LITHUANIA
Key characteristics of the insurance market

1 Introduction

1.1 General

At the end of 2017 (2017 Q4), 9 insurance companies[1] in Lithuania submitted their Solvency II related reporting package to the Lithuanian National Supervisory Authority (NSA). These companies accounted for 0,012% of Total assets of insurance undertakings operating within the European Union (EU).

Table 1 depicts the number of Solvency II reporting submissions in Lithuania by insurance activities and the importance of the country within the EU, based on Total assets.

Table 1 - Insurance reporting submissions

Insurance reporting submissions	**#**
Life undertakings	3
Non-Life undertakings	4
Reinsurance undertakings	0
Composite undertakings	2
Total	**9**
Total assets LT / Total assets EU %	**0,012%**
Ranking LT based on Total assets EU	**27**

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

1.2 Balance sheet

At the end of 2017 (2017 Q4), Lithuania was the number 27 country in the EU insurance market in terms of assets held with an amount of 1 329 million EUR reported under Solvency II rules.

With regards to the Assets held for index-linked and unit-linked contracts, Lithuania ranked number 25 in terms of absolute amount with 497 million EUR invested in this category. However, with 37,4% of Total assets of this category, Lithuania was significantly above the EU average, i.e. 24,3% in terms of Total assets.

In terms of technical provisions, 15,7% of the total balance sheet relates to the life business (i.e. non index-linked and unit-linked business), while 18,0% represented non-life obligations.

Table 2 - Solvency II balance sheet (S.02.01) and EU comparison (solo)

in Mio EUR		**LT**				**EU**		
	Amount	**Rank**	**%**	**%**	**Avg**	**Min**	**Max**	**StD**
Investments, deposits, cash and cash equivalents	765	27	57,6%	67,8%	67,3%	22,6%	90,1%	17,2%
Assets held for index-linked and unit-linked contracts	497	25	37,4%	24,2%	24,3%	2,5%	59,3%	16,2%
Other assets	67	28	5,0%	8,1%	8,4%	2,1%	19,5%	4,9%
Total assets	**1 329**	27	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**0,0%**
Technical provisions - life	208	27	15,7%	46,3%	32,2%	3,0%	64,2%	17,9%
Technical provisions - non-life	240	28	18,0%	6,6%	12,9%	2,4%	38,5%	9,1%
Technical provisions - index-linked and unit-linked	420	25	31,6%	25,1%	23,4%	2,4%	58,4%	16,0%
Other liabilities	79	27	6,0%	8,9%	9,0%	4,0%	21,3%	3,9%
Total liabilities	**947**	27	**71,2%**	**86,9%**	**77,6%**	**49,1%**	**92,7%**	**11,1%**
Excess of assets over liabilities	382	27	28,8%	13,1%	22,4%	7,3%	50,9%	11,1%
Total liabilities + Excess of assets over liabilities	**1 329**	27	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**0,0%**

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

[1] In the report, the term 'insurance companies' indicates both direct insurance and reinsurance companies. The insurance market covered in this factsheet therefore refers to insurers and reinsurers.

The balance sheet item Investments, deposits, cash and cash equivalents will be further detailed in section 2, while section 3 will focus on Assets held for index-linked and unit-linked contracts.

1.3 Solvency II ratios

At the end of 2017 (2017 Q4), the Lithuanian insurance market as a whole had available own funds that were significantly above the Solvency Capital Requirement (SCR) levels required by the European Solvency II Directive. The reported SCR ratio amounted to 194% without long-term guarantee (LTG) and transitional measures and is approximately significantly below that of the EU, which amounted to 237% at year-end 2017. Out of the 28 EU Member States, Lithuania is ranked at the 20th position in terms of the reported SCR ratios.

Table 3 - Solvency II own funds and SCR (S.23.01) and EU comparison (solo)

in Mio EUR	LT		EU				
	Amount	Rank	%	Avg	Min	Max	StD
Total available own funds to meet the SCR	378	27	-	-	-	-	-
SCR	195	27	-	-	-	-	-
Surplus available own funds	**183**	**27**	-	**-**	**-**	**-**	**-**
Ratio of Eligible own funds to SCR	**194%**	**20**	**237%**	**225%**	**135%**	**361%**	**52%**
Ratio of Eligible own funds to SCR (10th percentile)	117%	24	136%	138%	110%	193%	19%
Ratio of Eligible own funds to SCR (25th percentile)	150%	20	162%	164%	128%	214%	24%
Ratio of Eligible own funds to SCR (50th percentile)	174%	24	215%	208%	144%	300%	37%
Ratio of Eligible own funds to SCR (75th percentile)	234%	23	306%	280%	164%	445%	59%
Ratio of Eligible own funds to SCR (90th percentile)	306%	23	457%	396%	173%	643%	99%
Ratio of Eligible own funds to MCR	**478%**	**22**	**640%**	**613%**	**282%**	**933%**	**170%**

Source: EIOPA statistics and Deloitte-CEPS analysis

EIOPA's report on long-term guarantees measures and measures on equity risk published on 18 December 2018 mentions the average impact of the use of LTG and transitional measures. At year-end 2017, no results were shown for Lithuania since the undertakings do not apply any of the measures.[2]

[2] https://eiopa.europa.eu/Publications/Reports/2018-12-18%20_LTG%20AnnualReport2018.pdf

2 Investments, deposits, cash and cash equivalents

2.1 Scope

The asset allocation of Lithuanian insurance undertakings is mainly analysed through the reported Solvency II Exposure List (S.06.02). The classification of the Solvency II Balance Sheet (S.02.01) follows the legal nature of the assets in terms of classification, which can differ, from the exposures reporting.

Based upon the comparative view below, we note that amounts reported in the Solvency II Exposure List (S.06.02) and Solvency II Balance Sheet (S.02.01) do not differ.

Table 4 - Solvency II balance sheet (S.02.01) and Solvency II exposure list (S.06.02) comparison

in number	Exposure list LT		Solvency II balance sheet LT		Difference
	#	%	#	%	#
Life undertakings	3	33,3%	3	33,3%	0
Non-Life undertakings	4	44,4%	4	44,4%	0
Reinsurance undertakings	0	0,0%	0	0,0%	0
Undertakings pursuing both life and non-life insurance activity	2	22,2%	2	22,2%	0
Total	**9**	**100,0%**	**9**	**100,0%**	**0**

in Mio EUR	Exposure list LT		Solvency II balance sheet LT		Difference
	Amount	%	Amount	%	%
Holdings in related undertakings, incl. participations and equities	12	1,5%	12	1,5%	0,0%
Holdings in related undertakings, including participations	n/a	n/a	9	1,2%	n/a
Equities	n/a	n/a	2	0,3%	n/a
Equities - listed	n/a	n/a	2	0,3%	n/a
Equities - unlisted	n/a	n/a	0	0,0%	n/a
Collective Investments Undertakings	88	11,5%	88	11,5%	0,0%
Bonds	567	74,1%	569	74,4%	-0,3%
Loans and mortgages	7	0,9%	7	0,9%	0,0%
Property	23	2,9%	23	2,9%	0,0%
Deposits	1	0,2%	1	0,2%	0,0%
Cash and cash equivalents	66	8,6%	66	8,6%	0,0%
Other investments	0	0,0%	0	0,0%	0,0%
Total Investments, deposits, cash and cash equivalents	**765**	**100,0%**	**765**	**100,0%**	**0,0%**

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

2.1.1 Listed and unlisted equity

The distinction between listed and unlisted equity is made based upon the reported Solvency II Balance Sheet (S.02.01). Table 5 compares the listed and unlisted equity, whereby Holdings in related undertakings (including participations) are excluded.

Table 5 - Listed and unlisted equity exposure based upon Solvency II balance sheet (S.02.01)

in Mio EUR	LT			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Equities - listed	2	25	99,6%	83,7%	75,0%	12,8%	99,6%	21,1%
Equities - unlisted	0	-	0,4%	16,3%	25,0%	0,4%	87,0%	21,1%
Total equities	**2**	**27**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**0,0%**

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

Based upon the quarterly reporting as of Q4 2017, Lithuanian insurers invested 99,6% of their directly-held equity positions in listed equity in comparison to an average of 75,0% in the EU. With an amount of 25 million EUR, Lithuania ranked number 25 in the EU.

With a negligible invested amount, unlisted equity constituted a non-significant portion of the equity investment category of the directly-held equity investments, i.e. 0,4%.

2.2 Asset exposure

From an asset exposure perspective, the insurance market in Lithuania mainly invested in Government bonds and Corporate bonds (in total 73,3% of Total Investments, deposits, cash and cash equivalents), Collective Investment Undertakings (11,5%), and Cash and cash equivalents (8,6%).

Within the bond categories, the insurance market was not equally exposed to government securities (65,7%) than to corporate debt (7,6%), categories for which Lithuania ranked number 25 and number 27 in the EU, respectively. Comparing the different assets classes, we note that the government bonds asset class shows the highest standard deviation of 18,9%.

The category of Collective Investment Undertakings was the third most important for the Lithuanian insurance market in terms of asset exposures. Within this category, the industry was mainly exposed to Debt funds, Equity funds, and Real estate funds for which Lithuania ranked respectively number 25, number 28, and number 22 in the EU.

Equity was only the sixth category to which the Lithuanian insurers had the most exposure. Equity of real estate related corporation constitutes 1,5% within the 1,5% of the total equity exposure.

