet of insurance undertakings while increased capital requirements may reduce profitability in the sector. Thus executives of insurance undertakings will face a challenging task of retaining profitability with growing needs for capital. On the other hand, management teams of insurance undertakings will have to take action to prevent the need for capital from growing. This will stimulate efficient internal management of insured risks within an insurance undertaking.

In order to adjust to the new market conditions, many market players declared their reorientation and claimed to have become more efficient

in cutting costs and improving the quality of sales processes. On the other hand, while the market is returning on the growth track, its environment and conditions will become tighter, calling for attempts to improve the loss ratios. In addition, growing inflation will push insurance prices upwards. In setting risk-covering prices for insurance products, many companies, apart from raising internal reserves (for instance, improving the assumption of risk and claim settlement processes) and more stringent cost control, will probably increase their rates of insured risk and at the same time will be more sensitive to risk selection. They will have no other choice than to adjust to the “new normal”. I believe that insurers who can rapidly respond to change and demonstrate flexibility in adjusting to the new conditions in order to create added value for customers will become market leaders.

Likewise, overseers and regulators of the financial sector seek a new quality. Financial supervision at EU level underwent substantial change after the reformation of the European system of financial supervision. With the view to restoring confidence in the financial system, reinforcing the European system of financial supervision and mitigating the likelihood or financial effects of new crises, already from the beginning of 2011 the new European supervisory authorities were charged with new powers and duties, including micro- and macro-prudential supervision. The successfully coordinated approach of these EU financial supervisory authorities went hand in hand with the differentiated practice of individual countries and the specific experience from individual segments of financial services.

Furthermore, important reforms are pending in terms of the country’s supervision of financial services. As of the beginning of 2012, to ensure integrated and consistent oversight of the financial sector in Lithuania, best practice will be concentrated in a single institution - the Bank of Lithuania. ISC supports the planned transformation and is preparing to face related challenges. I think that the new approach will facilitate efficient, more coordinated and effective supervision and regulation of the financial market in Lithuania.

Naturally, last year a high level of flexibility and patience was required to coordinate resources for representing the Lithuanian position in international organisations which develop new standards on the supervision of the insurance market and to deploy new information technologies that ensure progressive surveillance of the insurance sector or to address other relevant tasks.

The coming year will demand even more commitment, skills and competences from our professionals to ensure adequate compliance with the new requirements of Solvency II and efficient and integrated supervision of the financial sector. I believe that with joined efforts and talents these challenges will be kept at bay.

I would like to thank my colleagues for their tremendous efforts and a positive approach. I wish best of luck to all of you.

Ramūnas Baravykas
Deputy Chairman
of the Commission



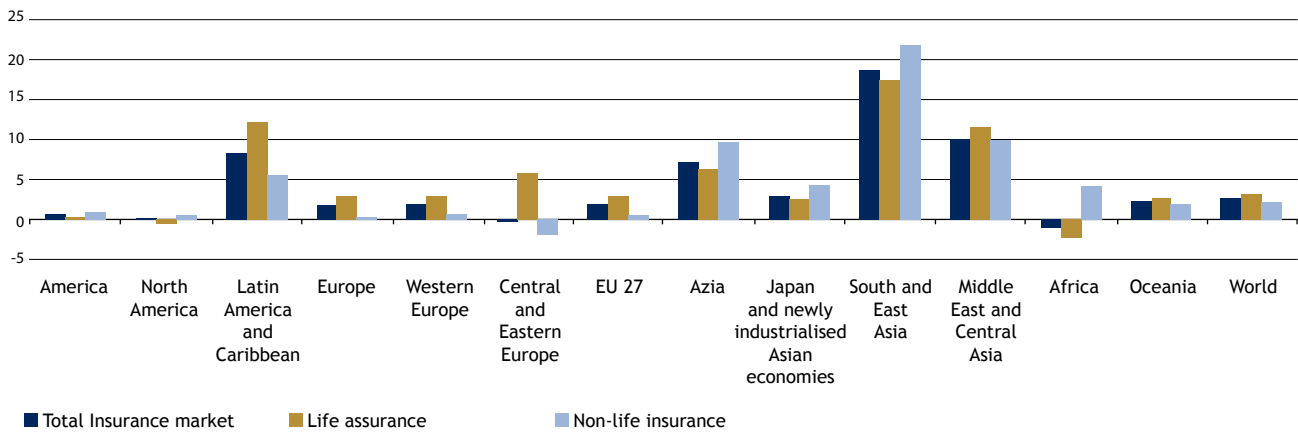
Insurance Market

Premiums Written, Claims Paid, Insurance Penetration and Density

Having gone through a downturn in 2009, in 2010 the global insurance market returned to its growth phase. Over 2010, LTL 10.4 trillion in insurance premiums was written in the global insurance market whereas the real growth rate accounted for 2.7%.⁵ Recovery of the world's economy was the basic reason for increased demand for insurance services and had a positive impact on the development of the insurance market.

The insurance markets of developed states experienced a more moderate growth (1.4%) whereas those of developing economies were growing rapidly (11%). The real growth rate of the EU insurance market stood at 1.9% in 2010.

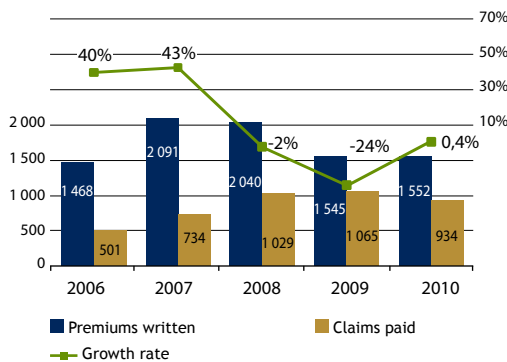
Figure 10. Real Growth of Premiums Written in Global Insurance Markets in 2010, %



Source: Swiss Re

Worldwide, the life assurance market saw a higher growth (3.2%) in 2010 than the non-life insurance market (2.1%). As financial markets recovered, the key factors for the growth of the life assurance market included unit-linked life assurance, single premiums and products with guarantees. Within the non-life insurance branch the scope of different types of transport and property insurance premiums saw the highest growth.

Figure 11. Dynamics of Premiums Written and Claims Paid (m LTL) and Premium Growth Rate, %



Year 2010 was changeable for the Lithuanian insurance market: over the year market fluctuation ranged from a 26.1% decline at the beginning of the year to a 0.4% growth while the year closed (the real annual growth rate of the insurance market was negative and stood at -0.7%). In 2010, an overview of insurance and reinsurance activity showed that the amount of written insurance premiums of insurance undertakings registered in Lithuania and of branches of EU insurance undertakings totalled LTL 1,552.3 million: non-life insurance premiums amounted to LTL 1,009.1 million (a 4.7% drop, while the real growth rate was -5.8%) and life assurance LTL 543.1 million (a 11.6% rise, while the real growth rate was 10.3%). The unusually dramatic leap of premiums on the last month

⁵ Source: Swiss Re

of the year determined the positive change in premiums compared to the previous year. Development of the non-life insurance market is closely related to the development trends of the national economy. Just like in the Lithuanian economy, the non-life insurance market underwent the greatest downturn in 2009, and although the economy was already growing in 2010, the results of the non-life insurance sector were still lagging behind - the market shrank. After the largest fall in 2008, the life assurance market, which is more responsive to the fluctuations of the financial markets, already recovered in 2010.

Life assurance comprised 58% of the global insurance market in 2010. In Central and Eastern Europe non-life insurance held the major share of the market whereas life assurance recorded only 22% of premiums written in 2010. In 2010, the share of life assurance in the Lithuanian insurance market, which is part of aforementioned region, was 35.0% and grew by 3.6 percentage points compared to 2009.

Over 2010, policyholders were paid LTL 934.4 million in claims (including surrender values), which represents a 12.3% year-on-year drop. A decline in the amount of claims paid was conditioned by the insurance market, which shrank considerably during the economic downturn, lower risk assumed, reduced repair rates in transport insurance as well as by a 33.3% drop in claims paid in credit insurance and by 26.6% shrinkage of surrender values in insurance in the case of survival. In the life assurance market LTL 204.5 million was paid out, which is a 11.4% reduction compared with 2009, whereas in the non-life insurance market claims paid totalled LTL 729.9 million, i.e. by 12.5% less than in the previous year.

The number of insurance contracts concluded in 2010 was over 4.72 million, i.e. by 6.7% more than in 2009. The life assurance market recorded 73.7 thousand contracts, which represents a 4.8% year-on-year rise. In the non-life insurance market 4.65 million contracts were concluded over 2010, i.e. by 6.7% more than in the previous year.

Indicators that characterise the development level of the insurance market: insurance penetration⁶ was 1.6% and insurance density⁷ LTL 472 in 2010 (in 2009 these indicators were 1.7% and LTL 463 respectively). To compare, in 2010, the penetration of the EU insurance market comprised 8.4% and the insurance density stood at LTL 6,581. The Lithuanian insurance market is still well behind the EU and the Central and Eastern European states with insurance penetration at 2.6% and density LTL 655 in 2010⁸. Compared with countries of similar economic development (according to GDP per capita), Lithuanian insurance penetration has so far reached merely 66% of the penetration average for non-life insurance and 57% for life assurance.

On the assumption that the country's economy is growing and the insurance market is prevailed by an optimistic mood, an 8% to 10% growth of the insurance market is projected for 2011. The non-life insurance market should face more rapid growth (10%-12%) whereas the life assurance market is expected to grow more moderately (5%-6%) in view

Figure 12. Breakdown of Insurance Branches, %

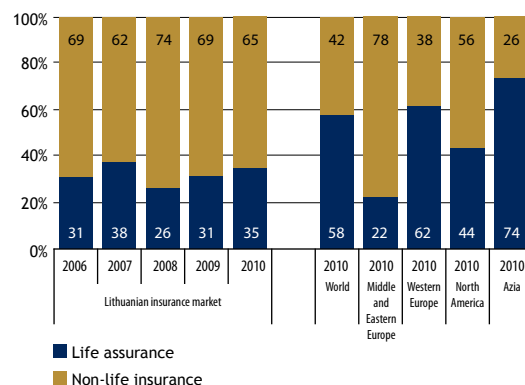


Figure 13. Dynamics of Insurance Contracts, thsd. units

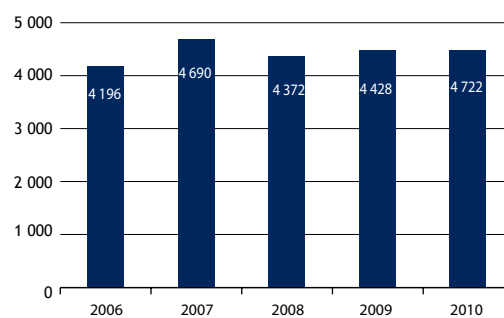
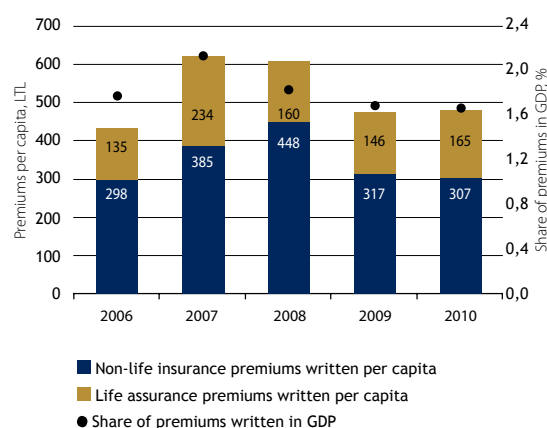


Figure 14. Dynamics of Insurance Density and Penetration



⁶ Insurance penetration is the ratio of premiums written to GDP.

⁷ Insurance density is premiums written per capita.

⁸ Source: Swiss Re

of the fact that the leap of 2010 will condition a higher comparative base. These forecasts were made considering the likely changes to the country's basic development indicators, therefore should those changes take a different course, the development trends of the insurance market may change respectively.

Changes in the insurance market result from the efforts of its participants and from the external environment in which this market operates. In 2010, namely the factors of the external environment, which brought about the unusual abundance of unfavourable events, had substantial influence on the daily operations of insurers. The unexpectedly numerous natural disasters added one more challenge for the country's economy and the population as they were already recovering from the hard crisis. Insurers experienced no problems in compensating losses from disasters and economic entities gained more confidence in insurance as measure of protection from unexpected damage, which, in turn, promoted a more rapid growth of some classes of non-life insurance.

Growth of the non-life insurance market depends on the demand for insurance in other branches of the economy, therefore, unless recession returns, while the country's major branches of the economy grow, the non-life insurance market should grow as well, and the commercial insurance sector should recover. Demand for commercial insurance should increase due to both expansion of individual business sectors as well as urbanisation and public expenditure on infrastructure projects. The volume of transport insurance will increase if the sale of new cars grows while higher income of households will lift the demand for property insurance as households will want to secure their bettering wellbeing. Decreasing unemployment rates should boost the volume of health insurance that employers provide for their employees. Furthermore, in the future the inevitable rise of insurance prices will contribute to the growth of the non-life insurance market if the same development trends of loss ratios persist.

Development of the life assurance market is more affected by fluctuations in financial markets. When during the crisis investors lost confidence in the financial sector, in 2010 even the most trivial inflow of negative information used to cause overnight changes to the investment environment and to the purchase of life assurance products. In addition, demographic changes associated with the ageing of the population and the need for protection in the event of accident in the long-term should increase demand for life assurance saving products. At the same time, as capital markets will develop, saving products will be enhanced (e.g. unit-linked life assurance with additional guarantees) while growing economy and income of the households will boost the volume of both traditional and unit-linked life assurance.

In 2011, growth of the life assurance market may benefit from the planned changes to state social insurance and pension accumulation systems and from the state's incentives to residents aimed at promoting additional accumulation of financial resources to secure welfare at old age. However, so far there are still no immediate prospects for robust growth in the life assurance market in Lithuania as the real income of the households is low and people are more concerned about collecting resources for their daily essential package of goods.

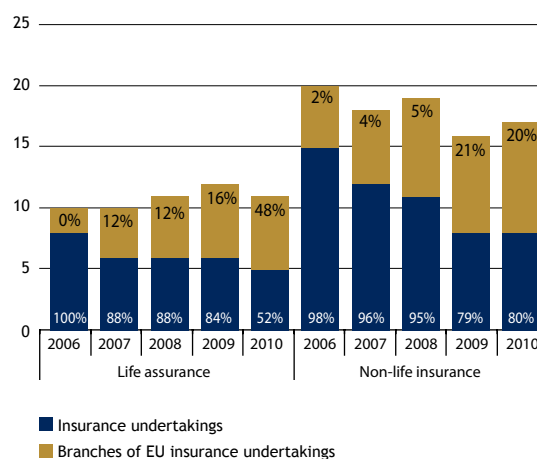
In order to make a more precise identification of factors that may determine changes in the insurance market and to find common solutions with insurers to ensure stability of the market and protection for consumers, ISC has been conducting a survey of insurance undertakings and Lithuania-based branches of EU insurance undertakings for years. Insurers referred to stabilisation of the situation in the insurance market as major good news in 2010 and to the abundance of losses caused by natural disasters as the greatest challenge of the year.

In the view of insurers, the key factors that conditioned a slower recovery of the insurance market included lower than expected growth of the economy, particularly in the second half of the year, when the economy promotion measures run out, persisting crisis in some sectors of the country's economy and unfavourable indicators of the labour market, which did not foster growth of the purchasing power of the population. Positive impact came from insurers' efforts to retain customers, the search for new forms of communication and attempts to find a compromise with each customer willing to terminate the contract for various reasons, but most often due to difficulties of paying the insurance premiums. The major problems, according to insurers, were a considerable decrease of the average insurance premium, which conditioned loss for some classes of insurance, and the lack of focus on operational risk prevention. Competition in the insurance market remained high; therefore, to preserve the market share, insurers had to look for new, progressive solutions. They offered new products such as study insurance, individual third party liability insurance or borrower's insurance coverage products. In addition, the terms of contracts for already available insurance products were revised by tailoring standard insurance products to meet the individual needs of customers.

The majority of undertakings engaged in life assurance activity pointed out that while financial markets were recovering, they could sense growth in single premiums, which lifted the volume of premiums to greater than normal levels at the end of the year. Non-life insurance undertakings mentioned the increasingly frequent natural disasters and the blandly recovering transport market as well as the "ageing" car fleet among the highest risks. They also noted that the recovery of the market was negatively affected by the shrinkage of the property insurance market, which, in turn, was caused by changes to the compensation of part of the insurance premium for agricultural objects. Owing to decreased profit, in 2010 insurers made little investment to develop their own sales network and information technology systems, yet expanded online sales of insurance products and looked for new contract distribution channels.

After the country's economy regained its growth trends, the insurance market is prevailed by optimistic moods - the growing economy will raise demand for insurance products. The majority of insurance undertakings and branches of EU insurance undertakings pointed out that in the nearest future identification of customer needs and searching for ways to offer them attractive products, retaining existing customers, more stringent control over collection of ordinary premiums, continuous monitoring and analysis of the market situation and responding to market changes stayed on their priorities list. In the long-term perspective, improving customer confidence in insurance coverage remains the key objective.

Figure 15. Dynamics of Insurers (units) and Their Market Share in Premiums Written (%)



Participants of the Insurance Market

During 2010, the number of insurance undertakings registered and licensed in Lithuania decreased to 13: the insurance licence of AB Swedbank gyvybės draudimas was cancelled, and from the beginning of 2010, all operations of AB Swedbank gyvybės draudimas have been continued under the name of Swedbank Life Insurance SE through its branch registered in the Republic of Lithuania. At the end of 2010, the insurance market comprised 5 life assurance and 8 non-life insurance undertakings registered in the Republic of Lithuania.

The number of branches of EU insurance undertakings increased to 15 over 2010: a branch was established by Polish insurer Compensa Towarzystwo Ubezpieczeń S. A. Vienna Insurance Group, which is engaged in non-life insurance activity. At the end of 2010, in Lithuania there were to 9 branches licensed to engage in non-life insurance activity and 6 branches with the right to offer life assurance services. As of 21 July 2010, SE Sampo Life Insurance Baltic Lithuanian branch took over the name of its founding company and is now called Mandatum Life Insurance Baltic SE Lithuanian branch.

For capital management optimisation and cost reduction purposes, a single company is normally set up in the Baltic Region and it conducts business through branches in other countries, which take over the rights and obligations of the previously independent undertakings. In 2011, the reorganisation processes of undertakings continued:

- On 3 January 2011, European company ERGO Life Insurance SE, a life insurer belonging to the German insurance group ERGO, was registered. This undertaking took over all the rights and obligations of AB ERGO Lietuva gyvybės draudimas. The European company has branches in Latvia and Estonia, which continue the operations of ERGO life assurance undertakings, previously independent entities in those countries. This is the first reorganised company with Lithuania-based headquarters, which means that ISC is in charge of supervising the activities of the whole company.
- As of 4 January 2011, the insurance licence of UAB BTA draudimas was cancelled. The undertaking was reorganised by merger with AAS BTA, registered in Latvia. All business previously conducted by UAB BTA draudimas is now continued through the branch of AAS BTA in Lithuania.

On 1 January 2011, German credit insurer Euler Hermes Kreditversicherungs-Aktiengesellschaft closed its branch and intends to proceed with its operations without being established in Lithuania.

In 2010, the share held by branches of EU insurance undertakings accounted for 30% of the entire Lithuanian insurance market, as compared with 20% in the previous year. At the end of 2009, life insurer AB Swedbank gyvybės draudimas completed its reorganisation process, and the market share held by branches of EU insurance undertakings of the life assurance market increased respectively to 48% in 2010. In 2010, EU branches recorded a 21% share of the non-life insurance market, but it will rise in 2011, when UAB BTA draudimas becomes a branch of the undertaking registered in the Republic of Latvia, AAS BTA. UADB Seesam Lietuva announced its intention to reorganise as well.

On 30 June 2010, the reorganisation process of UADBB Aon Lietuva was completed resulting in the merger of UADBB Aon Lietuva companies operating in Latvia and Estonia with UADBB Aon Lietuva. The company's name was changed into UADBB Aon Baltic, its headquarters are based in Vilnius and it offers services through branches in Latvia and Estonia. This is the first insurance broker company with such operation pattern in the Baltic countries.

At the end of 2010, the Lithuanian insurance market included 101 insurance broker companies (7 more than in 2009) registered in the Republic of Lithuania and 2 branches of EU insurance intermediaries (1 fewer than in 2009).

At the end of 2010, 403 insurance undertakings from 27 EEA states were licensed to provide services without being established in Lithuania. EU insurance undertakings licensed to conduct business without being established in Lithuania wrote LTL 74.4 million in premiums in 2009, which accounts for 4.8% compared with undertakings established in Lithuania.

Eight insurance undertakings registered in the Republic of Lithuania (5 non-life insurance and 3 life assurance) were authorised to provide services in other EU Member States without being established, but this right was exercised only by two non-life insurance undertakings. The volume of this activity more than halved in 2010, accounting for LTL 7.2 million of premiums written. Insurance services were being provided in Poland, France, Spain, Estonia, Latvia, Czech Republic, Slovakia and United Kingdom. Undertakings registered in the Republic of Lithuania mentioned development of insurance activities in other EU Member States as one of their priority objectives, although this activity is associated with higher investments.

By expanding operations at international level, insurers can improve diversification of insurance and investment risk and benefit from economies of scale. Meanwhile, policyholders win from a wider choice of insurers and products and from higher competition. Economy wins as well: apart from providing services to compensate unexpected losses, insurers can offer accumulated larger funds to finance other sectors of the economy.

At the end of 2010, the number of employees at insurance undertakings and branches of EU insurance undertakings dropped to 4.4 thousand (4.7 thousand at the end of 2009). Of this number, 2.7 thousand had diplomas of higher education. At the end of 2010, the insurance market employed 142 financial specialists, 139 risk valuation professionals, 46 actuaries and 28 internal auditors.

Other participants of the Lithuanian insurance market:

- Motor Insurers' Bureau of the Republic of Lithuania - an association of insurance undertakings licensed for the activity of motor third party liability insurance;
- Lithuanian Insurers Association - a non-profit organisation uniting non-life insurance undertakings, a full-fledged member of the European Federation of National Insurance Associations (*Comité Européen des Assurances*);
- Lithuanian Association of Life Assurance Undertakings - an organisation uniting life assurance undertakings established in Lithuania;

- Lithuanian Actuarial Society - a member of the European Actuarial Consultative Group (*Groupe Consultatif Actuariel Europeen*);
- Lithuanian Association of Insurance Broker Companies - a non-profit organisation uniting Lithuanian insurance broker companies on the voluntary membership basis;
- National Association of Insurance Broker Companies, whose aim is to co-ordinate activities of the Association members and to represent the interests of their members;
- Chamber of Insurance Brokers - a professional association uniting independent insurance intermediaries - insurance brokers.

Financial Indicators of Insurance Undertakings

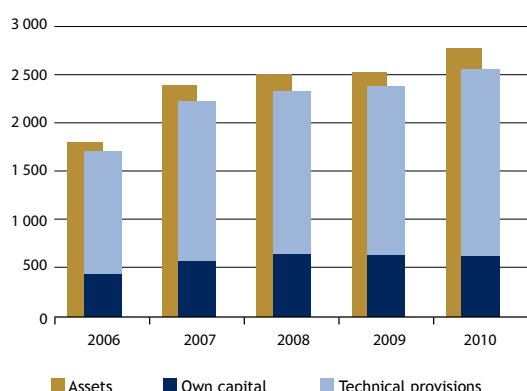
2010 was marked worldwide as the year of the most fierce earthquakes, which took the greatest number of lives and caused the most substantial losses, and as the year packed with extreme hydro-meteorological conditions. Major insurance markets in Europe and USA experienced poorer results of non-life assurance activity due to increased loss ratios, particularly for transport insurance. Recession brought down the volume of third party liability and property insurance. Weak growth of the economy and high competition, which reduced premium rates, prevented premium revenue from growing. Furthermore, owing to low interest rates and unstable financial markets the return on investment did not attain high levels. Despite a myriad of negative factors the profitability ratios of insurers stabilised⁹.

EU insurers survived the financial crisis more easily than the banking sector, and this was influenced by the specific characteristics of the insurance business (more stable liabilities, quantitative and qualitative requirements for investments) and by the selected business strategies. In the history of the European insurance market the year 2010 could be referred to as the year of stabilisation and formation of a more mature approach of all market participants to the services offered and guarantees provided by the insurance market. After overcoming one of the hardest economic crises in history, insurers now have to prepare for new challenges - the new requirements for the activities of insurance undertakings and supervision (Solvency II).

In Lithuania, the year 2010 was, like never before, packed with unfavourable hydro-meteorological events (storms, floods) or large disasters caused by human negligence (fires). All these disasters did not bring considerable losses to insurers due to the low level of insurance in Lithuania. On the other hand, to protect themselves from excessively high losses, insurers entered into reinsurance agreements. And still, although the costs of claims paid did not rise, the economic recession brought the premium revenue down and worsened the profitability ratios. This, however, did not have a negative impact on the financial standing of insurers. Likewise, the results of investment activity were poorer than in the previous year, but investors did not incur losses from investments and, instead, reduced investments into more risky property in response to the information of financial markets.

⁹ Source: ECB, EK, EIOPA.

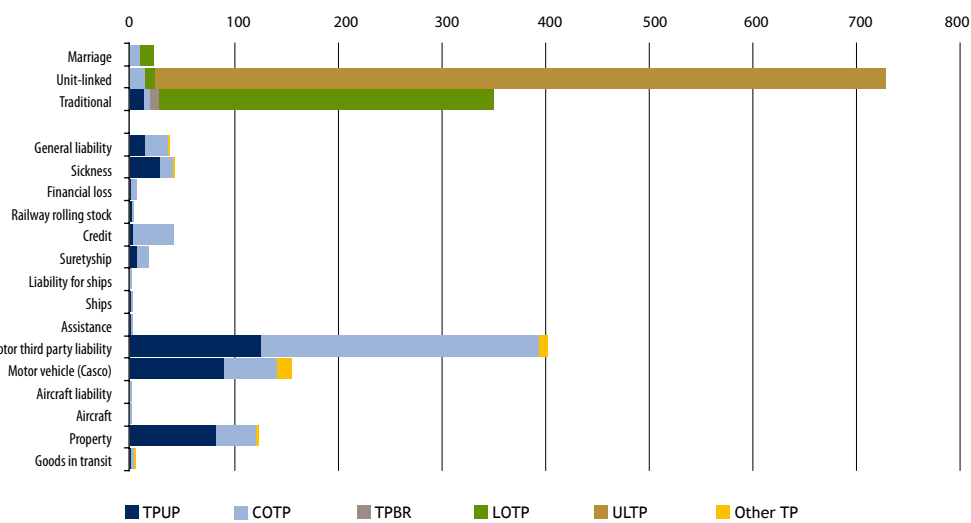
Figure 16. Dynamics of Assets, Own Capital and Technical Provisions of Insurance Undertakings, m LTL



Insurance Technical Provisions

Insurance technical provisions, i.e. the insurer's liabilities arising from insurance or reinsurance contracts and calculated as defined in legislation, represent the major part of all the liabilities of an undertaking engaged in insurance activity. Under the Solvency I regime currently effective in all EU countries, the legislation of each Member State stipulates formation and use of insurance technical provisions. ISC defines the methodology for calculating the technical provisions of insurers operating on the Lithuanian insurance market in view of the provisions of EU directives.

