



MONTH END SOLVENCY II MARKET INFO (UK)

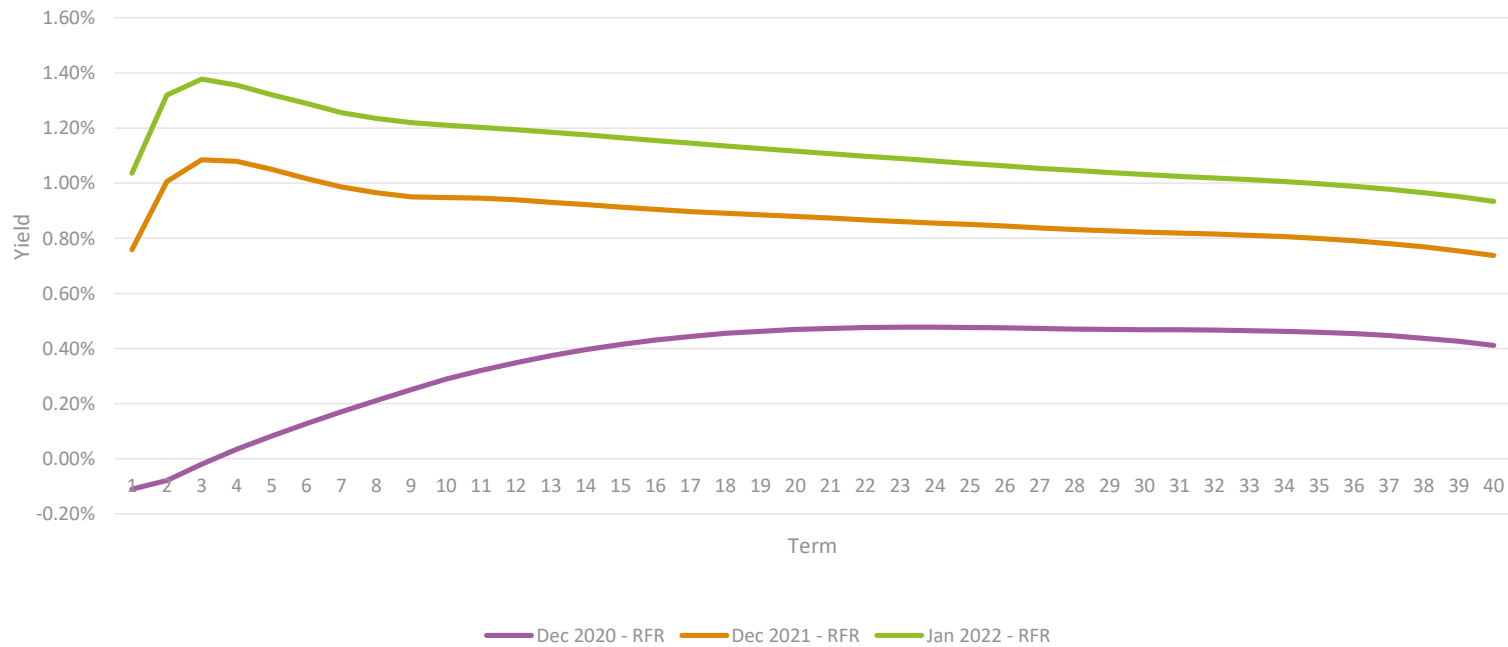
End January 2022

**SELECTED MARKET CHANGES FOR
YIELD CURVES, EQUITY SYMMETRIC ADJUSTMENT AND VOLATILITY ADJUSTMENT**



PRA yield curve : Solvency II Risk Free Rates (GBP)

Risk Free Rates



The January 2022 curve starts at 1.04%, rising to 1.38% in year 3. The rate gradually declines to close year 40 at just below 0.92%.

There has been a broadly parallel increase in the yield curve since December 2021.

The Year-End 2020 curve is shown for reference, there has been a material increase since Year-End 2020 combined with a change in the slope of the curve.