Table 6 - Asset exposure based upon Solvency II exposure list (S.06.02)

in Mio EUR	LT			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Equity	**12**	**27**	**1,5%**	**12,0%**	**9,5%**	**1,1%**	**28,1%**	**6,5%**
Common equity	12	27	1,5%	10,4%	7,8%	1,0%	22,5%	6,0%
Equity of real estate related corporation	0	-	0,0%	1,0%	1,1%	0,0%	4,0%	1,2%
Other equity	0	-	0,0%	0,6%	0,6%	0,0%	2,0%	0,7%
Collective Investment Undertakings	**88**	**25**	**11,5%**	**19,2%**	**12,8%**	**1,5%**	**41,6%**	**9,3%**
Equity funds	7	28	0,9%	3,2%	2,7%	0,4%	10,9%	2,4%
Private equity funds	0	-	0,0%	0,5%	0,5%	0,0%	6,9%	1,3%
Debt funds	74	25	9,7%	7,8%	5,6%	0,8%	18,0%	4,9%
Money market funds	0	-	0,0%	2,3%	1,1%	0,0%	6,3%	1,6%
Asset allocation funds	0	-	0,0%	1,1%	0,8%	0,0%	3,9%	1,0%
Real estate funds	5	22	0,6%	1,6%	0,8%	0,0%	3,3%	0,9%
Alternative funds	0	-	0,0%	0,4%	0,3%	0,0%	3,1%	0,6%
Infrastructure funds	0	-	0,0%	0,2%	0,1%	0,0%	0,9%	0,2%
Other	1	24	0,2%	2,0%	0,9%	0,0%	7,2%	1,7%
Government bonds	**503**	**25**	**65,7%**	**28,7%**	**39,7%**	**10,0%**	**77,0%**	**18,9%**
Corporate bonds	**58**	**27**	**7,6%**	**26,9%**	**21,6%**	**1,8%**	**47,3%**	**11,2%**
Structured notes	**6**	**22**	**0,8%**	**1,3%**	**0,5%**	**0,0%**	**2,5%**	**0,6%**
Collateralised securities	**0**	**-**	**0,0%**	**0,6%**	**0,6%**	**0,0%**	**9,3%**	**1,8%**
Mortgages and loans	**7**	**26**	**0,9%**	**4,8%**	**3,8%**	**0,3%**	**26,3%**	**5,2%**
Property	**23**	**26**	**2,9%**	**2,0%**	**3,5%**	**0,8%**	**11,6%**	**2,6%**
Deposits	**1**	**28**	**0,2%**	**2,8%**	**3,6%**	**0,2%**	**16,6%**	**3,6%**
Cash and cash equivalents	**66**	**27**	**8,6%**	**1,4%**	**4,3%**	**0,5%**	**16,6%**	**3,5%**
Other investments	**0**	**-**	**0,0%**	**0,1%**	**0,1%**	**0,0%**	**0,9%**	**0,3%**
Not reported	**2**	**11**	**0,3%**	**0,0%**	**0,0%**	**0,0%**	**0,3%**	**0,1%**
Total Investments, deposits, cash and cash equivalents	**765**	**27**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**0,0%**

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

2.2.1 Asset exposures between Life, Non-Life and Composite insurance undertakings, and reinsurers

For Lithuania, the undertaking type is not published. In accordance with Article 70(2) of the EIOPA Regulation, EIOPA may only divulge information and data - in summary or in aggregated form – so that individual financial institutions cannot be identified.

2.3 Equity exposure

Based upon the information included in the Solvency II Exposure List (S.06.02) and Balance Sheet (S.02.01), equity exposures can be calculated and presented in different ways:

- Equity exposure as the sum of Equity (Common equity, Equity of real estate related corporation and Other equity), Equity and Private equity funds, and Equity risk included in structured notes;
- Equity of real estate related corporation could be seen as a property exposure. Therefore equity exposures are presented including and excluding Equity of real estate related corporation;
- The equity amounts of the Solvency II Exposure List does not provide further details whether the equity exposures relate to listed or unlisted equity positions. In addition, the Solvency II Exposure List does not mention whether the equity relates to Holdings in related undertakings, including participations;
- Therefore, the listed and unlisted share amounts reported in the Solvency II Balance Sheet are considered and integrated as an equity exposure indicator. A rescaling is performed in case a difference is noted between the two Solvency II information sets (Exposure List versus Balance Sheet). The adjusted equity exposure stemming from this analysis excludes the Equity exposure coming from Holdings in related undertakings, including participations. These holdings can potentially be important within insurance groups.

Table 7 - Equity exposure based upon Solvency II balance sheet (S.02.01) and Solvency II exposure list (S.06.02)

in Mio EUR	LT			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Equity	**12**	**27**	**1,5%**	**12,0%**	**9,5%**	**1,1%**	**28,1%**	**6,5%**
Common equity	12	27	1,5%	10,4%	7,8%	1,0%	22,5%	6,0%
Equity of real estate related corporation	0	-	0,0%	1,0%	1,1%	0,0%	4,0%	1,2%
Other equity	0	-	0,0%	0,6%	0,6%	0,0%	2,0%	0,7%
Collective Investment Undertakings - Equity funds	**7**	**25**	**0,9%**	**3,8%**	**3,2%**	**0,4%**	**14,7%**	**3,5%**
Equity funds	7	28	0,9%	3,2%	2,7%	0,4%	10,9%	2,4%
Private equity funds	0	-	0,0%	0,5%	0,5%	0,0%	6,9%	1,3%
Structured notes - Equity risk	**0**	**-**	**0,0%**	**0,2%**	**0,1%**	**0,0%**	**0,6%**	**0,1%**
Total Equity exposure	**19**	**27**	**2,5%**	**16,0%**	**12,7%**	**2,5%**	**37,4%**	**8,4%**
Equity without Equity of real estate related corporation	**12**	**27**	**1,5%**	**11,0%**	**8,4%**	**1,1%**	**24,1%**	**6,1%**
Equity exposure without Equity of real estate related corporation	**19**	**27**	**2,5%**	**15,0%**	**11,7%**	**2,4%**	**33,3%**	**7,9%**
Equities market value balance sheet (rescaled to CIC scope)	**2**	**27**	**0,3%**	**3,6%**	**3,2%**	**0,1%**	**20,6%**	**4,0%**
Equities - listed (rescaled to CIC scope)	2	25	0,3%	3,0%	2,6%	0,0%	15,4%	3,2%
Equities - unlisted (rescaled to CIC scope)	0	28	0,0%	0,6%	0,6%	0,0%	5,2%	1,0%
Equity exposure based upon (Un)Listed equities (rescaled)	**9**	**28**	**1,2%**	**7,6%**	**6,5%**	**1,2%**	**29,8%**	**6,7%**

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

The observed standard deviations at EU level are relatively high given the asset allocation in percentage between the different asset classes at EU level.

In Lithuania, we note that equity exposures coming from Collective Investment Undertakings amount to 0,9% and are higher than the listed and unlisted equity exposures which in total amount to 0,3%. Hereby the listed and unlisted equities in Lithuania are not similar to the asset allocation at EU level.

2.3.1 Direct and indirect equity exposure

Table 8 - Direct and indirect equity exposure based upon Solvency II exposure list (S.06.02)

in Mio EUR	LT			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Direct equity	**12**	**27**	**61,6%**	**75,2%**	**73,4%**	**39,2%**	**94,5%**	**15,9%**
Common equity	12	27	61,6%	64,8%	59,4%	28,6%	93,3%	19,0%
Equity of real estate related corporation	0	-	0,0%	6,4%	8,4%	0,0%	39,1%	9,6%
Other equity	0	-	0,0%	3,9%	5,7%	0,0%	35,3%	8,8%
Indirect equity	**7**	**28**	**38,4%**	**24,8%**	**26,6%**	**5,5%**	**60,8%**	**15,9%**
Collective Investment Undertakings - Equity	7	28	38,4%	23,6%	25,9%	4,6%	60,6%	15,7%
Equity funds	7	28	38,4%	20,2%	22,8%	4,6%	52,9%	13,4%
Private equity funds	0	-	0,0%	3,3%	3,1%	0,0%	28,4%	5,7%
Structured notes - Equity risk	0	-	0,0%	1,3%	0,7%	0,0%	4,0%	1,0%
Total Equity exposure	**19**	**27**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**0,0%**

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

In 2017 Q4, the insurance market in Lithuania was invested significantly more in Direct equity (61,6% of Total equity) than in Indirect equity (38,4% of Total equity).

In terms of direct equity exposure, Lithuania ranked number 27 in the EU, concerning the exposure amount to Common equity. Within the Indirect equity category, Equity funds constituted the bulk of investments with 38,4% of Total equity.

2.3.2 Equity by location

Table 9 - Equity exposure by location based upon Solvency II exposure list (S.06.02)

in Mio EUR	LT			
	EU home	EU other	outside EU (1)	Total
Equity	**3**	**8**	**1**	**12**
Common equity	3	8	1	12
Equity of real estate related corporation	0	0	0	0
Other	0	0	0	0
Collective Investment Undertakings - Equity funds	**0**	**7**	**0**	**7**
Equity funds	0	7	0	7
Private equity funds	0	0	0	0
Structured notes - Equity risk	**0**	**0**	**0**	**0**
Total Equity exposure	**3**	**15**	**1**	**19**

in %	LT			
	EU home	EU other	outside EU (1)	Total
Equity	**21,6%**	**67,1%**	**11,3%**	**100,0%**
Common equity	21,6%	67,1%	11,3%	100,0%
Equity of real estate related corporation	-	-	-	-
Other	-	-	-	-
Collective Investment Undertakings - Equity funds	**2,8%**	**96,2%**	**1,1%**	**100,0%**
Equity funds	2,8%	96,2%	1,1%	100,0%
Private equity funds	0,0%	100,0%	0,0%	100,0%
Structured notes - Equity risk	**-**	**-**	**-**	**-**
Total Equity exposure	**14,4%**	**78,3%**	**7,4%**	**100,0%**

(1) The following countries are included in the class 'outside EU': IS, LI, NO, AU, CA, JP, US, CH and countries grouped under the caption 'Rest of World'. In addition some investments are not assigned to an individual country and are also included in this class.

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

Based upon the Q4 2017 reporting with regards to the location of equity investments, insurers established in Lithuania favoured domestic investments to a small extent, dedicating to these 21,6% of their direct equity investments, and 2,8% of their indirect investments.

Table 9 also showed that besides the home market, Lithuania insurers invested significantly more in equity of other EU Member States than that of non-EU Member States. Latvia, the Rest of World and Estonia were the preferred destinations.

Table 10 - Direct equity exposure by location based upon Solvency II exposure list (S.06.02)

in Mio EUR	LT	
	Amount	**%**
Home country	**3**	**21,6%**
LT	3	21,6%
Top 5 countries (outside home country)	**9**	**78,4%**
LV	7	60,2%
Rest of World and unassigned	1	11,3%
EE	1	6,9%
RO	0	0,0%
AU	0	0,0%
Home + Top 5 countries (outside home country)	**12**	**100,0%**
Total Direct equity exposure (with real estate corporation)	**12**	**100,0%**

in Mio EUR	LT	
	Amount	**%**
Home country	**3**	**21,6%**
LT	3	21,6%
Top 5 countries (outside home country)	**9**	**78,4%**
LV	7	60,2%
Rest of World and unassigned	1	11,3%
EE	1	6,9%
RO	0	0,0%
AU	0	0,0%
Home + Top 5 countries (outside home country)	**12**	**100,0%**
Total Direct equity exposure (without real estate corporation)	**12**	**100,0%**

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

3 Index-linked and Unit-linked investments

3.1 Scope

Based upon the comparative view below, we note a slight difference with respect to the Assets held for index-linked and unit-linked contracts reported in the Solvency II Exposure List (S.06.02) and Solvency II Balance Sheet (S.02.01).