Figure 17. Structure of Insurance Technical Provisions by Insurance Classes as of 31 December 2010, m LTL



At the end of 2010, gross technical provisions totalled LTL 1.9 billion and, compared with 2009, grew by 10.9%.¹⁰ Technical provisions except for the unit-linked life assurance technical provision increased by 2.4% to LTL 1.2 billion over the year. The technical provision of non-life insurance undertakings dropped by 1.0% down to LTL 855.0 million whereas the technical provisions formed by life assurance undertakings accounted for LTL 379.9 million, i.e. experienced a 10.9% rise. The claims outstanding technical provision formed by non-life insurance undertakings to cover all claims paid and other costs relating to claim settlement comprised 53.9% of total non-life insurance technical provisions while in life assurance undertakings the mathematical technical provision, which accumulates the funds of policyholders under traditional life assurance contracts, had the highest weight (86.1% of total life assurance technical provisions, except for the unit-linked technical provision).

The technical provision which reflects the funds accumulated by policyholders under unit-linked life assurance contracts grew by 30.0% over the year to LTL 703.4 million. Its fluctuations are conditioned by the contributions of policyholders and changes in the values of investment units in financial markets.

Following the coming into effect of Solvency II, the technical provisions calculated in line with the prudent principle under Solvency I will

¹⁰ Here and onwards only the figures of insurance undertakings registered in Lithuania that operated at the end of 2010 are provided.

Figure 18. Shareholders of Insurance Undertakings by State on 31 December 2010, %

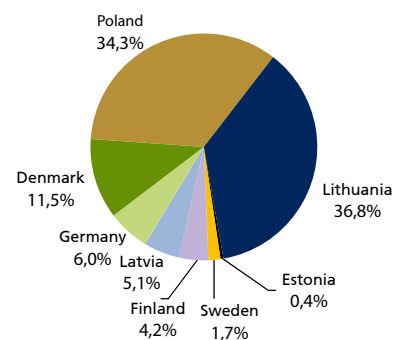


Figure 19. Shareholders of Insurance Undertakings by Type of Activity on 31 December 2010, %

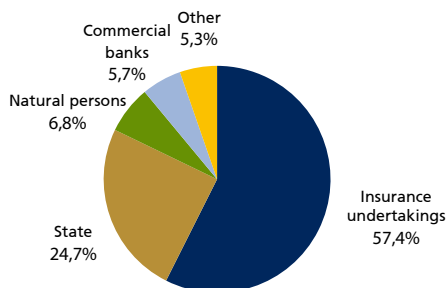
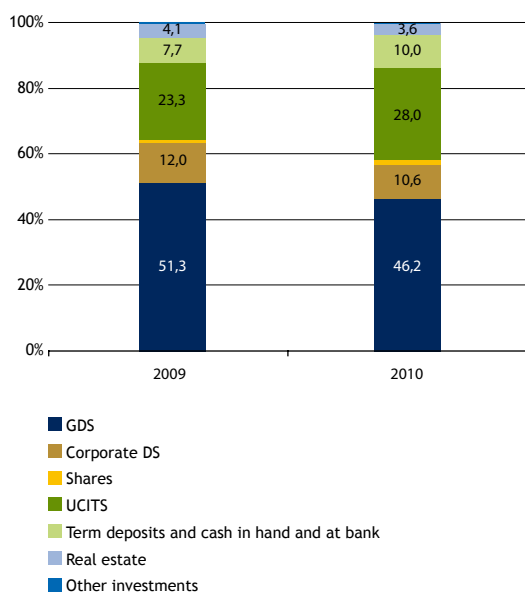


Figure 20. Dynamics of Investment Portfolio Structure of Insurance Undertakings (including life assurance investments where policyholder bears investment risk), %



be calculated by assessing them at market value. All insurers of EU Member States will be subject to a common principle: the value of technical provisions will have to correspond to the amount which the undertaking should pay if it had to transfer its liabilities to another undertaking immediately and will be calculated by adding up the best estimate of liabilities obtained according to the present value of future cash flow and the risk margin.

Own Capital of Insurance Undertakings

Own capital of insurance undertakings is used not only to finance business development, but also to cover extraordinary losses. Over the year, own capital grew by 0.5% and totalled LTL 637.1 million on 31 December 2010. Own capital of life assurance undertakings, thanks to their profitable activity, experienced a 11.8% rise to LTL 167.3 million. Own capital of non-life insurance undertakings dropped by 3.0% to LTL 470.0 million. The decrease of own capital was due to the loss of one of the undertakings in the amount of LTL 50 million accrued in 2010 and in the previous years.

Over 2010, three non-life insurance undertakings increased their authorised capital, in total by more than LTL 93 million. On 31 December 2010, the authorised capital of all undertakings stood at LTL 351.6 million, which represents a 36.1% year-on-year rise. Increasing of authorised capital conditioned a higher share of Lithuanian and Danish shareholders in the common shareholding structure.

Assets and Investments of Insurance Undertakings

Assets and investments are used to cover insurance technical provisions, i.e. to guarantee fulfilment of obligations to the policyholders. Properly calculated insurance technical provisions and sufficient own capital ensure the solvency of an insurance undertaking only if covered with the assets of adequate quality. Over 2010, the assets of insurance undertakings increased by 9.8% to LTL 2.8 billion. The assets of life assurance undertakings saw a 20.8% growth over the year to LTL 1,277.2 million whereas the assets of non-life insurance undertakings rose by 1.9% and totalled LTL 1,506.4 million. Growth in the assets of life assurance undertakings was conditioned by the increased value of investments, of which the life assurance investment where the policyholder bears the investment risk experienced the highest growth.

Investments, which is one of the elements securing the insurer's solvency, represents the highest share of total assets of insurance undertakings. Investments of insurance undertakings (including life assurance investments where the policyholder bears the investment risk) comprised 86.1% of the assets of insurance undertakings on 31 December 2010. The share of investments at life assurance undertakings where the undertaking bears the investment risk stood at 42.4% whereas that of investments where the policyholder bears the investment risk at 55.1% of total assets. Investments accounted for 70.5% of the assets of non-life insurance undertakings.

By economic origin the investments of insurance undertakings are divided into the undertaking's investments and policyholder's investments entrusted to the undertaking to manage under unit-linked life assurance

contracts. The undertaking's investments are investments that are used to cover the technical provisions of traditional insurance as well as own capital and other liabilities. The structure of investments differs depending on whether these are assets which cover traditional technical provisions or a unit-linked technical provision or whether these are not the funds of technical provisions.

In general, the insurance market is notable for a conservative investment strategy resulting from statutory requirements to diversify the investment portfolio and from restrictions to invest into more risky assets. In 2010, the structure of insurers' investment portfolio did not change in principle whereas the established proportions of the investment portfolio ensure the most favourable ratio between tolerable risk and revenue.

Investment portfolios of undertakings (excluding investments where the policyholder bears the investment risk) are dominated by government debt securities (GDS), but their share dropped by 3.8 percentage points (LTL 29.3 million) over 2010 and accounted for 61.1% of the total investment portfolio. The major part of GDS held was comprised of GDS of the Republic of Lithuania (41.7%) and relatively more investments were made in the GDS of Germany (15.0%), France (11.7%) and the Netherlands (9.1%). The insurance portfolio no longer included Ukrainian and Portuguese GDS. The securities of states with a higher insolvency risk (Greece and Ireland) accounted for 2.6% of total investments into GDS, i.e. LTL 28.5 million.

Over the year, the amount of investments of insurance undertakings into corporate debt securities and immovable property decreased as well (LTL 8.0 and 2.8 million respectively) and the portion of term deposits and cash at bank, UCITS and shares (LTL 72.2, 18.3 and 6.9 million respectively) rose.

Figure 21. Breakdown of Investments of Insurance Undertakings in GDS by State

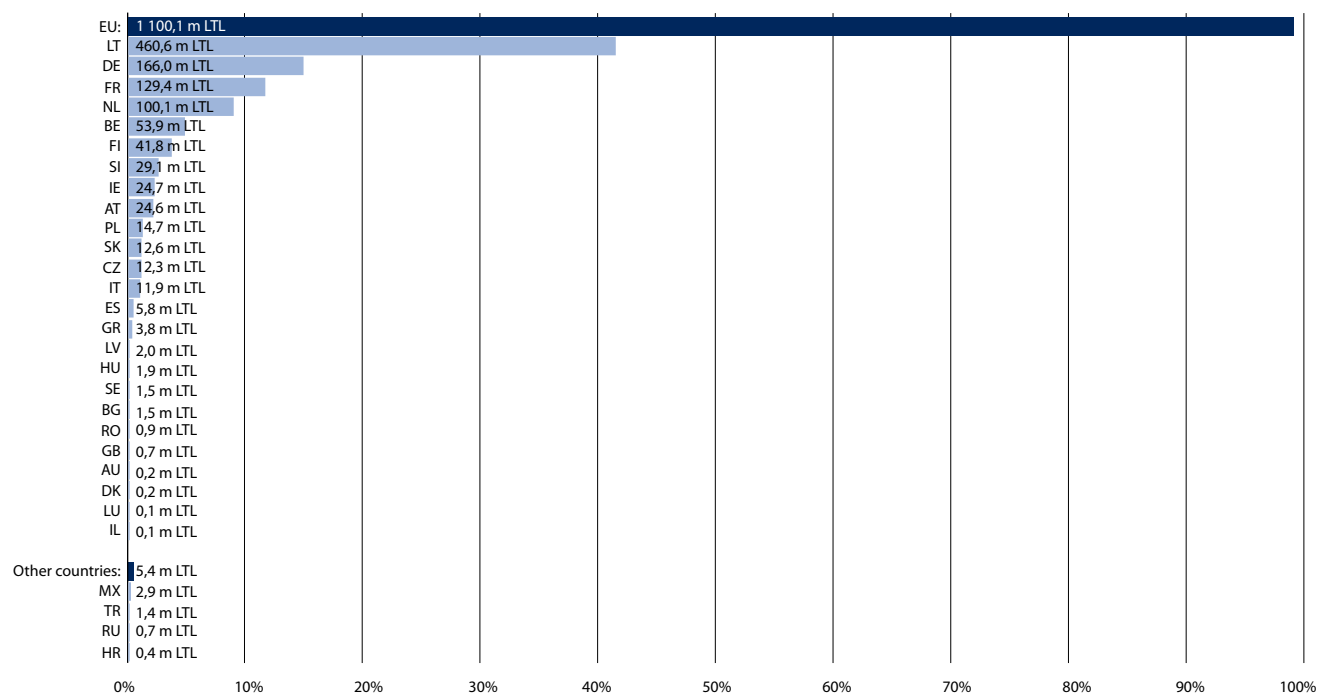
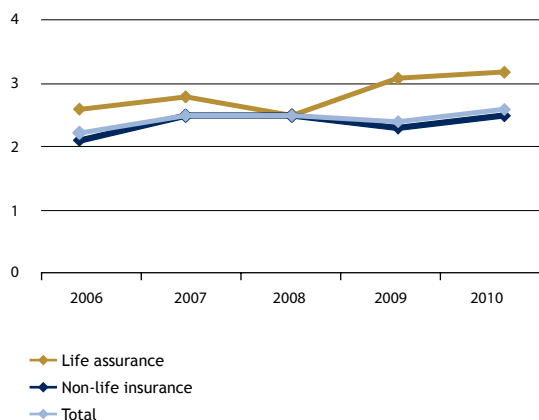


Figure 22. Dynamics of Agregate Solvency Ratio of Insurance Undertakings



The investment portfolio of insurance undertakings is comprised of reliable investments: the majority of GDS are of states with a higher than Lithuania's or a similar solvency rating, 98.7% of corporate debt securities and 69.5% of corporate shares are traded on regulated markets and 91.9% of investments at commercial banks are investments at banks located in Lithuania and the remaining part at Western and Central European banks.

Although the major part of the investment portfolio consists of fixed-income securities, over the period of low interest rates insurance undertakings did not reorient funds towards more risky investments in pursuit of higher profit ratios. Basic interest rates, which started to increase in 2011, should positively affect insurers' results in the long-term: debt securities are normally kept until redemption, therefore this type of investment will provide the opportunity to earn more. Stock markets are currently growing; with the recovering economy the credit risk of business entities present a smaller threat and prices for real estate are not expected to drop. This type of economic environment is favourable for earning profit from investment activity. A higher risk is associated with GDS. Earlier considered reliable assets, the debt securities of some states are now deemed to be a junk bonds and there are fears regarding the contagion effect to other financial sectors. However, investments in the said states comprise a very small part of the investment portfolio, at the end of 2010 - only 2.5% of total corporate investments, i.e. LTL 42.3 million.

The funds covering the technical provisions of traditional insurance products (both non-life insurance and life assurance, except for unit-linked insurance), owing to the more stringent requirements applying to them, are traditionally mostly invested in GDS (79.8% of the investment portfolio). Investments in corporate debt securities account for 9.8% whereas term deposits with banks and cash at banks for 6.2%.

Nearly 90% of the assets covering the life assurance technical provision where the policyholder bears the investment risk is comprised of UCITS and the remaining part of GDS and a very small share of corporate debt securities.

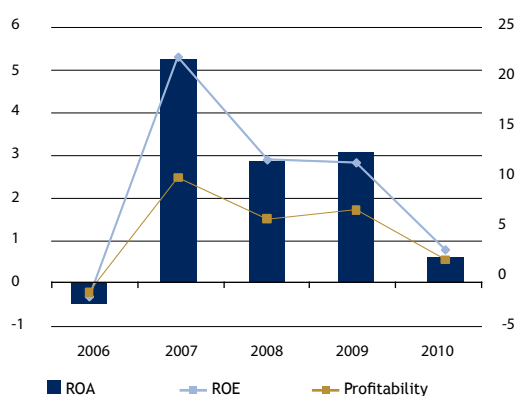
Investments which do not cover the technical provisions are mostly investments from the funds of own capital. They are highly diversified: term deposits and similar instruments account for 31%, corporate debt securities 25.8%, GDS 21.2%, real estate 11% and variable-income securities 9.6%.

Solvency of Insurance Undertakings

In order to ensure that insurance undertakings fulfil their liabilities, technical provisions must be sufficient and covered by assets, which are subject to profitability, safety and liquidity requirements. In 2010, the insurance technical provisions of all insurance undertakings registered in the Republic of Lithuania were 100% covered by adequate assets in line with legislative provisions.

On 31 December 2010, the solvency ratio of the insurance market, which shows whether insurance undertakings have sufficient own funds to cover extraordinary losses not assessed at the time of calculating technical provisions, was 2.6 (2.4 on 31 December 2009). The main reason for the growth of the solvency ratio was the decreased business volume of non-life insurance undertakings. Life assurance was positively affected

Figure 23. Profitability, Return on Equity (right-side scale) and Return on Assets (left-side scale) of Insurance Undertakings, %



by the profit earned. The minimum tolerance limit of the solvency ratio is 1, therefore, when the value of the solvency ratio is more than 2, the insurance market should be viewed as a financially stable one. On 31 December 2010, the solvency ratio of all undertakings exceeded the tolerance minimum.

Profit of Insurance Undertakings

As was projected, year 2010 was worse than 2009 in terms of profit. Although the negative market indicators started to smooth out and the insurance market stabilised in 2010, insurers' business results were the worst over the past five years. In 2010, insurance undertakings earned LTL 14.8 million in profit, which is a 76.3% drop compared with 2009. These results were conditioned by a 3.2 times higher loss of core activity, insurance, which grew to the heights of LTL 57.6 million. Profit from investment activity which insurers normally use to cover the losses of insurance activity totalled LTL 72.0 million in 2010 and was by 26.4% lower than in 2009 when the better result was brought about by recovering financial markets.

2010 was a worse year for non-life insurers, who incurred losses in the amount of LTL 18 million resulting from the increased loss of insurance activity. To compare, in 2009 they earned LTL 30.7 million in profit. Profit generated by life assurance undertakings in 2010 stood at LTL 32.8 million, which represents a 3.6% year-on-year rise.

The business profitability ratio of insurance undertakings, which is the ratio of profit before tax against earned premiums net of reinsurance, was 1.6% in 2010 (in comparison, this ratio was 6.7% in 2009). Return on Equity (ROE), which defines the portion of profit for each monetary unit invested by the owner in the business, comprised 2.6% (11.5% in 2009). Return on Assets (ROA) of insurance undertakings, which shows the ability to manage assets at a profit and specifies which portion of the assets is recovered in the form of profit, stood at 0.6% in 2010 (3.1% in 2009).

Over the period of economic recession, insurance undertakings, in order to preserve their business efficiency, not only tried to optimise their operating costs, but were also inclined to offer more concessions to policyholders. This was one of the reasons for the loss-generation of insurance activity. The result of investment activity is not bound to improve in the short-term owing to the slowly rising interest rates and variable stock markets. On the contrary, with increasing interest rates insurers will have to record the book reduction in the value of debt securities. However, as long as investments are not sold, that loss will not be realised and insurers normally tend to keep debt securities until redemption. Traditionally, insurers make little investment into the shares that have the potential to generate a higher return and due to higher capital requirements Solvency II will further discourage insurers to do so. For these reasons the return on investment will cover the loss from insurance activity only partially. The period of recovery of the country's economy and the pending requirements of Solvency II should change the situation. Growing economy will increase demand for insurance services and the volume of premiums, and insurers will be prompted to set risk-covering prices for insurance products and to head for innovations - products that are required by consumers and whose risk can be managed.

In 2010, the life assurance market met the most optimistic forecasts of market growth. The recovery of the economy recorded in the second quarter of last year gave a positive impulse for the life assurance market, which grew by 11.6%. From its onset in the first half of last year, the growth process persisted for the whole year, therefore the previous year can be easily called a particularly successful year for the life assurance market - over the period premiums valued at more than 543 million litas were written and the market share rose to 35%. This is the highest market share of the life assurance market since the pre-crisis level, i.e. 2007. The largest class of unit-linked life assurance grew by 16% in 2010 and conditioned growth of the whole life assurance market.

The results of the II pillar pension funds managed by insurance undertakings reflected not only improving corporate results, but also optimistic expectations of investors related to the prospects of Lithuanian and global economy. It should be noted that growth in the assets of pension funds in 2010 was not as impressive as in 2009, but retained a moderate level: the unit value of conservative investment pension funds increased by 3.08%, the value of minor-equity pension funds grew on average by 6.11%, that of medium-equity pension funds by 10.54% and the unit value of equity pension funds by 18.95%.

I believe that after gaining impetus in 2010, in 2011 the life assurance market will retain its growth trend, but the pace will be somewhat slower as the leap of 2010 will result in a higher comparative base.

Irmina Judickaitė,

Member of the Insurance Supervisory Commission

Life Assurance Market

After a two-year shrinkage period, in 2010 the life assurance market recovered in Lithuania. It was still dominated by traditional life assurance contracts as they provide a higher coverage and therefore enjoy greater demand during unrest on financial markets. However, more unit-linked life assurance contracts were concluded over the last few months.

With recovering financial markets and the economy, the consumers turned back to unit-linked life assurance products, which, apart from insurance coverage, can offer a higher return. While the financial standing of businesses is improving, employers restarted using this insurance product as a motivation tool for their employees.

The volume of insurance premiums, which increased together with the growing market, and moderate profit from investment activity helped life assurers to retain positive business profitability ratios.

Key Indicators of the Life Assurance Market

Life Assurers

During 2010, the number of life assurance undertakings registered in the Republic of Lithuania decreased as the insurance licence of AB Swedbank gyvybės draudimas was cancelled and all operations previously conducted by AB Swedbank gyvybės draudimas is continued under the name of Swedbank Life Insurance SE through its branch registered in the Republic of Lithuania. At the end of 2010, the insurance market included 5 life assurance undertakings registered in the Republic of Lithuania and 6 branches of EU insurance undertakings licensed to provide life assurance services.

In 2010, the Herfindahl-Hirschman index increased by 123 points and stood at 1898. This shows moderate concentration in the life assurance market.¹¹

Life Assurance Contracts

In 2010 73.7 thousand insurance contracts were concluded in the life assurance market, which represents a 4.8% year-on-year rise. In comparison, in 2009 the number of newly concluded contracts dropped by 22.8%.

Life assurance contracts are long-term contracts and the number of contracts in force was 423.7 thousand at the end of 2010, which represents a 2.5% year-on-year growth. Life assurance contracts in force rose only slightly for the reason that 63.5 thousand contracts expired or were cancelled prematurely.

¹¹ The Herfindahl-Hirschman index is one of the most frequently used indicators of concentration. The index is calculated as follows: $HHI = \sum_{b=1}^B x_b^2$, where: x_b - market share of insurer b by premiums written, B - number of insurers. It is considered that the higher the value of the index, the higher the concentration. In practice, the index value between 1,500 and 2,500 shows medium concentration.

Figure 24. Concentration in the Life Assurance Market in Terms of Premiums Written in 2010 (2009 figures in brackets), %

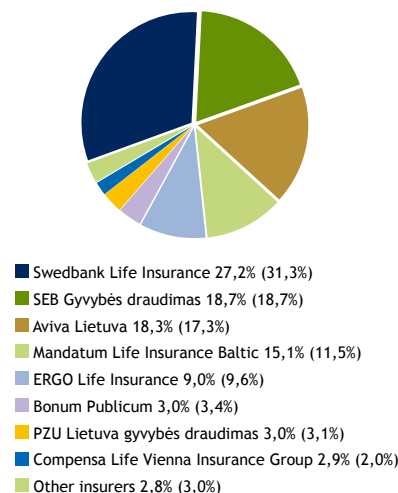


Figure 25. Life Assurance Contracts, thsd. units

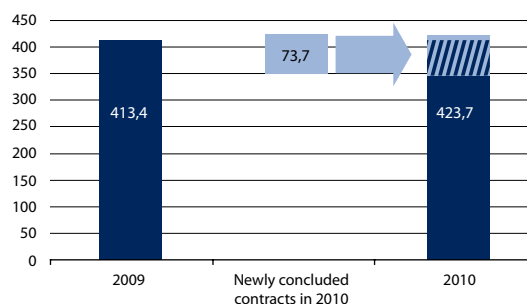


Figure 26. Dynamics of Life Assurance Contracts Concluded (thsd. units, right-side scale) and of Premiums Written and Claims Paid (m LTL, left-side scale)

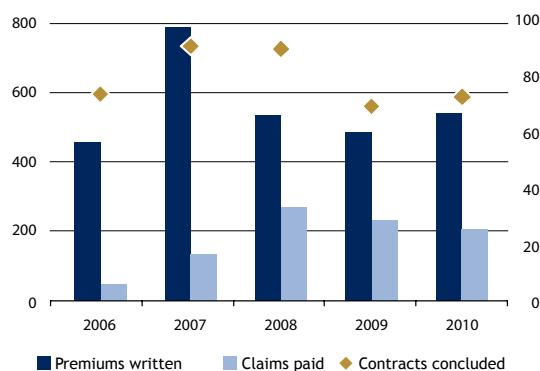
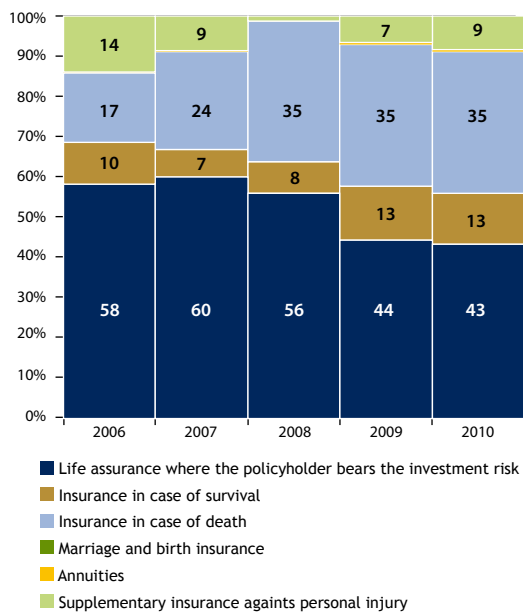


Figure 27. Dynamics of the Structure of the Portfolio of Life Assurance Contracts, %



Structure of the Portfolio of Life Assurance Contracts

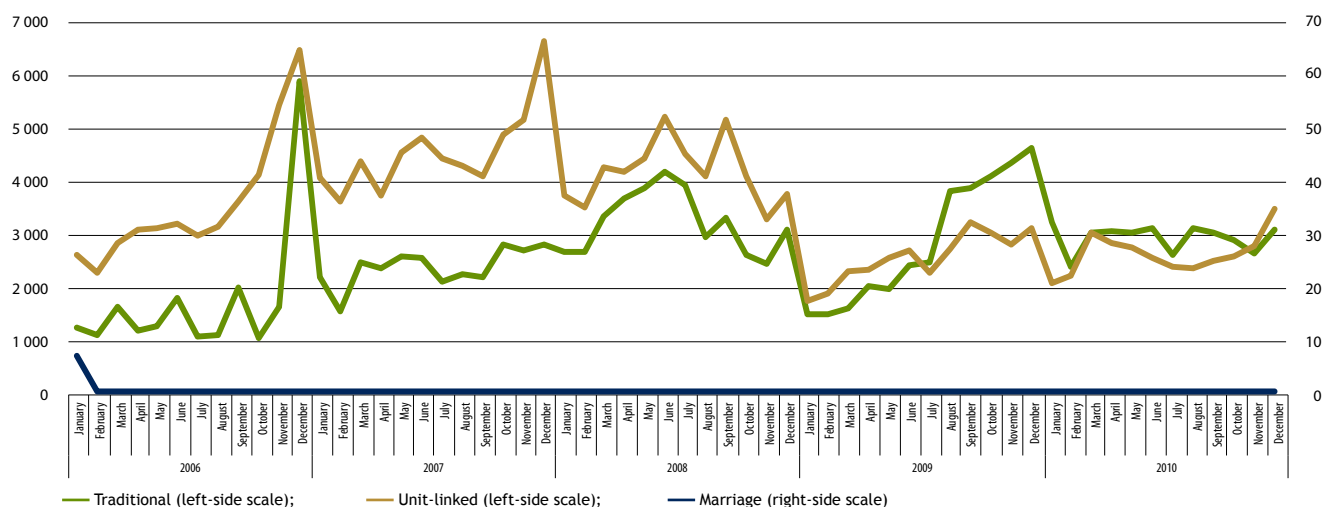
Although unit-linked life assurance represents the largest share of the Lithuanian life assurance market, in 2010, the class of insurance in the case of death had the greatest impact on growth in the number of insurance contracts. Over the year, the number of newly concluded contracts for this class of insurance increased by 4.3% to 25.9 thousand. Unit-linked life assurance contracts recorded a 2.6% rise to 31.9 thousand. In contrast, the number of insurance contracts in the case of survival dropped by 0.8% to 9.3 thousand in 2010.

From 2004 through 2008, the life assurance market was dominated by unit-linked life assurance. Policyholders were tempted by the opportunity alongside the life assurance service to earn higher profit from the insurance premiums paid as stock markets were growing. Differently from the pre-crisis period, from 2009 through 2010, more contracts of insurance in the case of death and insurance in the case of survival (traditional life assurance contract) with a guaranteed interest rate and a guaranteed insurance benefit were concluded as policyholders viewed them as safer compared with unit-linked life assurance contracts.

Over the last two years, the share of unit-linked life assurance in the life assurance contract portfolio was decreasing both because the population returned to traditional life assurance products and because insurers offered new products which met the needs of policyholders better. In 2010, the share of unit-linked life assurance in the portfolio accounted for 43.3%, insurance in the case of death 35.1% and insurance in the case of survival 12.6%.

While financial markets and the country's economy were recovering, in the last few months of 2010 policyholders started buying more of unit-linked life assurance products: households concluded more unit-linked life assurance contracts whereas representatives of the commercial sector started using unit-linked life assurance products as an additional incentive for their employees.

