



MONTH END SOLVENCY II MARKET INFO (UK)

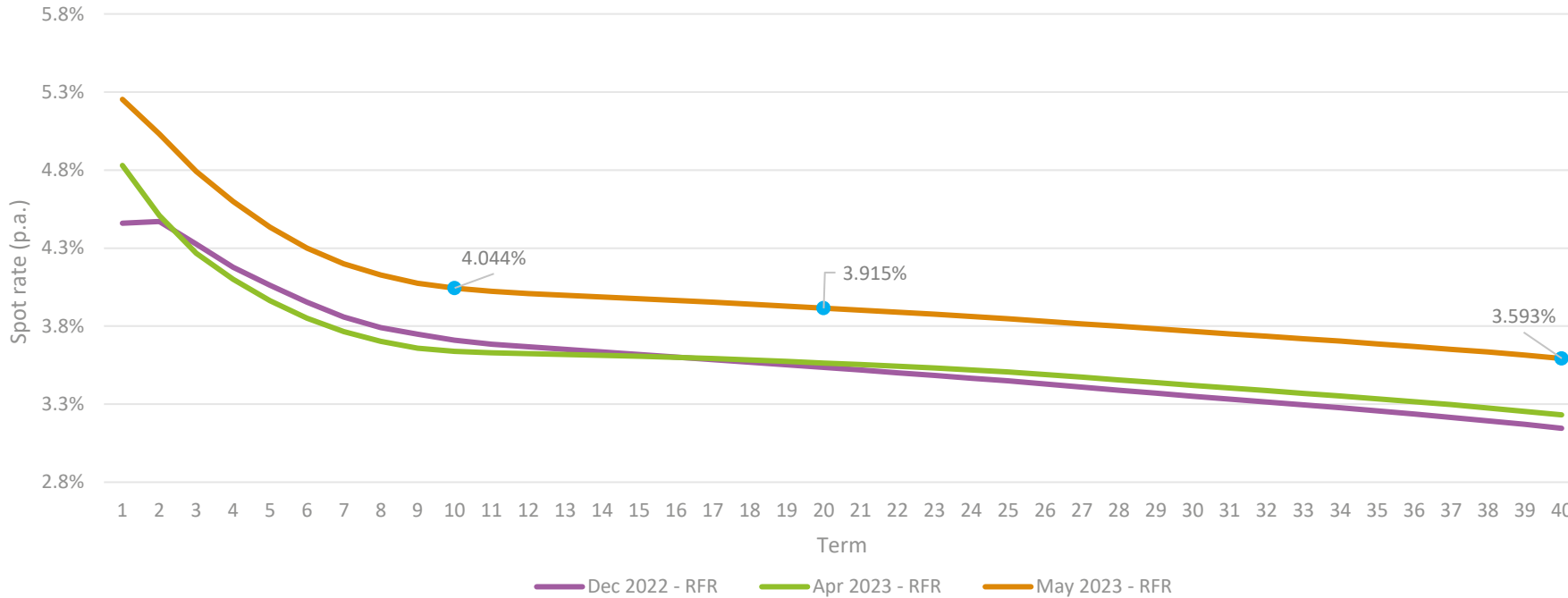
End May 2023

**SELECTED MARKET CHANGES FOR YIELD CURVES, EQUITY SYMMETRIC ADJUSTMENT,
VOLATILITY ADJUSTMENT AND FUNDAMENTAL SPREAD FOR THE MATCHING
ADJUSTMENT**



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

Risk-Free Rates (GBP)