Table 11 - Solvency II balance sheet (S.02.01) and Solvency II exposure list (S.06.02) comparison

in number	Exposure list LT		Solvency II balance sheet LT		Difference
	#	%	#	%	#
Life undertakings	3	33,3%	3	33,3%	0
Non-Life undertakings	4	44,4%	4	44,4%	0
Reinsurance undertakings	0	0,0%	0	0,0%	0
Undertakings pursuing both life and non-life insurance activity	2	22,2%	2	22,2%	0
Total	**9**	**100,0%**	**9**	**100,0%**	**0**

in Mio EUR	Exposure list LT		Solvency II balance sheet LT		Difference
	Amount	%	Amount	%	%
Assets held for index-linked and unit-linked contracts	497	100,0%	497	100,0%	0,0%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

3.2 Asset exposure

Table 12 depicts a more detailed view of the Assets held for index-linked and unit-linked contracts, based upon the Solvency II exposure list (S.06.02).

Table 12 - Asset exposure based upon Solvency II exposure list (S.06.02)

in Mio EUR	LT			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Equity	**0**	**-**	**0,0%**	**19,3%**	**4,5%**	**0,0%**	**30,1%**	**7,1%**
Common equity	0	-	0,0%	18,0%	3,9%	0,0%	28,8%	6,3%
Equity of real estate related corporation	0	-	0,0%	0,8%	0,3%	0,0%	1,5%	0,5%
Other equity	0	-	0,0%	0,4%	0,3%	0,0%	4,1%	0,9%
Collective Investment Undertakings	**407**	**25**	**81,8%**	**63,2%**	**73,1%**	**30,1%**	**97,5%**	**16,3%**
Equity funds	249	24	50,0%	26,5%	29,2%	11,2%	57,5%	10,5%
Private equity funds	0	-	0,0%	0,1%	0,2%	0,0%	2,9%	0,6%
Debt funds	57	26	11,5%	12,1%	19,0%	4,8%	47,5%	11,4%
Money market funds	0	-	0,1%	2,2%	1,7%	0,0%	7,5%	1,8%
Asset allocation funds	47	23	9,5%	14,8%	13,1%	0,4%	30,5%	7,7%
Real estate funds	0	-	0,0%	1,4%	0,6%	0,0%	6,2%	1,2%
Alternative funds	53	14	10,6%	1,6%	2,4%	0,0%	16,3%	3,8%
Infrastructure funds	0	-	0,0%	0,0%	0,1%	0,0%	2,4%	0,5%
Other	0	-	0,0%	4,6%	6,9%	0,0%	44,3%	10,0%
Government bonds	**87**	**15**	**17,4%**	**6,4%**	**6,9%**	**0,0%**	**31,4%**	**8,4%**
Corporate bonds	**0**	**-**	**0,0%**	**3,9%**	**6,0%**	**0,0%**	**22,7%**	**6,9%**
Structured notes	**0**	**-**	**0,0%**	**1,6%**	**4,1%**	**0,0%**	**18,9%**	**4,9%**
Collateralised securities	**0**	**-**	**0,0%**	**0,1%**	**0,1%**	**0,0%**	**0,9%**	**0,2%**
Mortgages and loans	**0**	**-**	**0,0%**	**0,2%**	**0,2%**	**-3,7%**	**2,5%**	**1,0%**
Property	**0**	**-**	**0,0%**	**1,3%**	**0,6%**	**0,0%**	**7,6%**	**1,5%**
Deposits	**0**	**-**	**0,0%**	**1,2%**	**2,0%**	**-0,3%**	**14,5%**	**3,3%**
Cash and cash equivalents	**4**	**24**	**0,7%**	**1,2%**	**2,2%**	**0,0%**	**8,5%**	**2,5%**
Other investments	**0**	**-**	**0,0%**	**0,4%**	**0,3%**	**0,0%**	**8,1%**	**1,5%**
Not reported	**0**	**-**	**0,0%**	**1,2%**	**0,1%**	**0,0%**	**2,3%**	**0,4%**
Total Investments, deposits, cash and cash equivalents	**497**	**25**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**0,0%**

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

The Collective Investment Undertakings (81,8%) and the Government bonds (17,4%) represent the most important asset classes of the index-linked and unit-linked investments. Overall, we note a significantly different asset exposure allocation in comparison to the

asset exposure for non index-linked and unit-linked investments. Hereby we refer to section 2 for further details.
Relatively to the EU average, we observe a significant large difference between the portion of index-linked and unit-linked related assets that were invested in Alternative funds, 10,6% in Lithuania compared to 2,4% in the EU.

3.3 Equity exposure

The Solvency II balance sheet (S.02.01) does not include a further split in different asset classes for the Assets held for index-linked and unit-linked contracts. Hence the rescaling exercise as presented in section 2 cannot be performed here.

Table 13 - Equity exposure based upon Solvency II exposure list (S.06.02)

in Mio EUR	LT			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Equity	**0**	**-**	**0,0%**	**19,3%**	**4,5%**	**0,0%**	**30,1%**	**7,1%**
Common equity	0	-	0,0%	18,0%	3,9%	0,0%	28,8%	6,3%
Equity of real estate related corporation	0	-	0,0%	0,8%	0,3%	0,0%	1,5%	0,5%
Other equity	0	-	0,0%	0,4%	0,3%	0,0%	4,1%	0,9%
Collective Investment Undertakings - Equity funds	**249**	**24**	**50,1%**	**26,5%**	**29,3%**	**11,2%**	**57,5%**	**10,4%**
Equity funds	249	24	50,0%	26,5%	29,2%	11,2%	57,5%	10,5%
Private equity funds	0	-	0,0%	0,1%	0,2%	0,0%	2,9%	0,6%
Structured notes - Equity risk	**0**	**-**	**0,0%**	**1,2%**	**2,7%**	**0,0%**	**15,0%**	**3,5%**
Total Equity exposure	**249**	**24**	**50,1%**	**47,1%**	**36,5%**	**11,7%**	**58,6%**	**10,9%**
Equity without Equity of real estate related corporation	**0**	**27**	**0,0%**	**16,0%**	**4,2%**	**0,0%**	**29,2%**	**6,8%**
Equity exposure without Equity of real estate related corporation	**249**	**24**	**50,1%**	**40,0%**	**36,2%**	**11,7%**	**58,6%**	**10,8%**

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

In Lithuania, we note that total equity exposures related to index-linked and unit-linked contracts (50,1%) are significantly higher in comparison to non index-linked and unit-linked contracts (2,5%). Equity funds are the main contributors to the equity exposures.

3.3.1 Direct and indirect equity exposure

Table 14 - Direct and indirect equity exposure based upon Solvency II exposure list (S.06.02)

in Mio EUR	LT			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Direct equity	**0**	**-**	**0,0%**	**38,3%**	**11,1%**	**0,0%**	**54,2%**	**15,2%**
Common equity	0	-	0,0%	35,4%	9,6%	0,0%	51,8%	13,2%
Equity of real estate related corporation	0	-	0,0%	1,7%	0,7%	0,0%	4,0%	1,1%
Other equity	0	-	0,0%	1,3%	0,8%	0,0%	9,7%	2,2%
Indirect equity	**249**	**24**	**100,0%**	**61,7%**	**88,9%**	**45,8%**	**100,0%**	**15,2%**
Collective Investment Undertakings - Equity funds	249	24	100,0%	59,1%	81,5%	45,7%	100,0%	15,5%
Equity funds	249	24	100,0%	58,6%	81,0%	44,9%	100,0%	16,0%
Private equity funds	0	-	0,0%	0,5%	0,5%	0,0%	6,9%	1,4%
Structured notes - Equity risk	0	-	0,0%	2,6%	7,4%	0,0%	35,8%	9,6%
Total Equity exposure	**249**	**24**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**0,0%**

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

In 2017 Q4, Lithuanian insurers invested all of their Assets held for index-linked and unit-linked contracts in Indirect equity (100% of Total equity).

Since no investments were made in Direct equity, Lithuania has no rank for Common equity or Equity of real estate related corporation.

Within the Indirect equity category, Equity funds constituted all of investments, amounting to 100,0% of Total equity whereas allocation to Private equity funds were inexistent.

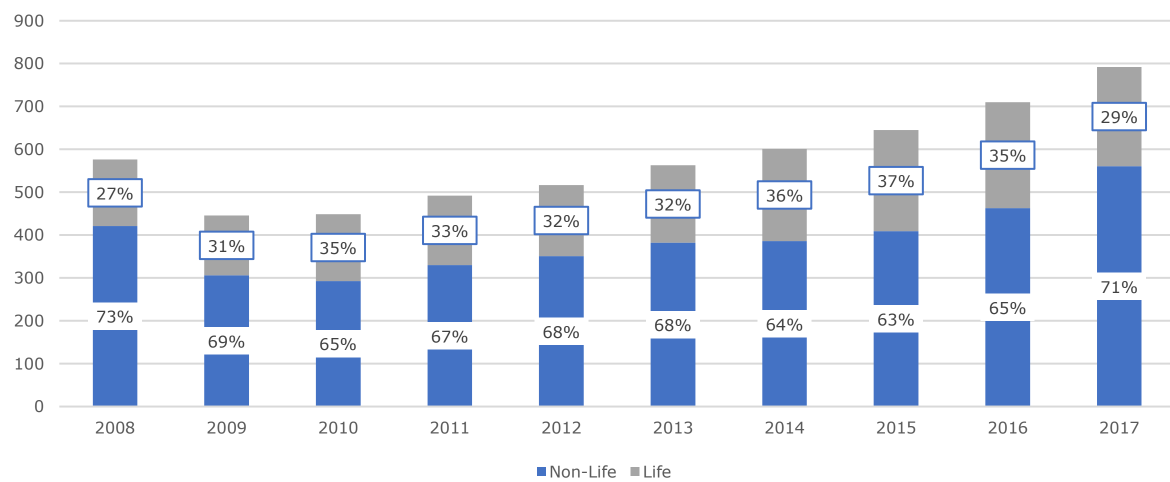
4 Insurance products

4.1 Overview

This section covers the most important insurance products offered in Lithuania and the volume of the market. Data reported in this section obtained from the Lithuania Central bank (Lietuvos Bankas).[3]

Premiums from direct domestic business totalled 792 million EUR in 2017, of which 70,8% (or 561 million EUR) from Non-Life polices and 29,2% from Life policies. Going from 2008 to 2009, the Lithuanian insurance market experienced a severe decline of 22,6% in total premiums collected. Most noticeably caused by a drop in Non-Life insurance premiums by 27,3%. While Life insurance premiums experienced a decrease of 9,7%, going from 2008 to 2009. Starting in 2010, the Lithuanian insurance market gradually increased, reaching an all-time high in 2017 with 792 million EUR in premiums earned. The gradual increase was sustained by a steady increase in both Life and Non-Life premiums. Life insurance premiums almost doubled from 155 million EUR in 2008 to 231 million EUR in 2017. Over the same period Non-Life insurance premiums increased 33,2%, from 421 million EUR to 561 million EUR.