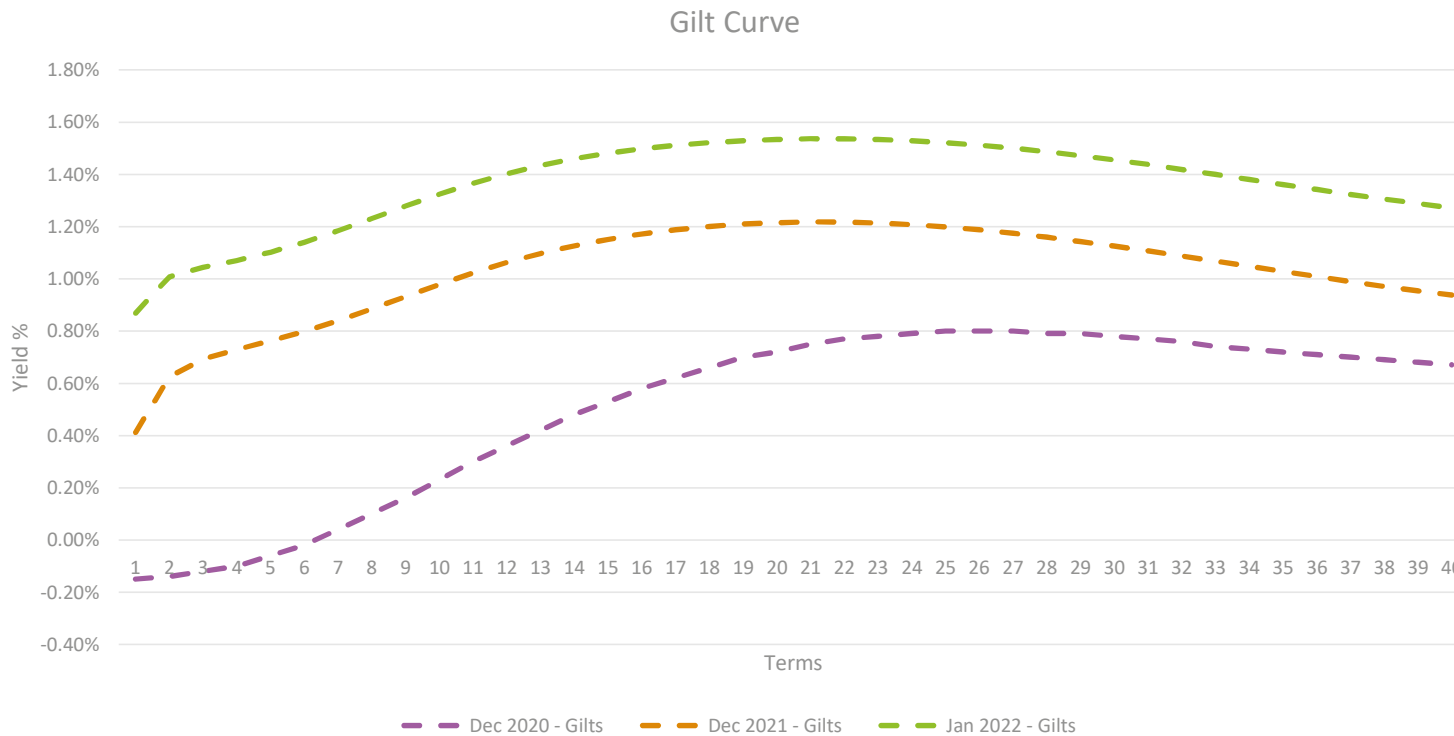
PRA yield curve : Solvency II Risk Free Rates (EUR)



January 2022 remains negative at the short end at -0.5% and rises gradually to 0.5% in year 16. There is then a slightly sharper increase from year 20 to peak at just under 1.6% in year 40.

The January 2022 graph shows an increase over December 2021 at the short end up then with broadly the same rates from year 25 onwards.