Figure 28. Dynamics of the Number of Life Assurance Contracts Concluded in 2006-2010, units



Life Assurance Premiums Written and Benefits Paid

In 2010, premiums written in the life assurance market totalled LTL 543.1 million, i.e. by 11.6% more than in 2009. A 16.1% (or LTL 53 million) rise in the volume of unit-linked life assurance premiums had the greatest impact on the growth of the life assurance market. The periodic premiums paid by households under insurance contracts is the key factor that generates the volume of premiums within this class of insurance, but in December 2010, owing to the option of using the income tax advantages, not only the amount of these premiums increased, but also the volume of single premiums paid by both households and businesses rose considerably. The amount of periodic premiums paid by the households increased by 7.7% in total, the amount of single premiums paid by the households by 85% and the amount of single premiums paid by entities of the commercial sector by 76% over the year. The amount of single premiums of unit-linked life assurance, which added a total of LTL 40 million, was the principal factor for the growth of both the unit-linked life assurance market and the entire life assurance market in 2010. Single premiums paid under unit-linked life assurance contracts accounted for the absolute majority in 2010, i.e. 95.3% of total single premiums paid under life assurance contracts. Such growth in the volume of unit-linked life assurance premiums in December 2010 changed the market-dominating branch of insurance: in terms premiums written in that month the life assurance market comprised 51.3% of total insurance market.

In 2010, premiums of insurance in the case of death recorded the fastest growth, 62.4%, but at the absolute value this increase was merely LTL 6.2 million. The amount of premiums of insurance in the case of survival continued dropping in 2010, by 1.6%.

In 2010, the share of unit-linked life assurance in the insurance portfolio rose by 2.8 percentage points and accounted for 70.6% of the total

Figure 29. Dynamics of Single Premiums of Life Assurance, m LTL

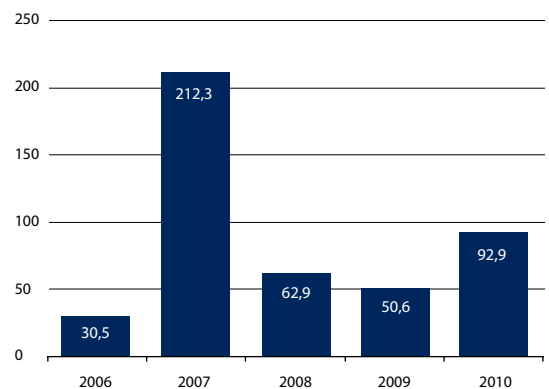


Figure 30. Structure of Life Assurance Claims Paid, %

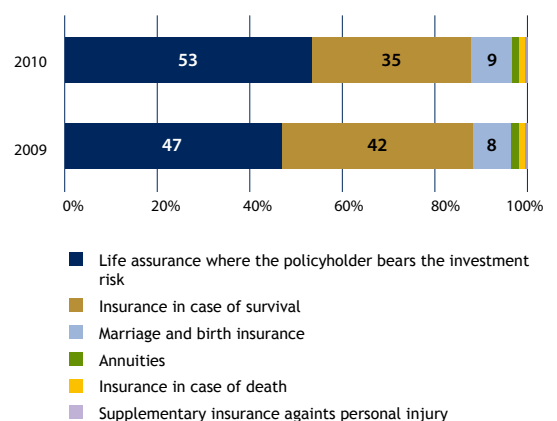
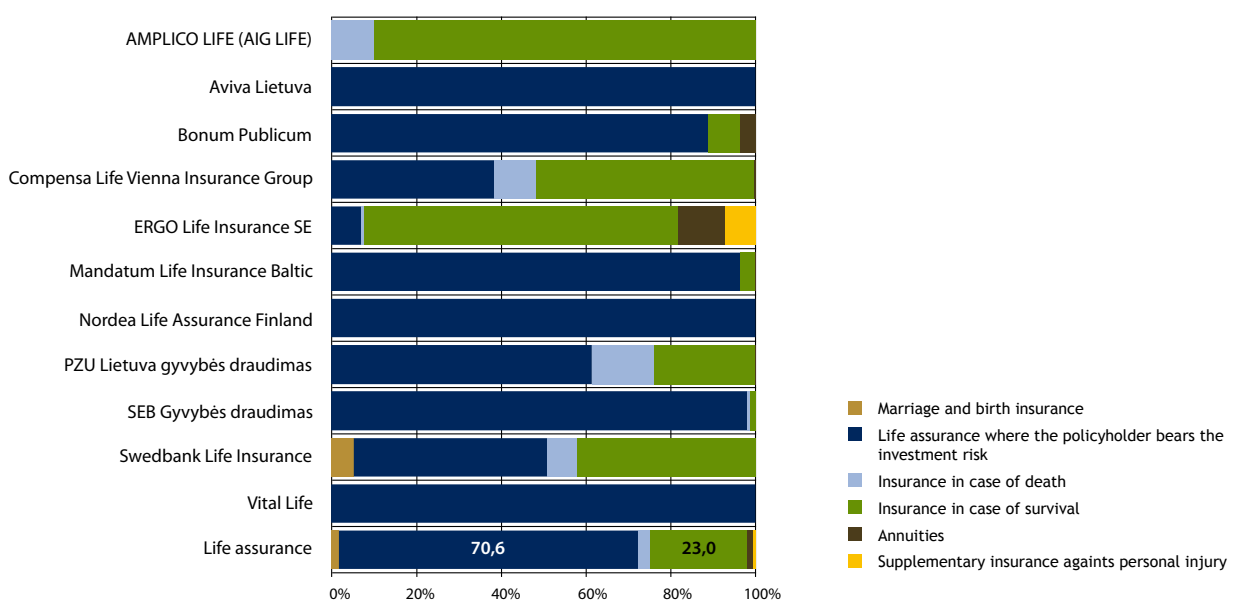


Figure 31. Life Assurance Portfolio in Terms of Premiums Written in 2010, %



insurance portfolio, that of insurance in the case of survival dropped by 3.0 percentage points down to 23.0% and that of insurance in the case of death grew by 0.9 percentage points totalling 3%.

Life assurance benefits paid, including surrender values, experienced a 11.4% decline and stood at LTL 204.5 million in 2010. The main reason for that was decreased surrender values of insurance in the case of survival as fewer customers cancelled life assurance contracts.

Figure 32. Dynamics of Assets, Own capital and Technical Provisions of Life Assurance Undertakings, m LTL

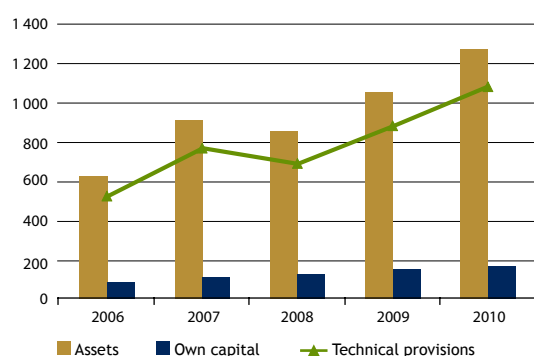


Figure 33. Shareholders of Life Assurance Undertakings by State in 2010, %

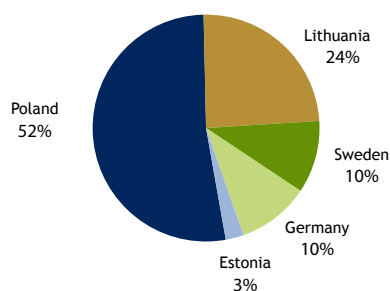
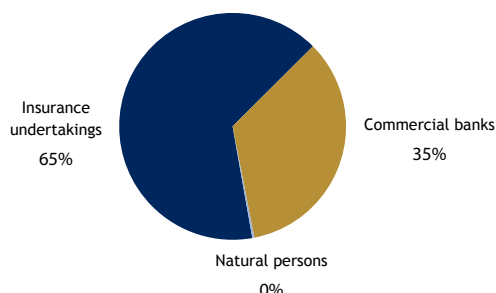


Figure 34. Shareholders of Life Assurance Undertakings by Type of Activity in 2010, %



Financial Indicators of Life Assurance Undertakings

Technical Provisions of Life Assurance Undertakings

The gross technical provisions of life assurance undertakings increased by 22.6% to LTL 1.1 billion in 2010. This was conditioned by a 30% (LTL 162.4 million) growth in the technical provision of unit-linked life assurance. Other technical provisions - of traditional life assurance - experienced a 10.9% rise to LTL 379.9 million. Apart from the growing life assurance market, the increase in life assurance liabilities was affected by the interest rate used to discount insurance technical provisions, which dropped from 2.38% to 2.19%.

Own Capital of Life Assurance Undertakings

Over 2010, own capital of life assurance undertakings grew by 11.8% and totalled LTL 167.1 million at the end of the year. None of the life insurers increased their authorised capital whereas a rise in own capital resulted from the retained profit earned.

The shareholders of insurance undertakings did not change and remained the same as at the end of 2009, except that after AB Swedbank gyvybės draudimas turned into a branch of an EU insurance undertaking, the share of commercial banks operating in Lithuania decreased. The largest capital share belongs to Polish (52.4%) and Lithuanian (24.3%) shareholders. Two thirds of the capital of insurance undertakings is owned by insurance undertakings of other states and one third by commercial banks.

Assets and Investments of Life Assurance Undertakings

Over 2010, the assets of life assurance undertakings increased by 20.8% and totalled LTL 1.3 billion at the end of the year. One of the key factors for such growth was the value of investment on the balance sheets of insurance undertakings, which grew along with recovering financial markets: this applies both to investments where the insurer bears the risk and investments where the risk falls on the policyholder.

Over 2010, the investments of life assurance undertakings grew by 21.6% and totalled LTL 1.2 billion at the end of the year. The portfolio of investments where the undertaking bears the risk (covering the traditional technical provisions of life assurance and own capital) experienced a 12.2% growth to LTL 541.9 million whereas the portfolio of investments where the investment risk falls on the policyholder rose by 30%.

The structure of the total investment portfolio of insurance undertakings did not change in principle. The share of UCITS in the portfolio

increased by 4.1 percentage points to 51.9% and that of GDS and corporate debt securities dropped by 3 and 2 percentage points to 32.3% and 7.3% respectively.

The highest investments were made in UCITS units registered in Luxembourg (52.4%), Lithuania (29.8%) and Estonia (11.8%). These funds mostly directly invest into debt and equity securities of issuers from different sectors of the economy in developing countries, Central and Eastern Europe and Northern and Western Europe.

Investments in Lithuania account for 32.2% of the total investment portfolio. Investments in other EU countries comprised the greatest share of 67.6%. There were 0.2% of investments in other than EU states.

By source of investment financing, the funds covering the technical provisions of traditional life assurance are most frequently invested in GDS. In 2010, the share of GDS in the portfolio dropped by 10.7 percentage points to 80.5% and the share of investments into corporate DS underwent a 11.3% growth to 18%.

Premiums of unit-linked life assurance are traditionally invested almost exclusively into UCITS. In 2010, the portion of UCITS in the portfolio of investments where the policyholder bears the investment risk increased by 0.2 percentage points to 89.3%.

Funds other than on technical provisions are mostly invested into term deposits with banks, GDS and corporate DS. Over the year, the share of term deposits with banks increased by 10.7% to 35.4% whereas the portion of GDS dropped by 4.5% to 38.9%.

In 2010, the return on investment of life assurance undertakings, excluding investments where the policyholder bears the investment risk, decreased from 5.6% to 4.4% whereas that of life assurance where the policyholder bears the investment risk from 25.5% to 13.7%.

Solvency of Life Assurance Undertakings

In 2010, the technical provisions of all life assurance undertakings were 100% covered by assets. The total solvency ratio of all life assurance undertakings, as compared with the figures of 2009, increased from 3.1 to 3.2, which was conditioned by the earned and retained profit of insurance undertakings.

Reinsurance Ceded of Life Assurance Undertakings

The life assurance activity is rarely reinsured. In 2010, reinsurance premiums stood at LTL 4.7 million, i.e. by 8.8% more than in 2009. The reinsurance ratio¹² stayed at 1.7%, the same as in 2009.

The reinsurance ratio was 9.8% for insurance in the case of death, 1.7% for insurance in the case of survival, 1.6% for unit-linked life assurance and 0.2% for annuity insurance.

Life assurance undertakings reinsured the greatest share of risks in Switzerland (59%) and Germany (27.5%) in 2010.

¹² Reinsurance ratio - the ratio between reinsurance premiums ceded and total premiums written.

Figure 35. Dynamics of the Structure (% , left-side scale) and Nominal Value (m LTL, right-side scale) of the Investment Portfolio of Life Assurance Undertakings (including investments where the policyholder bears the investment risk)

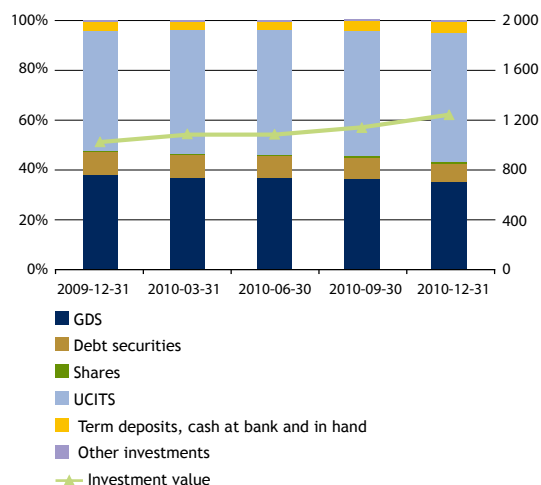


Figure 36. Investment Portfolio of Life Assurance Undertakings by Financing Source as of 31 December 2010, %

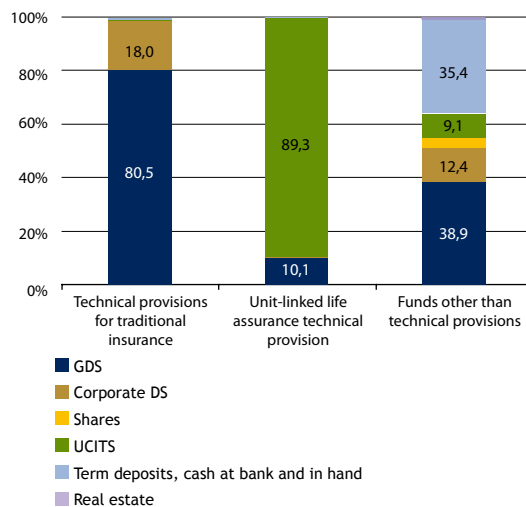


Figure 37. Breakdown of Profit of Life Assurance Undertakings in 2010, m LTL

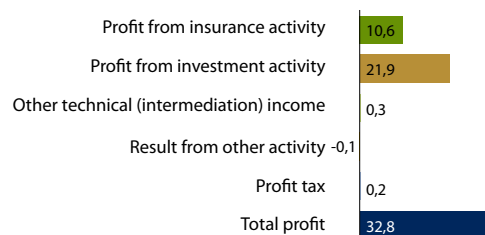
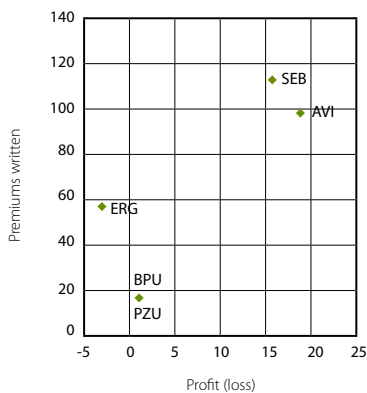


Figure 38. Profit (Loss) of Life Assurance Undertakings in 2010, m LTL



AVI: Aviva Lietuva
 BPU: Bonum Publicum
 ERG: ERGO Lietuva gyvybės draudimas
 PZU: PZU Lietuva gyvybės draudimas
 SEB: SEB gyvybės draudimas

Profitability of Life Assurance Undertakings

In 2010, life assurance undertakings earned LTL 32.8 million in profit, which is a 3.6% rise compared with 2009. Four life assurance undertakings earned profit and one generated loss. Profit from the core activity, i.e. life assurance, dropped slightly, but the supplementary activity of health insurance no longer was loss-generating. A positive influence came from the increased volume of premiums written and the reduced surrender values. The greatest portion of profit was earned from investment activity and totalled LTL 21.9 million, i.e. by 13.1% less than in 2009.

Over the year, the profitability ratio decreased from 11.8% to 11.0%. The return on equity of life assurance undertakings amounted to 20.7% and return on assets stood at 2.9%.

Pension Accumulation

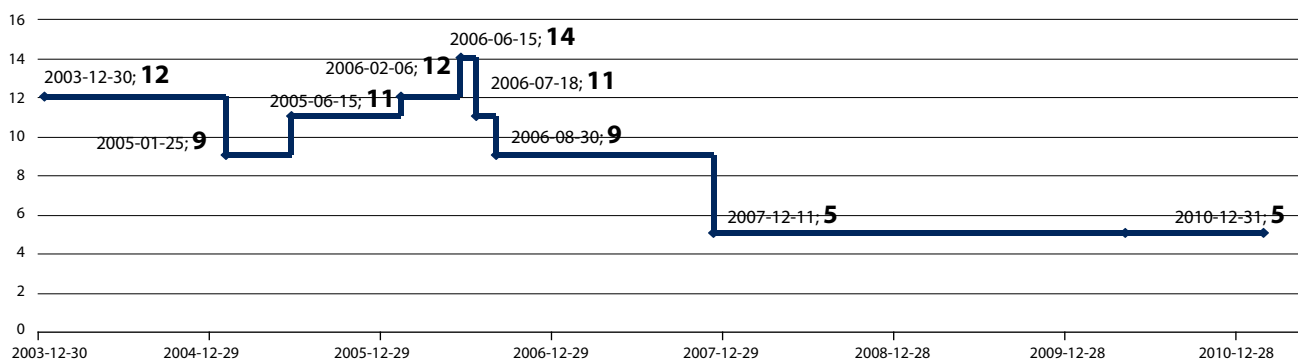
The Law on Pension System Reform of the Republic of Lithuania grants the right to engage in the activity of accumulation of a part of the state social insurance contribution (hereinafter referred to as pension accumulation) not only to pension fund managing companies, but also to life assurance undertakings. At the end of 2003, 5 life assurance undertakings were engaged in the pension accumulation activity. In 2004, the number of pension accumulation companies which are part of the life assurance market increased to 7, and since the end of 2007, there have been 2 life assurance undertakings operating in the II pillar pension fund market: UAGDPB Aviva Lietuva and AB ERGO Lietuva gyvybės draudimas, managing 5 pension funds (PF).

In December 2010, there were 29 pension funds engaged in the accumulation of the part of the state social insurance contribution (II pillar) in Lithuania. All PF were managed by 9 companies, of which 7 managing companies managed 24 PF and 2 life assurance undertakings managed 5 PF.

There were 10 conservative investment (government bonds) PF, 4 minor-equity share (up to 30%), 11 medium-equity share (30%-70%) and 4 equity (70%-100%) PF operating in the II pillar pension accumulation market.

In 2010, the net asset value (NAV) of the II pillar PF increased by LTL 539.8 million and reached LTL 3,853.4 million (including LTL 614.9

Figure 39. Dynamics of PF Managed by Life Assurance Undertakings in 2004-2010



million (or 16.0%) in the PF managed by life assurance undertakings) at the end of the year. A total of 1,034.4 thousand participants (including 193.0 thousand in pension funds managed by life assurance undertakings) participated in pension accumulation, which represents a 3.7% (or 997.5 thousand) rise compared with the end of 2009. Over 2010, life assurance undertakings concluded 9,200 pension accumulation contracts.

The majority (97.7 thousand) of participants in the PF managed by life assurance undertakings chose minority-equity share (up to 30% shares) PF, 62.9 thousand participants medium-equity share (30%-70% shares) PF and 32.6 thousand participants opted for conservative investment (investing only in GDS) PF.

During 2010, the State Social Insurance Fund Board transferred a total of LTL 48.7 million to the accounts of PF managed by life assurance undertakings.

Table 1. Dynamics of PF Managed of Life Assurance Undertakings in 2010

Pension accumulation company	Pension fund	Number of participants at the beginning of 2010	Number of participants at the end of 2010	Change in the number of participants	Assets, thsd. litas	Funds transferred by the SSIFB, thsd. litas
UAGDPB	Europensija	24.579	24.337	-242	99.080,5	93.287,1
Aviva Lietuva	Europensija plus	96.760	97.693	933	334.886,1	307.198,1
	Europensija ekstra	32.379	35.782	3.403	64.894,9	41.829,5
AB ERGO Lietuva gyvybės draudimas	ERGO Konservatyvusis	8.181	8.307	126	35.332,7	37.615,7
	ERGO Balans	23.687	27.069	3.382	80.695,0	68.979,0
Total		185.586	193.188	7.602	614.889,2	548.909,4

At the end of 2010, the investments of PF managed by life assurance undertakings totalled LTL 615.7 million (15.9% of total pension fund assets managed by pension accumulation companies). The amount of assets accumulated in conservative investment pension funds of life assurance undertakings was LTL 122.7 million, in minor-equity share pension funds LTL 290.8 million, and in medium-equity share pension funds LTL 107.1 million.

Change of Pension Funds

In 2010, a small number of individuals exercised the right to shift their pension fund manager: in total, 39.4 thousand participants, i.e. 3.8% of all participants in II pillar pension funds, changed their pension accumulation companies.

In 2010, 7,198 participants exited the pension funds managed by life assurance undertakings and chose a different pension accumulation company (PAC); however, 8,703 participants came from other companies and chose PF managed by life assurance undertakings. In addition, over 2010, 503 participants accumulating pensions in PF managed by life assurance undertakings exercised their right to shift to a different fund in the same PAC.

When changing the funds, participants of the II pillar pension funds more frequently opted for minority-equity share pension funds.

Figure 40. Transactions with Pension Fund Assets in 2010, units

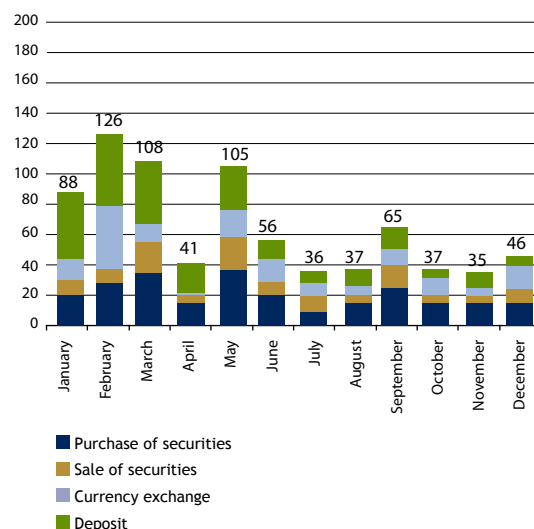


Figure 41. Turnover of Pension Funds in 2010, m LTL

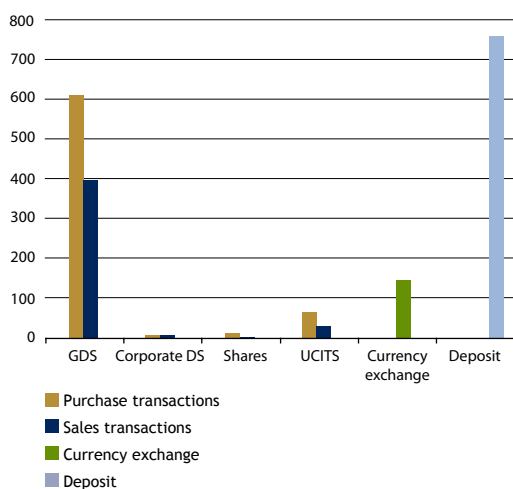


Figure 42. Structure of the Investment Portfolio of Pension Funds as of 31 December 2010, %

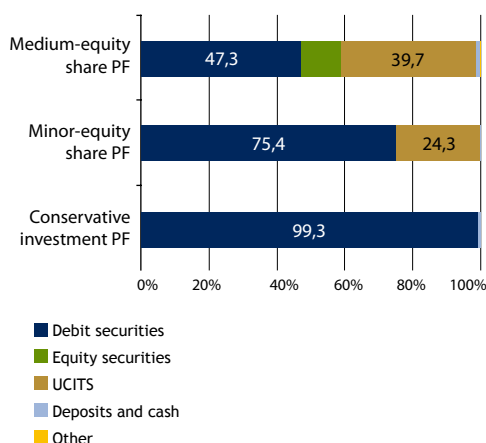
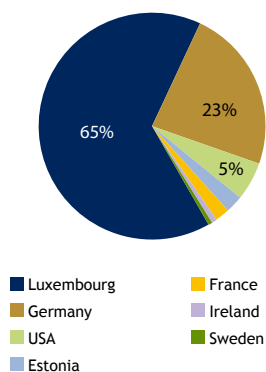


Figure 43. UCITS Breakdown by Registration Country as of 31 December 2010, %



Due to migration of participants between the pension funds, the assets accumulated by participants were being transferred as well. In respect of life assurance undertakings, these transactions were positive (LTL 5.9 million): the amount of assets transferred from PF managed by other pension accumulation companies to the accounts of PF managed by life assurance undertakings was LTL 35.2 million, whereas the reverse cash flow comprised LTL 29.3 million.

Investment Activity of Pension Funds

In 2010, life assurance undertakings that manage PF concluded 780 transactions: conservative investment PF made 162 whereas minor equity share PF 297 and medium equity share PF 321 transactions. In comparison, 1,267 transactions were concluded in 2009.

The aggregate value of transactions concluded in 2010 amounted to LTL 2,033.9 million: the amount of purchase transactions was LTL 693.8 million, and a total of 253 transactions were concluded. In 2010, the number of sale transactions was 127 valued at LTL 435.4 million.

Trade in GDS accounted for the largest share of turnover in 2010: the amount of purchase transactions was LTL 609.5 million, and sale transactions were valued at LTL 397.3 million. The spending on purchasing corporate debt securities was LTL 5.5 million, and the amount received from the sale of debt securities was LTL 5.9 million. The amount used for the acquisition of shares was LTL 11.2 million whereas the amount received from the sale of shares was LTL 2.3 million. During 2010, the amount of transactions for the sale / purchase of UCITS dropped dramatically. Over the year, the spending on purchasing UCITS units was LTL 62.1 million and their sale generated LTL 29.9 million (in 2009, 126.1 million and LTL 86.5 million respectively).

As of 31 December 2010, 21.9% of the assets of all PF managed by life assurance undertakings was accumulated in conservative investment PF and 78.1% in other PF.

The amount accumulated in conservative PF was LTL 134.6 million, and these assets were invested in the bonds of different countries. The largest share, i.e. 43.6%, of assets managed by conservative PF is invested in Lithuanian GDS, and a high portion is invested in German GDS (19.1%).