Graph 1 - Gross written premiums (in Mio EUR)



Source: Bank of Lithuania

[3] https://www.lb.lt/en/publications?category%5B0%5D=39&series%5B0%5D=180

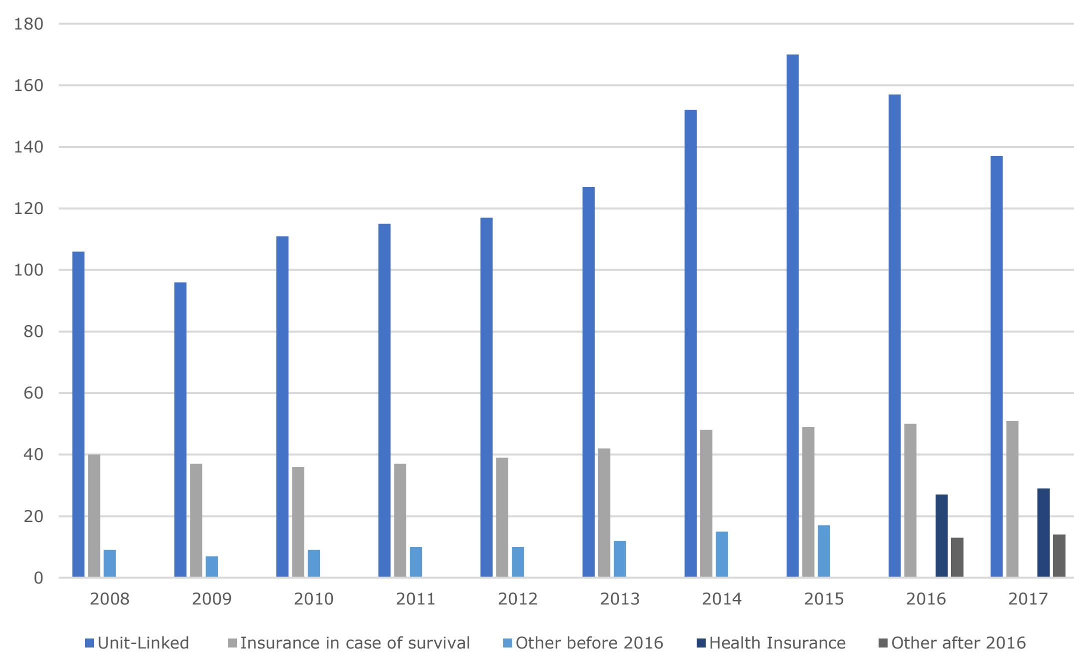
4.2 Life insurance products

In 2017 premiums from direct domestic business of Lithuanian insurance companies operating in the life insurance segment came to 231 million EUR, down by 6,5% from 2016. The decline in overall life insurance premiums is mainly attributed to the decline in unit-linked premiums. In 2015, unit linked reached a peak in premiums collected which amounted to 170 million EUR. The decrease in earned unit-linked premiums from 2016 to 2017 is caused by the introduction of new legislation. Starting from 1 January 2017, a maximum tax relief for insurance premiums up to 2000 EUR per year was imposed. As a result, unit-linked premiums declined further to 137 million EUR, a decrease of 12,7%.

Insurance in case of survival experienced a steady year-over-year increase, starting from 2010. In 2017, insurance in case of survival accounted for 22,0% of the total amount of premiums collected in Lithuania or 51 million EUR, while Unit-linked represents 59,3% of the life market.

Due to the reclassification in 2016, health insurance is introduced in the Life segment. Health insurance amounted to 29 million EUR in 2017.

Graph 2 - Gross written premiums for life insurance products (in Mio EUR)



Notes: Other includes marriages and birth, insurance in case of death and annuities insurance. The split in the graph is due to the merger of two data sources.

Source: Bank of Lithuania

4.3 Non-Life insurance products

In 2017, non-life insurance premiums increased by 21,2% to 561 million EUR, compared to 2016. On average non-life insurance premiums went up 3,2% on a yearly basis. Although, life insurance premiums also experienced an uplift in the last years, the non-life share of the industry's total premiums rose to 70,8% in 2017.

4.3.1 Motor insurance

The growth in Non-Life premiums is largely contributed by the 37,5% growth in motor insurance. Due this significant increase the proportion of MTPL in Non-Life increased to 39,2% in 2017 from 34,6% in 2016. The increase in the volumes of insurance covering vehicle is mainly driven by the large increase in sale of new cars.

4.3.2 Other motor insurance

Other motor insurance is comprises for the most part of Casco insurance. Other motor insurance amounted to 134 million EUR in premiums, making it the second most important segment in the Non-Life sector. In 2017, it recognised a growth rate of 23,9%.

4.3.3 Fire and property

Fire and other damage to property insurance amounted to 103 million EUR for the year 2017. This segment realised a growth of 18,4% in 2017.

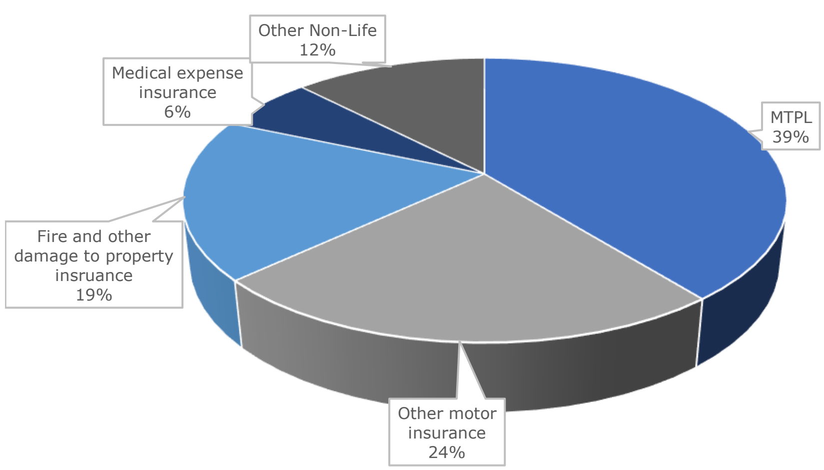
4.3.4 Medical expense

The medical expense insurance segment collected 35 million EUR in premiums. With an average growth of 6,0%, it is the slowest growing segment.

4.3.5 Other insurance

Other Non-Life insurance contains general liability insurance, income protection, credit and suretyship insurance. In total they amounted to 69 million EUR. For the year of 2017 the other insurance segment realised a growth of 12,3%.

Graph 3 - Allocation of gross written premiums for non-life insurance products (in %)



Notes: Other Non-Life consists of medical expenses, income protection insurance and credit and suretyship insurance

Source: Bank of Lithuania

4.4 Average duration

In 2016, EIOPA published their Insurance Stress Test Report[4], which resulted in the following conclusions for Lithuania:

- The approximate effective duration for the TP life for all lines of business reported by the EIOPA 2016 stress test participants was not available in the report;
- The Macaulay duration for the TP life for all lines of business reported by the EIOPA 2016 stress test participants is 8,59.

In comparison, the approximate effective duration and Macaulay duration for the TP life for all lines of business for the EU/EEA are 8,23 and 13,97, respectively.

[4] EIOPA, 2016, 2016 EIOPA Insurance Stress Test Report. https://eiopa.europa.eu/publications/surveys/eiopa-bos-16-302%20insurance%20stress%20test%202016%20report.pdf

5 Accounting & Tax framework

5.1 Accounting framework

The EU has introduced rules, as laid down in Directive 2013/34/EU, to promote the convergence of accounting standards at global level and to ensure consistent and comparable financial reporting across the EU. Regulation 1606/2002/EC requires all listed companies to prepare their consolidated financial statements in accordance with a single set of international standards, the so-called IFRS[5].

1. Applicable GAAP at consolidated level: IFRS required for all companies[6];
2. Applicable GAAP at statutory level: IFRS required for all companies[6];
3. Prudential regulatory framework: Solvency II for the calculation of the Solvency Capital Requirement.

5.2 Tax framework

5.2.1 Capital gains on shares

Capital gains derived from the disposal of shares may be exempt from corporate income tax under the same conditions as dividends (*see below*), except concerning the holding period requirement. In order to benefit from the exemption on capital gains on shares, the participation should have been held uninterrupted for at least two years (three years in case of reorganization).

If one or more of the conditions is not complied with, the taxation will be whereby capital gains are fully taxable at the standard corporate income tax rate: 15%

5.2.2 Capital losses on shares

Capital losses incurred on the sale of shares may be carried forward for 5 years (for financial institutions indefinitely) and may only be offset against income from the sale of shares.

5.2.3 Taxation of dividends

A 100% exemption applies on dividends received from resident or non-resident companies by resident corporate shareholders if the following conditions are met:

1. A holding requirement: minimum participation of 10%;
2. A holding period requirement: participation should be held uninterruptedly for at least one year;
3. A residency requirement: dividends are received from a company situated in Lithuania, in the EU/EEA or in a country that has concluded a tax treaty with Lithuania;
4. A taxation requirement: the subsidiary should have been subject to corporate income tax in its residence state.