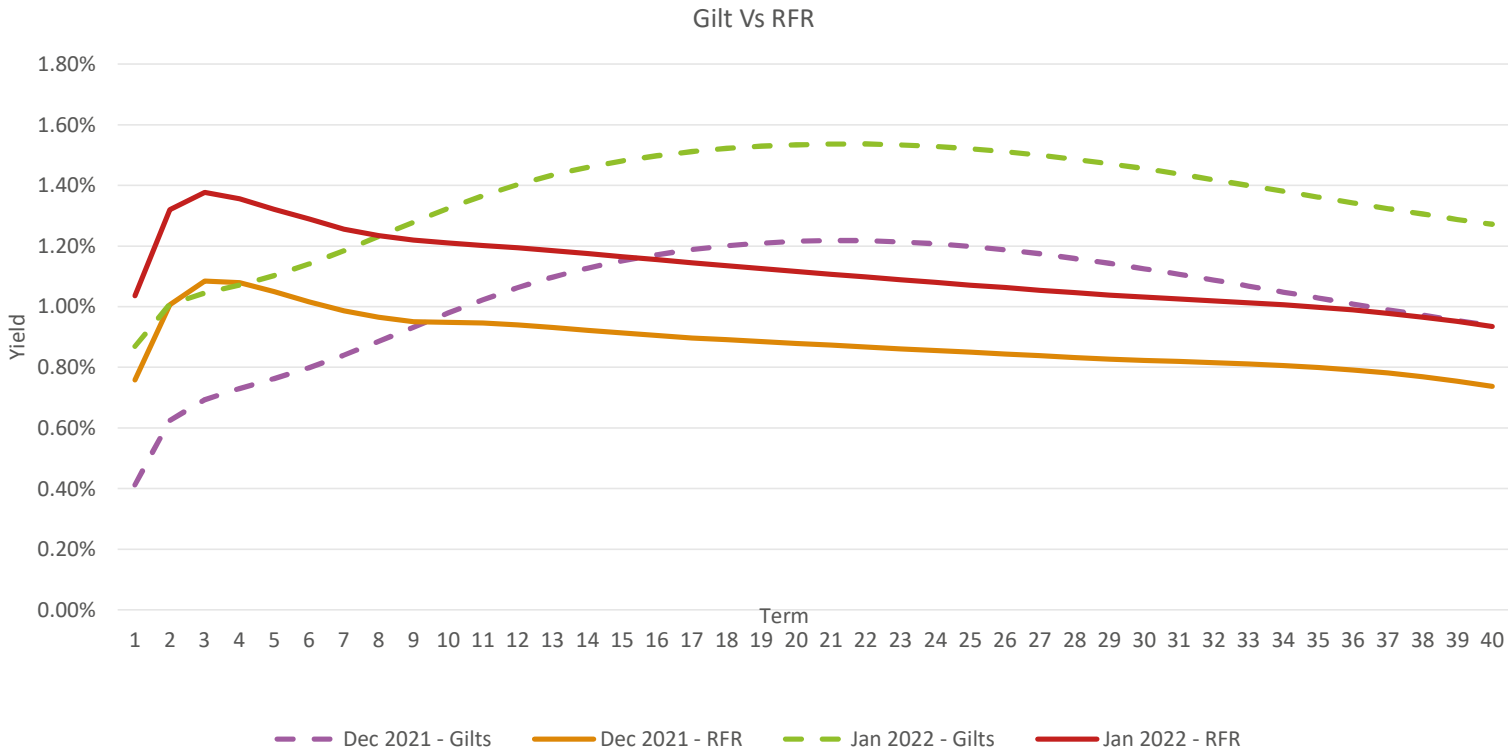
Gilt Curve – Bank of England Nominal Rates



The Gilt curve for January 2022 shows a similar shape compared to December 2021 with a shift upwards.

The January 2022 curve also shows a higher rate compared to December 2020 particularly at the short end.