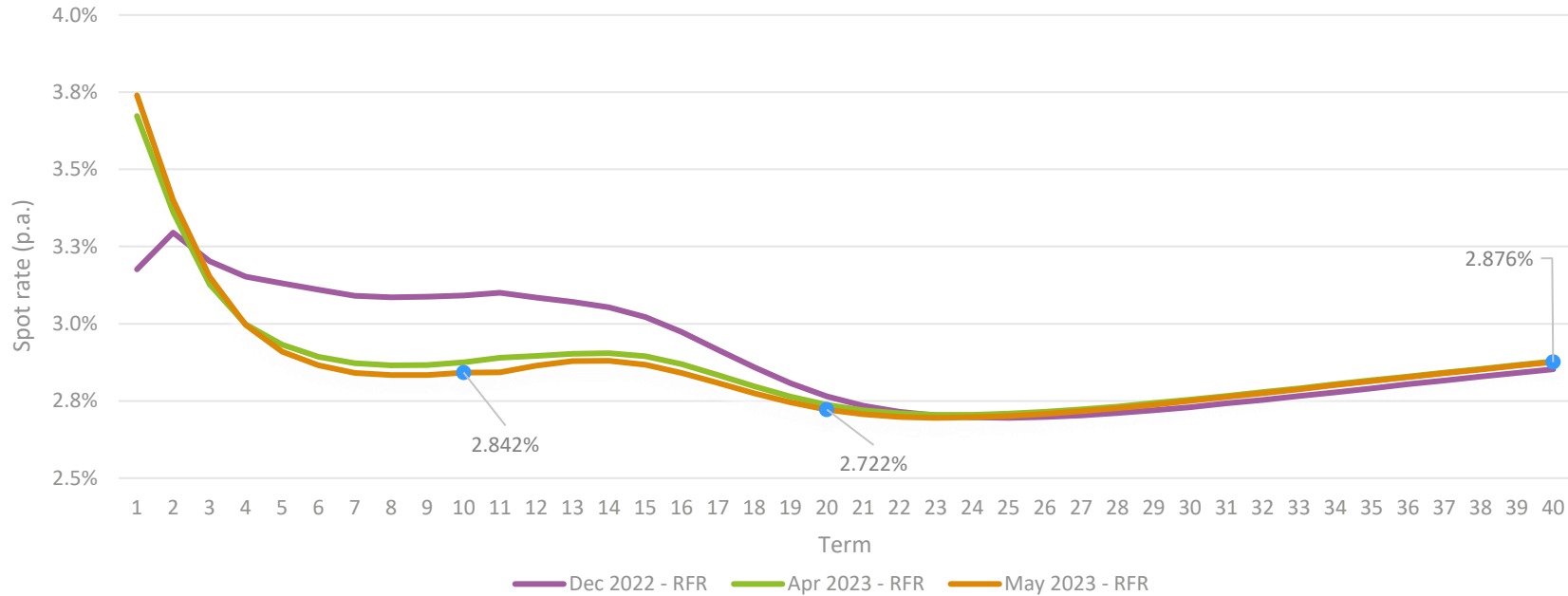


Rates increased during May and were up 0.41% at 10 years and 0.35% at 20 years. The curve shape remained broadly similar to April's.

The May 2023 curve was higher than December 2022 and of a similar shape, with rates higher by 0.33% at the 10 year point and rates higher by 0.38% at the 20 year point respectively.

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

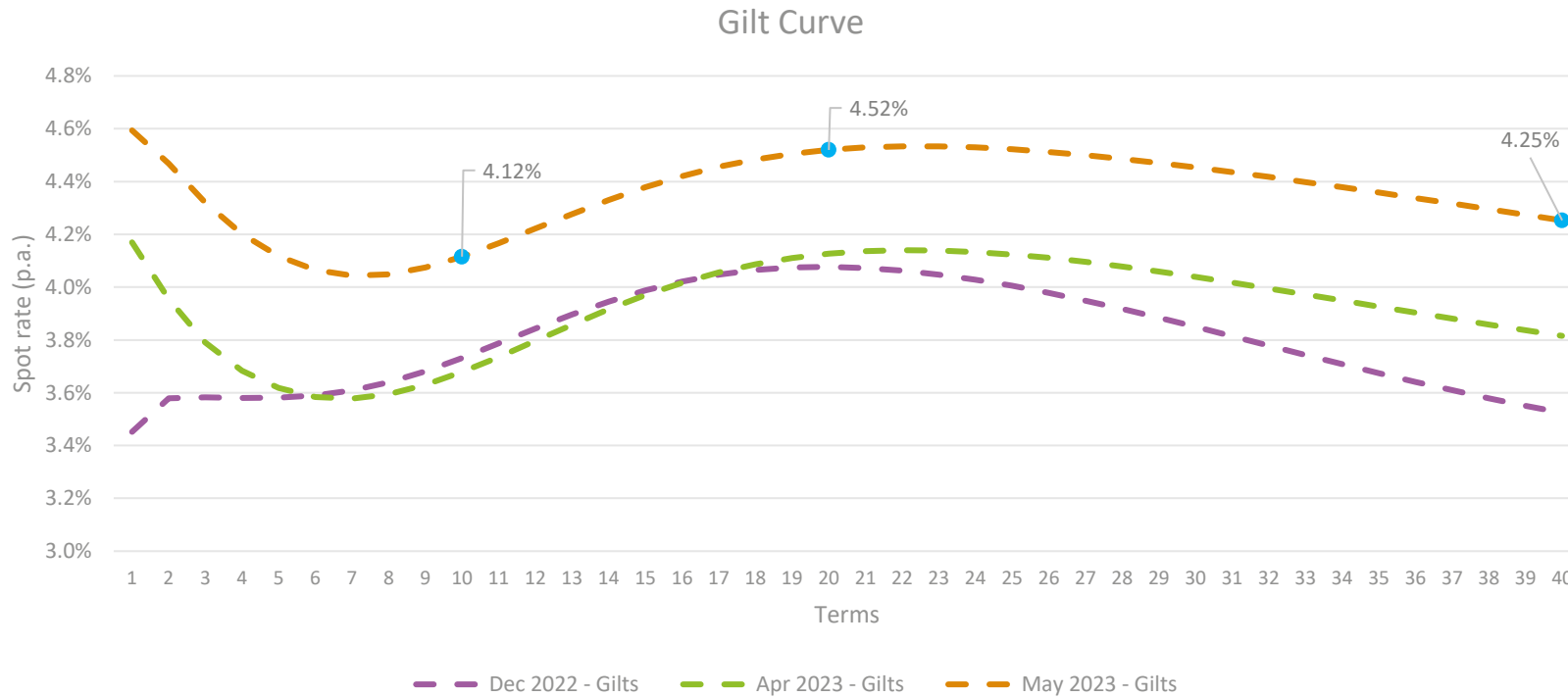
Risk-Free Rates (EUR)