If one or more of the above conditions is not met, the dividend is taxed at the ordinary tax rate, with certain credits available for taxes already paid.

[5] https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/financial-reporting_en
[6] https://www.ifrs.org/-/media/feature/around-the-world/jurisdiction-profiles/lithuania-ifrs-profile.pdf

Lithuanian source dividends are subject to 15% withholding tax (WHT), unless a tax treaty provides for a lower rate or the EU parent-subsidiary directive applies.

Foreign tax paid may be credited against Lithuanian tax, but the credit is limited to the amount of Lithuanian tax payable on the foreign income. Foreign tax paid on income earned through a Lithuanian company's PE located in an EEA-member state or a country that has concluded a tax treaty with Lithuania may not be credited against Lithuanian tax.

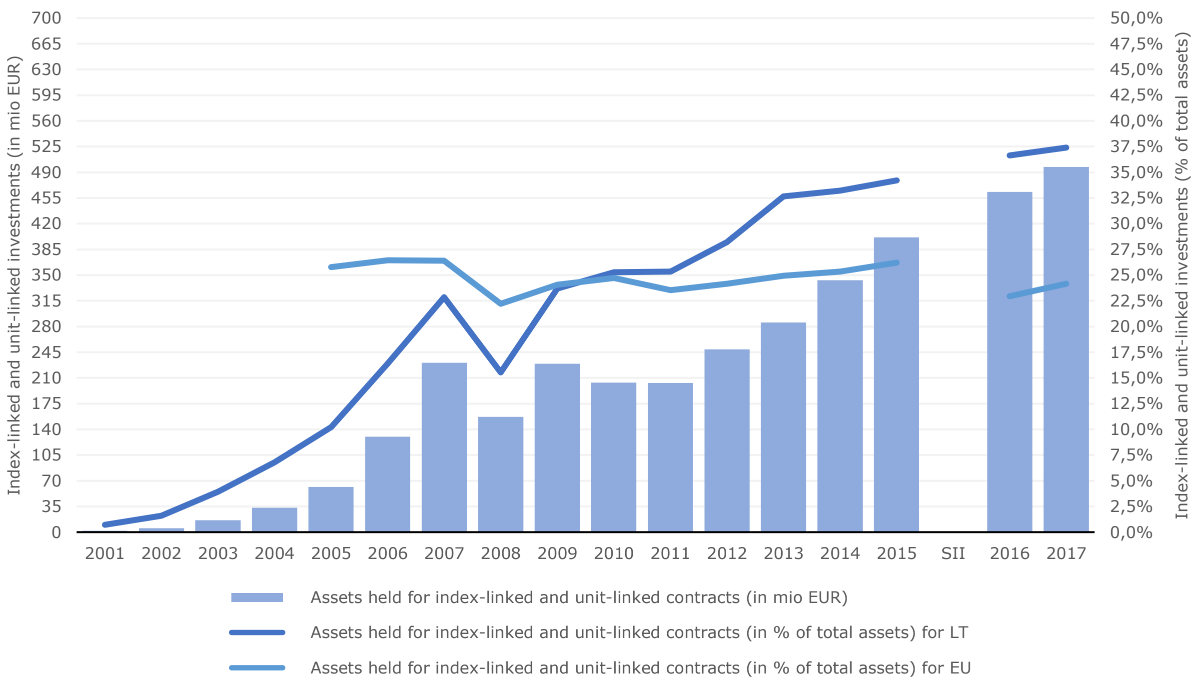
6 Historical data

The following section contains historical overviews of Solvency I, Solvency II and ECB data in order to provide insights on possible short and long-term trends.

6.1 Index-linked and unit-linked investments in comparison to total assets

Based upon the Solvency I and Solvency II (S.02.01) historical information, the evolution of the index-linked and unit-linked investments in comparison to total assets of Lithuania is compared to the EU. The break in Graph 4 shows the transition from the Solvency I to the Solvency II regulatory framework. Under Solvency II assets are presented based upon their market value.

Graph 4 - Evolution of index-linked and unit-linked investments based upon Solvency I and Solvency II



Note: The data from the EIOPA Solvency I and Solvency II statistics are completed with the data received from the Lithuanian NSA.

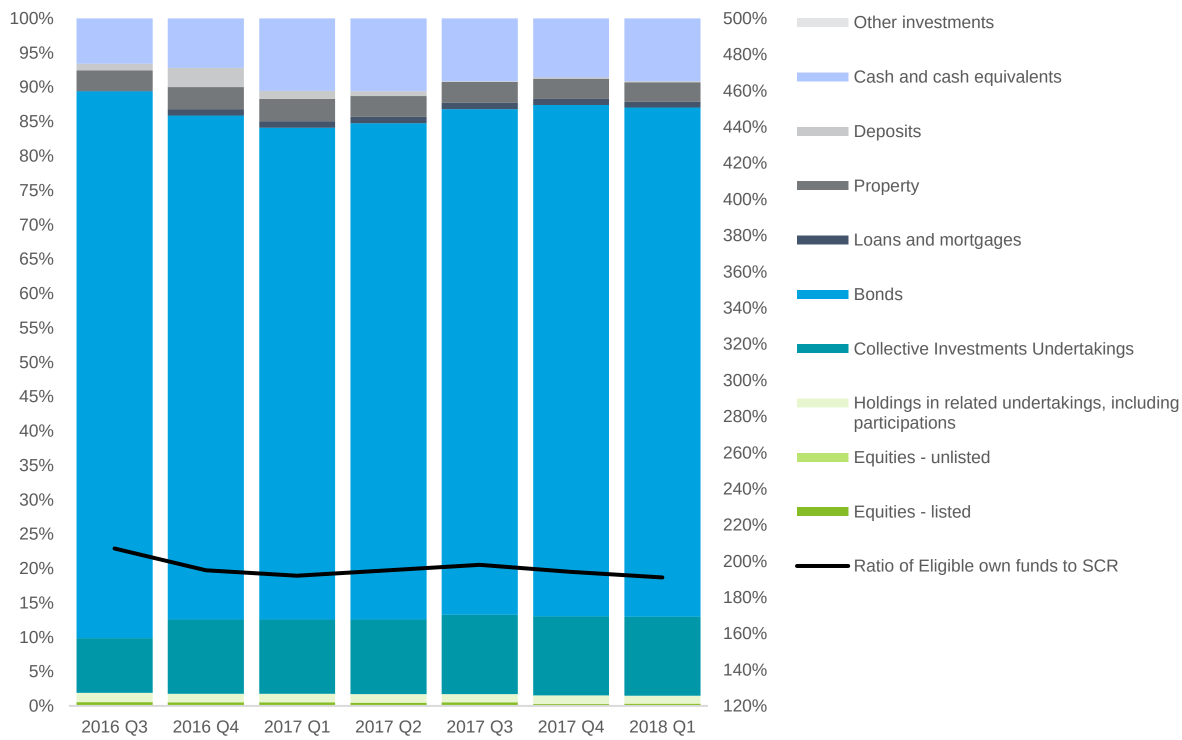
Source: EIOPA Solvency I and Solvency II statistics and Deloitte-CEPS analysis

As shown in Graph 4, the share of index-linked and unit-linked investments in comparison to total assets in Lithuania increased heavily as from 2008. Note that the graph for the EU shows a relatively stable behaviour over the observation period, with a slightly increasing trend as from 2011.

6.2 Solvency II – excluding index-linked and unit-linked investments

Based upon the Solvency II (S.02.01) quarterly data from 2016 Q3 until 2018 Q1, the evolution of the different asset categories is depicted in Graph 5. Furthermore, the evolution of the SCR ratio is shown over the seven quarters.

Graph 5 - Evolution Solvency II balance sheet (S.02.01) items (Total Investments, deposits, cash and cash equivalents) and SCR ratio



Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

The composition of the Lithuanian insurers' balance sheet has remained relatively stable over the quarters since the introduction of Solvency II on 1 January 2016[7]. This seems to be confirmed by the fact that the most dominant assets classes such as Bonds, Collective Investment Undertakings and Cash and cash equivalents do not suggest a clear trend whether it be downwards or upwards.

Bonds have constituted the major part of the Lithuanian insurers' balance sheet since the introduction of Solvency II.

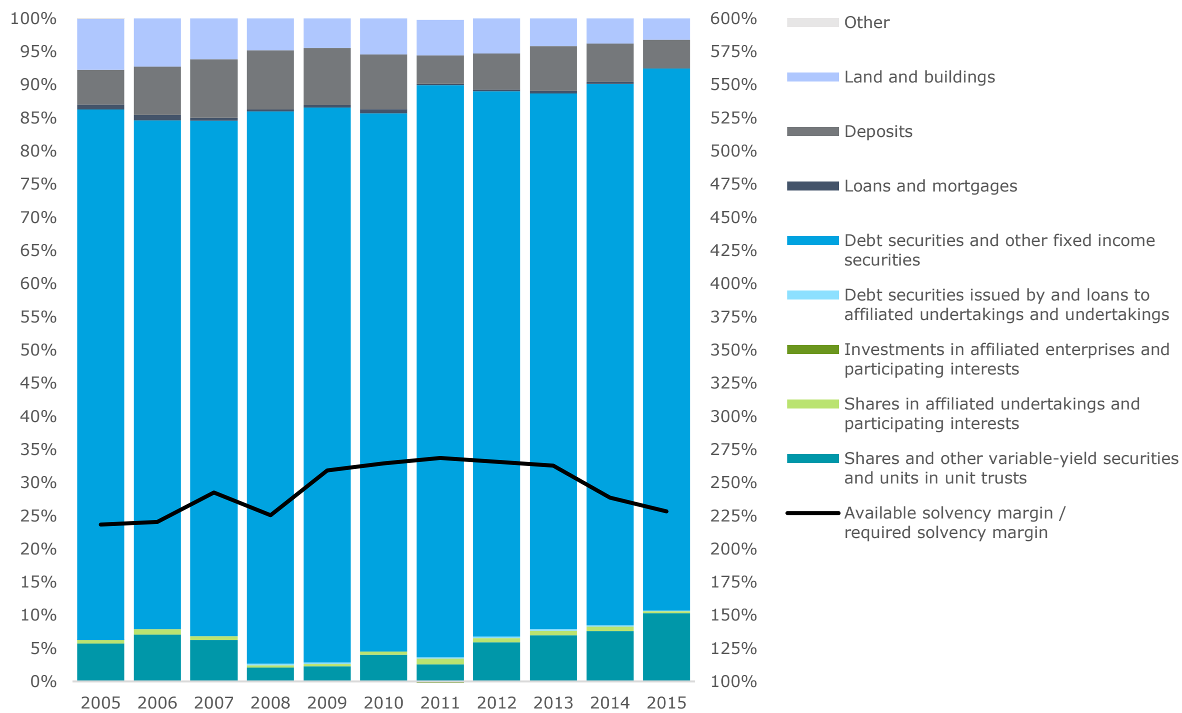
For Lithuania, the SCR ratio relatively stable trend. Overall, this trend has not resulted into significant changes in the asset allocation of the overall Lithuanian insurance market.