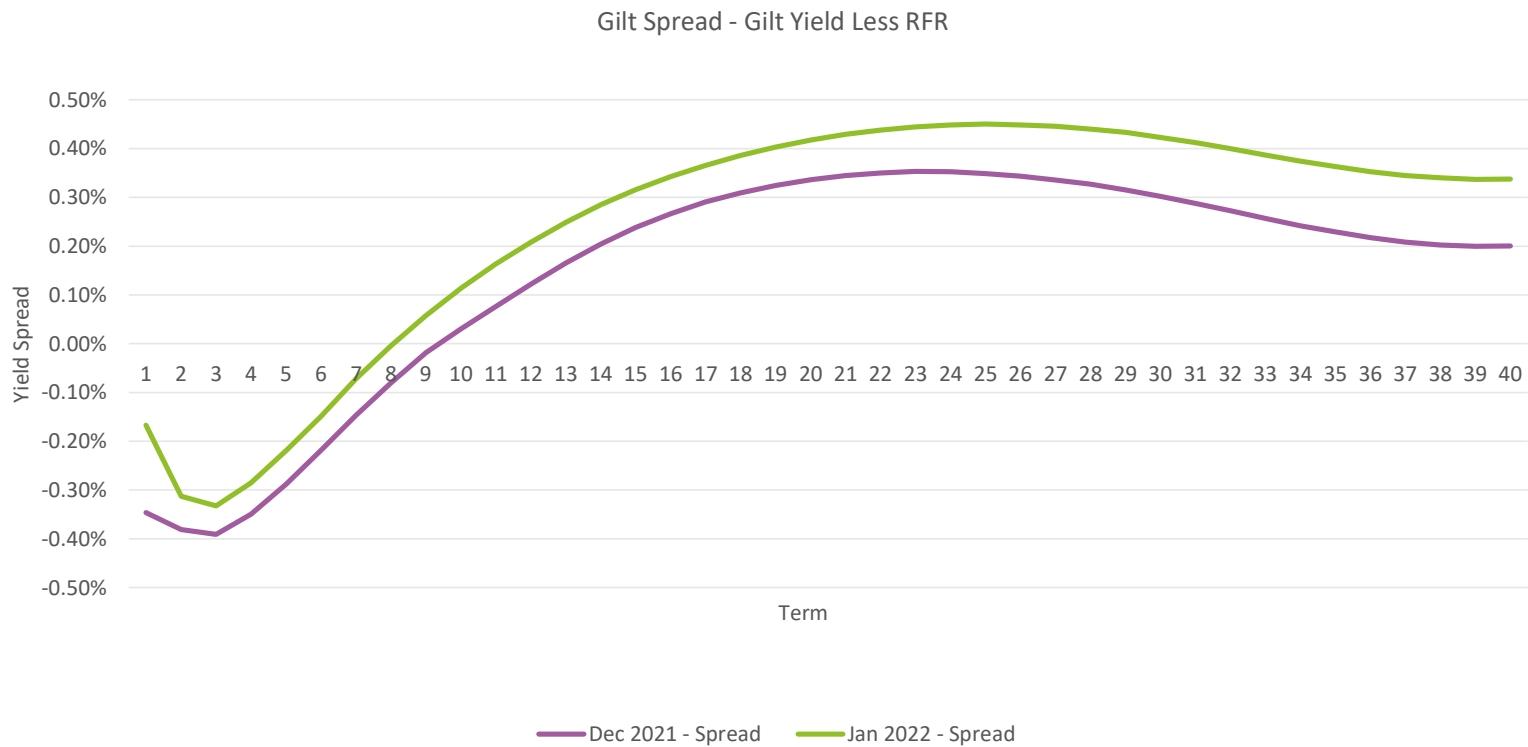
Gilt Curve vs Solvency II PRA (Risk Free Rates)



The December 2021 Solvency II (Risk Free) curve is higher than the Gilts curve before a crossover at the 10 year term.

The rates for January 2022 are higher than Gilts for approx. 8 years with a slightly lower absolute differential at the short end then seen for December 2021.

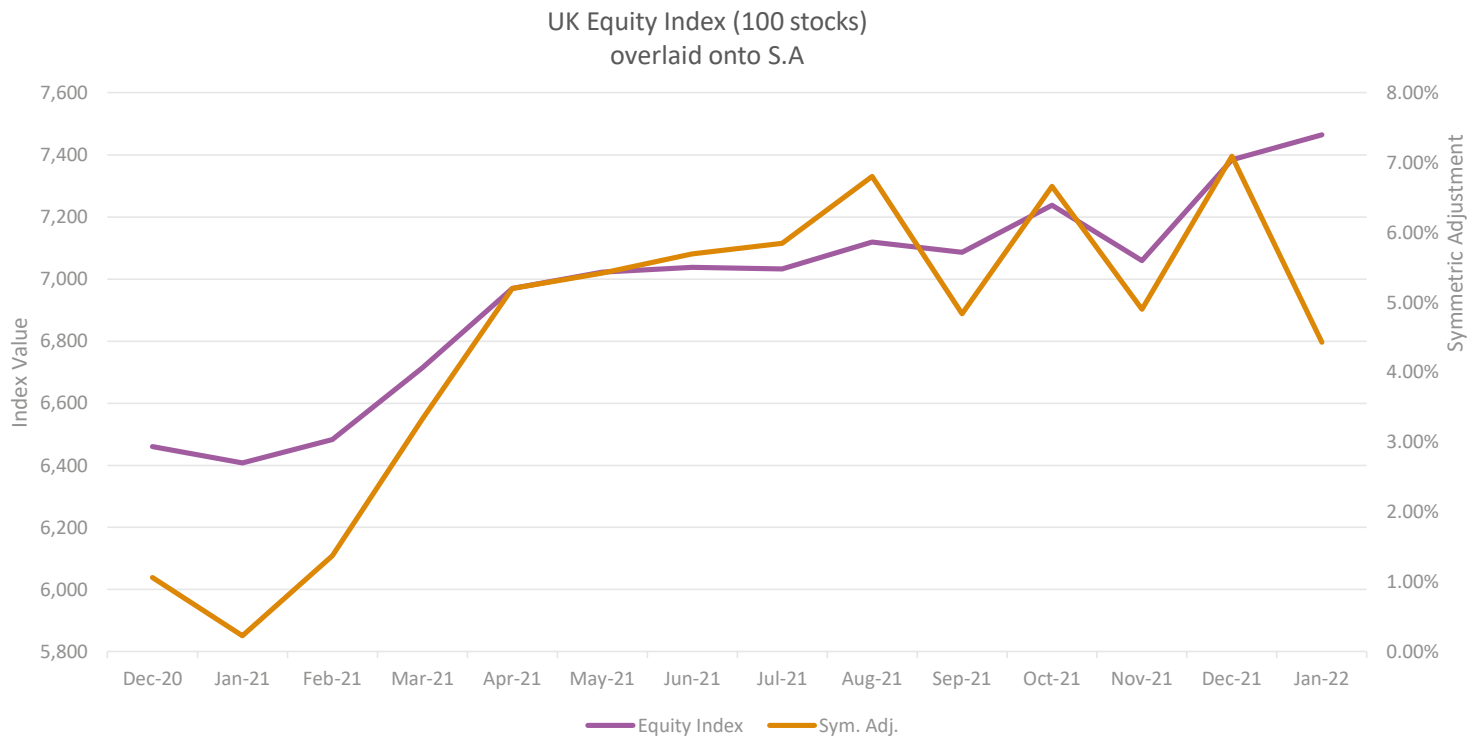
Gilt Curve Spread over PRA Risk Free Rates



These curves show the gilt spread for January 2022 and December 2021. This represents the difference between the gilt yields and the RFR.

In particular this shows a broadly parallel increase in the spread over January.