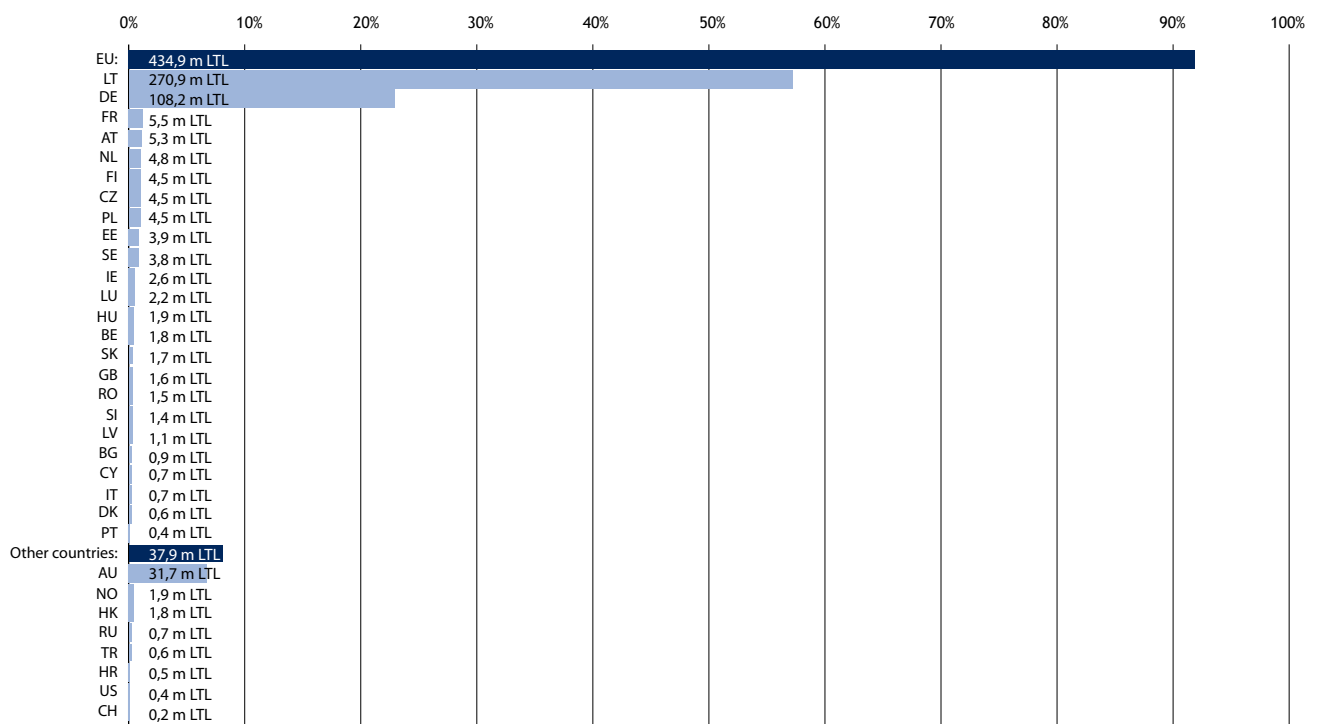
The assets accumulated in minor-equity share PF amounted to LTL 335.3 million. The assets invested in DS accounted for 75.4% (LTL 252.9 million) of the investment portfolio structure, whereas investments in UCITS made up 24.3% (LTL 81.5 million).

The assets accumulated in medium-equity share funds amounted to LTL 14.6 million. The largest portion (47.4%) of these assets were invested in DS, 39.7% in UCITS, 11.7% directly in shares of companies and assets in term deposits comprised 0.8%.

At the end of December, the value of investments of PF managed by life assurance undertakings in UCITS totalled LTL 139.4 million and comprised 29.0% of the total investment portfolio of non-conservative investment PF. At the end of 2010, the structure of investments into UCITS by country of registration was as follows: 65.3% was invested in UCITS registered in Luxembourg, 23.3% into UCITS registered in Germany and 11.3% into those registered in other countries.

At the end of 2010, 92.0% of PF assets was invested in markets regulated by EU and OECD countries. Direct investments of PF were mostly directed towards Lithuania (57.32% or 270.9 million LTL) and Germany (22.9% or LTL 108.2 million). Investments in states with a higher insolvency risk accounted for 0.62% of total GDS, i.e. LTL 2.9 million.

Figure 44. Breakdown of Direct Investments of Pension Funds Managed by Life Assurance Undertakings by Country



Changes in the Value of Pension Fund Accounting Units

In 2010, changes in the value of the accounting units of all pension funds were positive. Among the conservative investment pension funds, VAU of Europensija managed by UAGDPB Aviva Lietuva underwent the highest rise of 7.15% over the year. Of all pension funds VAU of ERGO Balans managed by AB ERGO Lietuva gyvybės draudimas experienced the greatest growth of 13.28%.

Table 2. AUV of Pension Funds Managed by Life Assurance Undertakings as of 31 December 2010

Life assurance undertaking	Pension fund	AUV	AUV change		
			during 2010	during 2009	since the start of operations
UAGDPB Aviva Lietuva	Europensija	1,3397	▲ 7,15%	▲ 11,82%	▲ 33,97%
	Europensija plus	1,4156	▲ 8,15%	▲ 13,22%	▲ 41,56%
	Europensija extra	1,1092	▲ 9,42%	▲ 18,42%	▲ 10,92%
ERGO Lietuva gyvybės draudimas	ERGO konservatyvus	1,2029	▲ 2,66%	▲ 6,33%	▲ 20,29%
	ERGO balans	1,4322	▲ 13,28%	▲ 22,70%	▲ 43,22%

While overcoming the effects of the global economy and the financial crisis, the country's insurance market stabilised. This was due to not only the positive breakthrough in the development of the economy, but also the efforts of market players to manage the service portfolio in a more efficient way.

As insurance undertakings are reorganised and new insurers enter the insurance market, the influence of insurance undertakings in EU countries has increased considerably. They already hold one third of the market (20% one year before).

Given prudent management, this is an opportunity to use their experience, and, through competition development, to increase the volume of insurance and improve the structure and quality of services.

Success in the future is not only about more stringent requirements for corporate capital, about new risk management principles and their efficiency (Solvency II). It is about the competence and organisation of human resources. Our task is to seek that the principles of market management do not become submerged in new orders, instructions or directions thus impeding the development of the insurance market, its reliability and consumer expectations.

Laurynas Mindaugas Stankevičius,
Member of the Commission

Non-life Insurance Market

The year 2010 was not favourable for the non-life insurance market. Due to slow recovery of the country's industries related to the non-life insurance market there was no stronger impetus for economic entities to seek insurance coverage by purchasing non-life insurance products. The protracted "vegetation" period in the transport and construction sectors combined with low efficiency of implementing measures intended to promote economy limited the demand for non-life insurance products. Owing to the unfavourable indicators of the labour market another segment which buys services from this market, i.e. the households, was also inactive.

Recession reduced the demand for commercial insurance and lifted the competition between insurers for policyholders. The non-commercial insurance sector had become the key sector of the non-life insurance market during the recession. In order to retain their market share, insurers agreed to a compromise with policyholders, offering them more flexible terms of contracts and cutting prices for products, which in some classes of insurance did not compensate the costs of insurers and did not cover the risk assumed.

Unfavourable natural conditions did not have a great impact on the business results of insurers, but the volume of business, which was reduced during the economic downturn, and prices for insurance products lifted the loss ratio. The added claims paid in the class of credit insurance, which experienced the greatest effects of recession, conditioned the losses that were not covered by the poorer than in the previous year results of investment activity.

Key Indicators of the Non-life Insurance Market

Non-life Insurers

In 2010, the number of non-life insurance undertakings operating in the Republic of Lithuania did not change and remained 8, but at the end of the year UAB BTA draudimas completed its reorganisation process and from 4 January 2011 continues operations as a Lithuanian branch of AAS BTA registered in Latvia. The number of branches of EU insurance undertakings licensed to engage in non-life insurance activity increased to 9 over the year following the founding of a branch of Polish insurance undertaking Compensa Towarzystwo Ubezpieczeń S. A. Vienna Insurance Group in the Lithuanian insurance market in 2010. However, owing to high losses from the credit insurance activity, already on 1 January 2011, German credit insurer Euler Hermes Kreditversicherungs-Aktiengesellschaft closed its branch.

In 2010, the Herfindahl-Hirschman index increased by 27 points and stood at 1760. This shows moderate concentration in the non-life insurance market.

Figure 45. Concentration in the Non-life Insurance Market in Terms of Premiums Written in 2010 (figures in brackets are 2009 data), %

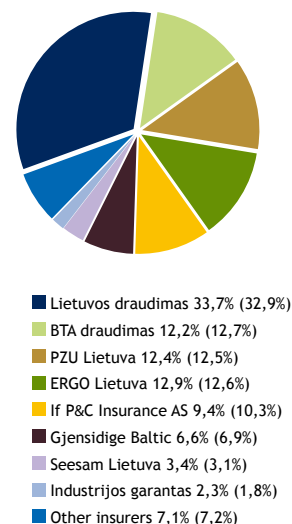


Figure 46. Dynamics of Non-life Insurance Contracts Concluded (m units, right-side scale), Premiums Written and Claims Paid (m LTL, left-side scale)

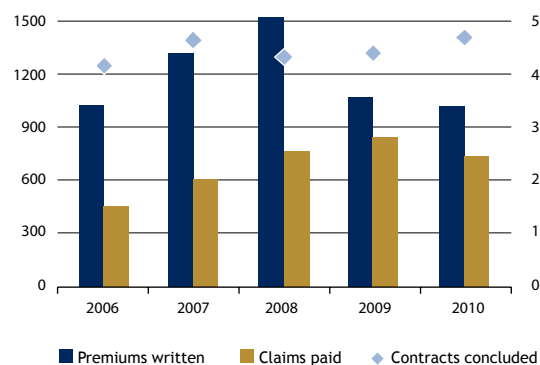
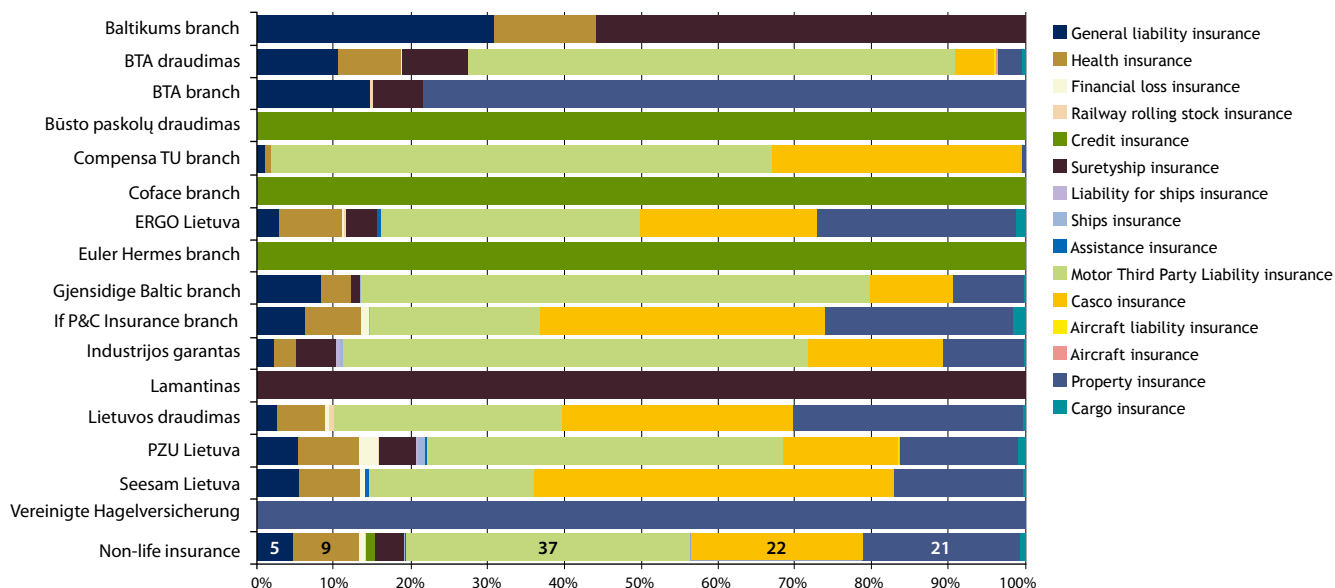


Figure 47. Non-life Insurance Portfolio in Terms of Premiums written in 2010, %



Non-life Insurance Portfolio

Compared to 2009, the amount of non-life insurance premiums written by insurance undertakings registered in the Republic of Lithuania and branches of EU insurance undertakings, including reinsurance, decreased by 4.7% to LTL 1,009.1 million in 2010.

The level of premiums of the key class of the non-life insurance market, MTPL insurance, dropped by 0.6% over the year to LTL 374.7 million, comprising 37.1% of the non-life insurance market. Compulsory MTPL insurance represents the absolute majority within this class of insurance. Nine insurers offered services of this insurance in 2010. On 1 April 2011, UADB Industrijos garantas withdrew from the MTPL compulsory insurance market.

The amount of premiums of the second largest class of insurance Casco decreased by 9.3% to LTL 223.3 million in 2010. Premiums within this class had been shrinking rapidly for two years in a row both because of the decrease in volume of new car sales and the decrease in the average insurance premiums, particularly in the commercial sector.

The class of property insurance gained unusually high attention in 2010 as the year was exclusive in terms of abundant natural disasters and in terms of the losses they caused. And although this stimulated seeking insurance coverage, over the year property insurance shrank by 6.9% to LTL 207.8 million. The reasons for such decrease were more or less the same as for the Casco insurance class: in 2009-2010, average insurance premiums halved compared to 2007-2008.

The class of credit insurance could be referred to as “the victim of the crisis”. After seeing a 28.7% fall in 2009, over 2010 this class of insurance reduced by another 56.5% in volume to LTL 11.0 million. The economic downturn worsened the financial standing of many business entities, and the increased unemployment ratios and reduced earnings combined with growing interest rates had a negative impact on the solvency of the house-

Figure 48. Concentration in the Compulsory MTPL Insurance Market, %

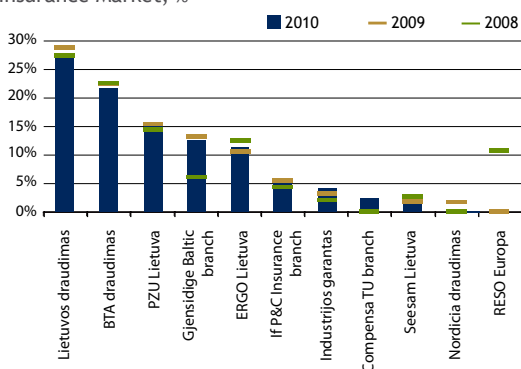
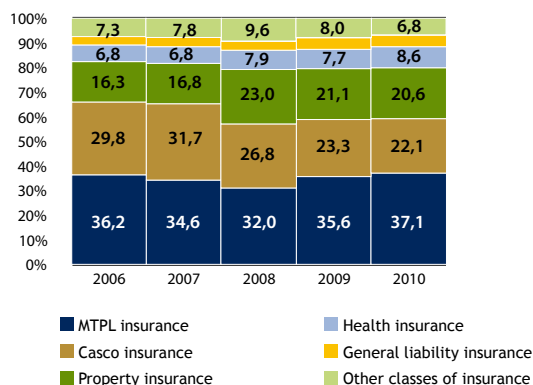


Figure 49. Structure of Non-life Insurance Premiums Written, %



holds who had taken out housing loans. Owing to tremendous claims paid, one of the insurers withdrew from the credit insurance market in principle. Those that remained started assessing risks in a much stricter way. On the other hand, the volume of lending for housing did not increase, therefore neither commercial nor housing credit insurance had any reasons to grow.

In 2010, among the larger classes of non-life insurance, growth was recorded only for suretyship insurance, 12.6% to LTL 37.7 million, and health insurance, 6.6% to LTL 86.6 million.

In 2010, 4.65 million contracts were concluded in the non-life insurance market. Compared to the previous year, the number of contracts grew by 6.7%. The highest number of contracts was made within the MTPL insurance class - more than half of all contracts concluded in the market, and by 3.9% more than in 2009. Of the larger classes of non-life insurance, the highest growth in contracts concluded was experienced by suretyship insurance - 12.3% over the year, and of the smaller classes, financial loss insurance, goods in transit insurance and general liability insurance recorded a strong growth (77.7%, 29.8% and 21.1% respectively).

Non-life Insurance Claims Paid

In 2010, claims paid in the non-life insurance market totalled LTL 729.9 million, which represents a 12.5% year-on-year drop. After shrinking for two years, the insurance market conditioned a lower volume of risk assumed by insurers, and this was one of the reasons for the reduced amount of claims paid.

In 2010, the largest amount was paid out under MTPL insurance contracts, LTL 232.6 million, i.e. 31.9% of the total volume of non-life insurance claims paid in the market, but by 9.2% less than in 2009.

Claims paid of Casco insurance comprised 29.1% of total claims paid and saw a 5.9% drop over the year. In addition, in 2010, Casco insurance claims paid accounted for 95.0% of Casco insurance premiums written in the same year.

The amount of claims paid within the class of property insurance saw a 1.0% drop in 2010, accounting for 16.6% of total non-life insurance claims paid.

The greatest impact on the decrease in claims paid, however, came from the 33.3% reduction in credit insurance claims paid. For the second year in a row this class of insurance is in the fourth place in the non-life insurance market in terms of insurance claims paid and comprises 14.1% of total non-life insurance claims paid.

Financial Indicators of Non-life Insurance Undertakings

Technical Provisions of Non-life Insurance Undertakings

At the end of 2010, the technical provisions, which reflect the level of obligations to policyholders assumed by non-life insurance undertakings,

Figure 50. Non-Life Insurance Portfolio in Terms of Insurance Contracts Concluded in 2010, %

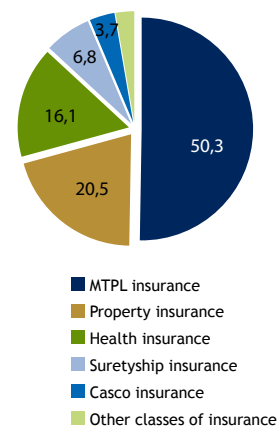


Figure 51. Non-Life Insurance Claims Paid, %

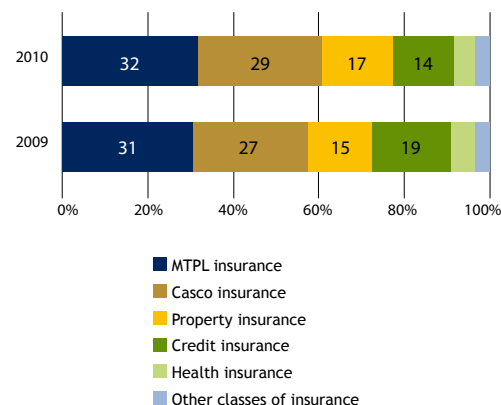
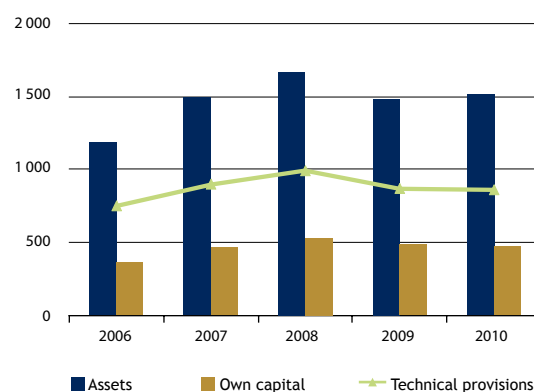


Figure 52. Dynamics of Assets, Own Capital and Technical Provisions of Non-Life Insurance Undertakings, m LTL



were by 1.0% lower than in 2009 and totalled LTL 855.0 million. The technical provision for unearned income recorded a 5.2% drop, and its changes mostly depend on the fluctuations of premiums written. The claims outstanding technical provision for all possible payments, including to cover the sums required for claim settlement, grew by 2.9%.

Own Capital of Non-life Insurance Undertakings

On 31 December 2010, own capital of non-life insurance undertakings totalled LTL 470 million. Although three non-life insurance undertakings increased their authorised capital in 2010, by a total of around LTL 93.3 million, the total loss of LTL 18 million incurred by non-life insurers determined a 3.0% drop in the total own capital of non-life insurance undertakings, compared to 2009.

The share of Lithuanian capital increased from 29.6% to 39.2% of total capital. Foreign shareholders held 60.8% of total authorised capital, Polish capital accounting for its greatest portion of 30.7%.

Figure 53. Shareholders of Non-life Insurance Undertakings by State and Type of Activity as of 31 December 2010, %

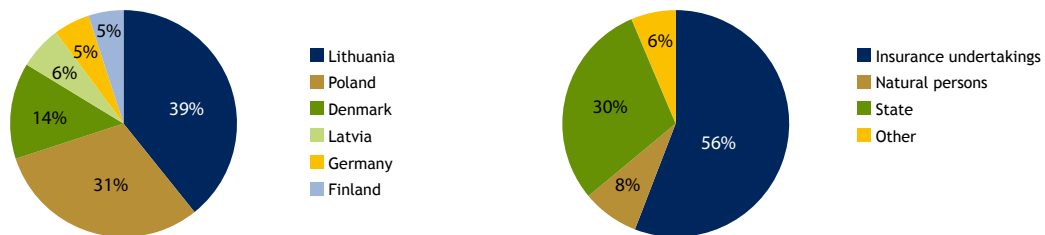
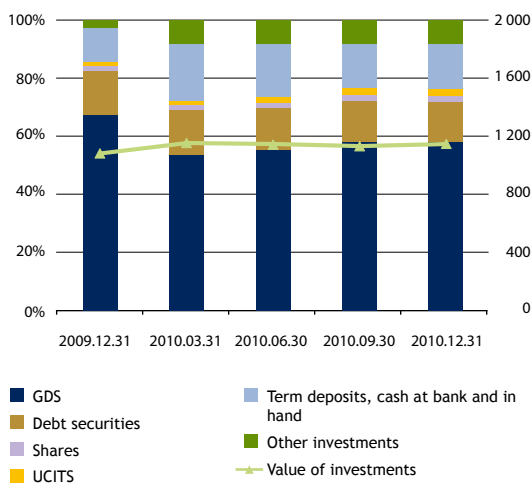


Figure 54. Dynamics of the Structure (% , left-side scale) and Nominal Value (m LTL, right-side scale) of the Investment Portfolio of Non-life Insurance Undertakings



In terms of type of activity, foreign insurance undertakings own the highest share of the capital, i.e. 55.9% of share capital, but their portion in this structure decreased by 3.3 percentage points. Meanwhile the share of state capital grew by 16.6 percentage points to 29.7%.

Assets and Investments of Non-life Insurance Undertakings

Over 2010, the assets of non-life insurance undertakings grew by 1.9% to LTL 1,506.4 million. The investment portfolio dropped by 0.4%, totaling LTL 1,150.1 million in 2010. At the end of the year, GDS accounted for 57.9% of the total investment portfolio held by non-life insurance undertakings. The share of GDS decreased by 8.3% over the year, corporate DS comprised 13.7%, investments in term deposits grew by 14.8% to 7.8% of the total portfolio, and immovable property comprised 7.4% of the portfolio. In 2010, non-life undertakings also opted for the types of investments associated with higher risk - investments in shares grew by 42.7%, but they account for only 1.9% in the structure of the corporate investment portfolio.

Assets covering the insurance technical provisions are invested in line with legislative restrictions. At the end of 2010, GDS accounted for 72% of such investments. One year before, 70.9% of assets covering the insurance technical provisions were invested in GDS.

Over the year, return on investment decreased from 6.1% to 4.4%.

Solvency of Non-life Insurance Undertakings

At the end of 2010, the technical provisions of all non-life insurance undertakings were 100% covered by assets in line with legislative provisions.

The solvency ratio of non-life insurance undertakings, which shows whether insurance undertakings have sufficient own capital to cover the risk assumed, grew to 2.5 over 2010 as compared to 2.3 in 2009. The solvency ratio increased following a decrease in the risk assumed, i.e. the volume of insurance activity.

Loss and Expense Ratios of Non-life Insurance Undertakings

The loss and expense ratios largely depend on the development cycle of insurance market. During the growth period of insurance market the ratios are improving, whereas in the times of recession, when the volume of premiums written drops, expenses do not decrease as quickly and loss ratios head upwards. Having seen an even 15.0% drop in 2010, the core revenue of undertakings - premiums earned - determined the increased loss and expense ratios: the loss ratio increased by 3.8 percentage points to 66.4% whereas the expense ratio saw a 1.9% rise to 39.7%. The combined ratio¹³, net of reinsurance, grew by 4.8 percentage points over the year and stood at 108.6%.

The loss and expense ratios of MTPL insurance were changing differently: the loss ratio, net of reinsurance, dropped from 71.5% to 68.3%; the expense ratio increased from 34.2% to 34.4%; and respectively the combined ratio stood at 106.1% in 2010. Compared with 2009, the result of MTPL insurance improved as the combined ratio comprised 114.2% in 2009.

Reinsurance Ceded of Non-life Insurance Undertakings

In 2010, reinsurance premiums rose by 1.7% and the reinsurance ratio was 6.7% (in 2008, this ratio comprised 13.3%). The risks of relatively small insurance classes such as liability for ships (sea, lake, river and canal), ships (sea, lake, river and canal), goods in transit and aircraft insurance are reinsured; respectively 37.9%, 33.4%, 33.1% and 32.4% of premiums in these classes of insurance were ceded to reinsurers. Of the insurance classes with a larger market share, the risk assumed within the

¹³ The combined ratio comprises the loss ratio (insurance claims paid), operating expense ratio and the ratio of the fee to the Motor Insurers' Bureau. Where this ratio exceeds 100%, this means that the insurance undertaking incurs loss from insurance activity (expenses of claims paid, operating expenses and expenses of the fee to the Motor Insurers' Bureau exceed premiums earned).

Figure 55. Investment Portfolio of Non-life Insurance Undertakings by Financing Source as of 31 December 2010, %

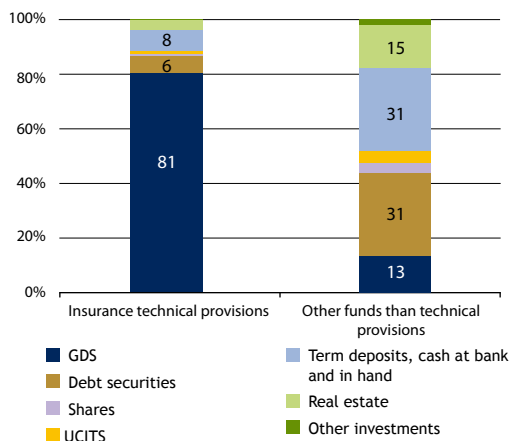


Figure 56. Loss and Expense Ratios of Non-life Insurance Undertakings, Net of Reinsurance, %

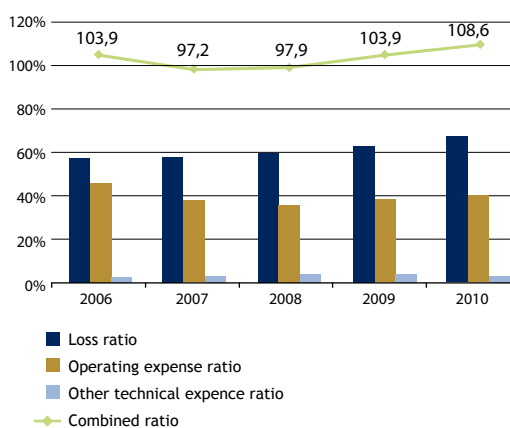


Figure 57. States Where Non-life Insurance Risk Was Reinsured in 2010, %

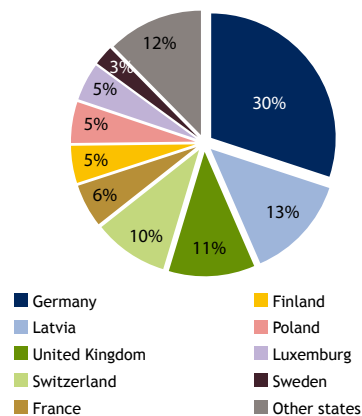


Figure 58. Breakdown of Result of Activity of Non-Life Insurance Undertakings in 2010, m LTL

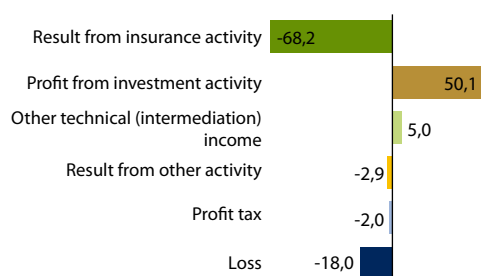
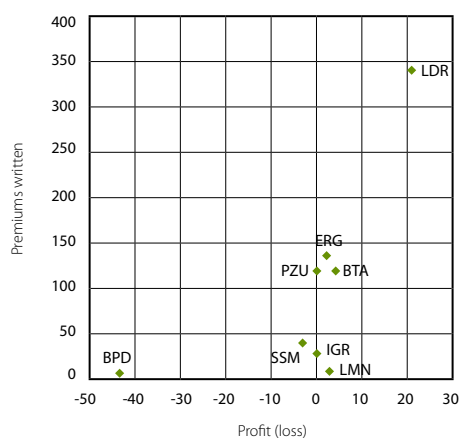


Figure 59. Profit (Loss) of Non-life Insurance Undertakings in 2010, m LTL



BTA: BTA draudimas
 BPD: Būsto paskolų draudimas
 ERG: ERGO Lietuva
 IGR: Industrijos garantas
 LMN: Lamantinas
 LDR: Lietuvos draudimas
 PZU: PZU Lietuva
 SSM: Seesam Lietuva

class of suretyship insurance recorded the highest level of reinsurance - within this class reinsurance premiums comprised 30.7% of the volume of premiums written. Not all non-life insurance undertakings reinsure their risks: in 2010, the share of reinsurers in premiums written ranged from 0% to 15%.

In 2010, the highest portion of risks were reinsured in Germany (30%), Latvia (13%), the United Kingdom (11%) and Switzerland (10%).

The reinsurance result of non-life insurance undertakings was LTL 35.3 million losses in 2010. In comparison, the reinsurance result was LTL 25.1 million losses in 2010.

Results of Activity of Non-life Insurance Undertakings

In 2010, non-life insurance undertakings incurred losses in the amount of LTL 18.0 million, although they earned LTL 30.7 million in profit in 2009. Last year the activity of 6 insurance undertakings was profitable and two generated loss, one of them in the amount of LTL 44.5 million. The loss of insurance activity, which increased 2.7 times to LTL 68.2 million, was the main reason for the total loss of LTL 18.0 million.

The financial indicators of insurance undertakings were changing according to the cycle of the insurance market: during the recession in the insurance market insurers' profit did not experience a substantial decrease, but the effects of the crisis were reflected in the results of the subsequent periods. As the flow of concluding contracts ceased during the slowdown of the economy, for some time income was generated from previously concluded contracts. The decreased volume of the insurance market enabled formation of smaller reserves whereas released assets covered the expenses of undertakings. All this had a short-term positive effect on the financial results of undertakings. In 2010, despite the efforts of insurance undertakings to cut costs, income, i.e. the level of insurance premiums, continued dropping and insurers had used the additional reserves for covering the losses (the equalisation provision) back in 2009.

In 2010, the highest loss (LTL 44.2 million) was incurred within the class of credit insurance. The classes of motor insurance were also loss-generating, their losses stood at LTL 33.1 million for Casco insurance and LTL 16.7 million for MTPL insurance respectively. In 2010, the best result was achieved within MTPL insurance - this insurance class was always loss-generating for insurers, but the loss incurred last year was the lowest from the start of this activity. In contrast, the loss from Casco insurance was increasing. In 2010, profitable classes of insurance included property (LTL 11.5 million), suretyship (LTL 7.7 million) and health insurance (LTL 5.9 million).

In 2010, the LTL 50.1 million profit generated from investment activity, which underwent a 30.7% drop compared to 2009, did not cover the loss from the core activity, insurance.

Recovering economy did not leave insurance intermediaries aside. “Starving” insurance broker companies used their chances to recover and in 2010 demonstrated a faster growth of their business compared to the entire insurance market. Flexibility and professionalism, again, were and are the qualities which guarantee the position of insurance broker companies in the insurance market.

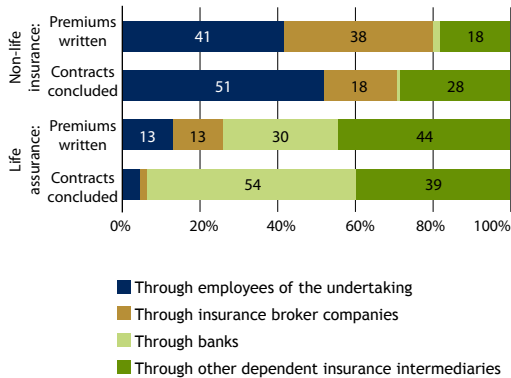
Increasingly proactive participation of insurance brokers in the conclusion of life assurance contracts may be viewed as a particularly positive development. This will enable consumers of insurance services to get qualified and independent advice when purchasing one or another life assurance product.

Looking ahead, the new provisions of the new EU directive on insurance intermediation will undoubtedly bring some positive change and clarity. Although directly these provisions will start applying well after 2011, proactive contributions of insurance intermediaries, insurance undertakings and supervisory authorities in the process of developing those provisions already now are implementing the goals of future regulation at a certain level and are shaping the adequate approach and understanding of market players.

Darius Andriukaitis,
Member of the Commission

Insurance Intermediaries

Figure 60. Sales Channels of Insurance Products in 2010, %

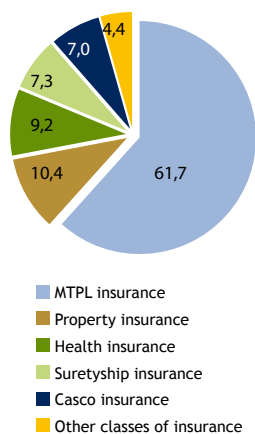


In view of the constantly developing economic legal relations of insurance and insurance mediation, at the beginning of 2010, the European Commission initiated a review of the provisions of Directive 2002/92 of the European Parliament and of the Council of 22 December 2002 on insurance mediation. The European Commission declared it sought modernisation of the directive on insurance mediation, improvement of consumer protection and removal of the barriers standing in the way of the functioning of the common EU insurance market. With a view to ensuring equal competition conditions for all market players and a unified level of consumer protection, the European Commission intends to expand the scope of this directive by including direct sales channels of insurance products. In addition, there are plans to include special provisions that ensure protection of interests in respect of Packaged Retail Investment Products (PRIPs).

In 2010, as in the previous year, in terms of sales of insurance products the services of insurance brokers were used more frequently to conclude non-life insurance contracts: 18% of insurance contracts were distributed and 38% of premiums were written through insurance brokers. More than half (51%) of non-life insurance contracts are signed through the employees of an insurance undertaking. One year before 52% of contracts were concluded via this channel. Employees, however, work more with smaller contracts, therefore, the share of contracts concluded through them exceeds the share of premiums written (41%).

The commercial banks channel is most frequently used for life assurance contracts. Through them over 54% of life assurance contracts were signed in 2010. One year before this figure was 56%. The portion of premiums written via commercial banks grew by 2% to 30% over the year. The highest share of premiums under life assurance contracts is written through other dependent insurance intermediaries, 44% (47% in 2009).

Figure 61. Portfolio of Insurance Contracts Concluded in 2010 under the Mediation of Insurance Brokers by Classes of Insurance, %



Independent Insurance Intermediaries

An insurance broker is an independent and competent expert who represents the interests of the policyholder. Approximately one in five Lithuanian policyholders buys an insurance product through an insurance broker. In other countries with more mature insurance markets the role of insurance brokers is viewed positively, realising that those are unbiased professionals who can evaluate the needs of the client in an objective way and offer the best solution. In the Lithuanian insurance market the quality of brokerage services is looked upon ambiguously at times, therefore it is only their professional performance that can dispel those doubts.

In 2010, 860.0 thousand contracts were concluded under the mediation of insurance broker companies, which represents a 13.7% year-on-year rise. Broker companies mediated in signing 858.7 thousand non-life

insurance contracts and 18.4% of all contracts concluded in the market of this class of insurance.

Using the services of independent intermediaries for life assurance contracts is not frequent, and yet in 2010 the number of life assurance contracts signed under the mediation of broker companies almost doubled (1,317) compared to 2009. This accounted for 1.96% of all life assurance contracts concluded in the insurance market.

There were all but slight changes to the structure of the portfolio of contracts distributed via independent insurance intermediaries. Insurance class MTPL insurance, as normally, accounted for the highest percentage of contracts concluded through insurance brokers (61.7%). Property insurance took the second place (10.4%) and the health insurance class ranked third (9.2%).

Over the year, insurance contracts for UAB BTA draudimas (18,1% of total contracts concluded via independent insurance intermediaries), AB Lietuvos draudimas (16.9%) and UAB DK PZU Lietuva (11.9%) recorded the highest level of intermediation. Insurance broker companies provided mediation services not only in Lithuania, but also in other states: in 2010, they distributed the insurance policies of 80 insurers (60 in 2009).

At the end of 2010, 101 insurance broker companies were operating in the insurance market. In 2010, the Herfindahl-Hirschman index increased by 35 points and stood at 236. This shows the unconcentrated insurance broker market.

In 2010, the income of insurance mediation underwent a 0.1% year-on-year drop and amounted to LTL 7 3.5 million. The sales of as many as 18 insurance broker companies that were present on the market surpassed one million litas. The total income of these companies accounted for 66.2% of total income. In 2010, 5 insurance broker companies increased their authorised capital, by a total of LTL 615,000.

Figure 62. Portfolio of Insurance Contracts Concluded in 2010 under the Mediation of Insurance Brokers by Insurance Undertakings, %

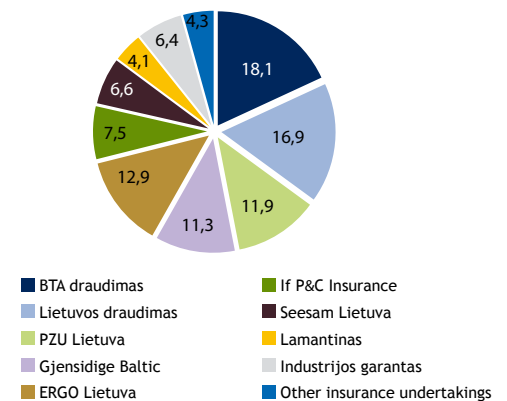
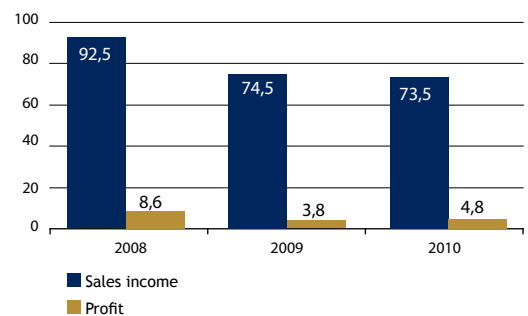


Figure 63. Sales Income and Profit of Insurance Broker Companies, m LTL



Activities of the Insurance Supervisory Commission

Mission and Vision

The mission of the Insurance Supervisory Commission is to carry out state supervision of the insurance market in a professional way, to ensure reliability and stability of the insurance market and consumer protection as well as to contribute proactively to the formation and implementation of state insurance and insurance supervision policy.

ISC seeks to be an institution whose experienced and qualified staff performs and carries out clear, transparent and consistent supervision and legal regulation of the insurance market in line with the best practice of insurance supervision and with advanced international standards and cooperation values.

In the light of the changing legal environment, rapid development of financial markets and changes in the organisational model of insurers' activity, the priority of ISC is to ensure stability and reliability of the insurance market through risk based supervision, fair treatment of consumers by market players and the opportunity for consumers to exercise their rights.

Functions of the Insurance Supervisory Commission

In compliance with the provisions of the Law on Insurance, ISC carries out supervision of the activities of insurance undertakings and insurance broker companies established in the Republic of Lithuania:

- carries out legal regulation of the activities of participants of the insurance market;
- grants and revokes insurance and insurance brokerage licences;
- observes, analyses, checks and supervises otherwise the operations of market participants and their compliance with laws and other legislation;
- organises qualification examinations for insurance brokers;
- cooperates with competent authorities, financial and capital market supervisory agencies, competition and consumer rights protection agencies and associations of insurers and insurance intermediaries of the Republic of Lithuania, other EU Member States and other countries;
- represents the interests of the Republic of Lithuania at EU institutions and their working bodies;
- informs the public about performance of ISC functions and relevant changes in the insurance system.

Legal Regulation

To enforce the provisions of the Law on Insurance and other laws governing insurance and the insurance mediation activity, in 2010 ISC passed 17 implementing regulations, i.e. resolutions, and was highly involved in the drafting of laws of the Republic of Lithuania and of EU legislation.

More Stringent Regulation of the Sales of Life Assurance Products

With Resolution No. N-196 of 1 June 2010, ISC approved Compulsory Instructions for Identifying the Needs of Persons Intending to Conclude a Life Assurance Contract, Assessing the Adequacy of the Offered Product and Communicating the Terms of the Life Assurance Contract, which must be applied to all market participants engaged in life assurance activity and to independent insurance intermediaries as of 1 January 2011. These instructions provide a procedure for identifying the needs of individuals who intend to enter into a life assurance contract and for determining the adequacy of the product offered as well as requirements for the information which must be provided to customers before they enter into a life assurance contract. The key points of this resolution are as follows:

- An insurance undertaking (its authorised representative) or an independent insurance intermediary must collect information required for identifying the essential facts about the customer's needs and for assessing the adequacy of the insurance product from the customer.
- An insurance undertaking (its authorised representative) or an independent insurance intermediary, after reviewing the collected information about the customer, must provide the customer with an offer of a life assurance contract which meets the identified needs. Where the offer is to conclude a contract of life assurance related to investment funds (when the policyholder bears the investment risk), an insurance undertaking (its authorised representative) or an independent insurance intermediary, after reviewing the collected information about the customer, must have sufficient grounds to assume that the specific contract offer meets the contract conclusion goals sought by the customer and that the customer has sufficient understanding of the risk characteristics of a unit-linked life assurance contract.
- An insurance undertaking (its authorised representative) or an independent insurance intermediary must, in a timely manner, inform customers about the terms of the life assurance contract and provide the customer with essential information in writing or in any other form requested and accepted by the customer (other than orally) before they enter into a life assurance contract and must ensure sufficient time for the customer to become conversant with the said information.
- Disclosure of information must be adequate and complete: the customer must be supplied with all relevant information in connection with the terms of the life assurance contract and the use of misleading information must be avoided.

An Enhanced System of Reporting to the Supervisory Authority

On 3 August 2010, ISC revised the procedure for reporting by the insurance market participants to the supervisory authority (resolutions No. N-287, N-289, N-290, N-292, N-293). These resolutions relate to the new information system for collecting, processing and analysing data on the insurance market and should enhance provision of data to the supervisory authority.

Branches of EU Insurance Undertakings to Provide Data on Compulsory Insurance Activity

Passed on 29 June 2010, Resolution No. N-247 of ISC expanded the obligation to furnish ISC with data on compulsory insurance activity to branches of EU insurance undertakings.

The Framework of Compulsory Insurances was Approved

Representatives of ISC contributed to the drafting of the compulsory insurances framework, which the Government of the Republic of Lithuania approved by Resolution No. 1789 of 15 December 2010. Implementation of the provisions of the framework will result in ensuring consistency and simplicity of the legislative base, thorough analysis of the market before taking any decisions and coordination of the terms of compulsory insurances with the market participants concerned, thus ensuring the unity of rights and interests. After the provisions of the framework have been put into practice, the compulsory classes of insurance are likely to become more attractive to insurers whereas policyholders will appreciate the need for and benefits of insurance coverage. The system of compulsory insurances will allow for ensuring protection of the rights of aggrieved third parties and are likely to produce a positive impact on the country's economy.

Proposals Regarding the II Pillar Pension Benefits System were Drafted

With participation of ISC, the Law on the Accumulation of Pensions, the Law on the Additional Voluntary Accumulation of Pensions, the Law on the Accumulation of Occupational Pensions and the Law on Reform of the Pension System were drafted.

This package of legislative revisions aims to improve the existing pension accumulation system by cutting a participant's costs of accumulation in II Pillar pension funds, by reducing, where possible, the administrative burden for pension accumulation undertakings, by more explicit legal regulation of pension benefits, by legislating the procedure for the centralised choosing pension annuity payer and by improving the regulation of the activities of pension funds (see Box 2).

The Requirements of Solvency II were transposed to the Law on Insurance

2009 metais Europos Parlamentas ir Taryba pritarė Direktyvai 2009/138/EC, the European Parliament and the Council adopted Directive 2009/138/EC on the taking-up and pursuit of the business of insurance

and reinsurance (Solvency II), which will take effect on 1 January 2013 and will define risk based requirements for the management and capital adequacy of undertakings. With assistance from EIOPA, the European Commission drafted level 2 implementing measures that are planned to be approved before the autumn of 2011 after choosing the form of the regulation. EIOPA is now in the process of drafting level 3 implementing measures.

In view of the planned regulatory changes and with contributions from ISC specialists a law on the amendment of the Law on Insurance of the Republic of Lithuania was drafted, to which the most important provisions of the Solvency II Directive were transposed. The requirements of “Solvency II” will be provided in more detail in the implementing legislation to be drafted in the coming year taking account of level 2 and 3 implementing measures.

Box 2. Improvement of the II Pillar Pension Benefits System

To optimise operation of the pension benefits system, the draft law on the amendment of the Law on Pension Accumulation of the Republic of Lithuania proposes to:

- Reduce the threshold for the single benefit: only in case an individual’s accumulated pension assets are lower than 30 state social insurance base pensions (hereinafter referred to as base pension) can they become entitled to a single benefit (according to the currently applicable legal regulation a single benefit is available when the amount accumulated in the pension fund does not exceed the obligation threshold of pension annuity, i.e. LTL 27,008 (at 62 years of age for males) or LTL 41,008 (at 60 years of age for females).
- Legislate a new type of pension benefits - a periodic benefit in the amount of 0.5 base pensions that would be equal for all participants whose accumulated pension assets exceed 30 base pensions but are lower than the obligation threshold of pension annuity. Such a level of the pension benefit will enable protection of accumulated funds from their rapid decrease and ensuring payment of periodic benefits almost until the end of life of the former participants (in cases when sufficiently large amounts have been accumulated).
- Change the obligatory threshold of pension annuity - the latter would be linked to 0.75 instead of 0.5 (as currently) of base pension with regard to the fact that administration of higher pension annuities by a life assurance undertaking would be more cost-efficient.
- Provide for the right of a participant of the pension accumulation system to postpone the start of payment of the benefit for not more than 5 years. This could enable ensuring implementation of the solidarity principle by obligating persons who do not buy a pension annuity for specific reasons to become participants of the pension annuity market and to take part in the process of redistributing ageing risk, which could have a positive effect on the price of pension annuities. For a period of 5 years an individual could receive periodic benefits. Such an opportunity provided in the law could reduce the acuteness of problems concerning individuals with lethal diseases and the so-called time risk (when pension annuity must be acquired in the period of low interest rates).
- Legislate standardised types of pension annuity (fixed-rate pension annuity; pension annuity where payment of pension benefits is guaranteed for the defined period or a 2 per cent increasing pension annuity), one of which and the payer of pension annuity the individual could choose using the centralised information system. A reorganised process of selling pension annuities could become more transparent and could increase competition between insurance undertakings, which could result in lower prices for pension annuities.

Licensing

In February 2010, the insurance licence of AB Swedbank gyvybės draudimas expired. As of the beginning of 2010, all operations of AB Swedbank gyvybės draudimas are continued under the name of Swedbank Life Insurance SE through its branch registered in the Republic of Lithuania.

In 2010, 10 insurance broker licences were issued and such licences were cancelled for 5 undertakings.

Arrangement of Qualification Examinations for Insurance Brokers

In 2010, ISC held 3 qualification examinations for insurance brokers. A total of 110 insurance brokers was included into the list of insurance brokers and 62 persons no longer engaged in the insurance brokerage activity were excluded from that list.

Supervision and Inspections of Insurance Undertakings and Insurance Intermediaries

ISC carries out continuous supervision of market participants through on-site inspections and based on financial and statistical reports of undertakings and other information made available to the supervisory authority (business plans, actuary's reports, information on the managing bodies of the undertaking).

In 2010, a stress test of insurance undertakings was carried out in order to find out whether the condition of insurance undertakings would remain stable in the event of negative developments in their surrounding environment: reduced income and investment value, increased loss ratio or a catastrophe. The results of the test showed that undertakings normally have sufficient accumulated reserves and manage the risk assumed, but subjected to a sequence of extra-unfavourable events some companies may face difficulties. The results did not signal a threat to the stability of the insurance market, but to prevent abrupt development of unfavourable scenarios periodic testing of undertakings is planned and the test scenarios will be developed based on the experience of reports of EU countries. The results of such tests and of the analysis of reports of undertakings to the supervisory authority are used to identify high-risk companies and the business fields demanding special focus.

In 2010, the Life Assurance and Non-life Insurance divisions of ISC carried out 4 planned inspections of insurance undertakings, 3 of which were integrated and 1 targeted assessment. Inspections are mostly focused on the adequacy of the reserves formed by insurers, i.e. insurance technical provisions, and on evaluating other areas associated with the financial standing of the company and the quality of its management system. The key observations from inspections carried out in 2010 related to

the drawbacks of the management system, internal control and internal audit.

In 2010, the ISC Insurance Intermediaries division carried out 10 inspections of insurance broker companies, 8 of which were planned integrated and 2 unplanned targeted inspections. The principal infringements recorded during inspections were related to the keeping of accounts, the compulsory separate account for transferring the assets of policyholders, insured individuals, beneficiaries and injured third parties and insurers' assets intended to be paid out to those individuals as well as to the information that insurance brokers must provide to the customers.

On an annual basis ISC holds meetings with heads of insurance undertakings to discuss the important aspects of the insurance market that may have significant impact on the business results of insurance undertakings and on the financial stability of the entire insurance market. Apart from the issue of compulsory MTPL insurance, which had been the focus for years, in 2010 attention turned to the results of another class of motor insurance, Casco. Accounting for half of the whole non-life insurance market, transport insurance is the key source of income for non-life insurance undertakings, therefore a higher loss ratio in this area may turn detrimental to the financial standing of insurance undertakings. For this reason ISC devoted special attention to the activities of MTPL insurance and Casco insurance and calls insurers to look at the risk assumed with more attention.

With a view to ensuring efficient supervision of the pension accumulation activity performed by life assurance undertakings, data of quarterly financial accounts and monthly statistical reports of the pension funds managed by life assurance undertakings are collected, systematised and analysed and supervision over conclusion of investment transactions of pension funds is carried out.

The last crisis showed that insurers must have incentives to manage risk and capital and that macro prudential supervision must be reinforced, i.e. it is important to evaluate risk at a broader level not limited to a single company and to geographic boundaries or individual financial sectors as well as to take account of the interaction of the insurance market and other financial sectors. In the last few years, the world has focused on macro-prudential measures, i.e. measures intended for limiting and reducing the systemic risk of financial institutions. This should prevent crises or at least mitigate the potential effects of financial crises. Insurers' increasing connections with banks and the trend to engage in non-traditional insurance activity have raised discussions about the emergence of systemic risk in the insurance sector. On the other hand, Solvency II will help to identify the risk of an individual insurer and to take preventive action to avoid or reduce it.

In view of the fact that the Solvency II Directive will bring substantial changes to the business and supervision of insurance undertakings, preparation to apply it is considered a priority area. Insurers are taking part in the Quantitative Impact Studies of the future solvency requirements and ISC is collecting information about the preparedness of insurance undertakings to comply with the requirements laid down in the Solvency II Directive (see Box 3).

Box 3. Preparation for Solvency II Requirements

In order to evaluate the impact of the requirements of Solvency II and of the level 2 implementing measures on the capital of insurance and reinsurance undertakings, to encourage insurance and reinsurance undertakings and the authorities performing insurance supervision to be more proactive in implementing the process of preparing for the requirements of the Solvency II Directive and to identify improvement areas, in 2010 the fifth Quantitative Impact Study (QIS) was carried out in the EU. ISC prompted insurance undertakings to take part in QIS5, as this is one of the tools to facilitate assimilation of the requirements of the new regime for undertakings.

Nearly 70% of all insurance and reinsurance undertakings in Europe and over 90% of insurance undertakings in Lithuania took part in QIS5. In comparison with QIS4 both in Europe and Lithuania, the number of participants grew by one third.

The insurance undertakings which took part in QIS5 had to evaluate a much wider range of risk that could cause unexpected losses compared to what they have to evaluate according to the existing requirements (Solvency I). For this reason the requirements for insurers' capital doubled in Lithuania. Testing of insurers according to Solvency II criteria showed that on the assumption that other conditions stay unchanged, several insurance undertakings seeking to comply with grown requirements should increase their capital by LTL 2 0 million, which would account for 2.4% of the total capital of insurance undertakings. Based on the results of the test, insurers have already taken action, reviewed their business strategies and made up their mind about the corresponding form of activity. The said changes taken into account, the solvency ratio of all insurance undertakings registered in Lithuania and intending to offer insurance services met the requirements of Solvency II according to the test results.

Apart from the new quantitative requirements, the provisions of the Solvency II Directive cover essential qualitative changes in the field of corporate management and define higher requirements for the information of undertakings made available to the public. In view of this, in 2010, ISC obligated insurance undertakings to carry out an analysis of compliance of their respective business areas with the requirements of the Solvency II Directive. In addition, they had to provide a plan of preparation to implement the requirements of the Directive, which had to include preparation phases before the start of implementation of the Directive with formulated goals and tasks of the corresponding phase and drafted action plans to eliminate the drawbacks found during the compliance analysis, defined deadlines and persons in charge.

Solvency II means quantitative and qualitative risk based solvency requirements for all EU Member States. These requirements will be much more sensitive to risk and more sophisticated than before as they will facilitate identification and absorption of the insurer's risk. The Solvency I framework looks at insurance risk only while Solvency II will require having additional capital for market, credit and operational risk, will apply the total balance sheet approach and will take account of all risks and interrelations between them. However, the new requirements also emphasise that capital is not the only or best tool for reducing insolvency risk and rather stress the importance of identifying, assessing and managing risk. According to the prudent person principle insurers will have to diversify their investment adequately to reduce their risk down to a level that they can understand and manage. Based on Solvency II insurers will be required not only to calculate insurance requirements using historic data and to comply with legislative provisions, but also to perform continuous assessment and management of risk on their own, to take account of the planned future events, new products and potential catastrophes that may affect their financial situation and thus to identify the need for capital (Own Risk and Solvency Assessment (ORSA)).

According to Solvency II supervision by controlling compliance and capital adequacy (compliance based supervision) will transform into supervision by evaluating the risk assumed by the insurer and the quality of its management system (risk based supervision).

Protection of Consumer Rights and Interests

In 2010, ISC received 449 complaints from residential and business customers regarding the supposedly low quality of insurance services. Over the year, this number shifted slightly upwards, by 5.9%. A total of 341 disputes between consumers of insurance services and insurers was processed, of which 37 consumer claims were satisfied, 12 partially satisfied and 68 dismissed, 178 disputes were not addressed due to incompliance with procedural requirements of the complaint or with other terms of complaint processing, and 42 complaints were settled (in the process of dispute resolution insurance undertakings reached agreements with consumers or accepted their requirements). In comparison to 2009, the number of disputes increased by nearly 20%. Such growth in disputes is associated with consumer education carried out by ISC on consumer rights protection and with increasing public awareness of ISC. More proactive protection of one's rights is ensured through easy accessibility of the dispute resolution service and growing legal awareness of consumers.