[7] Day one reporting, 2016 Q1 and Q2 are not publicly available

6.3 Solvency I – excluding index-linked and unit-linked assets

Based upon the Solvency I yearly data from 2005 until 2015, the evolution of the different investment asset categories is depicted in Graph 6. Furthermore, the evolution of the solvency ratio is shown over the history.

Graph 6 - Evolution Solvency I balance sheet items (Total Investments, deposits, cash and cash equivalents)

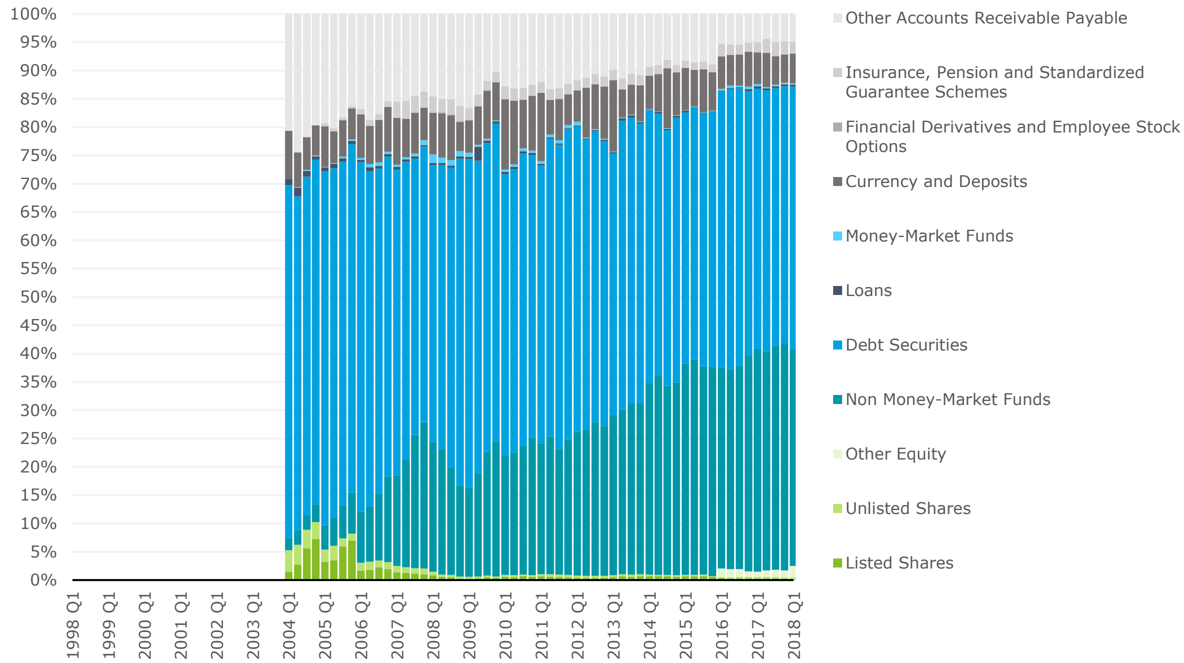


Source: EIOPA Solvency I statistics and Deloitte-CEPS analysis

Graph 6, which relates to Solvency I figures suggests the following observations. The dominance of Bonds that we observed under the rules of Solvency II has been a characteristic of the Lithuanian insurers' balance sheet for more than a decade. Shares and other variable-yield securities and units in unit trusts decrease in 2008, but recover as of 2012. Land and Buildings also show a slow decease over the scope of Solvency I. The solvency margin ratio shows a relatively stable behaviour over the observation period.

6.4 European Central Bank – including index-linked and unit-linked assets

Graph 7 - Evolution ECB balance sheet items (asset categories)



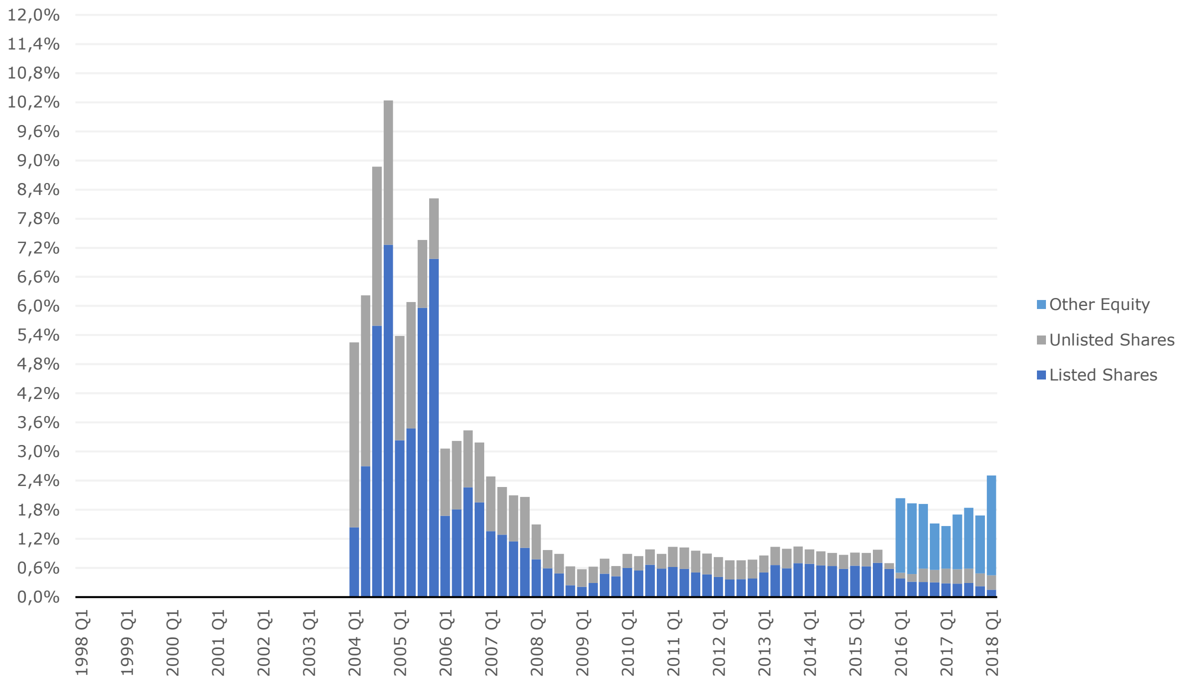
Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

Graph 7 relates to figures of investments by Lithuanian Insurers since 2004 Q1 as reported by the ECB. As Lithuania was not a member of the European Union yet, no data is available for the period before 2004 Q1. It can be observed that the dominance of bonds in the investments, which is observed in Solvency I and II (see graphs above), is confirmed as a long-standing characteristic of Lithuanian insurers. However, over the last years, there is an increasing importance of the Non Money-Market Funds, and a decreasing importance of Other Accounts Receivable Payable. According to the Lithuanian NSA, the increase in Non-Money-Market Funds is mostly related to the growth of Index-linked and unit-linked insurance volumes.

On the next page, the Equity asset classes are presented in a more detailed view. Furthermore, the evolution of the listed shares (normalised to a start value of 100) of Lithuania is plotted against the aggregated EU data.

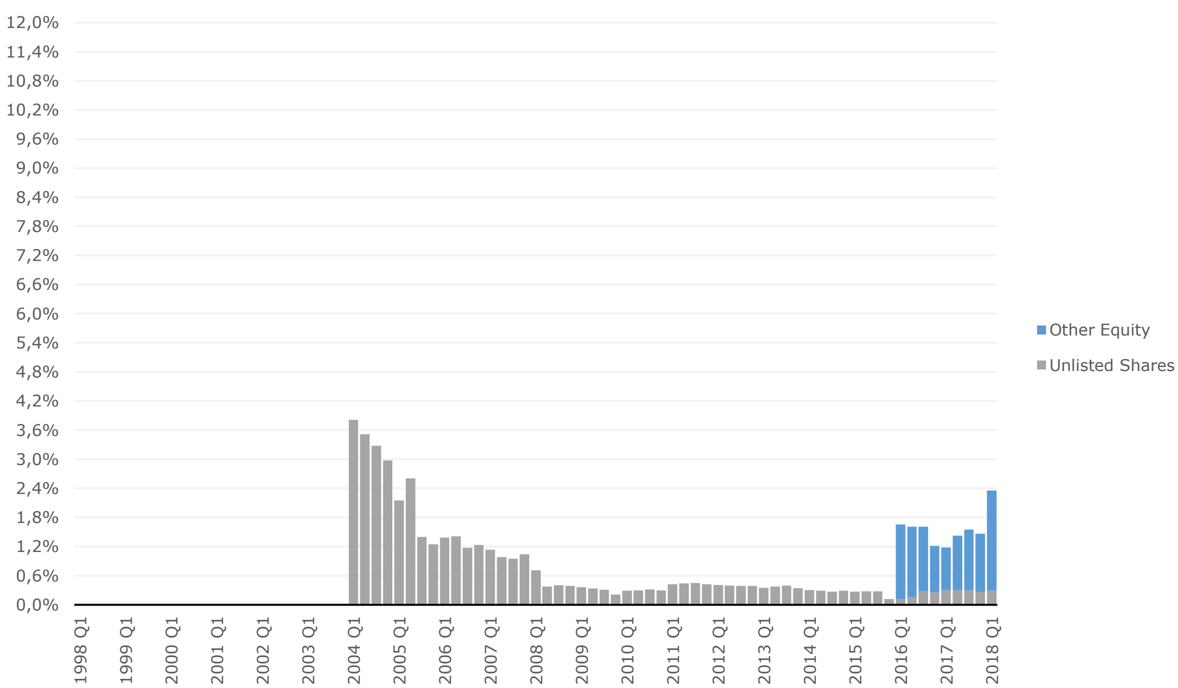
We remark that these graphs include index-linked and unit-linked assets, which cannot be individualised from the figures published by the ECB. Nevertheless, the Lithuanian NSA notes that the unit-linked and index-linked investments do not have a direct impact on the observed trends in listed shares, unlisted shares and other equity.