Equities – Symmetric adjustment chart overlaid onto Equity index

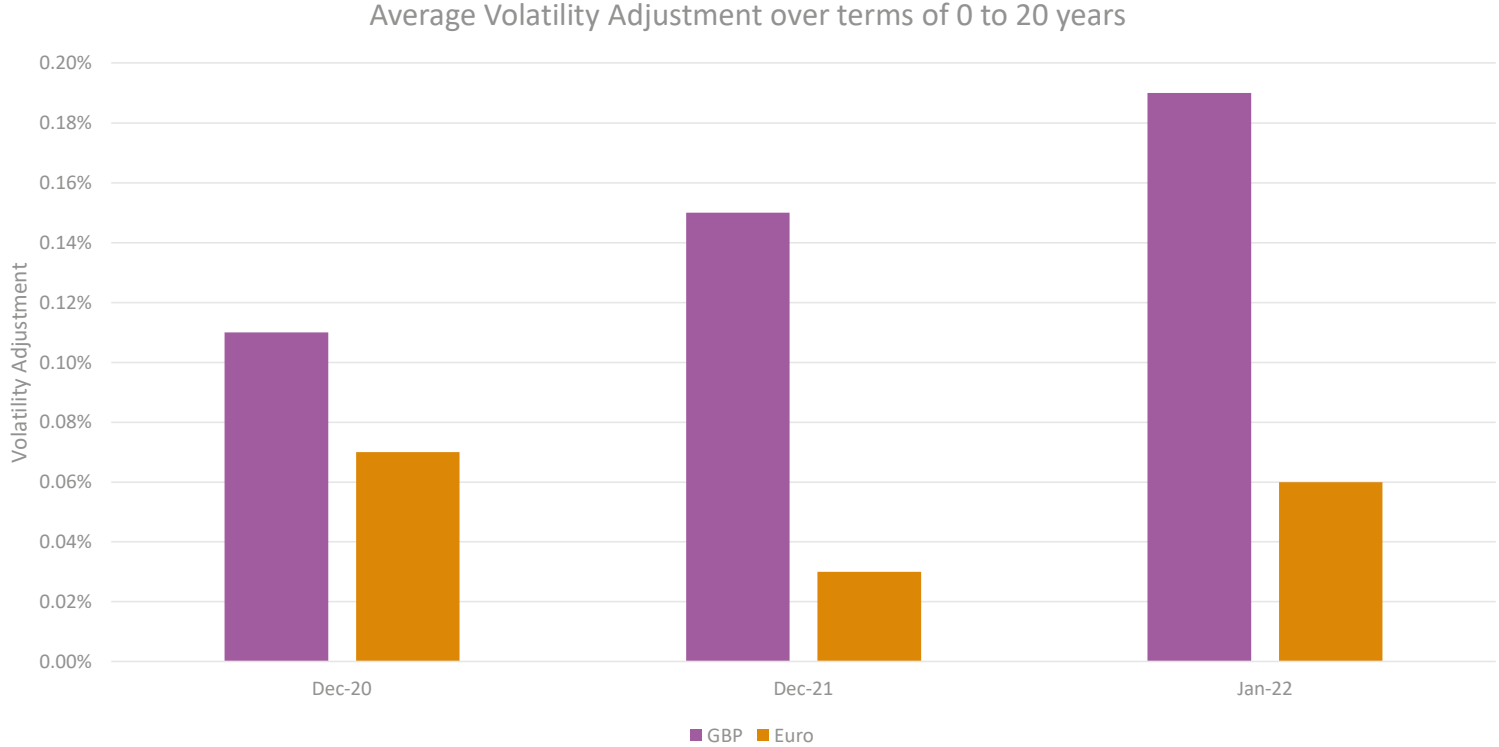


The equity index shows an increase over the month of 1.09%.

The Symmetric Adjustment has fallen in January 2022 partly due to the impact from the US markets that have fallen by 5.8% in January.

The adjustment has fallen from 7.09% at YE21 to 4.43% at the end of January.

Volatility Adjustment



This chart shows the average volatility adjustment (VA) for both GBP and EUR currencies.

The volatility adjustment for each currency is based on a reference portfolio of government and non-government assets. This is used to determine the currency spread and also the shown volatility adjustment.

Since December 2021, for GBP the average VA has increased from 0.15% to 0.19% while the EUR average has increased from 0.03% to 0.06%

Considerations for your business

Please note these comments are aimed primarily at UK Insurers with Long Term Business liabilities on Balance Sheets, and do not take account of aspects such as the Matching Adjustment, Transitional measures, or different currencies. In addition, they are aimed at providing a high level view, and the changes to any specific insurer will depend on each firm's Balance Sheet exposure.

- The increase in the Solvency II PRA (GBP) Yield Curve in January 2022 (compared to December 2021) will impact firms differently depending on the duration of liabilities, however in general should lead to a decrease in the present value of liabilities.
- The difference between Gilt and Solvency II / PRA yields is useful to keep in mind in terms of asset-liability matching.
- The equity symmetric adjustment has fallen in January 2022 and this could have an impact on the equity stress part of the SCR (but will depend on a firm's exposure, loss absorbency, management actions etc).

Zenith is able to discuss and help with any of these balance sheet and capital management issues, or other actuarial topics that you might be seeking support on.

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**THANK YOU FOR WATCHING AND FOLLOW US FOR
FURTHER UPDATES**