In 2010, 108 complaints of natural persons and legal entities regarding the administrative actions of insurance undertakings were investigated, where in 17 cases legal infringements were found and a recommendation was provided to the insurance undertaking, in 56 cases no legal infringements were found, in 32 cases the processing of the complaint was discontinued at the request of the applicant and 3 disputes were not processed due to procedural obstacles.

Compared with 2009, the number of complaints regarding insurers' activity decreased by 22.3%. The decreasing number of complaints shows the growing professionalism of insurers in administrating insured events and a greater focus of insurance undertakings on the quality of handling insured events. In addition, it should be noted that both applicants and insurance undertakings tend to choose a peaceful way of addressing problems as in 46 cases the dispute and complaint processing procedures started by ISC were terminated at the request of applicants.

Most complaints relate to the most popular insurance classes, i.e. MTPL insurance and Casco. The most frequent subject of complaint was refusal to pay or delayed payment of the insurance benefit, the level of benefit, non-provision of information about the process of investigating the event and sometimes, ambiguous terms of insurance contracts.

78% of complaints and disputes submitted to ISC in 2010 were related to discontent with the activity of insurance undertakings registered in Lithuania and the remaining 22% were about the actions of branches of EU insurance undertakings - such distribution corresponds to the share ratio of the insurance market between insurance undertakings and branches of EU insurance undertakings.

Provision of Information to the Public

ISC regularly carries out analysis of the activity of insurers (based on financial and statistical reports) and then posts its conclusions along

with aggregated statistical and financial data of insurance undertakings registered in the Republic of Lithuania and branches of EU insurance undertakings on its website.

Furthermore, ISC performs analysis of the insurance market and pension funds in Lithuania, the EU and other countries, compares the indicators of those markets and forecasts development and expansion opportunities and trends of the Lithuanian insurance market.

On a monthly basis, the public is presented with the monthly overview “Insurance Market” with current aggregated statistics on the changes and trends of the insurance market. Each year the annual publication “Insurance in Lithuania” is released in Lithuanian and English, which reviews the situation of the insurance market, compares it with the world’s other insurance markets and provides an activity report of ISC. In addition, ISC issues a statistical bulletin, where, apart from detailed statistics of the insurance market, consumers can find the financial indicators of insurance undertakings. Twice annually ISC submits a report to the Government of the Republic of Lithuania on how ISC implements its main goal and functions and on the situation of the insurance system. Each quarter ISC prepares overviews on the financial standing and business profitability ratios of insurers and on the key factors that affected or may affect in the future the business results of insurers. ISC regularly provides information on the development trends and financial stability of the insurance market to media.

The ISC website periodically features aggregated statistics of insurance broker companies. With a view to warning the policyholders that when they choose the services of independent insurance intermediaries (insurance brokers) and want to receive the best insurance offer they should pay more attention to the offered insurance contracts and request insurance brokers to substantiate their offers, ISC publishes information on insurance broker companies which sell the highest amount of products of specific insurance undertakings.

The ISC website provides answers to the most frequently asked questions of policyholders. Based on those questions the “Policyholder’s Guide” is supplemented with new information regularly.

At the beginning of 2010, the educational publication “Guide to Financial Services” was prepared and published at the initiative of the Lithuanian Consumer Institute with contributions from ISC employees. The publication introduces consumers, in a simple and comprehensive way and with examples, to the key financial services (personal finance management, saving and investing tools, pension funds, insurance, loans), explains their features and focuses on the essential aspects.

In addition, ISC runs regular public awareness projects: holds conferences (about the processing of disputes between consumers and insurers and complaints, financial results of insurance undertakings) and initiates articles on consumer protection and insurance.

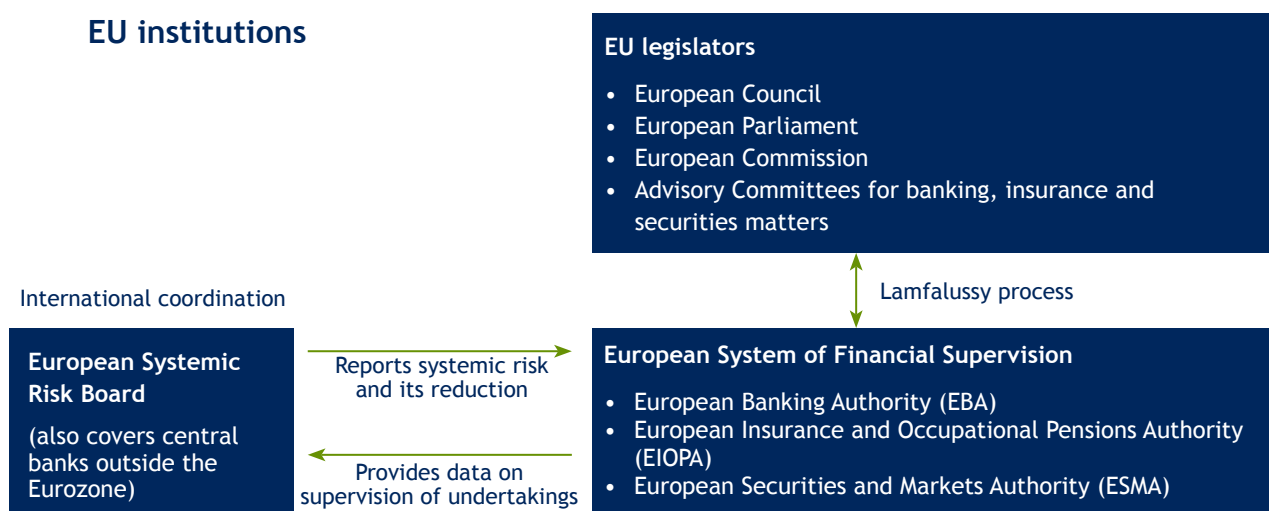
International Cooperation

ISC contributes proactively to the activities of EIOPA (European Insurance and Occupational Pensions Authority), which replaced CEIOPS as of 1 January 2011. EIOPA is part of the European System of Financial Supervision consisting of three European Supervisory Authorities (for the banking, securities and insurance and occupational pensions sectors) and the European Systemic Risk Board (see Box 4). EIOPA's core responsibilities include supporting the stability of the financial system, transparency of markets and financial products as well as protecting insurance policyholders, pension scheme members and beneficiaries. EIOPA is charged with the monitoring and identifying trends and the potential risk emerging at the macro-level between individual states and individual sectors. In order to take account of the specific conditions in national markets, national supervisory authorities are involved in the European Financial Supervision System. EIOPA is managed by the Board of Supervisors, which unites the national supervisory authorities of individual EU Member States in the field of insurance and occupational pensions

Participation in EIOPA working groups is important in terms of receiving the latest information on the improvement of the legal system which regulates insurance and the opportunity to influence decisions regarding adoption of that legislation so that the specific features of the Lithuanian insurance market are taken into account when drafting new legislation. ICS representatives are involved in the following EIOPA working groups and committees:

- Solvency II Financial Requirement Expert Group for the assessment of insurance technical provisions and assets and capital requirements for undertakings;

Figure 64. Structure of the European System of Financial Supervision



- Solvency II Internal Governance, Review and Reporting Expert Group for supervisory processes and actions, management and control of insurance undertakings, power of supervisory authorities, suitability and reliability of management bodies and shareholders of insurance undertakings, assessment of activities by supervisory institutions, solvency control levels, reinsurance, and other measures mitigating risk;
- Solvency II Internal Models Expert Group, whose aims include to prepare proposals regarding the structure of internal models and their approval procedures in calculating the solvency capital requirements for the insurance undertaking or group of insurance undertakings;
- Insurance Groups Supervision Committee regarding the supervision of groups of insurance undertakings within the framework of Solvency II, the harmonisation of the insurance group supervision process, and cooperation of supervisory authorities in carrying out the supervision of cross-border groups;
- Occupational Pension Committee regarding the implementation of Directive 2003/41/EC of 3 June 2003 of the European Parliament and of the Council on the activities and supervision of institutions for occupational retirement provision;
- Consumer Protection and Financial Innovation Committee. The aim of the Committee is to seek that the variety of insurance products is useful for consumers, to improve information disclosure requirements and financial education to enable consumers to make informed decisions. The Committee also continues the work started by the Insurance Intermediaries Experts Group regarding the behaviour of insurance intermediaries in the market;
- Financial Stability Committee, whose tasks include: to offer macro-supervision measures, produce research and reports on financial stability, contribute to the systemic risk assessment, collect data that characterise the situation in the insurance market and risk and prepare stress tests of the insurance market;
- Review Panel, whose aim is to arrange evaluation of specific supervision areas periodically in pursuit of consistency and uniformity of the supervision process in individual states;
- Insurance Guarantee Schemes Working Group, whose aim is to advise the European Commission in taking decisions regarding insurance guarantee schemes.

The Chairman and Deputy Chairman of ISC are members of EIOPA Board of Supervisors. ISC provides information for the financial stability reports prepared by EIOPA, which offer the status analysis and development prospects of the European insurance sector, takes part in the EIOPA forum, where the supervisory authorities raise relevant issues of insurance supervision and share the practice of their implementation.

At the EIOPA Convergence Committee, ISC initiated a discussion on the preparedness of EU insurance supervisory authorities to implement Solvency II. The Committee conducted a survey of the members aimed

at sharing best practice and to find out what results were achieved in this field and what the future plans are as well as to identify the future need for resources and/or legal powers. This survey will also help to plan future actions on the EIOPA level (cooperation, training, staff exchange, development of guidelines and other Level III measures).

ISC is also represented at ESRB, which is responsible for the macro-prudential supervision of the financial system within the EU and for reduction and prevention of systemic risk in pursuit of financial stability. Operating since 1 January 2011, ESRB will collect and analyse all required information, provide risk warnings and offer recommendations on how to reduce it as well as follow up on those recommendations. Although decisions made by ESRB will not be legally binding, if they are not followed, Member States will have to state their reasons.

In the field of supervising cross-border operations of insurance undertakings, ISC develops cooperation with the supervisory authorities of other EU Member States according to the Communities (revised Siena), Helsinki and Luxembourg protocols that govern the exchange of information relating to the supervision of insurance undertakings, groups of insurance undertakings and insurance intermediaries. As undertakings of other EU Member States expand activities in Lithuania, efficient cooperation between the competent authorities of EU Member States is necessary to ensure proper protection of policyholders, and adequate transfer of the rights and obligations of insurance undertakings as well as their reorganisation and liquidation. In order to implement those goals, ISC must have at its disposal sufficient information about the insurance undertakings which have branches operating in Lithuania. This resulted in the drafting of guidelines for cooperation with the supervisory authorities of insurance undertakings in other EU Member States that have branches operating in Lithuania, which define at what level and on what terms supervisory authorities should exchange data on insurance undertakings, inform about the potential actions of a supervisory authority in respect of an undertaking and about planned decisions. In addition, there are plans to hold regular meetings to discuss all relevant issues. In 2011, ISC signed an agreement with the financial supervision authority of the Republic of Lithuania regarding closer cooperation in the field of supervision over insurance undertakings engaged in cross-border activity as the insurance undertakings of namely this country have the greatest number of branches operating in Lithuania. After cooperation guidelines have been agreed with the Estonian financial supervision authority, discussions will continue with other countries.

While expanding cooperation with the public authorities of other countries, ISC analysed and sought acceptance of the draft Memorandum of Understanding on Cooperation on Cross-border Financial Stability and Crisis Management between Relevant Ministries, Central Banks and Financial Supervisory Authorities of the Baltic and Nordic States.

Seeking to implement the most recent insurance standards and to apply the most advanced methods of supervision, ISC participates in the activities of the International Association of Insurance Supervisors (IAIS), which unites 190 insurance supervisory authorities in over 140 states when drafting the IAIS principles and guidelines and approving action plans and drafting other IAIS documentation.

Box 4. New Structure of the EU System of Financial Supervision

Started in 2007, the global financial crisis uncovered the drawbacks of the legal regulation and supervision of the financial market. Legislative provisions and the pattern of national supervision and international cooperation were not quick enough to adjust to the rapidly developing financial markets.

In 2010, with the view to strengthening the supervision of the European financial system and restoring trust in the financial system after the global financial crisis the structure of the supervision of the EU financial sector was reformed. The reform was initiated by the European Commission based on the recommendations of the Wise Men Committee chaired by Jacques de Larosière and supported by the European Parliament and the Council. As of 1 January 2011, the European System of Financial Supervision (ESFS) comprises 2 levels:

- macro-prudential supervision carried out by the European Systemic Risk Board (ESRB) and
- micro-prudential supervision carried out by the new European Supervisory Authorities (ESAs).

ESRB is an independent body established under the European Central Bank (ECB), in Frankfurt. Its members include representatives of the ECB Council, chairpersons of the European Supervisory Authorities, representatives of national supervisory authorities and central banks as well as representatives of the European Commission. ESRB is responsible for macro-prudential supervision and must regularly analyse, evaluate and observe systemic risk in order to mitigate the collapse risk of individual parts of the financial system and to strengthen the capacity of financial markets to withstand shocks. ESRB must provide regular status reports to the European Council and, on a needs basis, warn regarding increased risk. Having regard to the information received, the European Council may take a decision on a crisis situation.

Micro-prudential supervision is carried out by:

- the European Banking Authority (EBA) based in London;
- the European Securities and Markets Authority (ESMA) based in Paris and
- the European Insurance and Occupational Pensions Authority (EIOPA) based in Frankfurt am Main.

These three EU supervisory bodies were created from the former committees responsible for the supervision of banks, insurance and pension funds and securities (Level 3 Committees - CEBS, CEIOPS and CESR), took over their competence areas and thus received additional tasks and powers. Differently from the former committees, the new supervisory authorities have the status of a legal entity and administrative and financial independence, act independently and are accountable to the European Parliament and the Council. ESAs now have greater powers to implement and control convergence of supervision and a stronger position in the Colleges of supervisory authorities, and have power to get the required data from national supervisory authorities and financial institutions. Their new function is taking direct decisions regarding individual financial institutions in the event of violations to the EU legislation, at the time of crisis or in the case of arbitration. ESAs act as coordinators in crisis management and will closely cooperate with ESRB on issues of stability of the financial market. ESAs will also play an important role in consumer protection.

The aim of ESAs is efficient and consistent legal regulation and supervision in the EEA to achieve stability of the financial system, equal conditions of competition and to improve international coordination of supervision in the supervision of insurers and consumer protection. Seeking integrated supervision of the banking, insurance and securities markets, the work of EBA, ESMA and EIOPA is coordinated by a Joint Committee. Cooperation between ESRB and ESAs must ensure that macro-analysis of risk and warnings regarding systemic risk are taken into account in micro-prudential supervision, and at the same time, ESRB, when carrying out the macro-analysis, must consider the micro-prudential supervision information from the national markets. ESFS will thus integrate the entire network comprised of ESRB, ESAs and the national supervisory authorities.

Involvement in the Activity of Colleges of Supervisors

Increasing expansion of cross-border activities of undertakings has prompted a holistic approach to the supervision of undertakings which operate in several or even several dozens of states. The understanding that supervision of individual undertakings within a group of undertakings might

not disclose the risks that are characteristic of the group in its entirety gave rise to the establishment of informal associations - colleges of supervisors - aimed at identifying the risks and the adequate response to threats to groups and to the financial system in general.

In the Solvency II Directive a college is defined as permanent but flexible structure for cooperation and coordination among the supervisory authorities of the Member States concerned. It is also noted that supervisory authorities should use the college to promote convergence of their respective decisions and to cooperate closely to carry out their supervisory activities across the group under harmonised criteria. Members of the college include the group supervisor and the supervisory authorities of all Member States on whose territory the head office of the subsidiaries is located.

At present, ISC is part of colleges of supervisors of 4 out of 6 Lithuania-based undertakings belonging to groups of undertakings. Colleges of other undertakings have not still been set up, but they most likely will be in the nearest future. During the meetings relevant information about the activities of insurance undertakings is exchanged and the related relevant issues are addressed. Normally, such meetings are also attended by representatives of the group of undertakings under supervision.

It should be noted that not all undertakings are part of groups and in such a case colleges are not set up. As the need for having comprehensive and relevant information about Lithuania-based branches of undertakings that do not belong to any group remains, alternative channels of receiving information are sought. An agreement was signed with the Estonian supervisor which facilitates supervision of branches and there are plans to reach such an agreement with the Latvian supervisor as well.

Cooperation with Public Authorities and Other Organisations of the Republic of Lithuania

ISC employees participate in various inter-institutional working groups which draft legislation, supervise the financial services market and submit data to international institutions, as well as in the activities of the Accounting Standards Committee, which drafts and approves the business accounting standards and the relevant methodological recommendations, and of the Audit Supervisory Committee, as well as cooperates with various public institutions by exchanging data and knowledge. ISC cooperates both with the public authorities of the Republic of Lithuania and with associations of the insurance market participants.

In the field of supervision of pension funds ISC closely cooperates with the Securities Commission. These institutions work hand in hand while preparing responses and explanations for pension accumulation companies and the Association of Investment Management Undertakings on the activities of I and II pillar pension accumulation undertakings. For this purpose both supervisors arrange common discussions and working groups to share opinions and agree on the draft documentation.

ISC works with the public authorities of the Republic of Lithuania to coordinate Lithuania's positions through the Information System of the

Lithuanian Membership in the EU (LINESIS) regarding the drafts of EU legislation or its implementation.

ISC concluded a data provision agreement with the State Tax Inspectorate whereby the State Tax Inspectorate periodically provides ISC with data of the annual profit tax declarations of branches of EU insurance undertakings.

While performing inspections of insurance undertakings and insurance broker companies, ISC informs the Financial Crime Investigation Service about their progress, inspected undertakings and fields of activity. Where inspections reveal facts that might be associated with tax evasion, ISC informs the State Tax Inspectorate and provides it with all obtained information about the potential violations to the legislation concerned.

Within the limits of its competence, ISC assists the Chamber of Insurance Brokers in addressing any issues that arise and participates in the work of the Court of Honour of the Chamber of Insurance Brokers, which hears disciplinary cases initiated against insurance brokers for violations of the Law on Insurance and other legal acts, and of the Professional Code or the Code of Professional Ethics of Insurance Brokers.

When establishing legal requirements for participants of the insurance market ISC has followed the principles of partnership for years, i.e. legislation governing the important business areas of insurance undertakings (internal audit, life assurance products sales process, etc.) is drafted by working groups that include representatives of the Lithuanian Association of Life Assurance Undertakings and the Lithuanian Insurers Association and ISC. As practice has shown, such constructive cooperation between the participants of the insurance market and the supervisory authority is beneficial to both parties in many ways: ISC has the opportunity to take over the knowledge about best practice existing in the insurance market whereas the market participants to contribute to the legislation process and protect their interests. In cooperation with insurers, discussions and consultations are arranged on relevant issues, including one the most important topics over the last few years, Solvency II.

Structure and Team of the Insurance Supervisory Commission

Founded in 1996, the State Insurance Supervisory Authority under the Ministry of Finance of the Republic of Lithuania was reorganised into the Insurance Supervisory Commission in 2003. The currently functioning insurance supervisory authority is a modern institution performing to international standards that seeks to carry out state supervision of the insurance market in a highly professional manner and to ensure reliability and stability of the insurance market and consumer protection.

ISC is comprised of a collegial decision-making body, the Commission, and the Administration, whose major objective is to ensure implementation of the functions of ISC.

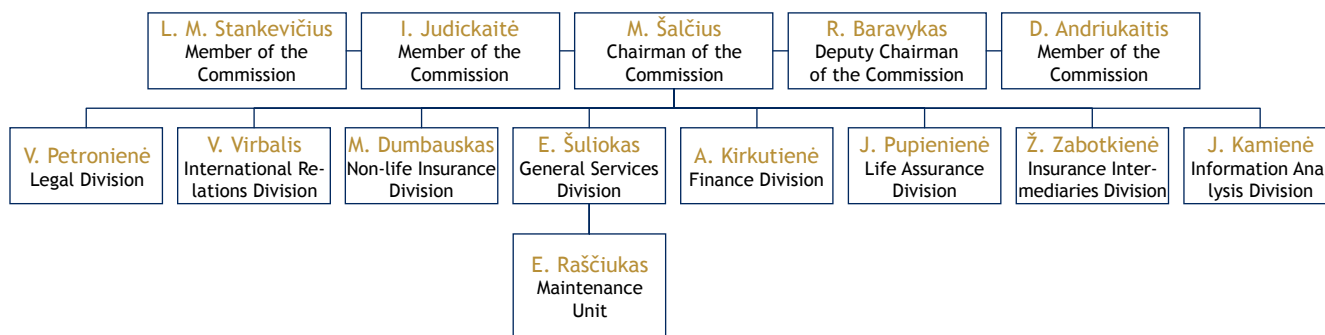
The Commission includes five members (Chairman, Deputy Chairman and three members of the Commission), each in charge of assigned activities. Deputy Chairman Ramūnas Baravykas coordinates the business areas relating to economic analysis and information technologies, member of the Commission Irmina Judickaitė supervises life assurance and pension accumulation, member of the Commission Laurynas Mindaugas Stankevičius is in charge of non-life insurance activity and compulsory insurance whereas Darius Andriukaitis deals with legislation, processing of disputes between consumers and insurers and the insurance mediation activity.

The Administration consists of 8 divisions: General Services, Insurance Intermediaries, Information Analysis, Legal, Finance, Life Assurance, Non-life Insurance and International Relations.

At the end of 2010, ISC employed 48 staff members: 5 Members of the Commission, 39 public servants and 4 contracted employees, including 17 males (35%) and 31 female (65%). The divisions of the Administration are headed by 5 females (56%) and 4 males (44%). At the end of 2010, the age average of ISC staff was 35 years. Nearly all members of the ISC Administration (96.3% of the total headcount of the Administration) have a university or equivalent background. A substantial part of the public servants have several higher education diplomas in different fields. In terms of education, at the end of 2010 the majority of the staff members of the Insurance Supervisory Commission were economists and managers (23) and lawyers (11), others were mathematicians and IT specialists (6) and representatives of other specialities (6).

With the view to having knowledgeable and qualified personnel who ensures efficient and adequate performance, the professional development of ISC employees is focused on deepening field-specific professional knowledge, teaching foreign languages and strengthening administrative and managerial skills. Field-specific knowledge is also developed by enabling employees to attend conferences and workshops abroad. During 2010, 32 members of the Insurance Supervisory Commission represented the Commission at the sittings and meetings of the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) and the

Figure 65. Organisational Structure of ISC in 2010



European Insurance and Occupational Pensions Committee (EIOPC) and took part in international workshops and conferences.

In March 2010, ISC started implementing the project “Professional Development of the Employees of the Insurance Supervisory Commission” financed from the European Social Fund and the state budget of the Republic of Lithuania under the implementation measure “Professional development of the employees of public authorities and institutions“ of Priority 4 “Fostering administrative competences and increasing efficiency of public administration“ within the framework of the Operational Programme for the Development of Human Resources 2007-2013.

The aim of this project is to strengthen the administrative capacity of ISC staff through professional development. The participants of the project will apply the experience and knowledge gained during training in carrying out supervision of the insurance activity and in addressing the relevant issues and problems. The duration of the project is 24 months and, according to the plan, it will include approximately 12 training sessions and workshops with participation of nearly all ISC employees.

In order to attract new and retain existing top-qualified professionals, ISC uses staff motivation tools and incentives stipulated in the law of the Republic of Lithuania and provides career planning by training qualified professionals of the institution to become division managers.

Resolution No. 189 of 25 February 2009 of the Government of the Republic of Lithuania, which approved measures to implement the Programme of the Government of the Republic of Lithuania for 2008-2012, includes the intention to merge the supervisory authorities of the financial sector (the Bank of Lithuania, the Securities Commission and ISC) as of 1 January 2012. Legislation was drafted to implement the concept of merging the supervisory authorities of the financial sector and the aim is to shape an integrated system for the supervision of financial services (banks, securities and insurance) based on clear coordination relations and on the principles of activity independence and transparency which ensures efficiency of supervision.

(Form of the report on spreadsheet state of entities of public sector of lower level, except tax funds and resource funds)

INSURANCE SUPERVISORY COMMISSION OF THE REPUBLIC OF LITHUANIA

(name of entity of public sector or group of entities of public sector)

188724196, Ukmergės g. 222, Vilnius

(code and address of entity of public sector that prepared the report on spreadsheet state (consolidated report on spreadsheet state))

**REPORT ON SPREADSHEET STATE
ACCORDING TO THE DATA FOR THE YEAR ENDED 31 DECEMBER 2010**2010-03-14 Nr. 29-39
(date)*Currency and accuracy: in litas*

Item No.	Items	Note	Last day of accounting period	Last day of last accounting period
A.	LONG-TERM ASSETS		5 514 061	
I.	Intangible assets	3	1 250 757	
I.1	Development works			
I.2	Computer software and licenses		6 226	
I.3	Other intangible assets			
I.4	Projects in progress and prepayments		1 244 531	
II.	Long-term tangible assets	4	4 263 304	
II.1	Land			
II.2	Buildings		4 067 837	
II.3	Infrastructure and other plant			
II.4	Immovable cultural values			
II.5	Machinery and equipment			
II.6	Vehicles		6 570	
II.7	Movable cultural values			
II.8	Furniture and office equipment		186 747	
II.9	Other non-current tangible assets		2 150	
II.10	Construction in progress and prepayments			
III.	Non-current financial assets	6		
IV.	Other non-current assets			
B.	BIOLOGICAL ASSETS			
C.	SHORT-TERM ASSETS		495 305	
I.	Stocks	7	13 928	
I.1	Strategic and emergency stocks			
I.2	Raw materials, consumables, and economic inventory		13 928	
I.3	Work in progress and contracts in progress			
I.4	Finished goods and inventories for resale (transfer)			
I.5	Long-term tangible and biological assets for resale			
II.	Prepayments	8	13 228	
III.	Amounts receivable within one year	2,6	321 054	
III.1	Taxes and social contributions receivable			
III.2	Financing amounts receivable			

III.3	Amounts receivable for use of assets, goods, asset, services sold			
III.4	Accumulated amounts receivable	2.6	321 054	
III.5	Other amounts receivable			
IV.	Short-term investments	5		
V.	Cash and cash equivalents	6	147 095	
	TOTAL ASSETS:		6 009 366	
D.	FINANCING AMOUNTS	1	112 804	
I.	From the state budget	1	3 781	
II.	From the municipal budget			
III.	From the European Union, foreign states, and international organizations	1	109 023	
IV.	From other sources			
E.	LIABILITIES		268 077	
I.	Long-term liabilities	6		
I.1	Long-term financial liabilities			
I.2	Long-term provisions	9		
I.3	Other long-term liabilities			
II.	Short-term liabilities		268 077	
II.1	The part of long-term provisions of the current year and current provisions	6		
II.2	The part of long-term liabilities of the current year			
II.3	Short-term financial liabilities	6		
II.4	Subsidies, grants, and financing amounts payable			
II.5	Amounts payable to the budgets and funds			
II.5.1	Financing amounts repayable			
II.5.2	Other amounts payable to the budget			
II.6	Welfare benefits payable			
II.7	Taxes, contributions, and overpayments repayable			
II.8	Amounts payable to suppliers	6	33 556	
II.9	Liabilities related with employment relations		2 672	
II.10	Accumulated amounts payable	2.6	11 896	
II. 11	Other short-term liabilities	6	219 953	
F.	NET ASSETS	10	5 628 485	
I.	Shareholder equity			
II.	Reserves			
II.1	True value reserve			
II.2	Other reserves			
III.	Influence of ownership method			
IV.	Accumulated surplus or deficit		5 628 485	
IV.1	Surplus or deficit of the current year		(529 734)	
IV.2	Surplus or deficit of the previous year		6 158 219	
G.	MINORITY INTEREST			
	TOTAL FINANCING AMOUNTS, LIABILITIES, NET ASSETS, AND MINORITY INTEREST:		6 009 366	

Disputes between Consumers and Insurers in 2010

Annex No. 2

Insurer	Number of received consumer applications	Applicant					Satisfied consumer claim	Partially satisfied consumer claim	Rejected consumer claim	Cancelled settlement procedure due to the satisfaction of the consumers' claim by the insurer	Dismissed or cancelled dispute settlement procedure due to obstacles	Cancelled dispute settlement procedure due to consumers' decision to withdraw his claim for other reasons	
		Policyholder	Injured third party	Beneficiary	Insured person	Other person							
Non-life insurers	299	179	91	7	4	18	35	10	57	23	152	18	4
UAB "BTA draudimas"	34	20	10	1		3	6	2	3	1	18	4	
UAB "Būsto paskolų draudimas"	3	3									3		
Chartis Europe S.A.	2				2						2		
Branch of Compensa Towarzystwo Ubezpieczeń S.A. Vienna Insurance Group	2	2					1				1		
UADB "ERGO Lietuva"	43	19	20	2	1	1	5	4	9	2	21	2	
Branch of GF Försäkringsaktiebolag	4	3	1				3			1			
Branch of AAS "Gjensidige Baltic" in Lithuania	40	23	14			3	2		9	3	22	3	1
Branch of If P&C Insurance AS	12	9	1			2	2	2	2	1	8		1
UADB "Industrijos garantas"	16	7	8	1			2	2	2	1	8	1	
AB "Lietuvos draudimas"	73	41	23	1		8	10	1	16	8	33	4	1
UAB DK "PZU Lietuva"	54	38	13	1	1	1	4		13	5	27	4	1
UADB "Seesam Lietuva"	16	14	1	1			2	1	3	1	9		
Life assurers	42	38	0	3	1	0	2	2	11	0	26	1	0
Branch of "Amplico Life Pierwsze Amerykańsko-Polskie Towarzystwo Ubezpieczeń Na Życie i Reasekuracji" (AIG life) Spolka Akcyjna	2	2							1		1		
UAGDPB "Aviva Lietuva"	9	8			1				1		7	1	
GD UAB "Bonum Publicum"	3	3							1		2		
Branch of Compensa Life Vienna Insurance Group SE in Lithuania	1	1					1						
AB "ERGO Lietuva gyvybės draudimas"	10	8		2				1			9		
Branch of Mandatum Life Insurance Baltic SE in Lithuania	1	1						1					
UAB "PZU Lietuva gyvybės draudimas"	2	1		1			1				1		
UAB "SEB gyvybės draudimas"	4	4						2			2		
Branch of Swedbank Life Insurance SE	10	10						6			4		
Total	341	217	91	10	5	18	37	12	68	23	178	19	4

Insurer	Number of complaints	Applicant						Established violations of legal acts			No infringement of legal acts detected	Dismissed claim investigation procedure at the applicant's request	Dismissed claim investigation procedure due to obstacles
		Policyholder	Injured third party	Beneficiary	Insured person	Other person	Imposed sanctions	Recommendations submitted to the insurer					
Non-life insurers	101	55	40	0	0	6	0	14	53	31	3		
UAB "BTA draudimas"	24	10	14					3	12	6	3		
Branch of Compensa Towarzystwo Ubezpieczeń S.A. Vienna Insurance Group	1		1							1			
UADB "ERGO Lietuva"	20	9	11					3	11	6			
Branch of GF Försäkringsaktiebolag	4	3	1					1	2	1			
Branch of AAS "Gjensidige Baltic" in Lithuania	8	5	2			1		1	6	1			
Branch of If P&C Insurance AS	6	5				1		1	4	1			
AB "Lietuvos draudimas"	13	7	3			3		1	7	5			
UAB DK "PZU Lietuva"	23	15	7			1		3	10	10			
UADB "Seesam Lietuva"	2	1	1					1	1				
Life insurers	7	5	0	0	0	2	1	2	3	1	0		
UAGDPB "Aviva Lietuva"	1	1							1				
AB „ERGO Lietuva gyvybės draudimas“	1	1							1				
UAB "PZU Lietuva gyvybės draudimas"	1					1	1						
Branch of Swedbank Life Insurance SE	4	3				1		2	1	1			
Total	108	60	40	0	0	8	1	16	56	32	3		

Index	Assets	Life assurance undertakings		Non-life insurance undertakings		Total	
		2010	2009	2010	2009	2010	2009
A.	INTANGIBLE ASSETS	1 580 714	1 019 356	27 928 886	13 828 277	29 509 600	14 847 633
I.	Development works	0	0	0	0	0	0
II.	Goodwill	0	0	299 923	0	299 923	0
III.	Patents, licences	0	0	35 658	116 060	35 658	116 060
IV.	Software	1 401 887	1 019 356	27 593 304	13 708 350	28 995 191	14 727 706
V.	Other intangible assets	178 827	0	0	3 866	178 827	3 866
B.	INVESTMENTS	521 875 950	469 453 176	1 061 794 554	1 105 007 944	1 583 670 504	1 574 461 120
I.	Land, buildings and other real estate	670 377	1 775 069	85 208 291	86 856 422	85 878 668	88 631 491
I.1.	Occupied by the insurance undertaking for its own needs	520 000	429 433	59 689 367	60 616 376	60 209 367	61 045 809
I.1.1.	Land	0	0	7 645 242	7 196 189	7 645 242	7 196 189
I.1.2.	Buildings	520 000	429 433	48 347 190	49 452 303	48 867 190	49 881 736
I.1.3.	Construction in progress and prepayment	0	0	213 259	209 629	213 259	209 629
I.1.4.	Other	0	0	3 483 676	3 758 255	3 483 676	3 758 255
I.2.	Other investments into real estate	0	0	619 218	2 525 693	619 218	2 525 693
I.3.	Investment assets	150 377	1 345 636	24 899 706	23 714 353	25 050 083	25 059 989
I.3.1.	Land	65 377	65 377	10 246 120	8 023 215	10 311 497	8 088 592
I.3.2.	Buildings	85 000	1 280 259	14 653 586	15 691 138	14 738 586	16 971 397
II.	Investments in affiliated undertakings and participating interests	5 259 247	5 259 247	2 556 905	6 263 564	7 816 152	11 522 811
II.1.	Shares in affiliated undertakings	0	0	0	0	0	0
II.1.1.	Quoted on stock exchange	0	0	0	0	0	0
II.1.2.	Unquoted on stock exchange	0	0	0	0	0	0
II.2.	Debt securities issued by affiliated undertakings and loans granted to these undertakings	0	0	0	0	0	0
II.2.1.	Debt securities	0	0	0	0	0	0
II.2.2.	Loans	0	0	0	0	0	0
II.3.	Shares in associated companies	5 259 247	5 259 247	2 556 905	1 084 364	7 816 152	6 343 611
II.3.1.	Quoted on stock exchange	0	0	0	0	0	0
II.3.2.	Unquoted on stock exchange	5 259 247	5 259 247	2 556 905	1 084 364	7 816 152	6 343 611
II.4.	Debt securities issued by affiliated undertakings and loans granted to these undertakings	0	0	0	5 179 200	0	5 179 200
II.4.1.	Debt securities	0	0	0	0	0	0
II.4.2.	Loans	0	0	0	5 179 200	0	5 179 200
III.	Other financial investments	515 946 326	462 418 860	974 029 358	1 011 887 958	1 489 975 684	1 474 306 818
III.1.	Shares, other variable-income securities and investment fund units	18 494 758	7 838 151	45 373 254	32 343 765	63 868 012	40 181 916
III.1.1.	Quoted on stock exchange	7 040 968	2 768 606	41 318 514	23 173 125	48 359 482	25 941 731
III.1.2.	Unquoted on stock exchange	11 453 790	5 069 545	4 054 740	9 170 640	15 508 530	14 240 185
III.2.	Debt and other variable-income securities	456 286 920	429 220 736	829 190 055	893 546 217	1 285 476 975	1 322 766 953
III.2.1.	Government, central bank and municipality securities	367 950 067	336 576 273	658 870 147	489 786 771	1 026 820 214	826 363 044
III.2.2.	Securities of other economic subjects	88 336 853	92 644 463	170 319 908	403 759 447	258 656 761	496 403 910
III.3.	Participation in investment pools	0	0	0	0	0	0
III.4.	Loans guaranteed by real estate	0	0	4 539 484	4 846 715	4 539 484	4 846 715
III.5.	Other loans	0	0	5 246 974	3 059 499	5 246 974	3 059 499
III.6.	Deposits with credit institutions	41 164 648	25 359 973	89 670 420	78 091 762	130 835 068	103 451 735
III.7.	Other investments	0	0	9 170	0	9 170	0
IV.	Deposits with ceding undertakings	0	0	0	0	0	0
C.	OTHER INVESTMENTS FROM LIFE ASSURANCE ACTIVITY	703 432 761	541 052 664	0	0	703 432 761	541 052 664
I.	Investments for the benefit of life assurance policyholders who bear the investment risk	703 432 761	541 052 664	0	0	703 432 761	541 052 664
II.	Investments from the occupational pension accumulation activity	0	0	0	0	0	0

D.	ACCOUNTS RECEIVABLE	9 525 340	10 390 967	229 910 953	209 162 050	239 436 293	219 553 017
I.	Accounts receivable from insurance activity	6 018 397	7 622 481	214 581 672	199 559 957	220 600 069	207 182 438
I.1.	Policyholders	5 514 431	7 081 392	123 996 715	140 237 430	129 511 146	147 318 822
I.2.	Intermediaries	503 966	541 089	8 833 301	11 469 718	9 337 267	12 010 807
I.3.	Other	0	0	81 751 656	47 852 808	81 751 656	47 852 808
II.	Accounts receivable from reinsurance and ceded reinsurance activity	1 735 700	1 537 022	8 225 844	3 648 395	9 961 544	5 185 417
II.1.	Ceding undertakings	235 131	279 051	641 149	1 004 341	876 280	1 283 392
II.2.	Reinsurers	1 500 005	1 257 971	7 584 695	2 644 055	9 084 700	3 902 026
II.3.	Intermediaries	0	0	0	0	0	0
II.4.	Other	564	0	0	0	564	0
III.	Other accounts receivable	1 771 243	1 231 464	7 103 437	5 953 698	8 874 680	7 185 162
E.	OTHER ASSETS	22 339 779	15 701 350	112 175 964	72 228 285	134 515 743	87 929 635
I.	Tangible assets and stocks	1 994 206	2 141 515	20 162 293	17 354 589	22 156 499	19 496 104
I.1.	Motor vehicles	474 642	489 247	7 539 732	7 420 810	8 014 374	7 910 057
I.2.	Office and other equipment	1 067 862	1 211 229	6 592 228	9 376 821	7 660 090	10 588 050
I.3.	Stocks	52 435	78 189	52 593	72 728	105 028	150 917
I.4.	Prepayment	399 267	362 850	5 977 741	484 231	6 377 008	847 081
II.	Cash at bank and in hand	20 033 190	13 452 967	88 274 106	50 059 131	108 307 296	63 512 098
III.	Other assets	312 383	106 868	3 739 564	4 814 564	4 051 947	4 921 432
F.	ACCRUED INCOME AND DEFERRED EXPENSES	18 403 167	19 483 188	74 582 528	77 827 144	92 985 695	97 310 332
I.	Accrued interest and rent	0	0	0	0	0	0
II.	Deferred acquisition costs	15 614 662	17 991 682	38 585 343	41 576 202	54 200 005	59 567 884
II.1.	Deferred acquisition costs in non-life insurance	0	0	38 585 343	41 576 202	38 585 343	41 576 202
II.2.	Deferred acquisition costs in life assurance	15 614 662	17 991 682	0	0	15 614 662	17 991 682
III.	Other accrued income	2 121 971	914 152	1 932 944	0	4 054 915	914 152
IV.	Other deferred expenses	666 534	577 354	34 064 241	36 250 942	34 730 775	36 828 296
TOTAL ASSETS		1 277 157 711	1 057 100 701	1 506 392 884	1 478 053 700	2 783 550 595	2 535 154 401

Index	Owners' equity and liabilities	Life assurance undertakings		Non-life insurance undertakings		Total	
		2010	2009	2010	2009	2010	2009
A.	CAPITAL AND RESERVES	167 074 742	149 472 163	470 030 890	484 526 595	637 105 632	633 998 758
I.	Authorised capital	58 247 550	58 247 550	293 355 900	200 095 160	351 603 450	258 342 710
II.	Share premium account	27 917 716	27 917 716	39 802 325	39 802 325	67 720 041	67 720 041
III.	Own shares (-)	0	0	0	0	0	0
IV.	Revaluation reserve	101 609	0	10 553 836	10 325 494	10 655 445	10 325 494
V.	Reserves	5 445 875	5 252 655	14 162 563	13 876 675	19 608 438	19 129 330
V.1.	Legal reserve	4 445 875	4 252 655	14 005 622	13 014 675	18 451 497	17 267 330
V.2.	Reserve for acquisition of own shares	0	0	0	0	0	0
V.3.	Other reserves	1 000 000	1 000 000	156 941	862 000	1 156 941	1 862 000
VI.	Profit or loss brought forward (+/-)	42 558 833	26 402 480	130 190 373	189 714 471	172 749 206	216 116 951
VII.	Profit or loss for the financial year (+/-)	32 803 159	31 651 762	-18 034 107	30 712 470	14 769 052	62 364 232
B.	FINANCING (GRANTS AND SUBSIDIES)	0	0	0	0	0	0
C.	SUBORDINATED LIABILITIES	0	5 179 200	11 193 351	10 137 620	11 193 351	15 316 820
D.	TECHNICAL PROVISIONS	377 877 155	339 676 509	773 178 787	774 798 148	1 151 055 942	1 114 474 657
I.	Provision for unearned income	21 290 567	21 777 774	341 696 905	359 198 752	362 987 472	380 976 526
I.1.	Gross amount	21 850 440	22 922 003	352 187 178	371 411 944	374 037 618	394 333 947
I.2.	Reinsurers' share (-)	-559 873	-1 144 229	-10 490 274	-12 213 192	-11 050 147	-13 357 421
II.	Life assurance provision	327 165 306	296 599 051	17 829 388	25 803 501	344 994 694	322 402 552
II.1.	Gross amount	327 234 544	296 678 882	17 829 388	25 803 501	345 063 932	322 482 383
II.2.	Reinsurers' share (-)	-69 238	-79 831	0	0	-69 238	-79 831
III.	Claims outstanding	21 015 432	15 369 734	389 536 074	371 083 321	410 551 506	386 453 055
III.1.	Gross amount	22 397 672	16 935 913	460 823 163	447 957 513	483 220 835	464 893 426
III.2.	Reinsurers' share (-)	-1 382 240	-1 566 179	-71 287 089	-76 874 192	-72 669 329	-78 440 371
IV.	Provision for bonuses and rebates	8 255 359	4 560 317	133 306	130 471	8 388 665	4 690 788
IV.1.	Gross amount	8 255 359	4 560 317	133 306	130 471	8 388 665	4 690 788
IV.2.	Reinsurers' share (-)	0	0	0	0	0	0

V.	Equalisation provision	0	0	0	0	0	0
VI.	Other technical provisions	150 491	1 369 633	23 983 115	18 582 103	24 133 606	19 951 736
VI.1.	Gross amount	150 491	1 369 633	23 983 115	18 582 103	24 133 606	19 951 736
VI.2.	Reinsurers' share (-)	0	0	0	0	0	0
E.	OTHER TECHNICAL PROVISIONS FOR LIFE ASSURANCE ACTIVITY	703 432 761	541 052 664	0	0	703 432 761	541 052 664
I.	Technical provision for life assurance policies where the investment risk is borne by the policyholder	703 432 761	541 052 664	0	0	703 432 761	541 052 664
I.1.	Gross amount	703 432 761	541 052 664	0	0	703 432 761	541 052 664
I.2.	Reinsurers' share (-)	0	0	0	0	0	0
II.	Technical provision for occupational pension accumulation activity	0	0	0	0	0	0
F.	OTHER PROVISIONS	0	0	1 396 912	1 112 183	1 396 912	1 112 183
I.	Provisions for pensions and similar obligations	0	0	1 396 912	1 112 183	1 396 912	1 112 183
II.	Provisions for taxes	0	0	0	0	0	0
III.	Other provisions	0	0	0	0	0	0
G.	DEPOSITS RECEIVED FROM REINSURERS	326 745	257 174	0	0	326 745	257 174
H.	LIABILITIES	23 502 286	16 193 208	210 750 736	168 386 392	234 253 022	184 579 600
I.	Liabilities arising out of insurance activity	10 047 778	8 752 335	92 758 434	92 393 014	102 806 212	101 145 349
I.1.	Liabilities to policyholders	7 558 400	6 661 950	71 345 450	72 159 096	78 903 850	78 821 046
I.2.	Liabilities to intermediaries	2 489 378	2 084 421	7 974 939	8 488 911	10 464 317	10 573 332
I.3.	Other liabilities related to insurance activity	0	5 964	13 438 045	11 745 007	13 438 045	11 750 971
II.	Liabilities related to reinsurance activity	1 980 448	2 226 351	15 791 277	22 222 505	17 771 725	24 448 856
II.1.	Liabilities to ceding undertakings	0	0	578 553	514 310	578 553	514 310
II.2.	Liabilities to reinsurers	1 980 448	2 226 351	15 212 724	21 708 195	17 193 172	23 934 546
II.3.	Liabilities to intermediaries	0	0	0	0	0	0
II.4.	Other liabilities related to reinsurance activity	0	0	0	0	0	0
III.	Debenture loans, showing convertible loans separately	0	0	0	0	0	0
IV.	Debts to credit institutions	0	0	2 143 538	1 327 906	2 143 538	1 327 906
V.	Taxes, social insurance contributions and liabilities	11 474 060	5 214 522	100 057 486	52 442 967	111 531 546	57 657 489
V.1.	Taxes	801 113	802 306	3 401 278	19 673 251	4 202 391	20 475 557
V.2.	Social insurance contributions	459 083	409 802	3 552 478	2 583 414	4 011 561	2 993 216
V.3.	Wages	309 617	166 320	5 101 859	3 161 566	5 411 476	3 327 886
V.4.	Other liabilities	9 904 247	3 836 094	88 001 871	27 024 736	97 906 118	30 860 830
I.	ACCRUED EXPENSES AND DEFERRED INCOME	4 944 022	5 269 783	39 842 207	39 092 762	44 786 229	44 362 545
I.	Accrued expenses	4 944 022	5 269 783	25 918 579	24 027 051	30 862 601	29 296 835
II.	Deferred income	0	0	13 923 627	15 065 710	13 923 627	15 065 710
TOTAL OWNERS' EQUITY AND LIABILITIES		1 277 157 711	1 057 100 701	1 506 392 884	1 478 053 700	2 783 550 595	2 535 154 401

Index	Item	Life assurance undertakings		Non-life insurance undertakings		Total	
		2010	2009	2010	2009	2010	2009
I.	TECHNICAL ACCOUNT - NON-LIFE INSURANCE						
I.1.	EARNED PREMIUMS, NET OF REINSURANCE	16 474 490	18 847 886	758 128 481	891 816 179	774 602 971	910 664 065
I.1.1.	Amount of premiums written	17 182 388	15 849 383	794 653 422	819 244 854	811 835 809	835 094 237
I.1.2.	Reinsurance premiums (-)	-100 477	-867 280	-54 026 531	-53 130 356	-54 127 007	-53 997 636
I.1.3.	Change in the provision for unearned premiums (-/+)	55 740	3 851 756	19 224 508	150 565 909	19 280 249	154 417 665
I.1.4.	Change in the provision for unearned premiums, reinsurers' share (+/-)	-663 162	14 027	-1 722 918	-24 864 228	-2 386 080	-24 850 201
I.2.	ALLOCATED INVESTMENT RETURN TRANSFERRED FROM THE NON-TECHNICAL ACCOUNT	680 255	1 255 691	31 258 258	42 583 257	31 938 512	43 838 948
I.3.	OTHER TECHNICAL INCOME, NET OF REINSURANCE	43 380	35 708	5 021 903	4 057 462	5 065 283	4 093 170
I.4.	CLAIMS INCURRED, NET OF REINSURANCE (-)	-13 802 592	-17 833 991	-503 141 786	-557 613 253	-516 944 378	-575 447 244
I.4.1.	Claims paid when insured events occur (-)	-14 154 007	-24 555 262	-483 936 786	-512 806 296	-498 090 793	-537 361 558
I.4.1.1.	Claims paid (-)	-13 100 498	-23 819 942	-548 532 593	-559 211 507	-561 633 091	-583 031 449
I.4.1.2.	Claim settlement expenses (-)	-1 063 970	-978 331	-36 894 200	-35 579 340	-37 958 170	-36 557 671
I.4.1.3.	Subrogation and salvage (+)	0	0	81 962 145	48 476 639	81 962 145	48 476 639
I.4.1.4.	Reinsurers' share (+)	10 461	243 011	19 527 861	33 507 912	19 538 322	33 750 923
I.4.2.	Change in the provision for claims outstanding (-/+)	351 414	6 721 271	-19 205 000	-44 806 957	-18 853 585	-38 085 686
I.4.2.1.	Gross amount (-)	-245 389	6 753 915	-13 617 898	-54 779 186	-13 863 287	-48 025 271
I.4.2.2.	Reinsurers' share (+)	596 804	-32 644	-5 587 102	9 972 229	-4 990 298	9 939 585
I.5.	CHANGES IN OTHER TECHNICAL PROVISIONS, NET OF REINSURANCE, NOT SHOWN UNDER OTHER HEADINGS (-/+)	1 219 142	-939 306	-5 401 013	-11 694 802	-4 181 870	-12 634 108
I.5.1.	Gross amount (-)	1 219 142	-939 306	-5 401 013	-11 694 802	-4 181 870	-12 634 108
I.5.2.	Reinsurers' share (+)	0	0	0	0	0	0
I.6.	BONUSES AND REBATES, NET OF REINSURANCE (-)	245 961	-292 866	-261 812	267 117	-15 851	-25 749
I.6.1.	Bonuses and rebates paid	0	0	-258 977	-1 599 420	-258 977	-1 599 420
I.6.1.1.	Gross amount (-)	0	0	-258 977	-1 599 420	-258 977	-1 599 420
I.6.1.2.	Reinsurers' share (+)	0	0	0	0	0	0
I.6.2.	Change in provision for bonuses and rebates (-/+)	245 961	-292 866	-2 835	1 866 537	243 126	1 573 671
I.6.2.1.	Gross amount (-)	245 961	-292 866	-2 835	9 197 199	243 126	8 904 333
I.6.2.2.	Reinsurers' share (+)	0	0	0	-7 330 662	0	-7 330 662
I.7.	NET OPERATING EXPENSES (-)	-2 518 148	-2 659 019	-301 014 689	-337 471 925	-303 532 837	-340 130 944
I.7.1.	Acquisition costs (-)	-1 939 952	-2 074 693	-213 043 591	-231 846 897	-214 983 543	-233 921 590
I.7.2.	Change in deferred acquisition costs (-/+)	0	0	-2 990 859	-15 061 723	-2 990 859	-15 061 723
I.7.3.	Administrative expenses (-)	-578 196	-584 326	-91 520 082	-99 964 196	-92 098 278	-100 548 522
I.7.4.	Reinsurance commissions and profit participation (+)	0	0	6 539 843	9 400 891	6 539 843	9 400 891
I.8.	OTHER TECHNICAL EXPENSES, NET OF REINSURANCE (-)	-18 949	-4 823	-15 065 083	-27 976 140	-15 084 032	-27 980 963
I.9.	TECHNICAL RESULT BEFORE FORMING THE EQUALIZATION PROVISION	2 323 538	-1 590 720	-30 475 740	3 967 895	-28 152 202	2 377 175
I.10.	CHANGE IN THE EQUALIZATION PROVISION (-/+)	0	0	0	18 565 386	0	18 565 386
I.11.	PROFIT (LOSS) OF THE TECHNICAL ACCOUNT OF NON-LIFE INSURANCE BUSINESS	2 323 538	-1 590 720	-30 475 740	22 533 281	-28 152 202	20 942 561
II.	TECHNICAL ACCOUNT - LIFE ASSURANCE						
II.1.	EARNED PREMIUMS, NET OF REINSURANCE	278 569 849	252 035 217	1 687 699	2 587 677	280 257 548	254 622 894
II.1.1.	Gross premiums written	282 166 802	253 923 838	1 687 442	2 587 058	283 854 244	256 510 896
II.1.2.	Outward reinsurance premiums (-)	-4 691 581	-4 312 942	0	0	-4 691 581	-4 312 942
II.1.3.	Change in the gross provision for unearned premiums (-/+)	1 015 823	2 451 827	257	619	1 016 080	2 452 446
II.1.4.	Change in the provision for unearned premiums, reinsurers' share (+/-)	78 805	-27 506	0	0	78 805	-27 506
II.2.	INVESTMENT INCOME	29 828 604	33 982 336	28 190 295	47 249 031	58 018 899	81 231 367
II.2.1.	Income from participating interests	0	0	2 128	312	2 128	312
II.2.2.	Income from other investments	25 011 459	27 894 045	17 106 419	18 666 762	42 117 878	46 560 807

II.2.2.1.	Income from land and buildings	19 441	47 065	480 782	546 716	500 223	593 781
II.2.2.2.	Income from other investments	24 992 018	27 846 980	16 625 637	18 120 046	41 617 655	45 967 026
II.2.3.	Value readjustments on investments	1 021 426	534 849	7 309 513	21 996 921	8 330 939	22 531 770
II.2.4.	Gains on the realisation of investments	3 795 719	5 553 442	3 772 235	6 585 036	7 567 954	12 138 478
II.3.	PROFIT FROM OTHER INVESTMENTS FROM LIFE ASSURANCE ACTIVITY	88 979 208	123 428 298	0	0	88 979 208	123 428 298
II.3.1.	Profit from investments where the investment risk is borne by the policyholder	88 979 208	123 428 298	0	0	88 979 208	123 428 298
II.3.2.	Profit from occupational pension accumulation activity	0	0	0	0	0	0
II.4.	OTHER TECHNICAL INCOME, NET OF REINSURANCE	7 298 367	7 722 614	0	0	7 298 367	7 722 614
II.4.1.	Income from pension accumulation activity	7 053 688	7 665 665	0	0	7 053 688	7 665 665
II.4.2.	Other technical income	244 679	56 949	0	0	244 679	56 949
II.5.	CLAIMS INCURRED, NET OF REINSURANCE (-)	-96 829 844	-88 540 169	-10 778 932	-12 025 919	-107 608 776	-100 566 088
II.5.1.	Claims paid when insured events occur (-)	-90 832 731	-83 709 302	-11 531 180	-14 191 919	-102 363 911	-97 901 221
II.5.1.1.	Claims paid (-)	-31 434 844	-26 731 447	-10 297 955	-13 037 978	-41 732 799	-39 769 425
II.5.1.2.	Surrender values (-)	-58 682 549	-56 849 104	-919 412	-833 534	-59 601 961	-57 682 638
II.5.1.3.	Claim settlement expenses (-)	-1 616 994	-1 648 410	-313 813	-320 407	-1 930 807	-1 968 817
II.5.1.4.	Reinsurers' share (+)	901 656	1 519 659	0	0	901 656	1 519 659
II.5.2.	Change in the provision for claims outstanding (-/+)	-5 997 113	-4 830 867	752 248	2 166 000	-5 244 865	-2 664 867
II.5.2.1.	Gross amount (-)	-5 216 370	-5 001 324	752 248	2 166 000	-4 464 122	-2 835 324
II.5.2.2.	Reinsurers' share (+)	-780 743	170 457	0	0	-780 743	170 457
II.6.	CHANGE IN OTHER TECHNICAL PROVISIONS, NET OF REINSURANCE, NOT SHOWN UNDER OTHER HEADINGS (-/+)	-188 699 457	-198 810 343	7 974 113	8 615 410	-180 725 344	-190 194 933
II.6.1.	Change in the life assurance provision, net of reinsurance (-/+)	-188 699 457	-198 810 343	7 974 113	8 615 410	-180 725 344	-190 194 933
II.6.1.1.	Gross amount (-)	-188 688 864	-198 813 588	7 974 113	8 615 410	-180 714 751	-190 198 178
II.6.1.2.	Reinsurers' share (+)	-10 594	3 245	0	0	-10 594	3 245
II.6.2.	Change in other technical provisions, net of reinsurance (-/+)	0	0	0	0	0	0
II.6.2.1.	Gross amount (-)	0	0	0	0	0	0
II.6.2.2.	Reinsurers' share (+)	0	0	0	0	0	0
II.7.	BONUSES AND REBATES, NET OF REINSURANCE (-)	-4 465 606	-1 442 826	0	0	-4 465 606	-1 442 826
II.7.1.	Bonuses and rebates paid (-)	-524 602	-600 509	0	0	-524 602	-600 509
II.7.1.1.	Gross amount (-)	-524 602	-600 509	0	0	-524 602	-600 509
II.7.1.2.	Reinsurers' share (+)	0	0	0	0	0	0
II.7.2.	Change in provision for bonuses and rebates (-/+)	-3 941 004	-842 317	0	0	-3 941 004	-842 317
II.7.2.1.	Gross amount (-)	-3 941 004	-842 317	0	0	-3 941 004	-842 317
II.7.2.2.	Reinsurers' share (+)	0	0	0	0	0	0
II.8.	NET OPERATING EXPENSES (-)	-70 572 207	-73 021 210	-321 219	-289 613	-70 893 426	-73 310 823
II.8.1.	Acquisition costs (-)	-48 350 564	-48 938 564	-28 402	-34 706	-48 378 966	-48 973 270
II.8.2.	Change in deferred acquisition costs (-/+)	-2 377 020	-5 222 244	0	0	-2 377 020	-5 222 244
II.8.3.	Administrative costs (-)	-21 855 093	-20 105 249	-292 817	-254 907	-22 147 910	-20 360 156
II.8.4.	Reinsurance commissions and profit participation (+)	2 010 469	1 244 847	0	0	2 010 469	1 244 847
II.9.	EXPENSES FROM INVESTMENT ACTIVITY (-)	-7 920 083	-8 778 074	-7 047 237	-11 846 913	-14 967 320	-20 624 987
II.9.1.	Investment management expenses, including interest (-)	-2 520 239	-2 298 158	-1 259 150	-1 581 825	-3 779 389	-3 879 983
II.9.2.	Value adjustments on investments (-)	-4 191 730	-2 916 231	-4 969 905	-8 656 142	-9 161 635	-11 572 373
II.9.2.1.	Expenses due to participating interests in other companies and other investments (-)	0	0	0	0	0	0
II.9.2.2.	Value adjustments on investments (-)	-4 191 730	-2 916 231	-4 969 905	-8 656 142	-9 161 635	-11 572 373
II.9.3.	Losses from the transfer of investments (-)	-1 208 114	-3 563 685	-818 182	-1 608 946	-2 026 296	-5 172 631
II.10.	LOSSES FROM OTHER INVESTMENTS FROM LIFE ASSURANCE ACTIVITY (-)	-5 082 540	-11 491 413	0	0	-5 082 540	-11 491 413
II.10.1.	Losses from investments where the investment risk is borne by the policyholder (-)	-5 082 540	-11 491 413	0	0	-5 082 540	-11 491 413
II.10.2.	Losses from occupational pension accumulation activity (-)	0	0	0	0	0	0
II.11.	OTHER TECHNICAL EXPENSES, NET OF REINSURANCE (-)	-2 002	-1 923	0	0	-2 002	-1 923

II.12.	ALLOCATED INVESTMENT RETURN TRANSFERRED TO THE NON-TECHNICAL ACCOUNT (-)	-9 889 478	-11 254 202	-19 834 060	-33 103 061	-29 723 538	-44 357 263
II.13.	PROFIT (LOSS) OF THE TECHNICAL ACCOUNT OF LIFE ASSURANCE BUSINESS	21 214 811	23 828 305	-129 341	1 186 612	21 085 470	25 014 917

III.	NON-TECHNICAL ACCOUNT						
III.1.	PROFIT (LOSS) FROM THE TECHNICAL ACCOUNT OF NON-LIFE INSURANCE BUSINESS	2 323 538	-1 590 720	-30 475 740	22 533 281	-28 152 202	20 942 561
III.2.	PROFIT (LOSS) FROM THE TECHNICAL ACCOUNT OF LIFE ASSURANCE	21 214 811	23 828 305	-129 341	1 186 612	21 085 470	25 014 917
III.3.	INVESTMENT INCOME	0	0	40 818 106	49 306 905	40 818 106	49 306 905
III.3.1.	Income from participating interest	0	0	85 778	395 898	85 778	395 898
III.3.2.	Income from other investments	0	0	27 142 701	28 976 152	27 142 701	28 976 152
III.3.2.1.	Income from land and buildings	0	0	968 711	966 613	968 711	966 613
III.3.2.2.	Income from other investments	0	0	26 173 990	28 009 539	26 173 990	28 009 539
III.3.3.	Value readjustments on investments	0	0	12 133 821	17 664 511	12 133 821	17 664 511
III.3.4.	Gains on the transfer of investments	0	0	1 455 806	2 270 344	1 455 806	2 270 344
III.4.	ALLOCATED INVESTMENT RETURN TRANSFERRED FROM THE LIFE ASSURANCE TECHNICAL ACCOUNT	9 889 478	11 254 202	19 834 060	33 103 061	29 723 538	44 357 263
III.5.	INVESTMENT EXPENSES (-)	0	0	-11 852 210	-12 430 678	-11 852 210	-12 430 678
III.5.1.	Investment management expenses, including interest (-)	0	0	-1 592 132	-1 311 296	-1 592 132	-1 311 296
III.5.2.	Value adjustments on investments (-)	0	0	-9 551 584	-9 947 324	-9 551 584	-9 947 324
III.5.2.1.	Expenses due to participating interests in other companies and other investments (-)	0	0	0	0	0	0
III.5.2.2.	Value adjustments on investments (-)	0	0	-9 551 584	-9 947 324	-9 551 584	-9 947 324
III.5.3.	Losses on the transfer of investments (-)	0	0	-708 493	-1 172 058	-708 493	-1 172 058
III.6.	ALLOCATED INVESTMENT RETURN TRANSFERRED TO THE NON-LIFE INSURANCE TECHNICAL ACCOUNT (-)	-680 255	-1 255 691	-31 258 258	-42 583 257	-31 938 512	-43 838 948
III.7.	OTHER INCOME	212 081	759 005	3 559 724	3 554 116	3 771 805	4 313 121
III.7.1.	Expenses from financial activity	128 180	499 025	892 666	1 969 148	1 020 846	2 468 173
III.7.2.	Other income	83 901	259 980	2 667 058	1 584 968	2 750 959	1 844 948
III.8.	OTHER INCOME (-)	-362 009	-1 133 594	-6 499 513	-8 459 243	-6 861 522	-9 592 837
III.8.1.	Expenses from financial activity (-)	-159 357	-1 128 473	-5 932 401	-7 691 255	-6 091 758	-8 819 728
III.8.2.	Other expenses (-)	-202 652	-5 121	-567 112	-767 988	-769 764	-773 109
III.9.	PROFIT (LOSS) ON ORDINARY ACTIVITIES	32 597 645	31 861 507	-16 003 172	46 210 797	16 594 473	78 072 304
III.10.	EXTRAORDINARY INCOME	0	0	0	0	0	0
III.11.	EXTRAORDINARY EXPENSES (-)	0	0	0	0	0	0
III.12.	PROFIT (LOSS) ON EXTRAORDINARY ACTIVITIES	0	0	0	0	0	0
III.13.	PROFIT OR LOSS FOR THE FINANCIAL YEAR BEFORE TAXATION	32 597 645	31 861 507	-16 003 172	46 210 797	16 594 473	78 072 304
III.14.	PROFIT TAX (-)	205 514	-209 745	-2 030 935	-15 498 327	-1 825 421	-15 708 072
III.15.	PROFIT OR LOSS FOR THE FINANCIAL YEAR	32 803 159	31 651 762	-18 034 107	30 712 470	14 769 052	62 364 232

Insurance Density, Penetration and Number of Concluded Insurance Contracts per Capita

Annex No. 6

Indicator	2006	2007	2008	2009	2010
Density, LTL	432,4	619,4	607,7	462,8	472,3
Life assurance market	134,6	234,3	159,9	145,8	165,2
Non-life insurance market	297,8	385,1	447,8	317,0	307,0
Penetration, %	1,8	2,1	1,8	1,7	1,6
Life assurance market	0,6	0,8	0,5	0,5	0,6
Non-life insurance market	1,2	1,3	1,3	1,2	1,1
Number of concluded insurance contracts per capita, units	0,73	0,81	0,84	0,96	1,03
Life assurance market	0,10	0,12	0,12	0,12	0,13
Non-life insurance market	0,63	0,70	0,72	0,84	0,91

Insurance Contracts*, units

Annex No. 7

Indicator	2006	2007	2008	2009	2010
Concluded insurance contracts	4 195 954	4 689 915	4 371 517	4 427 503	4 722 138
Life assurance market	74 748	92 182	91 093	70 336	73 741
Non-life insurance market	4 121 206	4 597 733	4 280 424	4 357 167	4 648 397
Insurance contracts in force	2 480 084	2 746 420	2 820 775	3 209 361	3 400 379
Life assurance market	347 457	390 856	404 638	413 386	423 665
Non-life insurance market	2 132 627	2 355 564	2 416 137	2 795 975	2 976 714
Insured persons at the end of the period*					
under life assurance contracts	509 412	551 162	570 340	510 673	507 142
under sickness and accident insurance contracts	641 763	1 419 787	2 850 127	915 871	908 995
Insured vehicles at the end of the period*					
under MTPL insurance contracts	1 237 468	1 232 719	1 337 492	1 340 539	1 367 426
under motor insurance contracts	171 587	200 135	196 887	187 591	180 640

* 2006-2007 data of insurance undertakings registered in the Republic of Lithuania

	2006	2007	2008	2009	2010
Premiums written					
Insurance undertakings registered in the Republic of Lithuania					
Life assurance, LTL	455 033 950	693 720 496	473 548 266	409 085 773	283 854 243
Growth rate, %	56,4	52,5	-31,7	-13,6	-30,6
Reinsurance accepted premiums, %*	0,0	0,0	0,0	0,0	0,0
Reinsurance ceded premiums, %*	5,0	3,5	4,6	1,7	1,7
Non-life insurance, LTL	993 550 500	1 242 647 701	1 425 885 877	834 922 712	811 835 811
Growth rate, %	30,7	25,1	14,7	-41,4	-2,8
Reinsurance accepted premiums, %*	1,2	0,6	1,3	0,3	0,2
Reinsurance ceded premiums, %*	11,9	15,0	13,3	6,5	6,7
Total, LTL	1 448 584 449	1 936 368 196	1 899 434 142	1 244 008 485	1 095 690 054
Growth rate, %	37,8	33,7	-1,9	-34,5	-11,9
Branch offices of EU insurers					
Life assurance, LTL	1 894 425	97 077 580	63 469 205	77 653 100	259 269 659
Growth rate, %	302,6	5024,4	-34,6	22,3	233,9
Non-life insurance, LTL	17 092 358	57 286 462	77 809 148	223 763 941	197 301 376
Growth rate, %	124,7	235,2	35,8	187,6	-11,8
Total, LTL	18 986 783	154 364 042	141 278 353	301 417 041	456 571 035
Growth rate, %	135,0	713,0	-8,5	113,3	51,5
Total in the market					
Life assurance, LTL	456 928 375	790 798 076	537 017 470	486 738 873	543 123 902
Growth rate, %	57,1	73,1	-32,1	-9,4	11,6
Non-life insurance, LTL	1 010 642 858	1 299 934 163	1 503 695 025	1 058 686 653	1 009 137 187
Growth rate, %	33,0	28,6	15,7	-29,6	-4,7
Total, LTL	1 467 571 232	2 090 732 238	2 040 712 495	1 545 425 526	1 552 261 089
Growth rate, %	39,7	42,5	-2,4	-24,3	0,4
	2006	2007	2008	2009	2010
Claims paid					
Insurance undertakings registered in the Republic of Lithuania					
Life assurance, LTL	47 711 130	133 643 200	241 031 601	213 184 547	101 334 760
Growth rate, %	8,9	180,1	80,4	-11,6	-52,5
Non-life insurance, LTL	444 457 047	569 398 866	716 331 576	585 710 455	561 633 091
Growth rate, %	35,5	28,1	25,8	-18,2	-4,1
Total, LTL	492 168 177	703 042 066	957 363 177	798 895 002	662 967 851
Growth rate, %	37,1	42,8	36,2	-16,6	-17,0
Branch offices of EU insurers					
Life assurance, LTL	6 210	1 447 724	30 486 755	17 737 901	103 170 209
Growth rate, %	0,0	23 212,8	2 005,8	-41,8	481,6
Non-life insurance, LTL	8 587 373	29 137 598	41 522 198	248 741 852	168 266 550
Growth rate, %	17 616,9	239,3	42,5	499,1	-32,4
Total, LTL	8 593 583	30 585 322	72 008 953	266 479 752	271 436 759
Growth rate, %	17629,7	255,9	135,4	270,1	1,9
Total in the market					
Life assurance, LTL	47 717 340	135 090 924	271 518 356	230 922 448	204 504 969
Growth rate, %	54,0	183,1	101,0	-15,0	-11,4
Non-life insurance, LTL	453 044 420	598 536 464	757 853 774	834 452 306	729 899 641
Growth rate, %	38,1	32,1	26,6	10,1	-12,5
Total, LTL	500 761 760	733 627 388	1 029 372 130	1 065 374 754	934 404 610
Growth rate, %	39,4	46,5	40,3	3,5	-12,3

* - data of Insurance undertakings registered in the Republic of Lithuania

Life Assurance Premiums Written and Claims Paid in 2006-2010 by Classes of Insurance, LTL

Annex No. 9

Classes of insurance	2006	2007	2008	2009	2010
Premiums written	456 928 375	790 798 076	537 017 470	486 738 873	543 123 902
1. Marriage and birth insurance	16 282 918	14 349 006	12 492 124	10 634 313	9 147 534
2. Life assurance, where the policyholder bears the investment risk	283 935 251	615 446 475	365 251 438	330 227 020	383 283 035
3. Life assurance (to the extent not provided in paragraphs 1. and 2)	153 769 834	156 973 314	156 522 232	142 953 683	147 183 696
3.1. Insurance in case of death	7 840 166	9 827 566	11 999 736	9 991 721	16 229 569
3.2. Insurance in case of survival	136 267 307	139 956 672	137 922 712	126 785 117	124 709 979
3.3. Annuities	9 662 361	7 189 076	6 599 785	6 176 845	6 244 148
4. Tontines	0	0	0	0	0
5. Supplementary insurance againsts personal injury	2 940 372	4 029 281	2 751 676	2 923 858	3 509 637
6. Pension accumulation activity	0	0	0	0	0
Benefits paid	47 717 340	135 090 924	271 518 356	230 922 448	204 504 969
1. Marriage and birth insurance	17 390 084	18 118 950	19 683 875	19 496 663	18 012 012
2. Life assurance, where the policyholder bears the investment risk	11 601 196	73 233 290	182 032 939	108 211 558	109 018 856
3. Life assurance (to the extent not provided in paragraphs 1. and 2)	18 149 503	42 097 192	69 054 421	102 490 718	76 857 763
3.1. Insurance in case of death	1 072 286	1 114 447	1 655 675	3 347 776	2 765 045
3.2. Insurance in case of survival	16 445 421	39 320 837	65 547 393	95 805 176	71 092 729
3.3. Annuities	631 795	1 661 908	1 851 353	3 337 767	2 999 989
4. Tontines	0	0	0	0	0
5. Supplementary insurance againsts personal injury	576 558	1 641 492	747 121	723 509	616 338
6. Pension accumulation activity	0	0	0	0	0

Non-Life Insurance Premiums Written and Claims Paid in 2006-2010 by Classes of Insurance, LTL

Classes of insurance	2006	2007	2008	2009	2010
Premiums written	1 010 642 858	1 299 934 163	1 503 695 025	1 058 686 653	1 009 137 187
1. General liability insurance	36 159 415	51 473 557	58 919 244	50 950 624	48 114 019
2. Sickness and accident insurance	68 348 285	88 090 915	118 337 178	81 221 971	86 552 511
3. Financial loss insurance	4 233 747	5 602 910	6 631 870	7 165 772	6 887 991
4. Railway rolling stock insurance	349 281	143 311	2 471 264	2 709 628	2 508 247
5. Credit insurance	20 861 165	23 473 210	35 552 633	25 353 363	11 026 536
6. Suretyship insurance	32 079 305	34 387 696	35 673 259	33 513 042	37 724 597
7. Liability for ships (sea, lake, river and canal) insurance	211 422	269 592	446 187	329 281	329 044
8. Ships (sea, lake, river and canal) insurance	3 303 683	1 922 640	2 462 121	2 015 437	1 671 860
9. Assistance insurance	797 400	916 671	1 276 293	1 141 361	1 078 228
10. Motor Third Party Liability insurance	366 073 529	450 100 909	480 937 996	376 743 900	374 656 225
11. Motor insurance	300 988 660	412 435 323	403 230 512	246 240 512	223 315 616
12. Aircraft liability insurance	648 013	633 543	493 515	462 574	422 288
13. Aircraft insurance	673 234	694 896	640 039	596 938	613 913
14. Legal expenses insurance	0	0	0	0	0
15. Property insurance	165 074 008	218 810 837	345 226 693	223 175 017	207 824 310
16. Cargo insurance	10 841 710	10 978 153	11 396 222	7 067 234	6 411 802
Claims paid	453 044 420	598 536 464	757 853 774	834 452 306	729 899 641
1. General liability insurance	7 227 465	4 045 881	8 440 866	6 078 712	7 772 577
2. Sickness and accident insurance	20 511 261	24 370 080	48 884 462	48 044 539	37 074 260
3. Financial loss insurance	98 086	223 747	9 676 947	11 870 037	4 938 543
4. Railway rolling stock insurance	0	0	0	1 279 000	1 011 121
5. Credit insurance	10 387 350	9 324 157	27 593 720	154 269 254	102 841 990
6. Suretyship insurance	11 444 274	4 548 677	5 277 581	6 445 607	6 172 833
7. Liability for ships (sea, lake, river and canal) insurance	0	48 387	0	0	0
8. Ships (sea, lake, river and canal) insurance	29 091	63 345	933 106	201 741	1 072 685
9. Assistance insurance	132 203	195 338	220 068	288 126	292 591
10. Motor Third Party Liability insurance	186 506 000	238 610 370	268 495 971	256 275 336	232 610 784
11. Motor insurance	162 906 383	210 258 869	259 887 487	225 513 876	212 126 089
12. Aircraft liability insurance	0	7 000	0	9 000	4 286
13. Aircraft insurance	46 796	1 322 075	416 354	10 527	164 793
14. Legal expenses insurance	0	0	0	0	0
15. Property insurance	49 559 365	101 466 302	126 108 744	122 687 635	121 499 651
16. Cargo insurance	4 196 146	4 052 236	1 918 468	1 478 917	2 317 440

Dynamics of the Investment Portfolio of Life Assurance Undertakings, LTL

Assets	Period				
	2009-12-31	2010-03-31	2010-06-30	2010-09-30	2010-12-31
1. Government, central bank and municipality securities	391 885 042	403 293 770	401 947 335	419 053 668	439 310 749
2. Real estate	1 775 069	1 773 494	571 919	570 343	670 377
3. Term deposits	26 201 392	29 363 111	24 017 267	32 887 947	41 680 261
4. Mortgage loans	0	0	0	0	0
5. Mortgage bonds	16 880 158	16 147 920	14 959 658	14 014 654	14 308 435
6. Shares listed in regulated markets	706 601	946 689	840 607	1 003 853	1 007 924
7. Shares not listed in regulated markets	5 259 307	5 259 307	5 259 307	5 259 307	5 259 307
8. Corporate bonds listed in regulated markets	75 756 770	80 097 191	78 257 860	79 946 280	74 018 669
9. Corporate bonds not listed in regulated markets	2 429 984	2 546 479	2 502 967	2 489 735	3 001 217
10. Shares of investment companies with variable capital and investment units of investment funds	489 457 516	540 705 942	542 256 431	571 856 781	645 747 032
11. Derivative financial instruments for risk migration	0	-4 307	-5 457	5 377	782
12. Cash at bank and in hand	13 606 966	9 114 550	15 893 715	13 614 559	20 337 929
13. Money market instruments listed in regulated markets	0	0	0	0	0
14. Money market instruments not listed in regulated markets	0	0	0	0	0
15. Other investments	0	0	0	0	0
Total	1 023 958 806	1 089 244 145	1 086 501 609	1 140 702 503	1 245 342 684

Dynamics of the Investment Portfolio of Non-Life Insurance Undertakings, LTL

Assets	Period				
	2009-12-31	2010-03-31	2010-06-30	2010-09-30	2010-12-31
1. Government, central bank and municipality securities	726 860 954	623 787 582	632 501 059	657 358 837	666 174 169
2. Real estate	86 856 421	85 969 557	85 109 254	84 873 223	85 208 291
3. Term deposits	78 091 763	105 798 318	97 809 980	100 791 229	89 670 998
4. Mortgage loans	4 846 715	4 942 705	5 093 349	5 026 611	4 539 224
5. Mortgage bonds	3 972 410	4 172 954	4 278 033	4 229 979	5 071 966
6. Shares listed in regulated markets	12 574 209	15 538 750	14 208 137	16 960 806	18 625 508
7. Shares not listed in regulated markets	2 825 804	3 596 435	3 596 435	4 298 345	3 362 186
8. Corporate bonds listed in regulated markets	148 863 244	163 133 322	147 632 434	148 213 230	157 943 917
9. Corporate bonds not listed in regulated markets	10 400 350	10 824 814	16 128 673	10 989 371	0
10. Shares of investment companies with variable capital and investment units of investment funds	18 028 116	17 682 689	26 798 742	27 938 695	25 942 465
11. Derivative financial instruments for risk migration	0	-16 572	6 880	-13 649	9 170
12. Cash at bank and in hand	50 059 132	116 505 252	106 175 532	67 226 170	88 274 108
13. Money market instruments listed in regulated markets	3 449 257	0	0	0	0
14. Money market instruments not listed in regulated markets	0	0	0	0	0
15. Other investments	8 238 698	4 548 889	4 540 207	5 190 726	5 246 973
Total	1 155 067 074	1 156 484 693	1 143 878 716	1 133 083 574	1 150 068 976

Classes of insurance	Loss ratio				Expense ratio				Combined ratio			
	Gross of reinsurance		Net of reinsurance		Gross of reinsurance		Net of reinsurance		Gross of reinsurance		Net of reinsurance	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
1. General liability insurance	39,7	1,2	24,1	19,4	34,1	41,8	41,9	50,7	73,8	43,0	66,0	71,2
2. Sickness and accident insurance	37,0	35,7	37,8	36,4	49,7	51,5	50,9	52,5	86,7	87,3	88,5	89,0
3. Financial loss insurance	12,5	178,2	4,9	155,3	45,9	46,2	52,8	50,5	58,4	224,4	57,7	206,0
4. Railway rolling stock insurance	101,5	19,9	82,8	37,9	27,2	42,0	36,6	83,8	128,7	61,8	119,4	121,7
5. Credit insurance	428,9	614,0	428,9	614,0	65,3	48,5	65,3	48,5	494,3	662,5	494,3	662,5
6. Suretyship insurance	20,8	-4,2	21,7	8,6	55,3	53,3	61,0	61,3	76,1	49,1	80,9	69,8
7. Liability for ships (sea, lake, river and canal) insurance	1,1	-5,0	1,0	-8,9	29,2	29,3	37,6	40,0	30,3	24,4	39,9	28,9
8. Ships (sea, lake, river and canal) insurance	66,1	-18,9	61,4	-11,9	28,9	33,4	37,2	48,6	95,0	14,5	99,6	35,1
9. Assistance insurance	43,5	57,1	43,5	57,3	36,0	36,3	36,1	36,4	79,5	93,4	79,6	93,7
10. Motor Third Party Liability insurance	74,5	67,0	70,9	68,0	32,1	33,0	34,1	34,4	112,5	104,5	113,3	105,7
11. Motor insurance	62,9	81,3	63,0	81,9	30,4	31,5	30,1	31,5	93,3	112,9	95,1	117,9
12. Aircraft liability insurance	5,9	-2,3	7,4	-2,5	29,3	31,7	38,6	36,0	35,1	29,5	46,0	33,5
13. Aircraft insurance	46,7	6,6	61,2	8,2	30,6	32,7	39,0	43,0	77,3	39,2	100,2	51,3
14. Legal expenses insurance	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
15. Property insurance	45,7	47,3	51,7	43,5	40,0	44,1	44,1	48,6	85,7	91,3	96,4	92,5
16. Cargo insurance	17,3	42,8	23,3	63,9	33,3	35,9	34,7	44,1	50,7	78,7	58,4	107,9
Total	62,0	63,5	62,5	66,4	35,8	37,8	37,9	39,7	99,8	103,0	103,9	108,6

Ratio	2006	2007	2008	2009	2010
Life assurance companies					
Profitability, %	4,3	5,6	4,7	11,8	11,0
Return on equity, %	13,1	20,2	12,0	22,6	20,7
Return on assets, %	2,1	2,7	1,6	3,4	2,9
Return on investments, %	-0,3	1,7	-0,1	5,6	4,4
Solvency ratio	2,6	2,8	2,5	3,1	3,2
Non-life insurance companies					
Profitability, %	-7,7	12,2	6,1	5,2	-2,1
Return on equity, %	-6,3	22,8	11,7	8,5	-3,3
Return on assets, %	-1,7	6,8	3,6	2,9	-1,1
Return on investments, %	1,7	3,7	-0,5	6,1	4,4
Solvency ratio	2,1	2,5	2,5	2,3	2,5
Total					
Profitability, %	-1,7	10,0	5,8	6,7	1,6
Return on equity, %	-2,2	22,3	11,8	11,5	2,6
Return on assets, %	-0,5	5,3	2,9	3,1	0,6
Return on investments, %	1,2	3,2	-0,4	5,9	4,4
Solvency ratio	2,2	2,5	2,5	2,4	2,6

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