Graph 8 - Evolution ECB balance sheet items (equity categories)



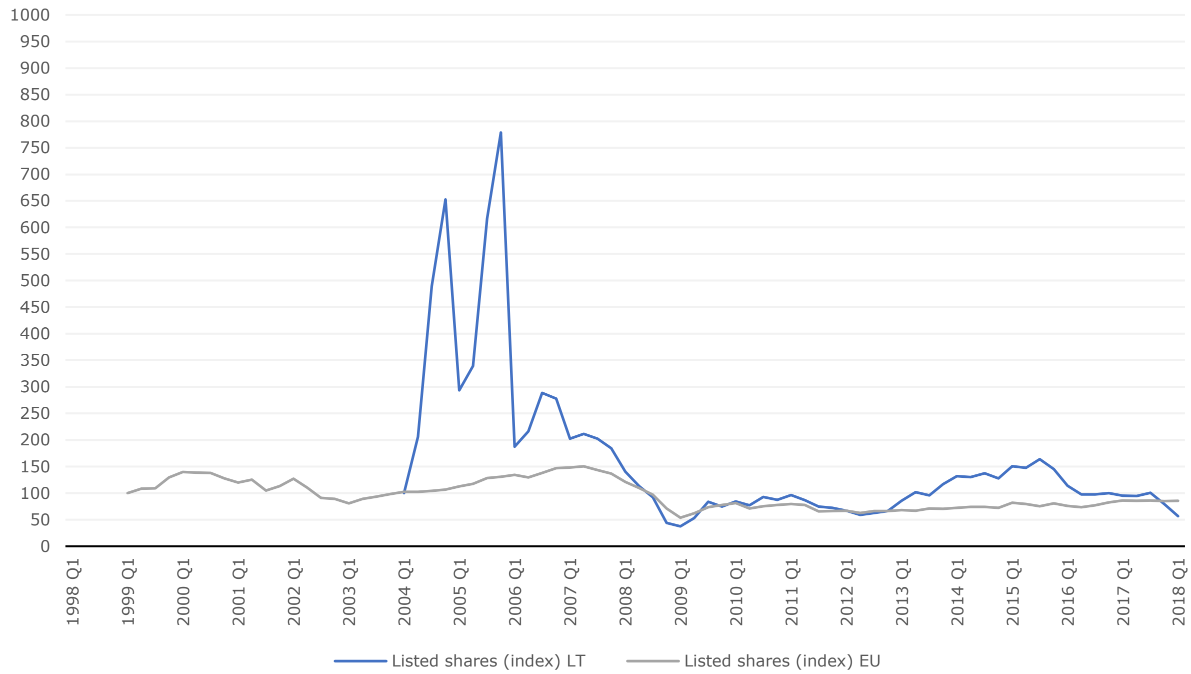
Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

Graph 9 - Evolution ECB balance sheet items (Unlisted Shares and Other Equity)



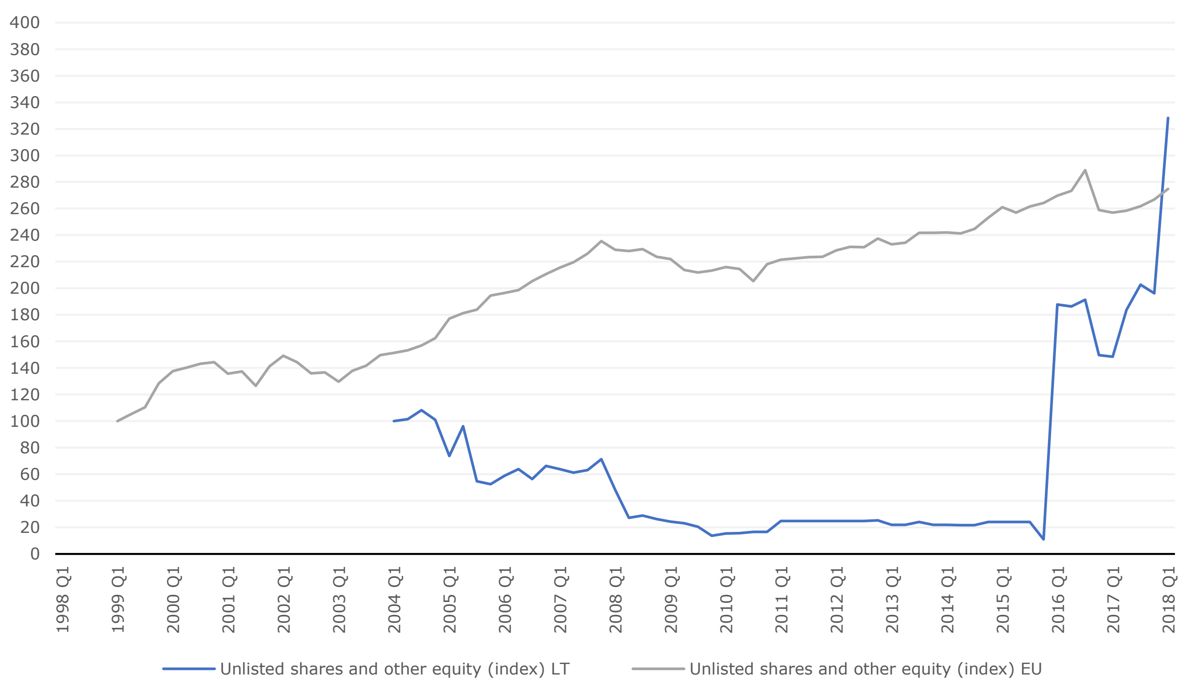
Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

Graph 10 - Evolution ECB listed shares LT and EU (as index)



Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

Graph 11 - Evolution ECB unlisted shares LT and EU (as index)



Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

6.5 Trends in Equity Investments

This section provides a trend analysis of the equity investments of insurers in Lithuania using the balance sheet data of the insurance sector from the ECB Statistical Data Warehouse. Given the availability of the equity split in the ECB database, the analysis focuses on investments in listed shares and investments in unlisted shares and other equity.

6.5.1 Listed Shares

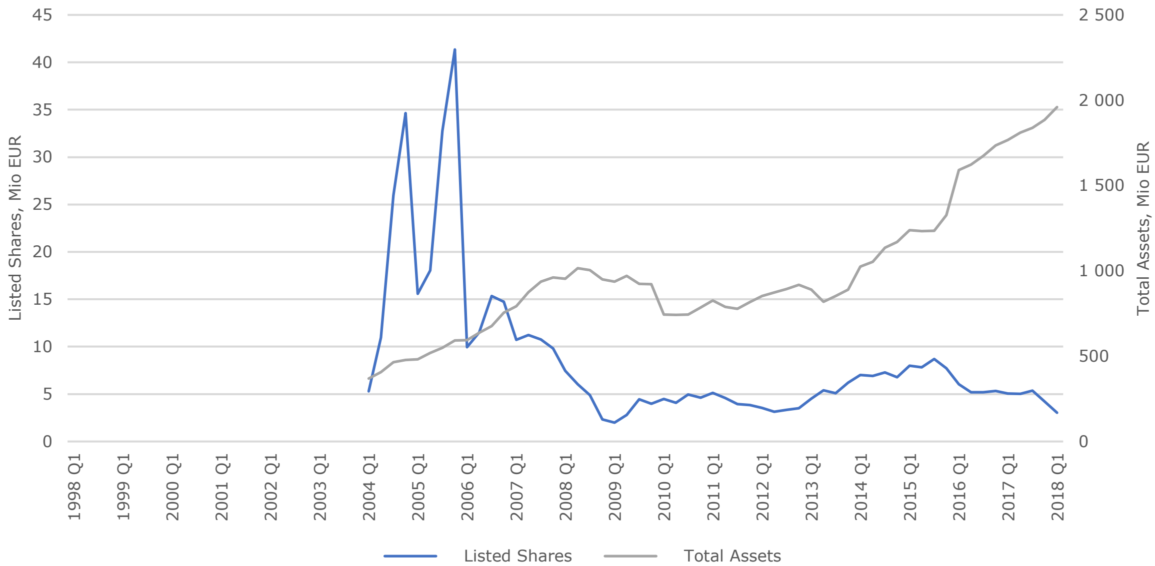
In the analysis below, the listed shares of insurance corporations are plotted against the total assets in the industry both in amounts and in indexed values. The aim of this comparative analysis is to understand the evolution of listed shares in the overall insurance market. Similarity of the growth patterns in the listed shares and total assets can be considered as an indication of the extent to which the equity investments are driven by a good (or bad) economic environment in the industry at a certain point in time. A presentation of the variables only in amounts might dilute the magnitude of the growths for countries with large assets because in such a representation, the listed shares will be overstated. Therefore, we also plot each series as indexed to the initial point in their available history.

In the next step, we focus on the relationship with the listed shares and stock market indices. The ECB QSA balance sheet items are valued at market prices at the end of each quarter. Therefore, it is plausible to assume that the changes in the stock prices are reflected on the amounts held in listed shares. In order to remove this "price effect" from the observed amounts of listed shares and approximate the "real" amounts held in shares, we consider adjusting the observed amounts in listed shares. Even though we observe high correlations with listed shares and several stock indices, since the exact destinations of the portfolio invested in listed shares at each period is not observable, we build a "Weighted Equity Index" similar to the EIOPA Equity Dampener.

Amounts invested in listed shares and the total amount of assets of the insurance sector are plotted in Graph 12 while the indexed values of the series are presented in Graph 13. Investments in listed shares exhibit a volatile behaviour over the period 2004 – 2006, with peaks in the last quarter of 2004 and 2005. Starting in 2008, listed shares deviate around 5 million EUR.