There were small changes to the rates during May, at the 1 year rate they increased by 0.07%, then decreased by 0.03% at 10 years and 0.02% at 20 years. The curve shape remained broadly similar to April's.

The May 2023 curve was lower than December 2022 and of a similar shape at higher terms, with rates lower by 0.25% and 0.04% at the 10 year and 20 year points respectively.

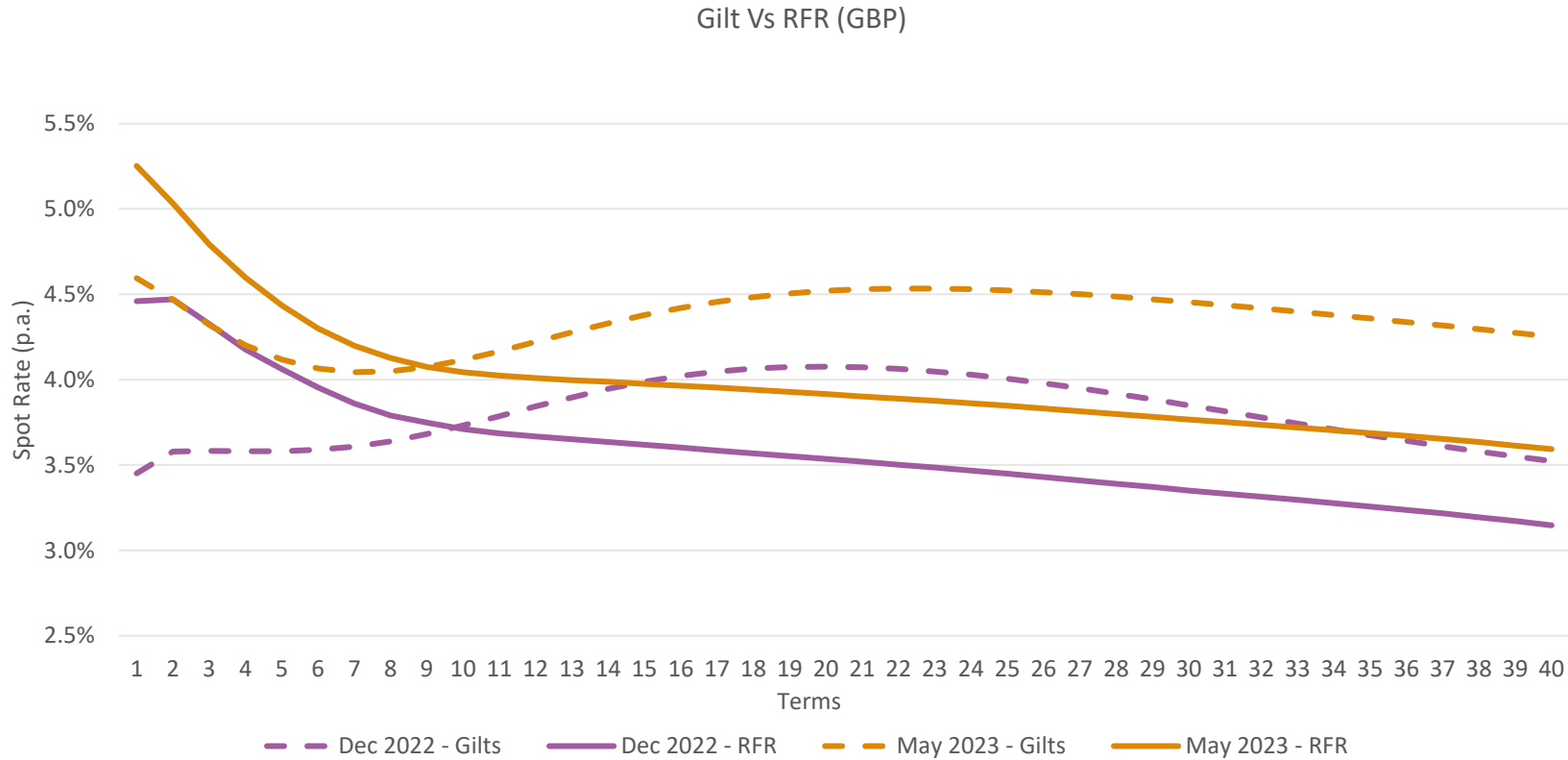
Gilt Curve – Bank of England Nominal Rates



The Gilt curve rose during May and was up 0.44% at 10 years and 0.39% at 20 years. The curve shape remained broadly similar to April's.

The May 2023 curve was higher than December 2022 and follows a similar shape after term 6, with rates higher by 0.38% and 0.44% at the 10 year and 20 year points respectively.

Gilt Curve vs Solvency II PRA (Risk-Free Rates)

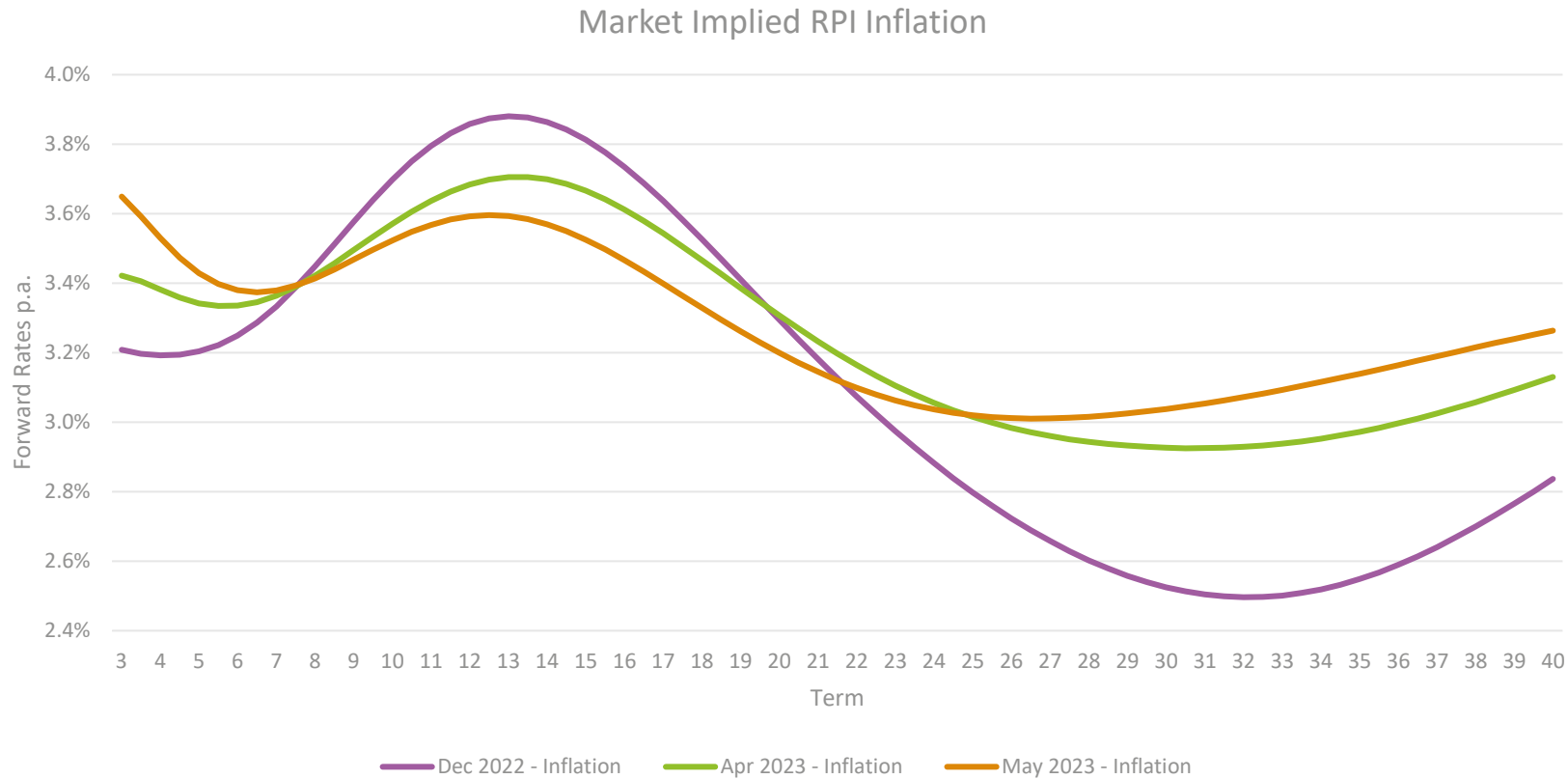


The December 2022 Solvency II (RFR) curve is higher than the Gilts curve before a crossover at the 10 year term.

The RFR rates for May 2023 are higher than Gilts for approx. 9 years before Gilts become higher.

The absolute differential between Gilts and the RFR has reduced at the short end and increased at the longer terms since December 2022.

Market Implied RPI Inflation

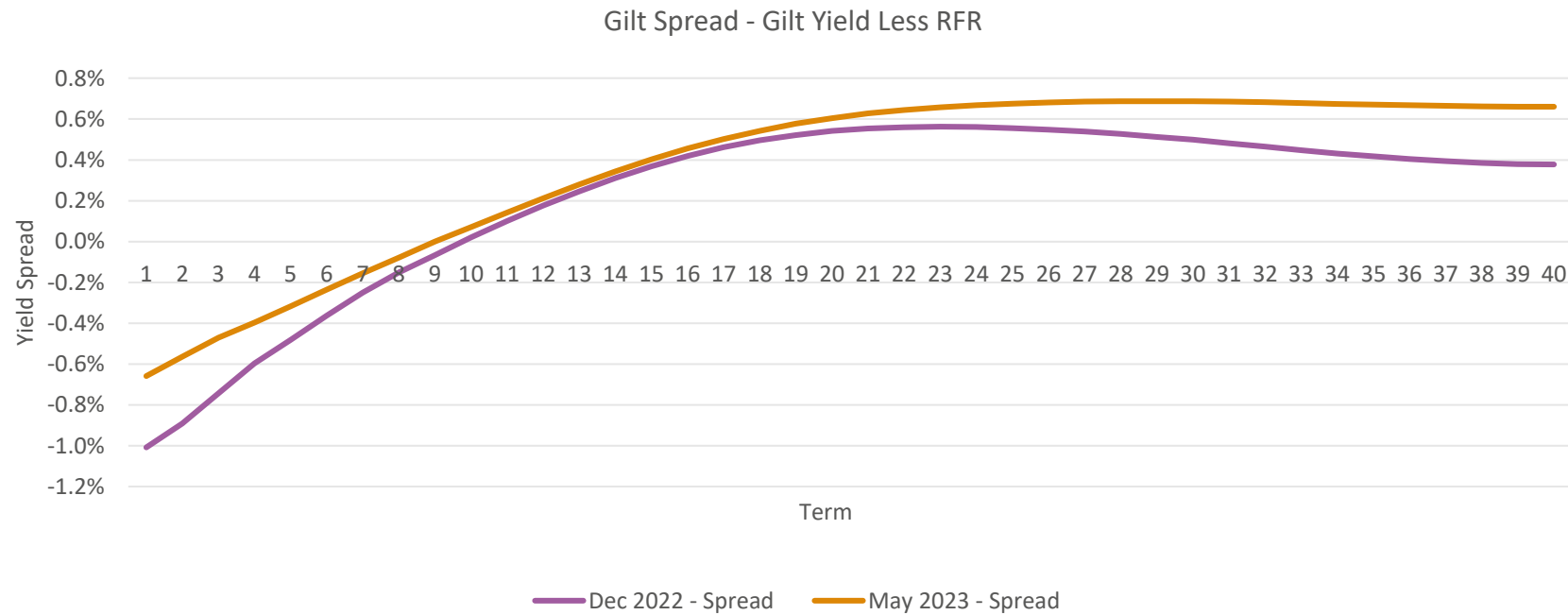


The curves show the forward rates of inflation starting at the 3 year term.

The May 2023 curve starts at a Higher rate of 3.65% than April 2023 (3.42%). It slowly decreases to 3.37% at term 6.5 before increasing to 3.6% at term 12.5 and then gradually decreases, following a similar shape to April 2023 crossing over twice.

The December 2022 curve has a sharper rise at earlier terms and then a gradual decline to 2.84%.

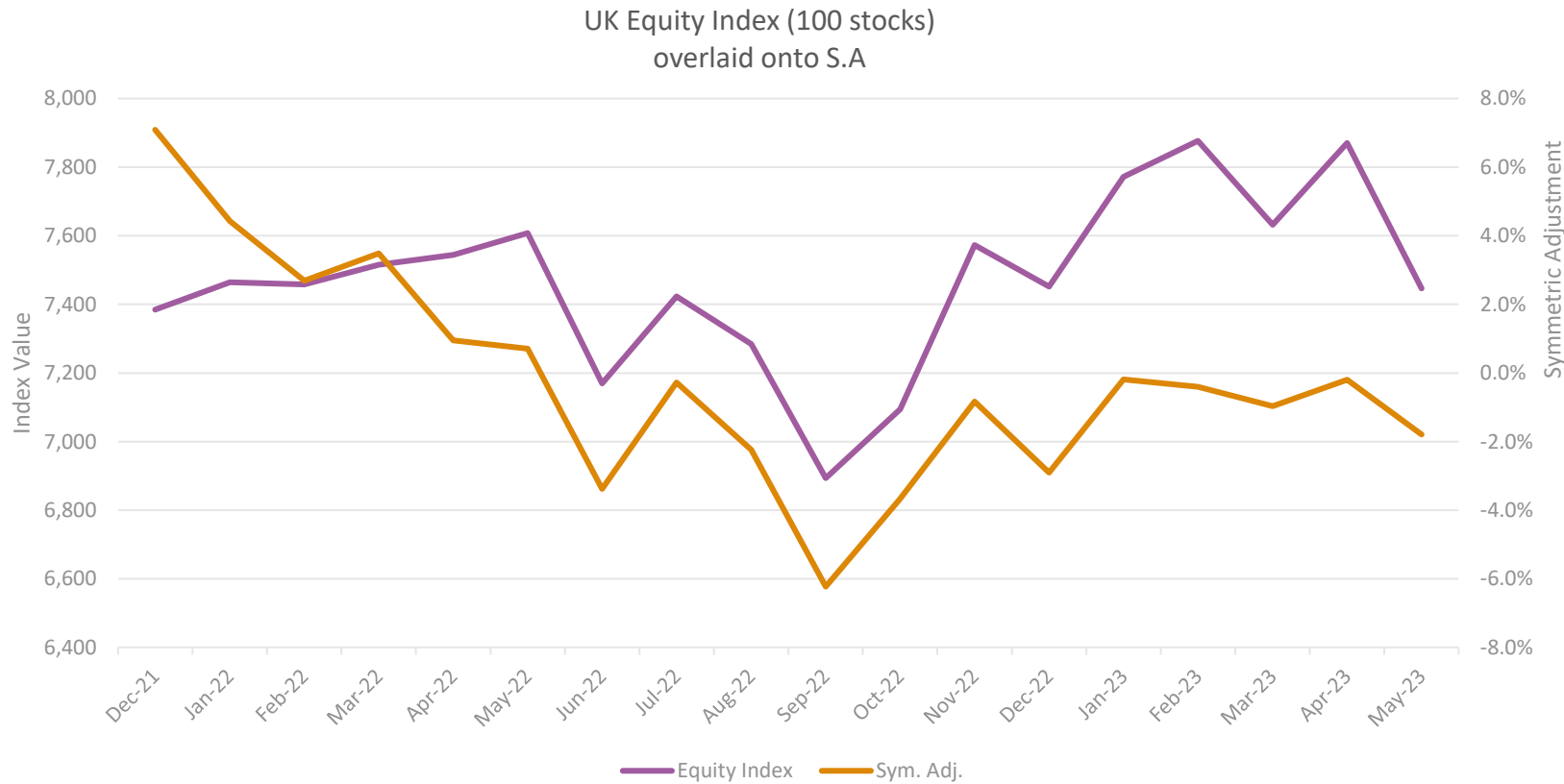
Gilt Curve Spread over PRA Risk-Free Rates



These curves show the gilt spread for May 2023 and December 2022. This represents the difference between the gilt yields and the RFR.

Compared to December 2022, the absolute spread at the short end is less negative at May 2023. They follow a similar shape with the absolute spread widening after term 17.

Equities – Symmetric adjustment chart overlaid onto Equity index

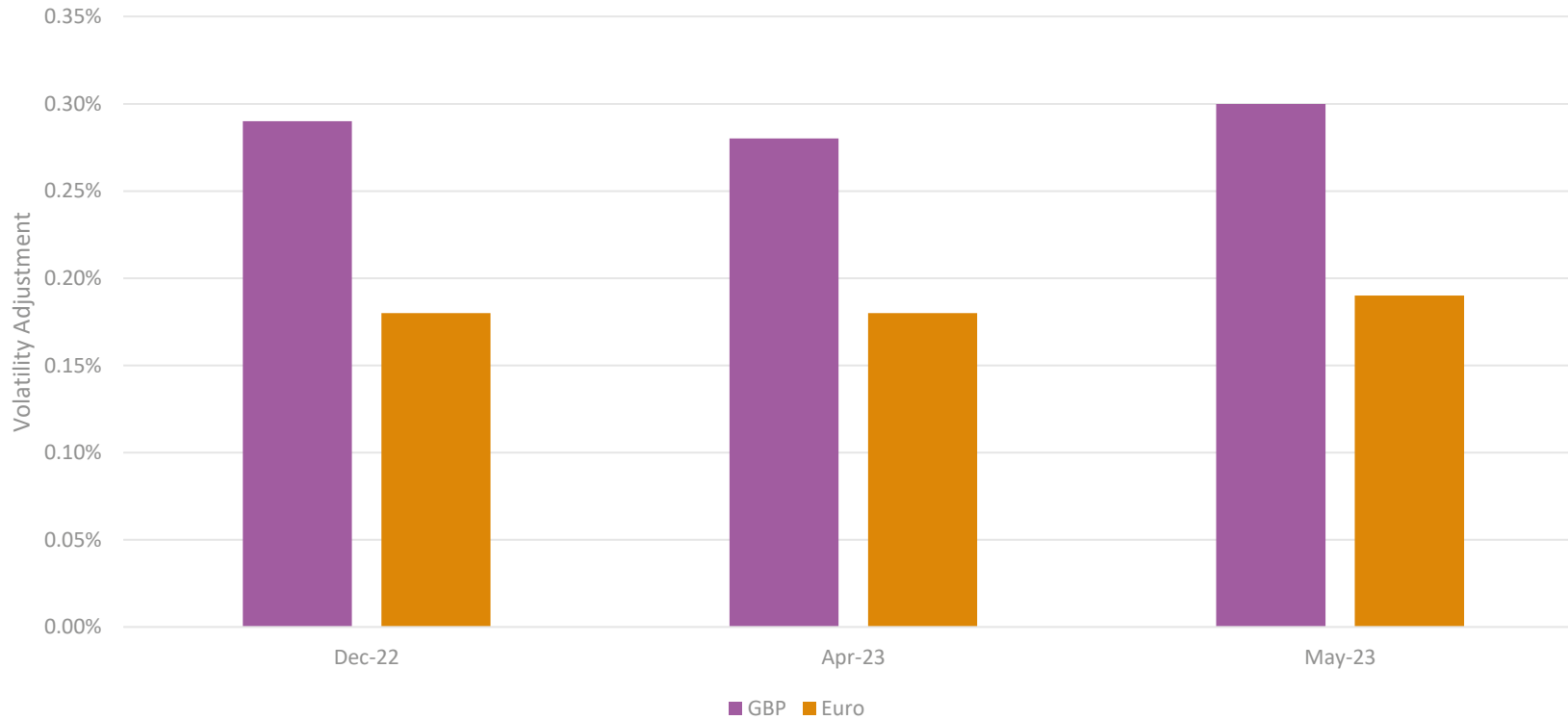


The Symmetric Adjustment has decreased in May 2023 and remains negative. The UK index has decreased by 5.4% in May. There is a slight increase in the US major equity index compared to April values (increased by 0.57%).

The adjustment has increased from -2.90% at end December 2022 to -1.79% at end May 2023.

Volatility Adjustment

Average Volatility Adjustment over terms of 0 to 20 years



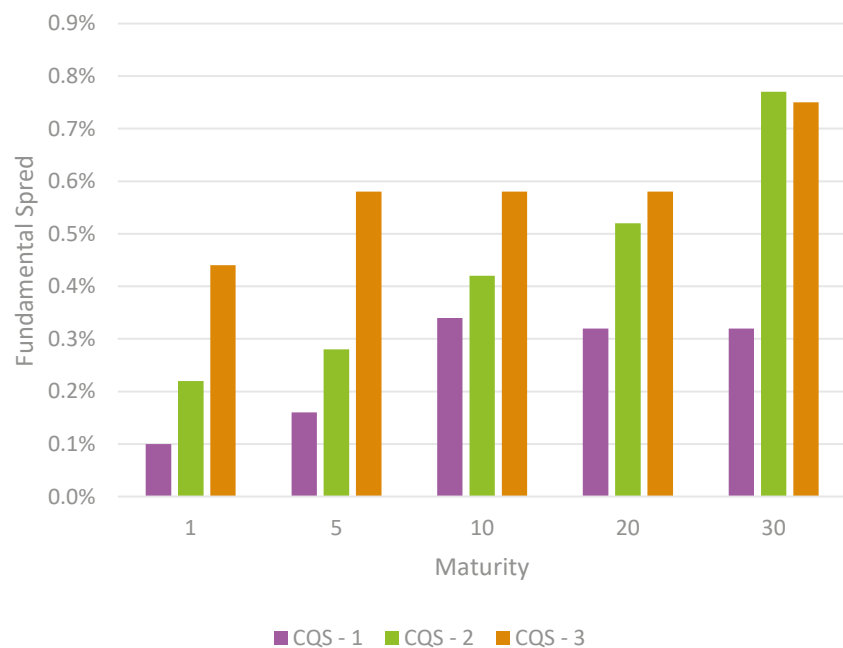
This chart shows the average volatility adjustment (VA) for both GBP and EUR currencies.

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.

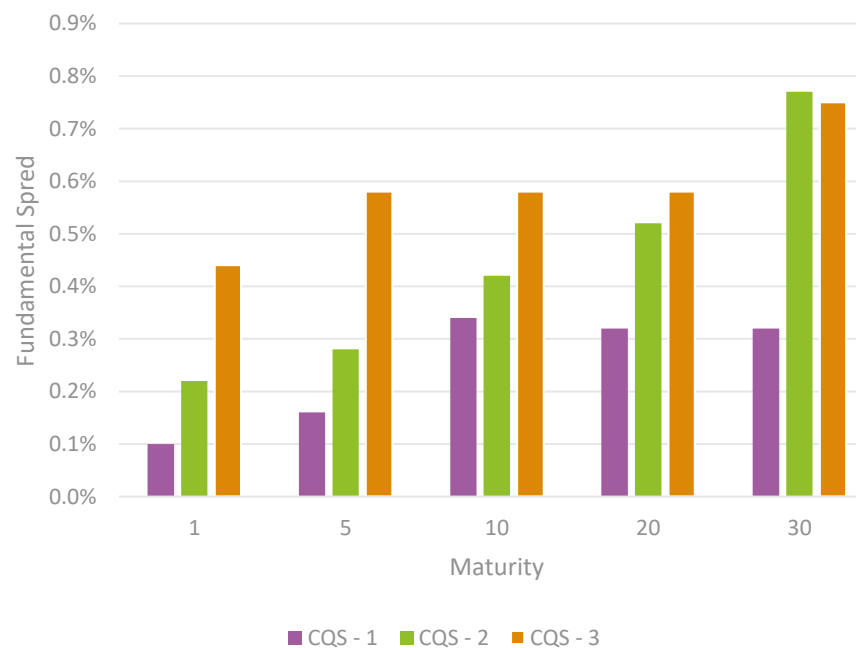
Over May 2023, for GBP the average VA has increased from 0.28% to 0.30% and the EUR average has increased from 0.18% to 0.19%.

GBP Fundamental Spread

Fundamental Spread by Credit Quality - Non-financial Bonds



Fundamental Spread by Credit Quality - Non-financial Bonds



The fundamental spread ('FS'), which allows for credit risk (i.e default and downgrade risk), is used as part of the matching adjustment ('MA') calculation. The MA is applied (subject to PRA approval) to the basic risk-free interest rate to derive the discount curve used for the BEL calculations. The MA is calculated as the excess yield over risk free on an undertaking's own portfolio of matching assets less the FS and can be considered to be the spread for illiquidity risk.

There has been a very limited number of changes from YE2022, with some values changing by 0.01% for Credit Quality Step 1, -0.01% for CQS 2 and -0.02% for CQ Step 3.

Considerations for your business

Please note these comments are aimed primarily at UK insurers with Long Term Business liabilities, and do not take account of aspects such as 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.

- There has been an increase in the Solvency II PRA (GBP) Risk-Free Curve for May 2023. This 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 decreased in May 2023 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.

Contact us

To discuss any of this information, or help with any balance sheet and capital management issues or other actuarial topics that you might be seeking support on, please contact your existing Zenith consultant or:



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