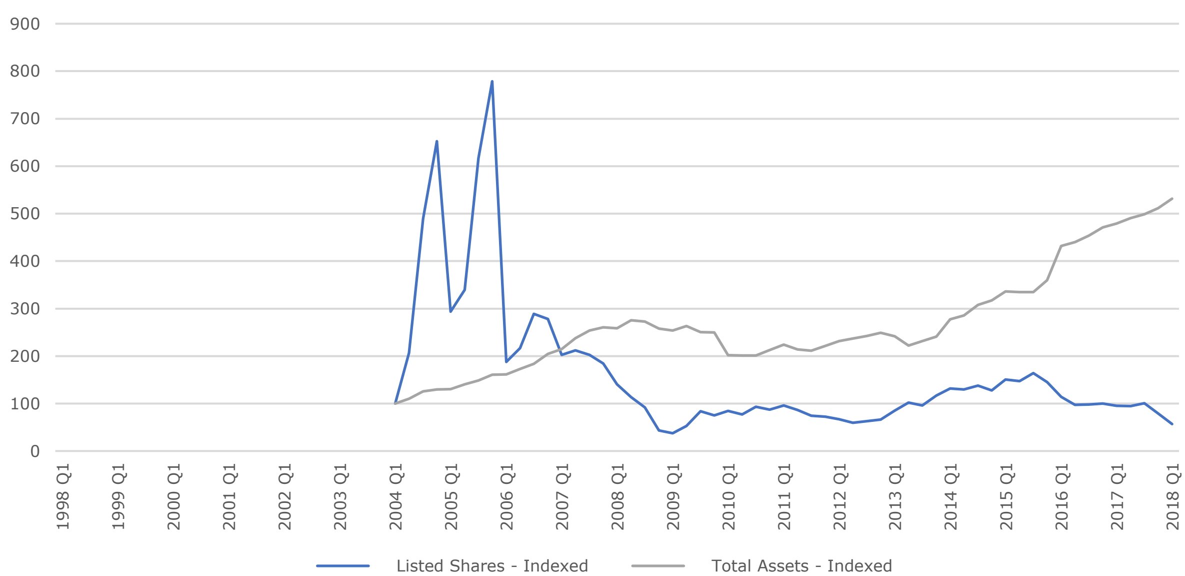
On the indexed values of total assets and investments in listed shares, differences in the growth pattern of these two series can be better observed. Over the period of 2004 – 2018, indexed value of total assets increases by 432%, while indexed value of listed shares decrease by 57% of their initial values.

Graph 12 - Evolution of Listed Shares and Total Assets (in Mio EUR)



Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

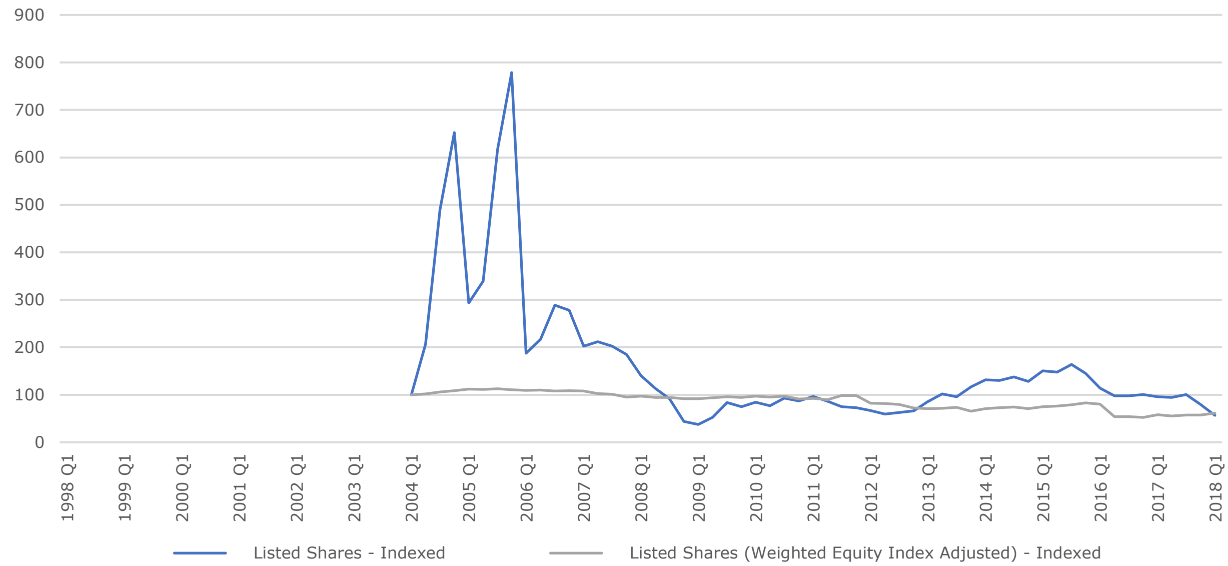
Graph 13 - Evolution of Listed Shares and Total Assets (indexed values)



Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

Graph 14 presents the indexed values of the amounts invested in listed shares against its Weighted Equity Index adjusted counterpart. We observe that the adjusted series are stable around 100 until 2012, which implies that the volatility at the beginning of the series can be related to the price effect. After this date, the adjusted series decrease gradually which suggest that the insurers in Lithuania divest equity.

Graph 14 - Evolution of Listed Shares – Indexed (Weighted Equity Index Adjusted)



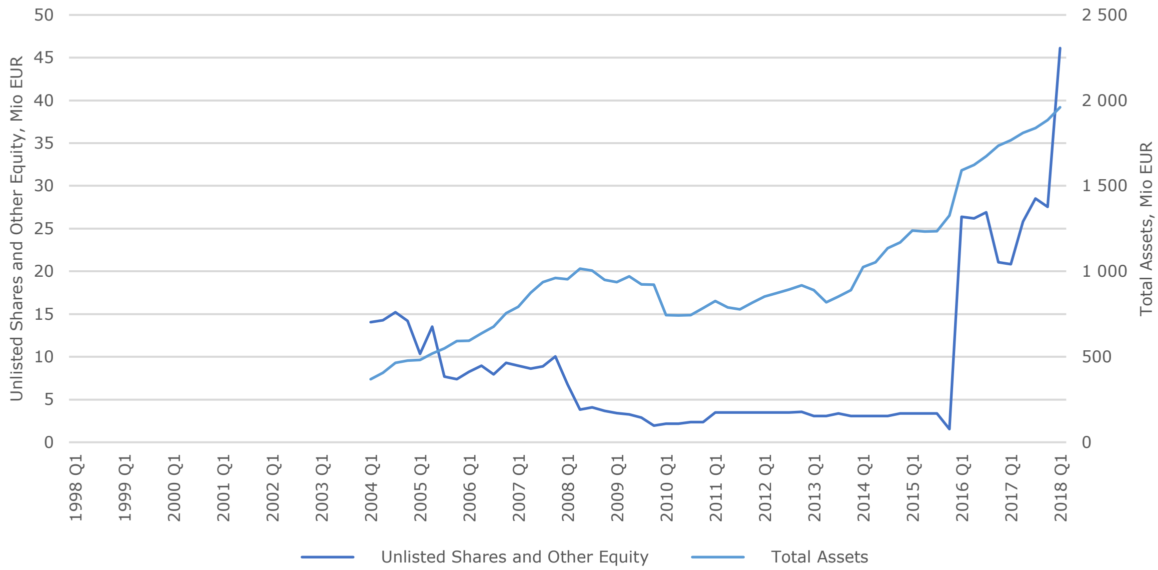
Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

6.5.2 Unlisted Shares

Graph 15 depicts the amounts invested in unlisted shares and other equity plotted against the total assets in the insurance markets of while Graph 16 presents the indexed values of the series for an easier comparison of the movements in these two series. Investments in unlisted shares and other equity show a stable pattern for the 2008 Q2 – 2015 Q4 period. However, in 2016 Q1, unlisted shares and other equity jump from 2 million EUR to 26 million EUR.

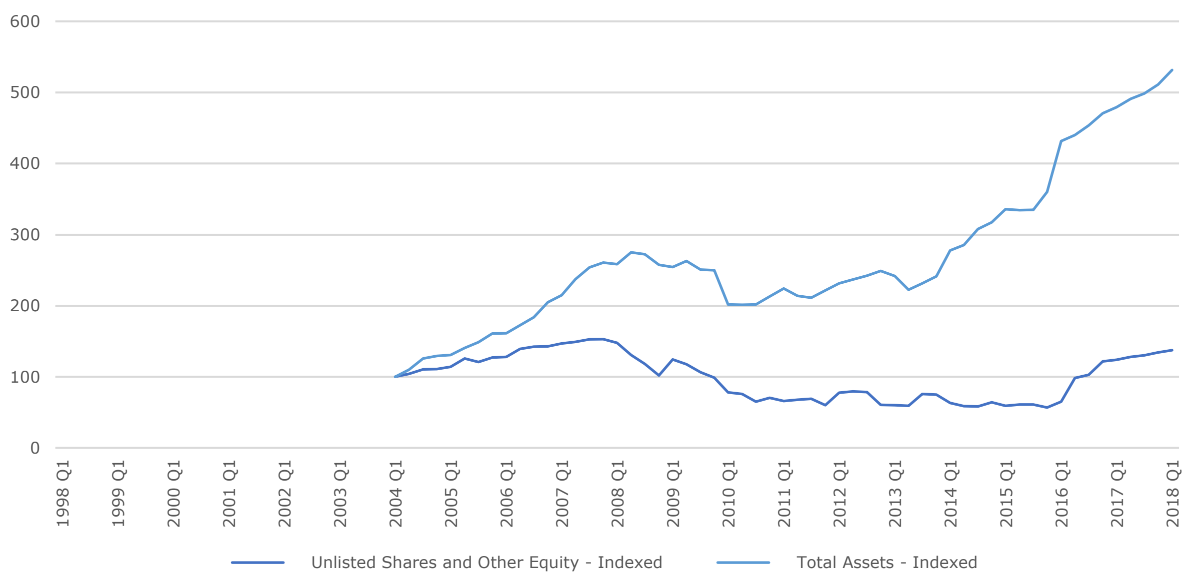
The growth patterns of total assets and unlisted shares and other equity can be compared on the indexed amounts. Over the period 2004 – 2018, indexed value of total assets reach 532 while indexed value of unlisted shares and other equity increases to 137.

Graph 15 - Evolution of Total Unlisted Shares and Other Equity and Total Assets (in Mio EUR)



Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

Graph 16 - Evolution of Unlisted Shares and Other Equity (indexed values)



Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis