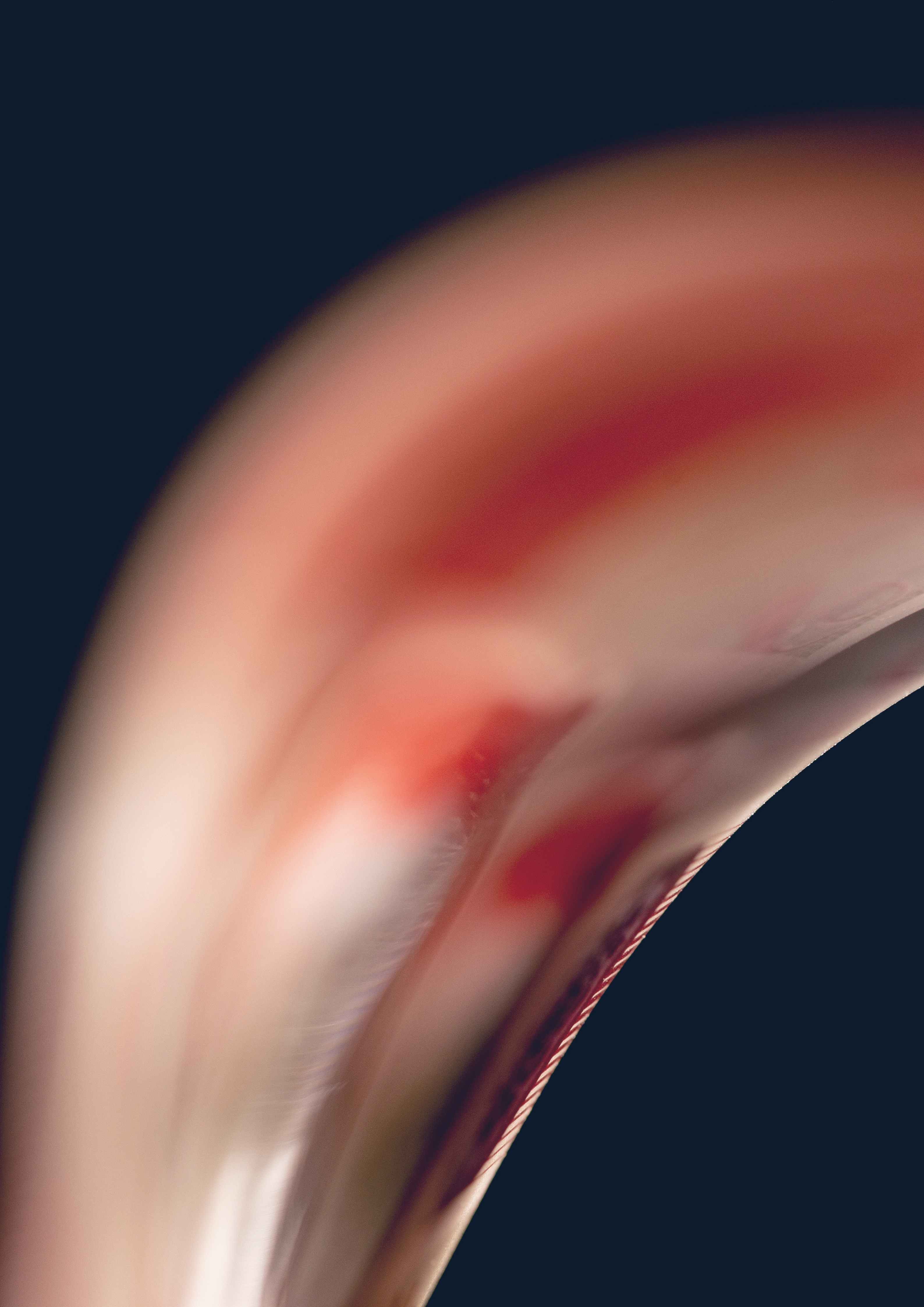
Bank of England PRA

Prudential Regulation Authority Annual Report

1 March 2024–28 February 2025



Prudential Regulation Authority
Annual Report 2024/25

1 March 2024 to 28 February 2025

Presented to Parliament pursuant to paragraph 19(4) of schedule 1ZB of the Financial Services and Markets Act 2000 as amended by the Financial Services Act 2012 and the Bank of England and Financial Services Act 2016. The Annual Report also includes the Annual Report of the Prudential Regulation Committee to the Chancellor of the Exchequer on the adequacy of the PRA resource and the independence of the PRA functions.

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This Report is made by the PRA under FSMA 2000 and FSMA 2023. It is made to the Chancellor of the Exchequer and covers the year ended 28 February 2025.

The report covers the requirements of paragraph 19 of schedule 1ZB of FSMA 2000.

The Bank of England Annual Report and Accounts for the year ending 28 February 2025 are available on the Bank of England's (the Bank) website. The PRA's audited accounts for the reporting year ending 28 February 2025 are set out in the 'Financial review of 2024/25' section of the Bank of England Annual Report and Accounts. HM Treasury (HMT) has issued an accounts direction; disclosures relating to this can be found in the 'PRA income statement for the period ended 28 February 2025' section of the Bank's Annual Report and Accounts.

Additional material can be found on the PRA section of the Bank's website.[1]

1. www.bankofengland.co.uk/prudential-regulation.

Consultation

Members of the public are invited to make representations to the PRA on:

- the PRA Annual Report;
- the way in which the PRA has discharged its functions during the period to which the report relates; and
- the extent to which, in their opinion, the PRA's objectives have been advanced (including its secondary objectives under section 2H FSMA), and the PRA has considered the regulatory principles to which it must have regard when carrying out certain of its functions (contained in section 3B of FSMA). Further information on how the PRA's secondary objectives have been advanced is set out in the competitiveness and growth PRA's new secondary objective report (the SCGO Report).

Please address any comments or enquiries to **praannualreport@bankofengland.co.uk**, or by post to:

PRA Communications Team
Prudential Regulation Authority
20 Moorgate
London
EC2R 6DA

The closing date for comments is 26 September 2025.

Privacy and limitation of confidentiality notice

By providing representation to the PRA on this Annual Report, you provide personal data to the Bank of England (hereafter 'the Bank'). This may include your name, contact details (including, if provided, details of the organisation you work for), and opinions or details offered in the representations.

The representations will be assessed to inform the PRA's further work as a regulator. The PRA may use your details to contact you to clarify any aspects of your response.

Your personal data will be retained in accordance with the Bank's records management schedule. To find out more about how we deal with your personal data, your rights, or to get in touch please visit the PRA's privacy web page.[2]

Information provided in response to this Report, including personal information, may be subject to publication or disclosure to other parties in accordance with access to information regimes, including under the Freedom of Information Act 2000 or data protection legislation, or as otherwise required by law or in discharge of the Bank's functions.

Please indicate if you regard all, or some of, the information you provide as confidential. If the Bank receives a request for disclosure of this information, it will take your indication(s) into account, but the Bank cannot provide assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system on emails will not, of itself, be regarded as binding on the Bank of England.

2. www.bankofengland.co.uk/privacy.

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Foreword by the Chair

Andrew Bailey
Governor,
Chair of the Prudential Regulation Committee

The Prudential Regulation Authority (PRA) has continued to play a pivotal role in ensuring the stability and resilience of the UK banking and insurance sectors over the past year, at a time of increased geopolitical and global uncertainty in line with its statutory responsibilities, while taking opportunities to support growth and competitiveness. Maintaining financial stability, robust and proportionate standards and strong supervision underpins broad-based and resilient growth.

The PRA has continued to advance its primary objectives, ensuring the resilience of UK banks, building societies and insurers. The results of the 2024 desk-based stress test have supported our view that the UK banking system is well capitalised, maintains high levels of liquidity and asset quality remains strong. On the insurer side, delivering the 2025 Life Insurance Stress Test and publishing firm-level results by the end of the year, alongside the steps we have taken on managing the risks from funded reinsurance, are crucial for ensuring the resilience of the sector. It was also encouraging to have banks and insurers contributing to our first, and world-leading, system-wide exploratory scenario exploring how the overall UK financial system would respond to a market shock.

Operational resilience has also been a key focus over this year. The critical importance of this work can be demonstrated by the range of operational incidents seen over the past year, including a global IT outage and disruption to wholesale and retail payments. The PRA has worked with banks and insurers to assess their progress on the PRA's operational resilience policy, ahead of the end March 2025 implementation deadline. And the latest UK market wide simulation exercise (SIMEX 24) assessing the sector's ability to respond to a major infrastructure failure has been delivered by the Cross Market Operational Resilience Group.

The financial sector has a central role to play in supporting economic growth, for example through the provision of finance that unlocks opportunities for investment and trade. And over the past year, the PRA has made strides in embedding its secondary growth and competitiveness objective (SCGO), including through taking steps to make improvements following the evaluation undertaken by the Bank's Independent Evaluation Office. Concrete actions to advance the SCGO include implementing the Solvency UK regime which provides insurers with greater flexibility to invest in productive UK assets as well materially cutting reporting requirements, and publishing proposals for a Strong and Simple regime for smaller banks and building societies.

Looking ahead, we will continue to build on these achievements and remain vigilant in our efforts to ensure the stability and resilience of the UK financial system. I am immensely grateful to my colleagues on the Prudential Regulation Committee for their valuable contributions, and to all PRA staff for their continued dedication over the past year.

Andrew Bailey

26 June 2025

Foreword by the Chief Executive

Sam Woods
Deputy Governor, Prudential Regulation
Chief Executive of the PRA

As I look back on the past year, the Prudential Regulation Authority (PRA) has made significant strides in advancing our statutory objectives and adapting to the external landscape.

One major focus area for the PRA over the last year has been on delivering our secondary competitiveness and growth objective, which has also been a priority for the government. We have continued to seek opportunities to simplify and clarify the regime and alleviate unnecessary administrative burdens on firms; a number of examples are set out below. This activity is covered more generally in our second report on this area, included as a separate section within this Annual Report.

For banks we have made a lot of progress in finalising how we will implement the Basel 3.1 standards in the UK, publishing a second near-final policy statement. However, recognising the need for greater clarity around plans for Basel 3.1 implementation internationally, we delayed the implementation date for these standards to 1 January 2027. Elsewhere on the banking side we finalised our Model Risk Management standards, which will play an important role in maintaining safety and soundness.

We continue to look for opportunities to tailor and streamline our regulations, and in this context we published proposals to simplify the capital and liquidity regimes for small, domestic-focused banks and building societies while maintaining robust prudential standards, as part of our Strong and Simple framework. The regime is now live for liquidity and reporting purposes, and we already have 46 firms signed up for these simplifications as of 28 February 2025. We hope to be able to bring in the capital simplifications as soon as Basel 3.1 is in place.

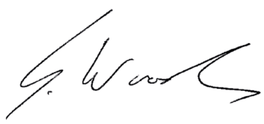
For insurers, we implemented our reforms of the Matching Adjustment and set up a new team to manage engagement with firms, helping them to make investments more flexibly while ensuring high-risk management standards. We also updated our reporting requirements for insurers, and in doing so reduced the number of templates insurers are required to complete by a third, underpinning our ongoing commitment to streamlining our data collections wherever possible. All of this enabled us to go live with our new Solvency UK regime at the end of December 2024. Alongside this we proposed changes to our Insurance Special Purpose Vehicles regulatory framework intended to increase its flexibility and streamline the associated application processes.

Keeping an eye on emerging risks is a key part of our role. In this context, we published a supervisory statement on funded reinsurance, setting out expectations for how life insurers should manage potential risks as they grow their bulk purchase annuity businesses. In addition, we launched the life insurance stress test, in order to help assess firm resilience and provide more transparency about how the prudential regime operates across firms.

We have also continued to make significant progress in delivering timely authorisations. We have met our service standards for the majority of authorisation applications, with 100% of applications concluded within the relevant deadline in Q4 and 99.7% for 2024/25 as a whole.

Another key focus for the PRA has been operational resilience. We have monitored firms' implementation of our operational resilience policy ahead of the deadline on 31 March 2025, assessing firms' implementation approaches and providing feedback accordingly. Working with other UK authorities, we also finalised our approach to the oversight of critical third parties providing services to UK financial institutions. Separately, we announced that we would not take forward our proposed rules and expectations on diversity and inclusion in PRA-regulated firms at this stage, in light of some of the feedback received, expected legislative developments and to avoid additional burdens on firms.

Finally, I would like to say thank you to all of my PRA colleagues for their hard work contributing to a resilient and dynamic UK financial sector.



26 June 2025

Prudential Regulation Committee (PRC)

Members as at 26 June 2025[3] [4]

Andrew Bailey
Governor,
Chair of the PRC

Sarah Breeden
Deputy Governor,
Financial Stability
Term: 1 November 2023
– 31 October 2028

Tanya Castell
External member
Term: 1 September 2021
– 31 August 2027

Andrea Enria
Senior adviser
Term: 20 March 2025
– 19 March 2028

Antony Jenkins
External member
Term: 5 April 2021
– 4 April 2027

Niamh Moloney
External member
Term: 20 March 2025
– 19 March 2028

Marjorie Ngwenya
External member
Term: 5 September 2022
– 4 September 2025

Sir Dave Ramsden
Deputy Governor,
Markets, Banking,
Payments and Resolution
Term: 4 September 2017
– 3 September 2027

Nikhil Rathi
Chief Executive
of the FCA
Term: 1 October 2020
– 30 September 2030

David Soanes
External member
Term: 20 March 2025
– 19 March 2028

John Taylor
External member
Term: 14 January 2021
– 13 January 2027

Sam Woods
Deputy Governor,
Prudential Regulation, and
Chief Executive of the PRA
Term: 1 July 2016
– 30 June 2026

3. On 24 January 2025, the Chancellor appointed David Soanes and Niamh Moloney as members of the Prudential Regulation Committee. They replaced Jill May and Julia Black who completed their second terms in July 2024 and November 2024 respectively.
4. Andrea Enria first joined the Bank of England in May 2024 as a Senior Adviser and will continue this role while also serving on the PRC.

The PRC is the body within the Bank responsible for exercising the Bank's functions as the Prudential Regulation Authority (PRA), as set out in the Bank of England Act 1998 and Financial Services and Markets Act 2000 (FSMA). The PRC is on the same statutory footing as the Monetary Policy Committee and the Financial Policy Committee.

The PRC's terms of reference[5] provide for 12 members: the Governor of the Bank; the Deputy Governor for Financial Stability; the Deputy Governor for Markets and Banking; the Deputy Governor for Prudential Regulation (the Chief Executive for Prudential Regulation); the Chief Executive of the Financial Conduct Authority (FCA); one member appointed by the Governor of the Bank with the approval of the Chancellor; and at least six members appointed by the Chancellor.[6]

The PRC has several non-delegable statutory responsibilities, including:

- the PRC is independent in all its decision-making functions, including making rules and the PRA's most important supervisory and policy decisions;
- the PRA's functions are exercised by the Bank and are funded by PRA fees, with the PRC responsible for consulting on and setting the level of those fees; and
- the PRC is required to report annually to the Chancellor of the Exchequer on the adequacy of resources allocated to the Bank's functions as the PRA and the extent to which the exercise of those functions is independent of the exercise of the Bank's other functions.[7]

The PRA's statutory objectives, which underpin its forward-looking, judgement-based approach to supervision, are:

- a general objective to promote the safety and soundness of the firms it regulates;
- specifically for insurers, to contribute to the securing of an appropriate degree of protection for those who are, or may become, insurance policyholders;

5. www.bankofengland.co.uk/-/media/boe/files/about/prc/prctermsofreference.pdf.
6. Since February 2016, the Bank has indemnified members of the PRC against personal civil liability on the same terms as the members of Court. See the Court and the Bank's policy committees' section of the Bank of England Annual Report and Accounts 2024/25.
7. See the 'Annual Report of the PRC to the Chancellor of the Exchequer' section of this Report.

- a secondary objective to, so far as is reasonably possible, act in a way which facilitates effective competition in the markets for services provided by PRA-authorised persons in carrying on regulated activities; and

- a further secondary objective to, so far as is reasonably possible, act in a way that facilitates, subject to aligning with relevant international standards, (a) the international competitiveness of the UK economy (including, in particular, the financial services sector through the contribution of PRA-authorised persons); and (b) its growth in the medium to long term.

Recommendations for the Prudential Regulation Committee

On 15 November 2024, HMT issued Recommendations for the Prudential Regulation Committee.[8] The letter sets out aspects of the Government's economic policy to which the PRA must have regard to, when considering how to advance the objectives of the PRA and when considering the application of the regulatory principles set out in FSMA 2000, while building on the important themes of sustainable economic growth, proportionate and effective regulation, international competitiveness, and responsible risk-taking, alongside maintaining financial stability.

Response from the Prudential Regulation Committee

On 18 December 2024, the PRC responded[9] to the recommendations, emphasising the PRA's continued commitment to supporting sustainable economic growth and responsible risk-taking. The response also highlighted ongoing efforts to promote the safety and soundness of firms, facilitate innovation, and embed the competitiveness and growth objective into the PRA's policymaking processes and approach to supervision.

PRA's strategy

FSMA 2000 requires the PRA to review and, if necessary, revise and publish annually its strategy in relation to how it will deliver its statutory objectives. The strategy is set by the PRC, in consultation with the Bank's Court. The PRA's strategy was set out in the PRA Business Plan 2025/26,[10] published in April 2025.

8. www.gov.uk/government/publications/recommendations-for-the-prudential-regulation-committee-november-2024.
9. www.gov.uk/government/publications/recommendations-for-the-prudential-regulation-committee-november-2024/response-from-the-prudential-regulation-committee-html.
10. www.bankofengland.co.uk/prudential-regulation/publication/2025/april/pra-business-plan-2025-26.

Annual Report of the PRC to the Chancellor of the Exchequer

The adequacy of resources allocated to the performance of Prudential Regulation Authority (PRA) functions and the extent to which the exercise of PRA functions is independent of other Bank functions.

This is the Annual Report by the Prudential Regulation Committee (PRC) to the Chancellor of the Exchequer under paragraph 19 of schedule 6A to the Bank of England Act 1998 (as amended). It relates to the period of 1 March 2024 to 28 February 2025. The PRA publishes this Report as part of its commitment to transparency.

Background

Since 1 March 2017, the PRA has been part of the legal entity of the Bank of England (the Bank). The PRC is a statutory committee of the Bank and is responsible for the exercise of the Bank's functions as the PRA. The PRC is on the same statutory footing as the Bank's Monetary Policy Committee (MPC) and the Financial Policy Committee (FPC). The PRA Annual Report summarises the PRC's responsibilities and the statutory framework under which the PRA operates. Under this statutory framework, the PRC is responsible for strategy, policy and rulemaking, and the adoption (with the approval of the Bank's Court of Directors and within the overall framework set by the Bank) of the budget for the PRA. These functions cannot be delegated.

The performance of the PRA functions

The PRA's objectives and priorities are delivered through responsive, risk-based regulation and supervision, and by developing standards and policies that set out expectations of firms. The PRA's approach to policymaking[11] sets out its aim of being a strong, accountable, responsive, and accessible policymaker. The PRA's approach to supervision[12] is forward-looking, judgement-based, and focused on the issues and firms that pose the greatest risk to the stability of the UK financial system and policyholders.

11. www.bankofengland.co.uk/prudential-regulation/publication/2025/february/pra-approach-to-policy-sop.
12. www.bankofengland.co.uk/prudential-regulation/publication/pras-approach-to-supervision-of-the-banking-and-insurance-sectors.

The adequacy of resources

The PRA is fully funded by fees paid by regulated firms. The PRA consults each year on the allocation of fees among firms and has the ability, after consultation, to raise additional funds during the year for material changes. The PRA received two responses to its fees consultation proposals in 2024/25, which did not result in changes to the proposals set out in CP4/24 – Regulated fees and levies: Rates proposals 2024/25.[13]

The PRC seeks to ensure that the PRA's resources are appropriately allocated to the work that best advances its objectives, taking into account a wide range of relevant factors. These include the wider legislative and policy framework under which the PRA operates, including the duty to have regard to certain factors under FSMA, the Legislative and Regulatory Reform Act 2006, the Equality Act 2010 and the Financial Services Act 2021. The PRC also takes into account HMT's recommendation letter, published in November 2024.[14]

The PRA made substantive progress against its four strategic priorities for 2024/25 by: (a) substantially delivering the actions in its 2024/25 Business Plan;[15] (b) delivering business as usual supervision and policy work; (c) addressing feedback received from firms through its Firm Feedback Survey, including on the accessibility of the PRA Rulebook; and (d) effectively managing emerging risks, including those from newer technologies such as artificial intelligence. Alongside this, the PRA has proactively sought and identified opportunities to advance the SCGO, including placing a strong emphasis on embedding the objective in its operations, decision-making and internal processes. The PRA has also made substantial progress in implementing the recommendations[16] from the Bank of England's Independent Evaluation Office (IEO)[17] review of the PRA's approach to the implementation of the SCGO. Establishing the Cost Benefit Analysis (CBA) Panel has also been a significant milestone, enhancing transparency and accountability in its policymaking.

The PRC received regular updates on the PRA's performance, budget and risks throughout the year. The PRC has regular interactions with PRA staff and PRC members have the benefit of their own engagement with industry. Regular reporting to the PRC covers: progress

13. www.bankofengland.co.uk/prudential-regulation/publication/2024/july/regulated-fees-and-levies-rates-proposals-2024-25-policy-statement.
14. www.gov.uk/government/publications/recommendations-for-the-prudential-regulation-committee-november-2024.
15. www.bankofengland.co.uk/prudential-regulation/publication/2024/april/pra-business-plan-2024-25.
16. www.bankofengland.co.uk/independent-evaluation-office/ieo-report-july-2024/ieo-evaluation-of-the-pras-approach-to-the-secondary-competitiveness-and-growth-objective.
17. www.bankofengland.co.uk/independent-evaluation-office/ieo-report-july-2024/ieo-evaluation-of-the-pras-approach-to-the-secondary-competitiveness-and-growth-objective.

against strategic priorities; budget and headcount position; staff turnover and wellbeing; technology availability; and the PRA's internal operational risk profile.

The PRA's budget is set within the wider context of the Bank's overall budget. Overall resource has increased in recent years, largely driven by our increased responsibilities under FSMA 2023. Despite this, the PRA has continued to see staff stretch in some areas of the PRA, in part exacerbated by the onboarding of a significant number of new joiners in recent years.

The PRA continues to invest in technology to improve its operational effectiveness. The PRA's technology improvement programme is prioritised in the context of the Bank's wider technology estate, where there is a programme of work underway to address obsolescence. Budget objectives and capacity require that these large-scale, multi-year programmes are carefully prioritised, leading to slower change delivery and therefore longer periods of risk exposures in some areas than the Bank would ideally seek. The focus on addressing obsolescence on a Bank-wide basis resulted in a reduction in spending on PRA-focused investment projects in 2024/25. Investment in the Bank's wider technology infrastructure will benefit the PRA, though the sequencing and pace of the work will continue to limit the speed with which the PRA is able to deliver some of its specific work, including projects to achieve its data ambitions and efforts to improve operational efficiency. PRC will continue to play close attention to ensure that adequate investment is in place to deliver the PRA's priorities, as set out in the Business Plan for 2025/26.[18]

The evidence provided to the PRC during the year enabled PRC to conclude that the PRA had adequate resources during 2024/25 to deliver its objectives via supervision and policymaking, including embedding the new secondary objective on competitiveness and growth in line with its strategic priorities.

The extent to which the exercise of PRA functions is independent of other Bank functions

The PRA has a number of safeguards in place to ensure that it retains sufficient operational independence, including the independence of the PRC, and the funding and reporting arrangements set out in FSMA and the Bank of England Act 1998.

The PRC is independent of Bank functions in all its decision-making functions, which include making rules and the PRA's most important supervisory and policy decisions. The PRC also maintains its independence by ensuring that actual and potential conflicts of interest across

18. www.bankofengland.co.uk/prudential-regulation/publication/2025/april/pra-business-plan-2025-26.

its members are identified and managed on a continual basis, and by having its own internal infrastructure and processes that supplement Bank-wide arrangements. PRC members' remuneration is determined by the Bank's Remuneration Committee.

The PRA is located within the Bank and contributes to effective policymaking on financial stability. Roles and responsibilities of the Bank and PRA are distinct, and functions are discharged in line with the Basel Core Principles. The Bank ensures its resolution authority and supervisory functions, as the PRA, are operationally independent through legislation-driven arrangements and has issued a statement detailing these arrangements.

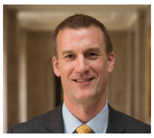
The PRC is structurally separated from the FPC and MPC by having different external memberships. The PRC and FPC hold all meetings separately, except those to discuss matters of mutual interest. The FPC can direct prescribed macroprudential measures and recommend actions to reduce financial stability risks, including to the PRA. This can sometimes mean that the FPC takes decisions that constrain the actions determined by the PRC.

The fee income generated from regulated firms can only be used for the functions covered by the statutory framework that the PRA operates within. The PRA's budget covers its direct costs, as well as indirect costs charged by the Bank, including those for central functions such as technology, finance, and human resources. The Bank's external auditors review the allocation of indirect costs charged by the Bank, and provide external assurance that costs have been allocated appropriately.

The effective operation of the safeguards in place enabled PRC to conclude that the PRA exercised its functions during 2024/25 with appropriate independence from the Bank.

Senior management team

The senior management team at the PRA is below as at 26 June 2025.[19] [20]



David Bailey
Executive Director,
Prudential Policy

Simon Dixon
Director,
Supervisory Risk Specialists Directorate

Phil Evans
Director,
Prudential Policy

Charlotte Gerken
Executive Director,
UK Deposit Takers Supervision

Rebecca Jackson
Executive Director,
Authorisations, Regulatory Technology and International Supervision

Shoib Khan
Director, Insurance Supervision

Duncan Mackinnon
Executive Director,
Supervisory Risk Specialists

Ben Martin
Director,
PRA Strategy, Risk and Operations

Alison Scott
Director, Authorisations, RegTech and International Supervision

Gareth Truran
Executive Director,
Insurance Supervision

Laura Wallis
Director, UK Deposit Takers Supervision

Vicky White
Director, Prudential Policy Directorate

Sam Woods
Deputy Governor,
Prudential Regulation and Chief Executive of the PRA

19. In June 2024, Vicky White was appointed as Director, Prudential Policy Directorate.
20. In September 2024, Simon Dixon was appointed as Director, Supervisory Risk Specialists Directorate.

Summary of 2024/25

The Prudential Regulation Authority's (PRA) activities in 2024/25 were directed by the PRA's statutory objectives and the PRA Business Plan 2024/25

The PRA sets strategic priorities and a business plan to direct its work towards achieving its statutory objectives.[21] This section outlines the work completed in pursuit of the PRA's strategic priorities in 2024/25.

As in previous years, the PRA has delivered its statutory objectives by maintaining robust prudential standards and increasing the efficiency and effectiveness of its operations.

The work completed in 2024/25, as set out in this Report, advanced the PRA's two primary statutory objectives to promote the safety and soundness of the firms it regulates, focusing on the adverse effects that they can have on the stability of the UK financial system, and the objective, specific to insurance firms, of contributing to the securing of an appropriate degree of protection for insurance policyholders.

Work was also completed to advance the PRA's secondary objectives to facilitate effective competition in the markets for services provided by PRA-authorised firms carrying on regulated activities; and to facilitate, subject to aligning with relevant international standards, the international competitiveness of the UK economy (including, in particular, the financial services sector through the contribution of PRA-authorised persons), and its growth in the medium to long-term; including by responding faster to emerging risks and opportunities.

PRA's achievements in advancing its statutory objectives

This section outlines the PRA's achievements in advancing its statutory objectives and strategic priorities.

Banking

The PRA has advanced its statutory objectives by implementing prudential reforms to maintain trust and confidence in the UK financial system and to take forward its secondary objectives. For example, the PRA published the second near-final policy statement for the Basel 3.1 standards, to implement the remaining Basel III standards for banks operating in

21. www.bankofengland.co.uk/prudential-regulation/secondary-competition-objective.

the UK. The near-final rules aim to promote the safety and soundness of PRA-regulated firms and support their international competitiveness by making adjustments using UK evidence, and making capital ratios more consistent, comparable, and aligned with international standards. When finalising the Basel 3.1 standards, the PRA made important adjustments in response to consultation feedback and evidence, notably in relation to small and medium-sized enterprises (SMEs) and infrastructure lending adjustments. Although the SCGO does not formally apply to the Basel 3.1 near-final policies,[22] competitiveness and growth considerations and alignment with international standards were factors the PRA carefully weighed in its decision-making.

Under the Strong and Simple Framework, the PRA published proposals to simplify the capital regime for small domestic deposit takers (SDDTs) without weakening their overall resilience.[23] [24] The PRA continued its work on the review of model risk management for banks, building societies, investment firms and insurers. Furthermore, the PRA published a Dear CRO letter outlining its expectations for banks to ensure their risk management frameworks are robust and comprehensive to address the evolving nature and scale of private equity financing activities via non-bank financial institution counterparties.

The PRA has also worked on the revocation and restatement of financial services assimilated law in secondary legislation, proposing substantial reforms and rules to replace, with modifications where appropriate, the relevant firm-facing provisions in the CRR. The PRA published policy proposals to amend the securitisation capital requirements to introduce certain adjustments that reduce the disparity in treatment of securitisations by smaller and larger firms.

The PRA alongside the FCA published proposals to simplify the UK remuneration regime for banks, building societies and PRA-designated investment firms and make it more proportionate, enhancing firms' ability to attract and retain talent. The proposals complement previous reforms, including the removal of the bonus cap.[25]

The PRA also consulted on targeted refinements to its approach to international banks or banking groups operating in the UK, learning from the Silicon Valley Bank failure. The PRA

22. The have regards under which the Basel 3.1 standards consultations were prepared are outlined in the FSMA 2000 disapplying the amendments made by FSMA 2023, as provided in the FMSA 2023 (Commencement No. 2 and Transitional Provisions) Regulations 2023, together with the recommendation letter from HM Treasury issued under section 30B of the Bank of England Act 1998.
23. **www.bankofengland.co.uk/prudential-regulation/publication/2024/september/strong-and-simple-framework-the-simplified-capital-regime-for-sddts-cp**.
24. **www.bankofengland.co.uk/prudential-regulation/publication/2023/december/strong-and-simple-framework-policy-statement**.
25. **www.bankofengland.co.uk/prudential-regulation/publication/2023/october/remuneration-ratio-between-fixed-and-variable-components-of-total-remuneration**.

remains committed to keeping the UK responsibly open for branches, with most branch business expected to remain unaffected by the changes from the revised policy expectations.

The PRA continued to work on how it collects data through the Transforming Data Collection (TDC) programme alongside reviewing regulatory data needs via Banking Data Review (BDR). This work will now be combined and will be taken forward in 2025/26 under the new Future Banking Data (FBD) programme. Further details of this work is set out in the PRA's 2025/26 Business Plan.[26]

Insurance

The PRA made substantial policy changes to the UK insurance prudential framework, to establish a new regulatory framework tailored to the UK insurance market, advancing the PRA's primary and secondary objectives with a simplified, more flexible regime that supports market entry. Many of the reforms were also designed to enable life insurers to play a larger role in investing in the UK economy. For example, in June 2024, the PRA published PS10/24,[27] reforming the Matching Adjustment (MA). These reforms widen the range of investable assets, improve risk responsiveness, and support firms in enhancing their responsibility for risk management. In addition, through consultations with the industry, the PRA identified a demand for a facility that allows firms to invest more rapidly while awaiting full regulatory permissions.

The PRA has continued to maintain a strong focus on risks within the life insurance sector including funded reinsurance growth, and assessed firms' credit risk management capabilities, seeking assurance on the appropriateness of insurance firms' internal credit assessments as firms expanded the range of credit risk assets backing annuity liabilities. The PRA also published a package of proposals to reform the UK's Insurance Special Purpose Vehicles (ISPV) regulatory framework. In particular, the proposals aim to relax the rules that apply to UK ISPVs in order to create a more flexible regime that can support greater use of ISPVs.

Multi-sector

During 2024/25, the PRA continued to support new entrants to the UK banking and insurance markets, including those with novel uses of technology and innovative business models, through the PRA's New Bank Start-up and New Insurer Start-Up units.

The PRA also published its final policy and rules for critical third parties (CTPs), as well as information on how the Bank, FCA and the PRA will approach joint oversight of designated

26. www.bankofengland.co.uk/prudential-regulation/publication/2025/april/pra-business-plan-2025-26.
27. www.bankofengland.co.uk/prudential-regulation/publication/2024/june/review-of-solvency-ii-reform-of-the-matching-adjustment-policy-statement.

CTPs. In relation to operational resilience, the PRA continued to work closely with the FCA to assess firms' progress on the expectations set out in SS1/21 – Operational resilience: Impact tolerances for important business services.[28]

The PRA contributed to the Bank's first system-wide exploratory scenario exercise, enhancing its understanding of financial institutions' behaviours during stressed market conditions and identifying some expectation mismatches among market participants. The PRA advanced international thinking on emerging risks including cyber security, crypto asset exposure and climate risk with G7 and European partners.

The enhanced regulatory framework to promote operational resilience, working with deposit takers, and closer engagement with the PRA Practitioner Panel and Insurance Practitioner Panel,[29] also helped to protect customers of regulated firms from disruption to financial services on which they rely.

Other related work

The establishment of the CBA Panel[30] was finalised on 1 August 2024, and since then, the PRA and the Bank have been required to consult it on relevant CBAs.[31] During the reporting period, the CBA Panel has provided feedback on CBAs which are prepared by the PRA and the Bank[32] in accordance with section 138J of FSMA 2000.[33]

The PRA remained committed to transparency and accountability in handling regulatory transactions by publishing regular metrics on the time taken to determine cases, withdrawals, and refusals.

Additionally, the PRA continued to deliver on its Research Agenda in 2024, publishing a total of 37 refereed publications, including 11 Staff Working Papers, on the four PRA research priority themes linked to its statutory objectives.

28. www.bankofengland.co.uk/prudential-regulation/publication/2021/march/operational-resilience-impact-tolerances-for-important-business-services-ss.
29. www.bankofengland.co.uk/prudential-regulation/pra-practitioner-panel.
30. www.bankofengland.co.uk/prudential-regulation/publication/2025/january/cba-panel-report.
31. The CBA Panel is a statutory panel established to provide advice to the PRA and the Bank on the preparation of CBAs. It was established in July 2024 by the PRA in accordance with section 138JA of the FSMA 2023. Since 1 August 2024 the PRA and the Bank have been required to consult the CBA Panel on relevant CBAs. The PRA supports the Panel on an ongoing basis.
32. Section 138J of FSMA is applied to the Bank by schedule 17A of FSMA.
33. www.bankofengland.co.uk/prudential-regulation/publication/2025/january/cba-panel-report.

Review of 2024/25

This section of the report provides more detailed information on the key initiatives undertaken by the PRA to advance its objectives. It also outlines the specific actions implemented to ensure the safety and soundness of the UK's financial system.

Priority 1: Maintain and build on the safety and soundness of the banking and insurance sectors and ensure continuing resilience

Since its launch in 2013, the PRA has implemented extensive reforms that significantly enhanced the safety and soundness of firms, insurance policyholder protection, and overall financial stability. These robust regulatory standards and strong international collaboration have underpinned the resilience of the banking and insurance sectors and their ability to support the wider UK economy, aligning with the objectives of both the PRA and the FPC.

The PRA's role as a rule maker has expanded with the introduction of the FSMA 2023. Consistent with this, the PRA has continued to promote a risk-based approach tailored to the specific features of the UK financial services sector and has implemented international standards in a manner that is appropriate for the UK.

Furthermore, in fulfilling this priority, the PRA monitored and responded to business opportunities and threats from economic changes, addressing risks to the UK's financial stability. Cyber resilience was a key focus due to rising threats from malicious attacks, artificial intelligence and operational incidents.

Implementation of the Basel 3.1 standards

In December 2023 and September 2024, the PRA took a significant step towards implementing the remaining Basel III standards in the UK. The PRA's near-final rules are set out in PS17/23 and PS9/24, which considered responses received to consultation paper (CP) CP16/22, as well as feedback gathered during more than 70 meetings with stakeholders. The near-final rules aim to promote the safety and soundness of PRA-regulated firms and support their international competitiveness by making adjustments using UK evidence, and by making capital ratios more consistent, comparable, and aligned with international standards. Changes to the PRA's accountability framework under FSMA 2023, introducing the SCGO, do not formally apply to the near-final policies and rules in PS17/23 and PS9/24.[34] Nevertheless, competitiveness and growth considerations and alignment with international standards are factors the PRA must 'have regard' to. These factors, alongside the standing of the UK as a place for internationally active firms to operate, were fully considered by the PRA in developing its near-final policy and rules on the Basel 3.1 standards.

The near-final PS took account of responses received to CP16/22[35] and gathered feedback through more than 70 meetings with stakeholders. The near-final rules will promote the safety and soundness of PRA-regulated firms and support their international competitiveness by making the calculation of capital ratios more consistent, comparable, and aligned with international standards.

In January 2025, the PRA announced[36] that the implementation date for the Basel 3.1 standards will move to 1 January 2027, allowing more time for greater clarity to emerge around plans for Basel III implementation in the US. The transitional arrangements contained in the rules will be reduced to three years to ensure that full implementation remains at 1 January 2030, as set out in the original proposals.

Review of the Pillar 2 capital framework

During 2024/25, the PRA continued reviewing and proposed changes to its Pillar 2A methodologies for banks, following the near-final PS on the Basel 3.1 standards rules in September 2024. In the review, the PRA considered how its approach to credit risk Pillar 2A would need to change, including in light of changes made to credit risk Pillar 1 under Basel 3.1.

The PRA also reviewed other changes that could be made to provide additional transparency and guidance for firms, as well as reducing burden in Pillar 2A risk assessment and reporting. The PRA consulted on these changes in May 2025.

Restatement of assimilated law

This subsection covers both the restatement of assimilated law for Solvency II regime and the assimilated Capital Requirements Regulation (CRR).

34. The have regards under which the Basel 3.1 standards consultations were prepared are outlined in FSMA 2000 disapplying the amendments made by FSMA 2023, as provided in the FMSA 2023 (Commencement No. 2 and Transitional Provisions) Regulations 2023, together with the recommendation letter from HM Treasury issued under section 30B of the Bank of England Act 1998.
35. www.bankofengland.co.uk/prudential-regulation/publication/2022/november/implementation-of-the-basel-3-1-standards.
36. www.bankofengland.co.uk/prudential-regulation/publication/2022/november/implementation-of-the-basel-3-1-standards.

FSMA 2023 provides a framework to repeal and replace assimilated law (previously known as retained EU law) relating to financial services. This framework enables assimilated law to be replaced by rules or new legislation tailored to the UK's domestic market model, its regulatory remit, and statutory objectives.

In October 2024, the PRA published CP13/24 – Remainder of CRR: Restatement of assimilated law[37] which included PRA proposals for securitisation capital requirements. This CP built on the feedback received on DP3/23 – Securitisation: capital requirements[38] where stakeholders signalled a preference for policy choices tailored to be relatively more risk-sensitive than Basel standards.

The PRA has consulted on draft rules in CP8/24[39] and CP13/24[40] to replace, with modifications where appropriate, the relevant firm-facing provisions in the CRR.

In November 2024, the PRA published PS15/24 – Review of Solvency II: Restatement of assimilated law[41] which marked the conclusion of the PRA's phased consultation approach to the Solvency II Review and builds on prior PRA publications. These reforms and restatement of assimilated law provide a new regulatory framework for advancing the PRA's primary objectives, and one that is more tailored to the UK insurance market for example through allowing firms to add assets with highly predictable cashflows into their MA portfolios, and streamlining of internal model tests.

The PRA will continue to work closely with HMT and the FCA to prioritise the orderly and phased transition from legislation to the PRA's Rulebook, and to manage the impact of changes on industry, in line with the PRA's primary and secondary objectives.

Operational risk and resilience

The PRA continued supporting regulated firms' implementation of the operational resilience policy through firms' testing of severe but plausible scenarios and remediation to deliver important business services within impact tolerances. The PRA oversaw the response and

37. www.bankofengland.co.uk/prudential-regulation/publication/2024/october/remainder-of-crr-restatement-of-assimilated-law-consultation-paper.
38. www.bankofengland.co.uk/prudential-regulation/publication/2023/october/securitisation-capital-requirements.
39. www.bankofengland.co.uk/prudential-regulation/publication/2024/september/definition-of-capital-consultation-paper.
40. www.bankofengland.co.uk/prudential-regulation/publication/2024/october/remainder-of-crr-restatement-of-assimilated-law-consultation-paper.
41. www.bankofengland.co.uk/prudential-regulation/publication/2024/november/review-of-solvency-ii-restatement-of-assimilated-law-policy-statement.

recovery of firms from operational incidents, including those with a wider impact, such as CrowdStrike,[42] to better understand the lessons learnt.

The PRA assessed the operational resilience of domestic and international banks, providing feedback to the largest banks and insurance firms in advance of 31 March 2025, the deadline by which firms must be able to ensure they can remain within impact tolerances in the event of severe but plausible scenarios.[43]

In assessing their operational resilience, firms have been identifying and mitigating vulnerabilities including cyber and obsolescence and driving multi-year digital transformations programmes. The PRA continued to monitor the alignment of firms' digital transformation programmes with its requirements and expectations.

In addition, the PRA is developing regulatory requirements and expectations on operational incident reporting as set out in CP17/24 – Operational resilience: Operational incident and outsourcing and third-party reporting,[44] setting out requirements in rules and expectations for firms to report operational incidents and their material third-party arrangements. The policy seeks to standardise the reporting of only those operational incidents and third-party arrangements that pose a risk to PRA objectives, ensuring the collection of relevant information at a proportionate cost to firms'.

Collaboration on operational resilience

The PRA continued to develop sectoral resilience through collaboration with other financial authorities (HMT and the FCA) via the Authorities Response Framework[45] to jointly respond to operational incidents impacting the sector.

The PRA has continued to support the development of industry resilience capabilities through the provision of technical input into various industry associations, the Cross Market Operational Resilience Group (CMORG)[46] and its technical subgroups. During the reporting period, the CMORG developed and exercised capability to support the sector's response to major infrastructure failure; developed a playbook to co-ordinate response to sterling settlement postponement; launched best practice for third-party scenario testing; updated the

42. www.crowdstrike.com/.
43. www.prarulebook.co.uk/pra-rules/operational-resilience.
44. www.bankofengland.co.uk/prudential-regulation/publication/2024/december/operational-incident-and-outsourcing-and-third-party-reporting-consultation-paper.
45. www.bankofengland.co.uk/financial-stability/operational-resilience-of-the-financial-sector/co-ordinating-the-response-to-disruption-of-financial-services.
46. www.cmorg.org.uk/.

Sector Response Framework[47] enabling a sectoral response to systemic incidents; and launched a playbook for information sharing in response to a critical third-party vulnerability.

Cyber resilience

The Bank launched the FPC's 2024 Cyber Stress Test and will publish thematic findings in December 2025. The PRA worked to advance international thinking on cyber stress testing and on cyber resilience with G7 and European partners. Alongside the other UK financial authorities, HMT and the FCA, the PRA will continue to co-ordinate with the National Cyber Security Centre (NCSC) to ensure the finance sector benefits from NCSC insights and guidance.

CBEST remains the PRA's flagship tool to assess the cyber resilience of systemically important firms. It is a joint PRA and FCA framework to simulate threat actors' tactics, techniques, and procedures through ethical threat-led penetration testing. The PRA collaborated with other global financial regulators on several cross-jurisdictional assessments. The PRA and the FCA also analysed the outcomes of completed CBEST assessments and published the annual CBEST thematic findings.[48]

As larger organisations strengthen their cyber resilience, threat actors may focus on smaller organisations. The PRA and FCA jointly launched a new assessment tool, Simulated Targeted Attack and Response for Financial Services (STAR-FS)[49] for firms outside the scope of CBEST. STAR-FS follows CBEST's structure and principles, providing a high level of independent assurance.

The PRA reviewed firm Cyber Resilience Questionnaire (CQUEST)[50] cyber resilience questionnaire self-assessments in insurance and international banking.

Critical third parties to the UK financial sector

The PRA recognises that firms increasingly rely on a small number of third parties to support their important business operations. This concentration could create risks to the UK's financial stability.

FSMA 2023 gave HMT the power to designate certain third-party service providers as 'critical' to the financial system of the UK (referred to as CTPs). HMT may exercise its designation

47. www.cmorg.org.uk/news/responding-systemic-incidents-sector-response-framework-srf.
48. www.bankofengland.co.uk/financial-stability/operational-resilience-of-the-financial-sector/2024-cbest-thematic.
49. www.bankofengland.co.uk/-/media/boe/files/financial-stability/star-fs-implementation-guide-march-2024.pdf.
50. www.bankofengland.co.uk/-/media/boe/files/financial-stability/digital-securities-sandbox/cquest-supporting-notes.pdf.

power if, in its opinion, a failure in or disruption to the provision of the services that the third-party provides to firms could threaten the stability of, or confidence in, the UK financial system. The PRA, Bank and FCA are working to identify and recommend potential CTPs to HMT for designation, based on the concentration and materiality of services provided to firms as well as any other drivers of systemic impact.

In November 2024 the PRA, Bank and FCA jointly published a package of documents on the CTP regulatory regime setting out their rules and final policy, guidance and approach to the oversight of CTPs, alongside a memorandum of understanding[51] on how they will co-ordinate the exercise of their powers.

Bank stress testing

The PRA supported the Bank's 2024 desk-based stress test.[52] The results published in November 2024[53] indicated that the UK banking system is well capitalised and asset quality remains strong, with banks' aggregate capital ratios expected to remain above the stress test hurdle rate in both a severe supply and severe shock scenario.[54]

The PRA also supported the Bank's updated approach to stress testing the UK banking system, which will move from an annual to a biennial cycle for the main bank capital stress test from 2025. The PRA contributed to the Bank's first ever system-wide exploratory scenario exercise (SWES).[55] The exercise improved the Bank's understanding of the behaviours of banks and non-bank financial institutions during stressed conditions in core UK financial markets.

The headline results illustrate that actions taken by authorities and market participants following recent stress events, for example during the period of disruption of liability-driven investment funds, have helped increase gilt market resilience and have also highlighted a number of remaining risks and vulnerabilities.

51. **www.gov.uk/government/publications/memorandum-of-understanding-between-the-bank-of-england-fca-and-pra**.
52. **www.bankofengland.co.uk/stress-testing/2024/stress-testing-uk-banking-system-scenarios-2024-desk-based**.
53. **www.bankofengland.co.uk/financial-stability/boe-system-wide-exploratory-scenario-exercise/boe-swes-exercise-final-report**.
54. In which a global shock drives higher inflation and interest rates, and as severe demand shock scenario, in which there is a sharp fall in global activity that results in lower inflation and interest rates.
55. **www.bankofengland.co.uk/financial-stability/boe-system-wide-exploratory-scenario-exercise**.

Private equity and credit

The PRA continued its focus on exposures to non-bank financial institutions, particularly challenges banks face managing risks associated with illiquid private equity financing and private credit.

In April 2024, the PRA published a Dear CRO letter,[56] sharing insights from a thematic review which assessed the adequacy of banks' risk management frameworks relating to these activities. The PRA's review identified a number of thematic gaps in banks' overarching risk management frameworks and requested firms put in place remedial plans to mitigate the issues.

The letter requested banks ensure that their risk management approach is sufficiently comprehensive and robust to control changes to the size and composition of their overall private equity related exposures, in line with requirements in the PRA Rulebook. The letter also asked firms to conduct a benchmarking exercise against the main findings of the letter, to be shared with their board risk committee.

Model risk management (MRM) and internal ratings-based approach/hybrid models

In May 2023, the PRA publication SS1/23 – Model risk management principles for banks,[57] which applies to firms with internal model approval to calculate regulatory capital requirements became effective.

During 2024/25, the PRA performed a review of MRM frameworks across a selection of firms, to understand how they were progressing with implementing the principles in SS1/23. Alongside this firms have continued to implement the IRB model requirements and expectations that came into force in January 2022.

The PRA also continued to engage with firms on their model development and implementation plans. In light of the technically challenging nature of the work and the resource pressures it creates for firms and the PRA, the PRA has continued to review its own approach to assessing IRB models (IRB hybrid mortgage models and the IRB Repair Programme for non-mortgage portfolios) and engage with firms that currently have or are seeking IRB model approval to make sure the PRA's expectations are clear. Several roundtables have been held with industry to clarify expectations and to share common challenges observed in firms' applications.

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56. www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/letter/2024/thematic-review-of-private-equity-related-financing-activities.pdf.
57. www.bankofengland.co.uk/prudential-regulation/publication/2023/may/model-risk-management-principles-for-banks-ss.

The PRA also continued to engage with firms on market risk and counterparty credit risk models, including ongoing assessment of firms' model back-testing outcomes, and the work on model remediation activities. Substantial progress has been made on the review of new Basel 3.1 model applications relating to the standardised approaches for market risk and credit valuation adjustment. In addition, preliminary reviews of key topics relating to the new internal model approach for market risk were completed, with formal feedback provided to firms in advance of applications.

Liquidity risk management for banks

The PRA continues to ensure that firms have sufficient liquidity and stable funding profiles. The PRA uses a regular programme of Liquidity Supervisory Review and Evaluation Processes (L-SREPs) across authorised firms on a proportionate basis to assess their liquidity and funding risks, in quantitative and qualitative terms, and to ensure appropriate financial and non-financial resources are in place to manage and mitigate these risks. This programme is supported by regular reporting from PRA-authorised firms.

The Bank published a discussion paper in 2024 setting out its intention to recalibrate its Indexed Long-Term Repo (ILTR)[58] facility. This is part of the Bank's preparation for the transition to the demand-driven repo-led framework and complements the Bank's existing tools. The ILTR will play a key role in supplying the stock of reserves needed for both financial stability and monetary control purposes.

The PRA published a statement[59] setting out its views on the use of the ILTR as part of firms' routine sterling liquidity management. The PRA will continue to engage with firms and within the wider Bank on PRA-authorised firms' access to the Bank's Sterling Monetary Framework.[60]

Solvency UK implementation

During 2024/25 the PRA completed a major package of reforms to the UK prudential regime for insurers, known previously as Solvency II and now known as Solvency UK. Reforms to the matching adjustment (MA) set out in PS10/24 were published and took effect in June 2024. These reforms facilitate more flexible investment by life insurers while enhancing their responsibility for risk management and are contributing to competitiveness and growth. Reforms to a number of other aspects of Solvency II – including a significant reduction in reporting requirements for many insurers – were published in PS2/24, PS3/24 and PS15/24

58. www.bankofengland.co.uk/paper/2024/dp/transitioning-to-a-repo-led-operating-framework.
59. www.bankofengland.co.uk/prudential-regulation/publication/2024/december/pra-statement-on-iltr-facility.
60. www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/our-tools.

and took effect on 31 December 2024. These reforms also involved the repeal of significant quantities of assimilated law and the transfer of relevant material into the PRA Rulebook.

Under Solvency UK, insurers must seek prior permission from the PRA to use the MA and to vary the scope of their MA permission. The Solvency UK reforms introduced on 30 June 2024 introduced an updated MA application process, an efficient early engagement mechanism – the Application Readiness Assessment Process (ARAP), focused MA application reviews, and a streamlined channel for less complex applications. The PRA established a dedicated MA permissions team to implement these changes.

Between 30 June 2024 and 28 February 2025, the PRA completed seven ARAP reviews for authorised firms, taking an average of 19 working days for each, and receiving positive feedback from industry.

Seven MA application reviews [61] were also completed, all well within the six-month target set by the PRA. For the three streamlined MA applications, the PRA took an average of two months to reach a decision. For the four MA applications reviewed under the standard (non-streamlined) channel, the average time to reach a decision was less than four months.

The PRA also held discussions with industry experts on proposals for a Matching Adjustment Investment Accelerator, which would allow firms in scope to invest in MA-eligible assets prior to applying for a new or modified permission.

Growth in the bulk purchase annuity (BPA) market, including funded reinsurance (Funded Re)

The market for Funded Re continued to develop with UK life insurers routinely transacting with offshore reinsurers as part of their BPA strategy. In line with this, the PRA maintained its strong focus on the potential risks to its objectives posed by growth in the use of Funded Re, which, if not properly controlled, could lead to a rapid build-up of systemic risks within the sector.

In July 2024, the PRA published SS5/24 – Funded reinsurance,[62] which set out expectations for UK life insurers' risk management when holding or entering into funded reinsurance. In its insurance priorities letter[63] for 2025, the PRA explained that, in a number of areas, firms are

61. Solo entities within a group may submit separate MA applications, which are substantively the same. For the purposes of our MA framework reporting, such cases are counted as one application only, to better reflect the review effort involved. This MA framework reporting also excludes those applications which were submitted under the previous regime but decided after 30 June under the new regime.
62. **www.bankofengland.co.uk/prudential-regulation/publication/2024/july/funded-reinsurance-implementation-approach**.
63. **www.bankofengland.co.uk/prudential-regulation/letter/2025/insurance-supervision-2025-priorities**.

not yet fully meeting the expectations in SS5/24 and that firms should prioritise action to address these gaps.

The PRA also supported the FPC's assessment of the potential risks to financial stability from the international growth of funded reinsurance and the vulnerabilities at the intersection of private equity and life insurance.[64] The PRA also continued to play an active role in discussions in international forums, including the IAIS's work on structural shifts in the life insurance sector.

Cyber underwriting risk

As outlined in the 2024 insurance priorities letter,[65] cyber underwriting risk was a thematic priority for the PRA, as cyber (re)insurance exposure continued to grow at a time of increasing geopolitical uncertainty. The PRA concluded its cyber and non-natural catastrophe exposure management thematic reviews, provided feedback and shared aggregate findings with industry. The PRA also finalised the new cyber underwriting risk reporting template as published in PS3/24 and began preparatory work for a future review into the existing cyber underwriting risk expectations set out in SS4/17.[66]

Through this programme of work the PRA has sought to remain proportionate in its firm-specific and thematic supervision while also considering how to evolve its supervision of an increasingly important area. This approach recognises that as an insurance risk, cyber both challenges insurers' risk management and benefits policyholder protection, as a means of risk transfer and access to additional support and specialist services for a growing and evolving area.

Insurance stress testing

Stress testing continues to be a valuable tool for the PRA in pursuing a forward-looking, proportionate, and judgement-based approach to supervising the insurance sector.

The PRA uses regular, concurrent insurance stress testing to assess resilience, help assess the adequacy of firms' risk management and guide supervisory activity. In July 2024, following engagement with the industry, the PRA published its approach to life insurance stress test 2025.[67] The PRA launched the Life Insurance Stress Test[68] in January 2025, with

64. www.bankofengland.co.uk/financial-policy-summary-and-record/2024/november-2024.
65. www.bankofengland.co.uk/prudential-regulation/letter/2024/insurance-supervision-2024-priorities.
66. www.bankofengland.co.uk/prudential-regulation/publication/2017/cyber-insurance-underwriting-risk-ss.
67. www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/publication/2024/approach-to-list-2025.pdf.
68. www.bankofengland.co.uk/prudential-regulation/publication/2024/july/list-2025.

the final results expected to be published in 2025 H2. The PRA will continue engagement with firms and other relevant stakeholders in 2025 in preparation for publication.

The next general insurance stress test will be dynamic[69] in nature and involve simulating a sequential set of adverse events over a short period of time. Over the course of 2024 the PRA undertook development work on the exercise, engaging with industry through a series of workshops, which have influenced the high-level design and timing of the exercise, which is scheduled to take place in May 2026.[70]

Credit risk management in the insurance sector

The PRA continued to assess firms' credit risk management capabilities and seek further assurance on the appropriateness of firms' internal credit assessments, as they expand the range of credit risk assets used to back their annuity liabilities and take advantage of the latest reforms to Solvency UK.

In 2024, the PRA reviewed the management information received by the boards of the largest annuity-writing firms to ensure the appropriateness of firms' investment risk monitoring, in accordance with the PRA's expectations set out in SS1/20 – Solvency II: Prudent Person Principle.[71] The PRA also reviewed firms' risk concentrations with a focus on the wide range of property-related credit exposures.

Following the publication of PS10/24, the PRA continued to assess firms' practices against the new rules and expectations for internal credit assessments. The PRA undertook a review of firms' rating validation frameworks and plans and observed that overall, firms had made progress in developing and formalising their frameworks and observed a range of effective practices. In some cases, further improvements were required which the PRA set out in its feedback to firms.

Enforcement: tackling threats to safety and soundness, and strengthening accountability in PRA-authorised firms

In 2024/25, the PRA oversaw several enforcement investigations into firms and individuals, taking enforcement action against one firm in May 2024. The PRA also consulted on and adopted amendments to its approach to enforcement.

69. www.bankofengland.co.uk/news/2024/december/update-on-the-dynamic-general-insurance-stress-test.
70. www.bankofengland.co.uk/news/2024/december/update-on-the-dynamic-general-insurance-stress-test.
71. www.bankofengland.co.uk/prudential-regulation/publication/2020/solvency-ii-prudent-person-principle-ss.

- In May 2024, the PRA fined Citigroup Global Markets Limited[72] £33,880,000 for failings in its trading systems and controls between April 2018 and May 2022. The firm breached PRA Fundamental Rules 2, 5 and 6, and three of the PRA's Algorithmic Trading Rules. See Box A.

- In November 2024, following consultation, the Bank (including the PRA) published an updated version of its enforcement policy[73] to reflect additional powers granted to it by FSMA 2023 and the Securitisation Regulations 2024. See Box B.

During 2024/25, the PRA also opened four new cases. 'Cases' refer to a common fact pattern and can often encompass more than one 'investigation', to the extent that more than one entity or individual can be under investigation in relation to the relevant matter.

As of 28 February 2025, the enforcement team, which works closely with other relevant authorities, was overseeing seven cases. This included investigations into six firms (five PRA-authorised firms and one parent financial holding company) and six individuals.

The issues and themes encountered across the cases span the full spectrum of the PRA's strategic priorities, including operational risk and resilience, governance and risk management, regulatory reporting, openness and co-operation with the PRA and acting with integrity.

72. www.bankofengland.co.uk/news/2024/may/pra-fines-citygroup-global-markets-limited.
73. www.bankofengland.co.uk/-/media/boe/files/paper/2024/the-bank-of-englands-approach-to-enforcement-statements-of-policy-and-procedure.pdf.

Box A: Citigroup Global Markets Limited

In May 2024, the PRA imposed a financial penalty of £33,880,000 on Citigroup Global Markets Limited (CGML) for failings in its trading systems and controls during the relevant period of investigation, being between 1 April 2018 and 31 May 2022.

CGML agreed to resolve the matter, qualifying it for a 30% reduction in the amount of the financial penalty. Without this reduction, the amount of the financial penalty imposed by the PRA would have been £48,400,000.

The FCA also imposed a financial penalty of £27,766,200 on CGML following an FCA investigation into related matters. The two regulators' investigations, conducted in parallel, resulted in a combined total financial penalty of over £61,600,000.

Throughout the relevant period, CGML received repeated supervisory communication from the PRA on the need to strengthen its trading controls. Notwithstanding this engagement and the remediation work CGML undertook during the relevant period, weaknesses in trading controls persisted.

The PRA expects firms to remediate identified issues promptly and completely. In this case, certain of the issues crystallised into trading incidents, the most significant of these occurring on 2 May 2022. In this instance, an experienced trader incorrectly inputted an order, resulting in US$1.4 billion inadvertently being executed on European exchanges. Deficiencies in CGML's trading controls contributed to this incident, in particular the absence of certain preventative hard blocks and the inappropriate calibration of other controls.

The PRA found that CGML breached the following during the relevant period:

- PRA **Fundamental Rule 2** (a firm must conduct its business with due skill, care and diligence);
- PRA **Fundamental Rule 5** (a firm must have effective risk strategies and risk management systems);
- PRA **Fundamental Rule 6** (a firm must organise and control its affairs responsibly and effectively);

- **Rule 2.1(2) Algorithmic Trading** of the PRA Rulebook (a firm must have in place effective systems and risk controls, suitable to the business it operates, to ensure that its trading systems are subject to appropriate trading thresholds and limits);

- **Rule 2.1(3) Algorithmic Trading** of the PRA Rulebook (a firm must have in place effective systems and risk controls, suitable to the business it operates, to prevent the sending of erroneous orders, or the systems otherwise functioning in a way that may create or contribute to a disorderly market); and

- **Rule 2.2(2) Algorithmic Trading** of the PRA Rulebook (a firm must ensure that its systems are fully tested and properly monitored to ensure they meet the requirements of Rule 2.1 Algorithmic Trading of the PRA Rulebook).

This was the first PRA enforcement action to involve a breach of the Algorithmic Trading Rules.

Full details are available in the PRA's Final Notice to CGML.[74]

74. www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/regulatory-action/final-notice-from-boe-and-pra-to-citigroup-global-markets-limited.pdf.

Box B: The PRA's updated approach to enforcement

In November 2024, following a three-month consultation, the Bank published a policy statement[75] setting out the revised approach to enforcement[76] across the Bank's full remit (including when acting as the PRA).

The changes reflect additional enforcement powers granted to the Bank (including the PRA) under FSMA 2023 and the Securitisation Regulations 2024 (the Regulations).

- FSMA 2023 created a new regime under which each of the Bank, the PRA and the FCA is a regulator overseeing the services provided by CTPs to the UK financial services sector. Entities are designated as CTPs by HMT. The PRA's (and the Bank's) statements of policy with respect to the exercise of its enforcement powers in relation to CTPs, which include public censures and restrictions or prohibitions on a CTP's services, are set out in a new Annex 4 to the Bank's revised approach to enforcement.

- The Regulations contain enforcement powers for the PRA in respect of persons not authorised by the PRA, and who act as an originator, sponsor or securitisation special purpose entity for the purposes of the Regulations, and in respect of individuals involved in securitisation activities. The PRA's enforcement powers under the Regulations include, among other things, a power for the PRA to impose temporary prohibitions on individuals, prohibiting them from holding an office or position involving responsibility for taking decisions about the management of an originator, sponsor or securitisation special purpose entity. The Regulations also contain a power for the PRA to impose financial penalties on individuals and persons not authorised by the PRA. The PRA's statements of policy in respect of its powers under the Regulations are set out in Annex 1 to the Bank's revised approach to enforcement.

75. www.bankofengland.co.uk/paper/2024/policy-statement/the-bank-of-englands-approach-to-enforcement-changes-to-sop-and-procedure-following-the-fsma-2023.
76. www.bankofengland.co.uk/-/media/boe/files/paper/2024/the-bank-of-englands-approach-to-enforcement-statements-of-policy-and-procedure.pdf.

Priority 2: Be at the forefront of identifying new and emerging risks, and developing international policy

The PRA maintained flexibility to adapt and respond to changes in the external environment, economic and market developments, and other risks affecting its statutory objectives. The horizon-scanning programme was used to:

- identify emerging external risks, unintended consequences of regulations, and potentially dangerous practices;
- highlight features of the regulatory regime that were not delivering the desired results;
- be alert to the emergence of risks to financial stability originating outside the bank (non-bank systems) and insurance sectors, working alongside colleagues in the Bank; and
- allocate supervisory and policy resources to tackle the highest-priority risks in a timely manner.

Consistent with its mission, the PRA continued to contribute to sharing insights internationally, including engaging closely with the BCBS and the IAIS to support ongoing work aimed at identifying and addressing emerging risks.

The PRA has advanced its objectives by responding faster to emerging risks and opportunities, such as those arising from digitalisation. For example, the PRA continued to work with the global regulatory community on identifying and addressing emerging risks from cryptoassets, and helped finalise the international standard on the treatment of banks' cryptoasset exposures. Also, the PRA continued to consider the risks to financial stability from the non-bank sector.

Artificial intelligence and machine learning

In 2024/25, the PRA held a pilot roundtable on innovation[77] and published its third survey on artificial intelligence and machine learning[78] jointly with the FCA, to explore ways to continue to support safe technological innovations and review evolving risks to the UK regulatory framework.

77. www.bankofengland.co.uk/events/2024/july/pra-pilot-roundtable-on-innovation.
78. www.bankofengland.co.uk/report/2024/artificial-intelligence-in-uk-financial-services-2024.

Overseas bank branches

In 2024, the PRA consulted on targeted refinements to its approach to banks branching[79] into the UK, reflecting lessons learnt from the failure of Silicon Valley Bank to ensure the PRA's framework for assessing branches captures activities of potential concern. Updates to the approach will be finalised in 2025 Q2. The consultation also covered clarifications to expectations for booking arrangements and liquidity reporting for branches.

The PRA is committed to the UK remaining a responsibly open jurisdiction for branches and expects the vast majority of branch business to be unaffected.

Managing the financial risks arising from climate change

During 2024/25, the PRA maintained its risk-based supervision of the management of climate-related financial risks and continued to assess firms' practices against the expectations set out in SS3/19. Firms' approaches to managing climate-related financial risks have advanced, but there is still considerable work needed particularly on scenario analysis and risk management. In 2025, the PRA also commenced work to update its supervisory expectations with the aim of reinforcing and clarifying the outcomes expected of firms.

This included publication of the PRA's Climate Change Adaptation Report 2025,[80] which summarised the steps taken by banks and insurers since 2021 to respond to the impacts of climate change, how PRA regulatory work has evolved during that period and future areas of focus.

The PRA continued to promote high-quality and consistent accounting for climate risks and provided thematic feedback to Chief Financial Officers on observed practices and areas of focus for 2025. This included enhancing climate-related credit risk assessments, developing more granular approaches to quantify the impact of climate-related expected credit loss (ECL) risk drivers and adapting economic scenarios to capture climate risk impacts.

Digital money and innovation

During 2024/25, the PRA continued to work with the global regulatory community on identifying and addressing emerging risks from crypto assets, and helped finalise the international standard on the treatment of banks' cryptoasset exposures.[81] The latest version of the international standard was published by the BCBS in July 2024. Since then, the PRA

79. www.bankofengland.co.uk/prudential-regulation/publication/2024/july/updates-to-ss521-and-branch-reporting-consultation-paper.
80. www.bankofengland.co.uk/prudential-regulation/publication/2025/january/pra-climate-change-adaptation-report-2025.
81. www.bis.org/press/p240703.htm.

has begun work to implement the standard in the UK and continued to engage with international partners on assessing risks from crypto assets.

International engagement and influencing regulatory standards

The broad policy framework for supervising banks and insurance firms is agreed internationally. Given the UK's position as a global financial hub, there are circumstances where the PRA's statutory objectives are most effectively advanced through international standards and promoting their consistent implementation.

During 2024/25, the PRA contributed to the activities of the BCBS with analytical work following overseas bank failures in March 2023. This included initiatives to strengthen supervisory effectiveness and assess whether specific features of the Basel Framework performed as intended during the failures. The BCBS published a progress report in October 2024.[82]

The PRA engaged closely with the BCBS to support ongoing work aimed at identifying and addressing emerging risks. Key outputs included an update to the Committee's Core Principles for effective banking supervision;[83] a consultation on Principles for the sound management of third-party risk;[84] and guidelines for counterparty credit risk management.[85]

The PRA also engaged closely with the IAIS to finalise the Insurance Capital Standard (ICS)[86] and the Insurance Core Principles for, among others, insurers' exit from the market and resolution (ICP 12), balance sheet valuation (ICP 14) and capital adequacy (ICP 17), all of which were adopted by the IAIS in December 2024.

Senior PRA officials also engaged in bilateral exchanges and regulatory dialogues with key counterparts in other jurisdictions, as well as in other international fora such as the Financial Stability Board (FSB).[87]

82. www.bis.org/bcbs/publ/d582.htm.
83. www.bis.org/bcbs/publ/d573.htm.
84. www.bis.org/bcbs/publ/d577.htm.
85. www.bis.org/bcbs/publ/d588.htm.
86. www.iais.org/2024/12/iais-adopts-insurance-capital-standard-and-other-enhancements-to-its-global-standards-to-promote-a-resilient-insurance-sector/.
87. www.fsb.org/.

Priority 3: Support competitive and dynamic markets, alongside facilitating international competitiveness and growth, in the sectors that we regulate

The PRA advances its primary and secondary statutory objectives through regulation to support competitive and dynamic markets, alongside facilitating international competitiveness and growth in the sectors that it regulates.

Over the last year, the PRA has made significant progress on ongoing policy reforms, and it has initiated new policy reforms which have a material impact on both its secondary objectives. These initiatives are anchored in the PRA's three regulatory foundations of prudential policymaking. These are unchanged from the first SCGO and SCO report a year ago:

- maintaining trust among domestic and foreign firms in the PRA and the UK prudential framework;
- adopting effective regulatory processes and engagement; and
- taking a responsive and responsibly open approach to UK risks and opportunities.

These foundations are the main areas of direct action the PRA can take to activate the three transmission channels through which the PRA can facilitate competitiveness and growth. The channels are:

- capital allocation;
- ability to sell; and
- ability to attract.

Finalisation and implementation of the strong and simple framework for small domestic deposit takers (SDDTs)

The PRA's strong and simple[88] initiative seeks to simplify the prudential framework for small, domesticfocused banks and building societies, while maintaining their resilience. The aim of Strong and Simple is to provide a framework that allows these firms to meet prudential standards in a simpler, more proportionate, and therefore lower-cost way, without diluting those standards.

88. www.bankofengland.co.uk/prudential-regulation/strong-and-simple.

The strong and simple framework supports the PRA's primary objective by maintaining firm resilience. It also advances the secondary competition objective by reducing costs for small, domestic-focused firms, and the secondary competitiveness and growth objective by enhancing the risk sensitivity of prudential regulation. This effective competition will boost the banking sector's efficiency and productivity, while facilitating the growth of the UK's economy.

In July 2024, the PRA implemented simplifications to liquidity requirements for Small Domestic Deposit Takers (SDDTs). In September 2024, the PRA published proposals for a simplified capital regime and additional liquidity simplifications for SDDTs. The proposals included simplifications to all elements of the capital stack, including Pillar 1, Pillar 2A and buffers, simplifications to the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP), and simplifications to the calculation of regulatory capital and reporting. The consultation included proposals for how the PRA would implement the simplified capital regime.

In November 2024, the PRA published the rules enabling entities eligible to be SDDTs to join the Interim Capital Regime, which means these entities do not have to apply the Basel 3.1 standards before the implementation of the SDDT capital regime.

In 2024/25, the PRA issued 37 SDDT modifications and nine SDDT consolidation entity modifications. This meant 15 banks and 22 building societies joined the SDDT regime.

Insurance Special Purpose Vehicles regime (ISPV)

Following discussions with industry, including via a subject expert group, the PRA published CP15/24 – Proposed changes to the UK Insurance Special Purpose Vehicles (UK ISPV)[89] regulatory framework in November 2024.

In CP15/24, the PRA proposed changes to the UK's regulatory framework on ISPVs to help create a more competitive and dynamic ISPV regime in the UK. By making it easier for firms to set up UK ISPVs, these changes would also facilitate the UK's international competitiveness and growth in the Insurance Linked Securities (ILS) market.

The PRA's proposed reforms would also allow for a wider range of current market practices and structures to be undertaken in the UK, streamline the application process (including expediting the authorisation timelines for some ISPVs, such as certain catastrophe bonds) and reduce the cost for applicants. These enhancements could result in the UK being a more appealing location for ISPVs and strengthen the UK's attractiveness as a global financial centre.

89. www.bankofengland.co.uk/prudential-regulation/publication/2024/november/uk-ispv-regulatory-framework-consultation-paper.

The consultation explained the PRA's assessment that this could encourage more ILS deals in the UK, and thereby increase the diversification of available capital for PRA regulated (re)insurers. Such a result would promote the PRA's primary objective of safety and soundness. Additionally, it would facilitate the PRA's secondary objectives by facilitating effective competition and the international competitiveness of the UK economy and its growth in the medium to long term.

The consultation on changes to the UK ISPV framework has now closed and the PRA is now assessing the responses received. The PRA intends to issue its final policy in 2025 H2.

Remuneration reforms

In November 2024, the PRA, alongside the FCA published a package of proposed changes to make the remuneration regime for banks, building societies and PRA-designated investment firms more effective and proportionate. These proposals include reducing the number of Material Risk Takers (MRTs), simplifying the identification process for MRTs, reducing the deferral periods that some senior staff are currently subject to, and ensuring that bonuses better reflect risk-taking outcomes and responsibilities.

These changes are designed to ensure appropriate accountability for risk-taking supporting safety and soundness, and to enhance firms' ability to attract and retain talent enhancing the competitiveness and growth of the UK economy. These proposals will also simplify the framework, reducing compliance costs, particularly for smaller firms, supporting the PRA's secondary competition objective.

Implementing changes to the Senior Managers & Certification Regime (SM&CR)

The SM&CR aims to ensure individual accountability within all PRA-regulated firms, with a view to supporting good governance and risk management.

The PRA, alongside the FCA and HMT, has reviewed the SM&CR and identified a number of areas, subject to consultation to improve the clarity, efficiency, and proportionality of the regime. This is expected to support the UK's competitiveness and growth while preserving the underlying aims of the regime.

The PRA's review included additional stakeholder engagement alongside the responses received as part of DP1/23 – Review of the Senior Managers and Certification Regime (SM&CR)[90] to help inform the proposals. The PRA also undertook additional industry

90. www.bankofengland.co.uk/prudential-regulation/publication/2023/march/review-of-the-senior-managers-and-certification-regime.

engagement aimed at supporting firms to improve the quality of their applications, thereby benefiting their overall experience and the efficiency of the regime.

Complete the establishment of the Cost Benefit Analysis (CBA) Panel

One of the key elements in enhancing the PRA's scrutiny and accountability mechanisms, under FSMA 2023, was its approach to CBA and the establishment of a new CBA Panel.[91] In August 2024, the PRA finalised the set-up of the CBA Panel. Since then, the PRA and the Bank have been required to consult it on relevant CBAs.

The role of the CBA Panel is to support increased transparency and scrutiny of the PRA's policymaking by providing regular, independent input into the PRA's CBAs relating to PRA rules. The Panel also keeps under review how the PRA is performing more generally in carrying out its duties with regard to CBA. In line with its published approach on Panel Appointments,[92] the PRA completed an open, competitive, and rigorous recruitment process for identifying and appointing a diverse range of expert individuals to constitute the CBA Panel.

In December 2024, the PRA published its CBA framework,[93] which sets out how the PRA intends to continue to conduct robust CBA and how it engages with the CBA panel. The CBA framework incorporated feedback from the CBA Panel and the PRA welcomed feedback from the public.

Between 1 July 2024 and 28 February 2025, the CBA Panel met six times. During its inaugural meeting, the Panel reviewed nine CBAs which involved the PRA. The Panel's first Annual Report,[94] published in December 2024, provides details of its activities up to 31 October 2024. Coverage of the period from 1 November 2024 to 28 February 2025 is available in the second edition of the CBA Panel Annual Report – 2025.

Ease of entry and exit

Ease of exit is a vital corollary to greater ease of entry into UK markets. It enables a dynamic and competitive market which entrants can join and leave with minimal impact on the wider market and the PRA's statutory objectives.

The PRA finalised its solvent exit policy for both banks and insurers during the year. These policies are designed to increase confidence that firms can exit the market while solvent, and

91. www.bankofengland.co.uk/prudential-regulation/cost-benefit-analysis-panel.
92. www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/approach/panel-appointments-sop.pdf.
93. www.bankofengland.co.uk/prudential-regulation/publication/2024/december/pra-approach-to-cost-benefit-analysis-statement-of-policy.
94. www.bankofengland.co.uk/prudential-regulation/publication/2025/january/cba-panel-report.

in an orderly way, without having to rely on the backstop of an insolvency or resolution process. The PRA's ease of exit policy for banks is set out in PS5/24 – Solvent exit planning for non-systemic banks and building societies[95] and will come into force on 1 October 2025. The policy for insurance is set out in PS20/24 – Solvent exit planning for insurers[96] and will come into force on 30 June 2026. In the lead up to implementation the PRA will be updating its internal processes and will continue to engage with relevant firms and industry bodies to support firms' preparations before the rules and policies come into force.

Effective authorisation processes

Maintaining a high level of regulatory operational effectiveness in authorisations plays an important part in the UK's success as a global financial hub.

The PRA remains committed to transparency and accountability in its handling of regulatory transactions through the publication of regular metrics on the time taken to determine cases, withdrawals and refusals. The PRA has maintained timely determination of applications under the SM&CR, with 99.9% of cases completed within the three-month service standard over the period March 2024 to March 2025. The median time to determine a case has reduced from 61 days in the 2023/24 reporting period[97] to 60 days in the 2024/25 reporting period. Further work to improve case handling is set out in the 'effective authorisation processes'[98] section of the PRA Business Plan 2025/26.

In 2024/25, the PRA authorised five new insurers and five new banks, compared with eight new insurers and three new banks in 2023/24. This brings the total number of new UK insurers authorised since the creation of the PRA to 60, and the total number of new banks to 80, of which 40 are brand new or de novo UK banks. In addition, eight Credit Unions have been authorised since the creation of the PRA.

The PRA approved 1,120 applications for senior management functions, and 51 changes in control of authorised firms. The PRA dealt with 225 variations and cancellations of Part 4A permissions,[99] and 879 applications relating to waivers and modifications of PRA rules, and to permissions regarding models, capital exposures, and other issues.

95. www.bankofengland.co.uk/prudential-regulation/publication/2024/march/solvent-exit-planning-for-non-systemic-banks-and-building-societies-policy-statement.
96. www.bankofengland.co.uk/prudential-regulation/publication/2024/december/solvent-exit-planning-for-insurers-policy-statement.
97. www.bankofengland.co.uk/prudential-regulation/authorisations.
98. www.bankofengland.co.uk/prudential-regulation/publication/2025/april/pra-business-plan-2025.
99. Part 4A of FSMA sets out the requirements of variations of permissions and the threshold conditions which must be met at authorisation of the activity and on an ongoing basis.

Priority 4: Run an inclusive, efficient, and modern regulator within the central bank

The PRA considers that inclusive, efficient regulation, including regulatory transactions, benefits both regulated firms and the broader economy in a number of areas. Streamlined processes reduce unnecessary burden and facilitate smoother interactions between the industry and the PRA. During 2024/25, the PRA sought to improve the operational efficiency of its infrastructure and improve its productivity.

The PRA continued to focus on its approach to proactive engagement with firms and other relevant stakeholders, including using industry roundtables and feedback from its yearly firm feedback survey to improve interactions and adapt to changes in its operating environment.

Furthermore, the PRA advanced initiatives to promote employees' ability to voice their opinions in an open way, ethnic and gender representation, and disability inclusion.

Data and technology

The PRA has continued to make progress in strengthening and transforming its data-related capabilities via phased investment in tools, processes, and skills to support the effectiveness of advanced analytics that support supervision activities. Key highlights include:

- a multi-year programme to create a new supervisory platform to support more data-driven supervision decision-making;
- a productivity drive, piloting AI tools for individual and business driven productivity; and
- supporting PRA colleagues to increase awareness about the impact of technological advances and initiatives across the financial sector.

To make the most of these developments, PRA staff have continued to benefit from an updated digital skills programme. In addition, the PRA has streamlined its data governance, merging several committees together.

Diversity, equity and inclusion at the PRA

The PRA has continued to progress the implementation of the recommendations made in the Bank's Court Review of Ethnic Diversity. The action plan aims to support equality of opportunities through inclusive recruitment and talent support and development to improve ethnic and gender representation.

During 2024/25, the PRA progressed work on initiatives to promote employees' ability to voice their opinions in an open way, ethnic and gender representation, and disability inclusion.

For more details on PRA representation targets and progress made so far, please refer to the Diversity, equity and inclusion section of the Bank's Annual Report and Accounts.

PRA research activities

The PRA continued to deliver on its research agenda in 2024. The Bank published a total of 37 refereed publications (including 11 as Staff Working Papers)[100] on the four PRA research priority themes (Table A), with 17 of those produced by researchers in the PRA.[101] A significant proportion of the published research contributed to a better understanding of the bank capital regime (theme 1) and the PRA's secondary objectives (theme 2). 25% (or nine) of the papers were published in Outstanding and Excellent journals, indicating the top-tier external scrutiny and the high academic standard of the publications.[102] In addition, three Bank Underground posts[103] were published on research related to the PRA's agenda. Research was also presented to senior PRA staff and committee members and fed directly into policy discussions.

The PRA has continued to invest in its external research leadership, engagement and collaboration. PRA researchers delivered 40 external academic presentations, organised six major internal and external research events, and won a number of research prizes and awards. The PRA with international institutions such as the BCBS, The European Money and Finance Forum,[104] and other central banks including the Bank of Canada and the ECB. Furthermore, during 2024/25, researchers engaged with eleven universities located across the UK, the US, Spain, Czechia, and China. For more details, please refer to the PRA's 2024 Research Annual.

100. www.bankofengland.co.uk/working-paper/staff-working-papers.
101. A full list of publications are available at the PRA Research Annual.
102. Outstanding and Excellent ratings are based on the CABS academic ranking at https://charteredabs.org/academic-journal-guide.
103. https://bankunderground.co.uk/.
104. www.suerf.org/.

Table A: PRA research agenda 2023+

Priority theme	Focus and questions
Capital and complexity	Balance of minimum requirements and capital buffers (modelling). Capital framework complexity (impact on funding costs). Effective and efficient capital conservation (costs for bank funding and benefits for lending). Usability of capital buffers (impact of MDAs on incentives to use buffers). Impact of Basel 3.1 on wholesale activity/financial market intermediation (empirical). Operating capital buffers during stress periods.
Competition, Competitiveness and Growth	Barriers to entry in banking and insurance, and implications for fintech and financial stability. How can effective competition in banking and insurance support the rest of the economy (ie efficiency of capital allocation). Measuring contribution of financial services sector to GDP and growth. Impact of prudential regulation on success of a global financial centre.
Insurance	Optimal capital (firm behaviour): effect of regulation on capital buffers, price/supply, asset allocation and risk of failure. Optimal capital (insurance and financial market outcomes): effect of regulation on the supply of risk transfer and finance. Optimal capital (real economy): effect of regulation on consumption (smoothing), investment and crises. Specific risks to the prudential framework (eg annuity valuation without government intervention that have benefited credit markets, insurers' exposure to liquidity risk, climate risk).
Climate	Macroprudential (green) framework. Modelling and measuring climate risk. Insurance and climate risk. Other fundamental modelling aspects in climate.

Risks to the delivery of the PRA Business Plan, unforeseen events, and execution risk

The PRA continually needs to respond to emerging risks to the delivery of its business plan from the changing external environment, such as geopolitical tension and cyber risks, and regularly reprioritises accordingly including via its responsive and dynamic approach to firm supervision.

Internally, the PRA has continued work to mitigate its operational risks: through a portfolio of PRA-related technology projects, though as noted earlier in the report the Bank's wider work to address obsolescence and modernise its wider technology estate including critical infrastructure supporting the PRA has had an impact on the delivery of PRA specific projects; through work on colleague training and development to continue to support recent joiners and ensure retention of key skills and knowledge; and through work specifically in 2024/25 to enhance its scenario-planning activities to test its organisational response to unforeseen events.

Measuring progress

In 2024/25, the PRA continued to monitor the progress of delivery against its statutory objectives, strategy, and business plan. The PRC, the Supervision Risk and Policy Committee (SRPC), and the Operations, People, and Innovation Committee (OPIC) regularly received information on both quantitative and qualitative measures and indicators to assess delivery against the PRA's strategy, business plan, statutory objectives, and risk tolerances. This enabled the PRC to report to the Chancellor of the Exchequer on supervisory processes and outcomes.

Effective and regular co-ordination with the FCA

The PRA continues to co-ordinate effectively with the FCA, across a wide range of policy and supervisory matters. This included the publication of the updated Bank of England and Financial Conduct Authority Memorandum of Understanding (MoU).[105] The MoU was updated to reflect changes made by FSMA 2023 and to improve some co-ordination processes.

Co-ordination between the PRA and FCA enforcement areas also continues to work well, with regular meetings to ensure that a co-ordinated approach is taken to the opening and progress of investigations and proposed enforcement actions.

PRA and FCA authorisations teams have continued to work together effectively, to improve the timeliness of decision-making.

105. www.bankofengland.co.uk/prudential-regulation/publication/2024/april/update-on-the-boe-and-fca-mou.

Co-ordination on the oversight of the FSCS was positive with close engagement on the recent appointments of the FSCS Chair and CEO. Co-ordination has also been effective on policy matters including:

- publication of PRA PS17/24 – Occasional consultation paper[106] regarding FSCS protection for Bulk Purchase Annuities;
- publication of PS16/24 – Operational resilience: Critical third parties to the UK financial sector;[107]
- publication of PS18/24 – Supervisory statement – Prudential assessment of acquisitions and increases in control;[108] and
- artificial intelligence in UK financial services – 2024,[109] regarding the use of AI in UK financial services by firms regulated by the PRA and FCA.

Firm feedback

The PRA seeks input from firms on the effectiveness and quality of its supervisory framework and approach. One way is through the annual firm feedback exercise, conducted by a PRA team independent of frontline supervision.

The PRA values firms' participation in the survey. As the regulatory landscape evolves, it seeks to understand both what firms think works well and what might be done differently. Through the survey, PRA-authorised firms offered their feedback on a range of topics, including:

- the PRA's understanding of firms;
- firms' understanding of the PRA's regulatory objectives and expectations;
- the level of challenge to firms;
- the effectiveness of the PRA's relationship with firms;

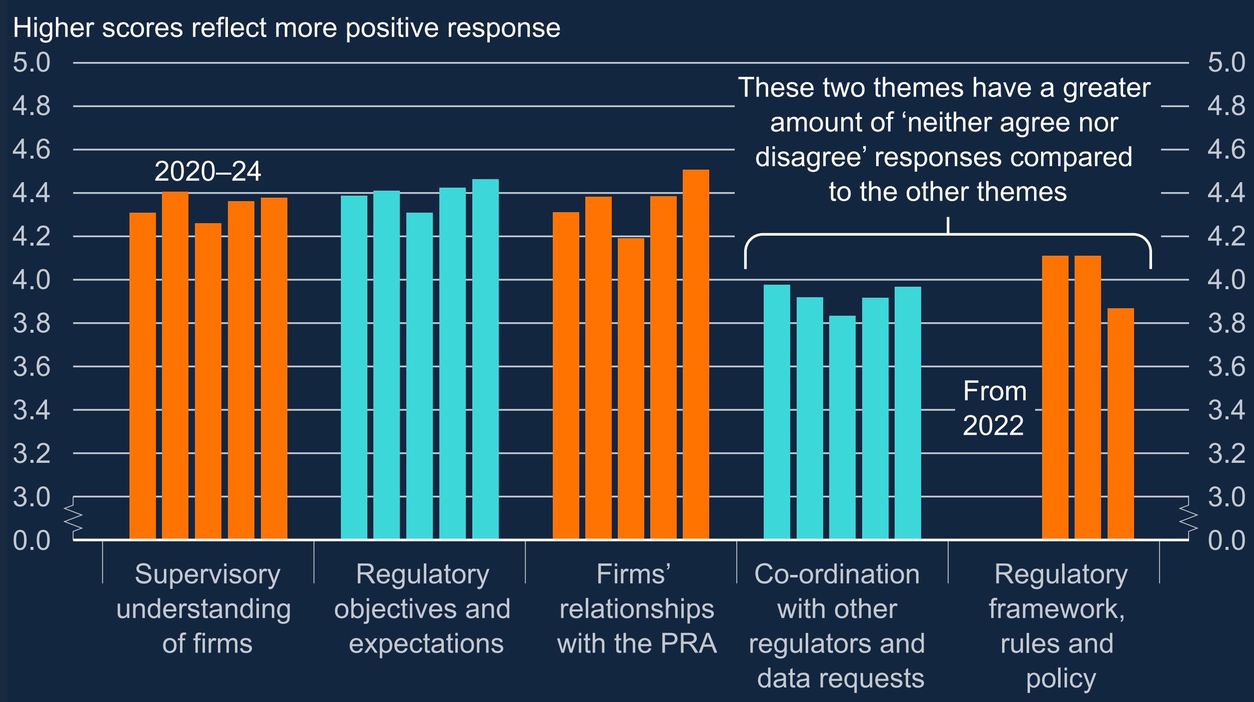
106. www.bankofengland.co.uk/prudential-regulation/publication/2024/october/responses-to-cp624-ocp-policy-statement.
107. www.bankofengland.co.uk/prudential-regulation/publication/2024/november/operational-resilience-critical-third-parties-to-the-uk-financial-sector-policy-statement.
108. www.bankofengland.co.uk/prudential-regulation/publication/2024/november/prudential-assessment-of-acquisitions-and-increases-in-control-policy-statement.
109. www.bankofengland.co.uk/report/2024/artificial-intelligence-in-uk-financial-services-2024.

- co-ordination with other regulators and data requests; and
- the clarity and accessibility of prudential policy, rules, and requirements.

To better understand firms' views of how the PRA has responded to recent policy developments, the 2024 survey also asked for views on the PRA's secondary competitiveness and growth objective and cost benefit analysis. These questions will also be included in future surveys.

303 firms responded to the survey. The chart below summarises scores by theme and compares them to those for earlier years. Fuller data is available on the Bank's website.

Chart 1: Average scores from 2020 to 2024 by theme



Although care should be taken with year-on-year comparisons given changes in sample size and composition, average scores were higher than in 2023 for four of the five thematic groupings, suggesting firms continue to hold positive views about the PRA.

Firms gave the most positive scores for the quality of their relationship with the PRA. Commentary welcomed improvements in permissions processing times, which was an issue highlighted by firms in the 2023 and earlier surveys. There were also more positive comments on the accessibility of the PRA Rulebook (an issue raised by firms in the 2023 survey) following the launch of the updated version in April 2024.

The lowest scores are related to the PRA's regulatory framework, rules and policy. Follow-up discussions with firms suggest that many have yet to form a clear view of the PRA's approach to the SCGO and CBA.

Several themes in this year's survey, including co-ordination with other financial regulators and the continuing desire for a proportionate approach to supervision, have been raised in previous years. The PRA will continue to explore what more can be done to address these issues in the coming year.

Parliamentary accountability

The PRA's objectives are set by Parliament. Accountability to Parliament is taken very seriously and representatives of the PRA aim to account for its decisions as transparently and clearly as possible. Between 1 March 2024 and 28 February 2025, PRA representatives appeared at the following parliamentary committee hearing:

- 8 January 2025 – Financial Services and Regulation Committee hearing as part of the committee's inquiry into the PRA's secondary competitiveness and growth objective with Sam Woods and David Bailey.

In line with a new provision introduced by FSMA 2023, during the year, the PRA sent 17 CPs to the TSC and FSRC (copying the other committees such as the House of Lords' Industry and Regulators Committee, and the Lords' Economic Affairs Committee) with a summary:

- highlighting how the proposals advance the PRA's objectives; demonstrating that the PRA has had regard to the regulatory principles in section 3B FSMA when preparing the proposals; and

- engaging with any matters to which the PRA must have regard under section 138EA FSMA.

PRA executives have also engaged with parliamentarians outside of parliamentary committees, holding briefings and correspondence with parliamentarians on PRA policy. The PRA is committed to carrying out its policymaking role in a transparent way, and to help to facilitate scrutiny by Parliament in any other way.

Communications supporting the PRA's objectives

Communication with industry and other stakeholders is an essential part of delivering the PRA's statutory objectives. The PRA communications area covers a wide range of policy and non-policy publications, including discussion papers, consultation papers, policy statements, supervisory statements, statements of policy, speeches, and letters to firms.

In 2024/25, the PRA Communications team supported the PRA's policy publications referred to in the earlier sections of this Annual Report. These included:

Categories	Number
Consultation papers	16
Policy statements	19
New supervisory statements	10
Amended supervisory statements	70
New statements of policy	7
Amended statements of policy	11
PRA statements on a range of topics	8
Letters to firms	11
PRA reports	7
Speeches by PRA senior leaders	9

Policy publications are available on the policy page.[110]

110. www.bankofengland.co.uk/prudential-regulation/policy.

Complying with FSMA

This section covers a number of issues that the PRA considers when carrying out its duties and other areas on which it reports.

These include:

- complying with FSMA;[111]
- complying with the regulators' code and principles;
- the PRA's complaints scheme;
- details of how the PRA has used the provisions of section 166 of FSMA; and
- sections 339A and 339B of FSMA relating to firms' auditors.

Complying with FSMA

In discharging its general functions during the reporting period, the PRA was required, in as far as was reasonably possible, to: (i) act in a way that advances its general objective to promote the safety and soundness of PRA-authorised persons; and (ii) specifically for insurers, act in a way that is compatible with its general objective and with its insurance objective to contribute to the securing of an appropriate degree of protection for those who are, or may become, policyholders (sections 2B and 2C of FSMA). This Report sets out how the PRA has discharged its general functions and the extent to which, in its opinion, the objectives have been advanced. Section 3B of FSMA sets out a number of regulatory principles to which the PRA must have regard (under section 2H(2) of FSMA) in discharging its general functions. These are:

- the need to use the PRA's resources in the most efficient and economical way;
- the principle that a burden or restriction which is imposed on a person, or on the carrying on of an activity, should be proportionate to the benefits, considered in general terms, which are expected to result from the imposition of that burden or restriction;

111. Certain requirements added by FSMA 2023 have been considered but no relevant regulations or policy statement have yet been made by HM Treasury – paragraphs 19(1)(ea) and (fb) of schedule 1ZB FSMA.

- the desirability of sustainable growth in the UK economy over the medium or long term. As of 29 August 2023, this regulatory principle was substituted [112] by the need to contribute towards achieving compliance by the Secretary of State with section 1 of the Climate Change Act 2008 (UK net zero emissions target), where the PRA considers the exercise of its functions to be relevant to the making of such a contribution;[113]

- the general principle that consumers should take responsibility for their decisions;

- the responsibilities of the senior management of persons subject to requirements imposed by or under FSMA, including those affecting consumers, in relation to compliance with those requirements;

- the desirability, where appropriate, of the PRA exercising its functions in a way that recognises differences in the nature of, and objectives of, businesses carried on by different persons (including different kinds of persons such as mutual societies and other kinds of business organisation) subject to requirements imposed by or under FSMA;

- the desirability in appropriate cases of publishing information relating to persons on whom requirements are imposed by or under FSMA, or requiring such persons to publish information, as a means of contributing to the advancement by the PRA of its objectives; and

- the principle that the PRA should exercise its functions as transparently as possible.

The PRA has taken these principles into consideration when discharging its general functions, including when making policy.

Furthermore, when discharging its general functions in a way that advances its objectives during the reporting period, the PRA was required, so far as was reasonably possible, to act in a way that: (i) facilitated effective competition in the markets for services provided by PRA-authorised persons in carrying on regulated activities; and (ii) facilitated the international competitiveness of the UK economy (including in particular the financial services sector through the contribution of PRA-authorised persons) and its growth in the medium to long term, subject to aligning with relevant international standards (section 2H(1) of FSMA). There are several examples in the SCGO Report[114] of how this requirement was met.

112. Except in connection with the proposals in CP16/22.
113. FSMA 2023 also introduced a requirement to consider section 5 of the Environment Act 2021. However, this requirement is not yet in force.
114. www.bankofengland.co.uk/prudential-regulation/publication/2025/june/pra-secondary-competitiveness-and-growth-objectives-report-2024-25.

Details of how the PRA has met its duty to consult (under section 2L of FSMA), how it considered any representations made (under section 2N of FSMA), and how it engages with firms more generally can be found in the review portion of this Report provided above. These arrangements include the establishment and maintenance of the PRA Practitioner Panel[115] and the Insurance Practitioner Panel (the Panel) under section 2M of FSMA. The PRA is required to report on how the PRA has complied with the statement of policy on panel appointments prepared under section 2NA, including the process for making appointments and the matters considered in determining appointments.

The PRA Practitioner Panel met six times in 2024/25, providing input at different stages of policy development – from early-stage policy development to practical insights to implementation. The Panel provided feedback to the PRA and the Bank on topics such as the Strong and Simple framework, the implementation of the Basel 3.1 standards in the UK, the review of the Senior Manager Certification Regime, and the policy approach to critical third parties.

The PRA Insurance Practitioner Panel (IPP) met three times during the 2024/25 reporting period. The IPP provided feedback to the PRA on topics such as the PRA's stress testing for the insurance sector, Insurance Ease of Exit, and Solvency II reforms and transfer.

The PRA and the FCA have a duty to ensure a co-ordinated exercise of functions and to maintain an MoU describing how they intend to comply with that duty (under section 3D and section 3E of FSMA, respectively), which was updated during 2024/25 as noted above.

The PRA has powers to require the FCA to refrain from taking certain actions specified under section 3I of FSMA, or regulatory actions specified under section 3J in relation to with-profits policies. The PRA did not exercise either of these powers during 2024/25.

Section 354B of FSMA outlines the PRA's duty to co-operate with other persons (whether in the UK or elsewhere) who have functions similar to those of the PRA or have functions relevant to financial stability. Details of how the PRA has complied with this duty are provided throughout this Report, especially under the 'International engagement and supervisory co-operation' section.

Regulators' code and principles

In accordance with sections 21 and 22 of the Legislative and Regulatory Reform Act 2006 and the Legislative and Regulatory Reform (Regulatory Functions) Order 2007, the PRA, when exercising its functions, is required to have regard to the following Regulators' code and principles.

115. www.bankofengland.co.uk/prudential-regulation/pra-practitioner-panel.

Regulators' principles

- Regulatory activities should be carried out in a way that is transparent, accountable, proportionate, and consistent.
- Regulatory activities should be targeted only at cases in which action is needed.

Regulator's code

Regulators code should:

- carry out their activities in a way that supports those they regulate to comply and grow;
- provide simple and straightforward ways to engage with those they regulate and hear their views;
- base their regulatory activities on risk;
- share information about compliance and risk;
- ensure clear information, guidance and advice is available to help those they regulate meet their responsibilities to comply; and
- ensure that their approach to their regulatory activities is transparent.

Transparency by regulators includes publishing, on a regular basis, details of their performance against their service standards, including feedback received from those they regulate and data relating to complaints about them. Details of firm feedback are set out in this Report, while details of complaints are set out below, and the latest PRA's statutory Authorisations Performance Report is published on the Authorisations page.[116]

Complaints Scheme

As part of the statutory Complaints Scheme (the Scheme) (established pursuant to Part 6 of the Financial Services Act 2012), the PRA is responsible for ensuring that, so far as reasonably practicable, complaints received are investigated quickly. During the reporting period, the PRA received three complaints, all of which were excluded from the Scheme as the subject matter was not within scope of the Scheme. These three excluded complaints were referred to the Financial Regulators Complaints Commissioner who agreed with the PRA's assessment that the complaints were not in scope of the Scheme.

116. www.bankofengland.co.uk/prudential-regulation/authorisations.

The Commissioner also completed reviews into four complaints from the previous reporting period. The Commissioner chose not to issue decisions relating to the PRA regarding two of the four complaints. The Commissioner either did not investigate or did not uphold the remaining two complaints, details of which are available on the Commissioner's website.[117]

Section 166 reports by skilled persons

Section 166 (s166) of FSMA gives the PRA powers to obtain an independent expert review of aspects of a regulated firm's activities. Such reviews can be undertaken where the PRA seeks additional information, further analysis, expert advice and recommendations, or assurance around a particular subject.

In 2024/25, the PRA commissioned 28 reviews by skilled persons (2023/24: 21), including 5 (2023/24: 2) where the PRA contracted directly with the skilled person. The reviews fell within the areas shown in Table B.

Table B: Section 166 reviews by areas of focus

Lot[(a)]	Total for 2024/25	Total for 2023/24
Lot B: Governance and individual accountability	5	4
Lot C: Controls and risk management frameworks	14	13
Lot F: Prudential – deposit-takers, recognised clearing houses and PRA-designated investment firms	4	2
Lot G: Prudential – insurance	5	2
Total	**28**	**21**

(a) A detailed description of the services provided under each lot can be found on the PRA's website **www.bankofengland.co.uk/prudential-regulation/supervision**.

117. **frccommissioner.org.uk/**.

The total estimated cost of s166 reviews commissioned in 2024/25 was £19.3 million (2023/24: £28.7 million).[118] Of this total, the estimated cost of the reviews contracted directly with the skilled persons was £1.4 million (2023/24: £0.5 million).[119]

Meeting with auditors

Under section 339A(2) of FSMA, the PRA is required to issue and maintain a code of practice that includes arrangements on the:

- sharing of information (that the PRA is not prevented from disclosing) with auditors of PRA-authorised persons; and

- exchange of opinions with auditors of PRA-authorised persons.

The PRA published S7/13[120] – The relationship between the auditor and the supervisor: a code of practice (the Code) in April 2013.[121] The PRA must plan for meetings to take place at least once a year with the external auditor of any PRA-authorised person to which section 339C of FSMA applies. 37 firms (2023/24: 37) fell within the scope during the reporting period, and at least one meeting with the auditor of each such firm was held during the reporting period.

The PRA looks to auditors to contribute to effective supervision by engaging with the PRA in a proactive and constructive way. The Code includes guidance on the possible scope of these meetings, which typically include issues of common interest arising from both parties' respective work. The PRC is updated annually on the quality of the relationship between auditors and supervisors, supported by a survey of supervisors. In the latest survey, a significant majority were satisfied with their auditor-supervisor relationship.

Structural reform: ring-fencing

Ring-fencing has been in effect since 1 January 2019 and applies to UK banking groups with core deposits above the statutory threshold. These banking groups are required to ensure the provision of core services (broadly, facilities for accepting core retail deposits, and

118. The costs disclosed include actual costs incurred by the firms, or an estimate where the review is ongoing, and the actual costs are not yet available. For reviews commissioned in 2024/25, 15 reviews have been completed and 13 reviews remain ongoing. The comparative figures have also been revised to reflect the actual costs incurred for reviews commissioned in 2023/24 and completed in 2024/25. One review commissioned in 2023/24 is ongoing, and the reported costs for this review remain an estimate.
119. Costs of directly contracted s166 reviews are ultimately recovered from the relevant regulated firm, inclusive of VAT.
120. www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2022/september/ss713-september-2022.pdf.
121. www.bankofengland.co.uk/prudential-regulation/publication/2013/the-relationship-between-the-external-auditor-and-the-supervisor-a-code-of-practice-ss.

payments and overdrafts relating to core retail deposit accounts) is separate from certain other activities within their groups, such as investment banking.[122]

For all of 2024, the following UK banking groups were in scope of ring-fencing, and contained at least one ring-fenced body (RFB): Barclays, HSBC, Lloyds Banking Group, NatWest Group, Santander UK, TSB, and Virgin Money. Following legislative changes in February 2025, TSB and Virgin Money have exited the ring-fencing regime – see further below. Key information and materials relating to ring-fencing, including the list of RFBs, is available on the PRA's ring-fencing webpage.[123]

The PRA's activity relating to ring-fencing advances its general objective of promoting the safety and soundness of the firms it regulates through seeking to: (i) ensure that the business of PRA-authorised firms is carried on in a way that avoids any adverse effects on the stability of the UK financial system; and (ii) minimise the adverse effect that the failure of a PRA-authorised firm could be expected to have on the stability of the UK financial system. The PRA is required to discharge its functions in a way that seeks (among other things) to:

- ensure that the business of RFBs is carried on in a way that avoids any harmful effect on the continuity of the provision of core services in the UK;
- ensure that the business of RFBs is protected from risks (arising in the UK or elsewhere) that could negatively impact the continuity of the provision of core services in the UK; and
- minimise the risk that the failure of an RFB, or of a member of an RFB's group, could affect the continuity of the provision of core services in the UK.

FSMA requires the PRA to report in its Annual Report, in general terms, on certain aspects of ring-fencing, including: the extent to which, in the PRA's view, RFBs have complied with ring-fencing provisions; the steps taken by RFBs to comply with ring-fencing provisions; the steps the PRA has taken to enforce ring-fencing provisions; the extent to which RFBs are carrying on activities that would be excluded or prohibited but for an exception or exemption in the legislation; and the extent to which RFBs appear to have acted in accordance with the PRA's guidance relating to ring-fencing provisions. The following text addresses those statutory duties.

122. More detail on the definition of core activities and ring-fenced bodies (RFBs) and the activities that RFBs can and cannot do can be found in FSMA, the Financial Services and Markets Act 2000 (Ring-fenced Bodies and Core Activities) Order 2014 and the Financial Services and Markets Act 2000 (Excluded Activities and Prohibitions) Order 2014.
123. **www.bankofengland.co.uk/prudential-regulation/key-initiatives/ring-fencing**.

Throughout the 2024/25 reporting period, the PRA has continued to focus on ensuring the ring-fencing arrangements established by firms are effective, and that they continue to comply with ring-fencing provisions. The regime has now been in place for six years, so, in general, firms' arrangements have proved more mature and embedded, with fewer breaches. The PRA has been notified of a limited number of instances of non compliance. These were mostly of low materiality, and in all such cases, the firms took steps to resolve breaches in a timely manner, or took other action, including putting remediation plans in place. The PRA has not taken any enforcement action in respect of the ring fencing provisions in the past year (more information on the use of the PRA's statutory powers is available on the Bank of England's approach to enforcement webpage).[124]

The legislation specifies the activities that must be conducted by RFBs, as well as the activities RFBs are prohibited from undertaking. Any activities falling outside those two categories – for example taking deposits from large corporates, or mortgage and credit card lending – can be carried out from either side of the ring-fence ('permitted business'). In advance of the legislation coming into force, banking groups within the scope of the regime chose to structure their groups in different ways, reflecting their operations and preferred business strategies. As a result, some groups placed almost all permitted business within the ring-fence, while others chose to locate significant proportions of their permitted business outside the ring-fence. Over the last year, the structure of most firms' RFB subgroups remained largely the same. Firms have generally complied with the PRA's group structure policy set out in SS8/16 – Ring-fenced bodies (RFBs).[125]

In addition to the PRA's forward-looking, judgement-based approach to supervision of RFBs, the focus for the 2024/25 reporting period has been on working closely with HMT on the implementation of the recommendations of the Independent Panel on Ring-fencing and Proprietary Trading[126] – most of the recommendations were addressed in a statutory instrument.[127] [128]

Recent reforms to the ring-fencing regime

Throughout 2024 the PRA worked with other areas of the Bank of England to support HMT's finalisation of the statutory instrument [129] to implement its 'Smarter Ring-fencing Regime'.

124. www.bankofengland.co.uk/prudential-regulation/the-bank-of-england-enforcement.
125. www.bankofengland.co.uk/prudential-regulation/publication/2016/ring-fenced-bodies-ss.
126. www.gov.uk/government/publications/independent-panel-on-ring-fencing-and-proprietary-trading-final-report.
127. www.legislation.gov.uk/uksi/2025/30/made.
128. The Financial Services and Markets Act 2000 (Ring-fenced Bodies, Core Activities, Excluded Activities and Prohibitions) (Amendment) Order 2025.
129. www.legislation.gov.uk/uksi/2025/30/made.

That statutory instrument was laid in Parliament in November 2024, made in January 2025, and came into force on 4 February 2025.

The statutory instrument contained reforms in order to resolve unintended consequences of the original legislation, provide increased flexibility to banks within scope of the regime, exempt certain banks from the regime, and ensure it remains proportionate. In addition to changes which permit RFBs to undertake some business which was previously prohibited, such as incurring an exposure of up to £100,000 to a single relevant financial institution, the amendments to the legislation also contained some significant reforms which will have a structural impact on firms:

- **Increase in core deposit threshold:** the ring-fencing core deposit threshold has increased from £25 billion to £35 billion of 'core deposits'.

- **Introduction of trading assets condition:** subject to certain exceptions, exempting retail-focused UK banks with trading assets of less than 10% of Tier 1 capital even if their core deposits exceed £135 billion. Additional considerations apply where firms are part of a group.

- **Removal of geographic restrictions:** RFBs are now permitted to establish operations outside of the UK or European Economic Area (EEA).

- **Introduction of merger and acquisition transitional provisions:** a new four-year transition period for banks before which they become subject to the ring-fencing regime after being acquired by an RFB.

The immediate impact of these reforms has been that firms nearing the core deposit threshold have gained additional headroom to grow their retail deposit bases further before they are within the scope of the regime.

Use of exceptions

The activities of RFBs are restricted by the statutory regime and PRA rules made pursuant to it. For example, the legislation and statutory instruments prohibit RFBs from carrying on 'excluded activities' and contains certain 'prohibitions', including:

- dealing in investments or commodities as principal;

- incurring exposures to relevant financial institutions (RFIs); and

- accessing payment systems indirectly.

These are subject to a number of exceptions and exemptions to allow RFBs to undertake day-to-day activities typical to a retail commercial bank, such as ‘dealing in investments as principal’ for risk management purposes, managing collateral, selling simple derivatives to account holders (subject to conditions), transacting with central banks, and managing pension liabilities.

PRA rules require RFBs to have ‘exceptions policies’ in place that specify in detail the circumstances in which it will make use of the permitted exceptions. The PRA assesses RFBs’ use of exceptions and exemptions through ongoing supervisory engagement, regulatory reports, and by undertaking thematic reviews of RFBs’ exceptions policies. This inform the PRA as to the extent to which RFBs are undertaking activities that would have been excluded or prohibited, but for an exception or exemption in the legislation.

Overall, information reviewed by the PRA in the year to 28 February 2025 suggests that firms’ use of exceptions is consistent with the objectives of the ring-fencing regime, and has not led to positions being taken in excess of the limits envisaged by the legislation.

For example, the legislation includes exceptions to permit RFBs to deal in investments and commodities as principal or to incur exposures to RFIs where the sole or main purpose of the associated transaction is to hedge risks. In the year to 28 February 2025, all RFBs reported using these exceptions – much of the activity reported concerned the use of exceptions related to hedging changes in interest rates. The remainder of the hedging exceptions were mainly used to hedge changes in exchange rates. The relatively higher use of the exception for interest rate hedging is in line with the PRA’s expectations, as this type of hedging is a prominent risk management activity for many retail banks. Exposures to RFIs related to hedging were relatively small compared to firms’ capital bases.

Submissions to the PRA indicated that the exceptions not related to hedging, such as for customer derivatives, own securitisations and covered bonds, trade finance, conduit lending, infrastructure finance, and ancillary exposures, were used by most RFBs to varying degrees. The use of these exceptions was within any applicable limits and consistent with the RFBs’ business models.

The exceptions and exemptions related to other prohibitions were mainly used to a small extent. RFBs were also generally direct participants in the main UK payment systems that they used, and where those payment systems were accessed indirectly, this was through another RFB in the same group.

Report on the use of powers 'of a legislative nature' that have been transferred to the PRA under EU (Withdrawal) Act 2018

Exercise by the Prudential Regulation Authority (PRA) of sub-delegated powers under the European Union (Withdrawal) Act 2018 (EUWA) – report for the financial year ending 28 February 2025. Presented to Parliament pursuant to paragraph 32(2)(a) of schedule 7 to the EUWA.

Ongoing transferred powers

There are a number of powers transferred under EUWA that are required to be reported if exercised.

Technical standards: the PRA has exercised its power to make Technical Standards Instruments under s138P Financial Services and Markets Act 2000. One standards instrument has been made during the reporting period:

- PRA Standards Instrument: (Bilateral Margining) (Amendment) Instrument 2024 (made 15 October 2024).[130]

With respect to Solvency II, the PRA has exercised its power to publish technical information relating to risk-free interest rate term structures; and the symmetric adjustment of the equity capital charge (SAECC), which are updated monthly. Further details on the PRA's approach to publishing technical information for Solvency II firms can be found on the Solvency II technical information page.[131]

During the reporting period the previous legislation under which Solvency II technical information was published was revoked [132] and replaced with new legislation made under the Financial Services and Markets Act 2023.[133] Publication under that new legislation during the reporting period and in future reporting periods is not required to be reported under paragraph 32 of Schedule 7 to the European Union (Withdrawal) Act 2018.

130. www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2024/october/ps1724app4.pdf.
131. www.bankofengland.co.uk/prudential-regulation/key-initiatives/solvency-ii/technical-information.
132. Regulation 4B of the Solvency 2 Regulations 2015/575 and Article 3(5) of Commission Delegated Regulation 2015/35.
133. Regulation 3 of the Insurance and Reinsurance Undertakings (Prudential Requirements) Regulation 2023.

During the reporting period, the PRA did not use its powers to require and set fees conferred by:

- Regulation 209 of The Financial Services and Markets Act 2000 (Amendment) (EU Exit) Regulations 2019; and
- Regulation 63 EEA Passport Rights (Amendment, etc, and Transitional Provisions) (EU Exit) Regulations 2018.

For further information on fees: PS11/24 – Regulated fees and levies: Rates proposals 2024/25.[134]

134. **www.bankofengland.co.uk/prudential-regulation/publication/2024/july/regulated-fees-and-levies-rates-proposals-2024-25-policy-statement**.

Financial review of 2024/25

The PRA incurred operating costs in 2024/25 of £344 million (2023/24: £315 million) against a budget of £353 million (2023/24: £319 million). In 2024/25, the PRA final budget outturn was £6 million below budget due to lower than budgeted PRA direct costs and allocated support costs, predominately for central services provided to the PRA by the Bank. This is explained further within the 2024/25 fee rates consultation.[135]

Under section 7(2A) of the Bank of England Act 1998, as amended by the Bank of England and Financial Services Act 2016, the Bank is required to present financial and other disclosures in respect of its activities as the PRA. These are available in the PRA statement of balances for the period ended 28 February 2025 in the Bank's Annual Report and Accounts 2024/25.

135. www.bankofengland.co.uk/prudential-regulation/publication/2024/april/regulated-fees-and-levies-rates-proposals-2024-25-consultation-paper.

Abbreviations

AI – artificial Intelligence.
Bank – Bank of England.
BCBS – Basel Committee on Banking Supervision.
CEO – chief executive officer.
CFRF – Climate Financial Risk Forum.
Court – Bank's Court of Directors.
CP – consultation paper.
CRR – Capital Requirements Regulation.
CTP – critical third party.
DP – discussion paper.
EBA – European Banking Authority.
EEA – European Economic Area.
EU – European Union.
FCA – Financial Conduct Authority.
FinTech – Financial Technology.
FMI – financial market infrastructures.
FPC – Financial Policy Committee.
FSB – Financial Stability Board.
FSMA – Financial Services and Markets Act 2000 (as amended).
HMT – His Majesty's Treasury.
IAIS – International Association of Insurance Supervisors.
ICS – Insurance Capital Standard.
IEO – Independent Evaluation Office.
IRB – internal ratings-based.
MA – Matching Adjustment.
MoU – Memorandum of Understanding.
MPC – Monetary Policy Committee.
MRM – model risk management.
PRA – Prudential Regulation Authority.
PRC – Prudential Regulation Committee.
PS – policy statement.
RegTech – regulatory technology.
RFB – ring-fenced bank.
RFI – relevant financial institutions.
SAECC – Symmetric adjustment of the equity capital charge.
SCO – Secondary Competition Objective.

SCGO – Secondary Competitiveness and Growth Objective.
SMF – Senior Management Function.
SM&CR – Senior Managers & Certification Regime.
SS – supervisory statement.
SoP – statement of policy.
TSC – Treasury Select Committee.

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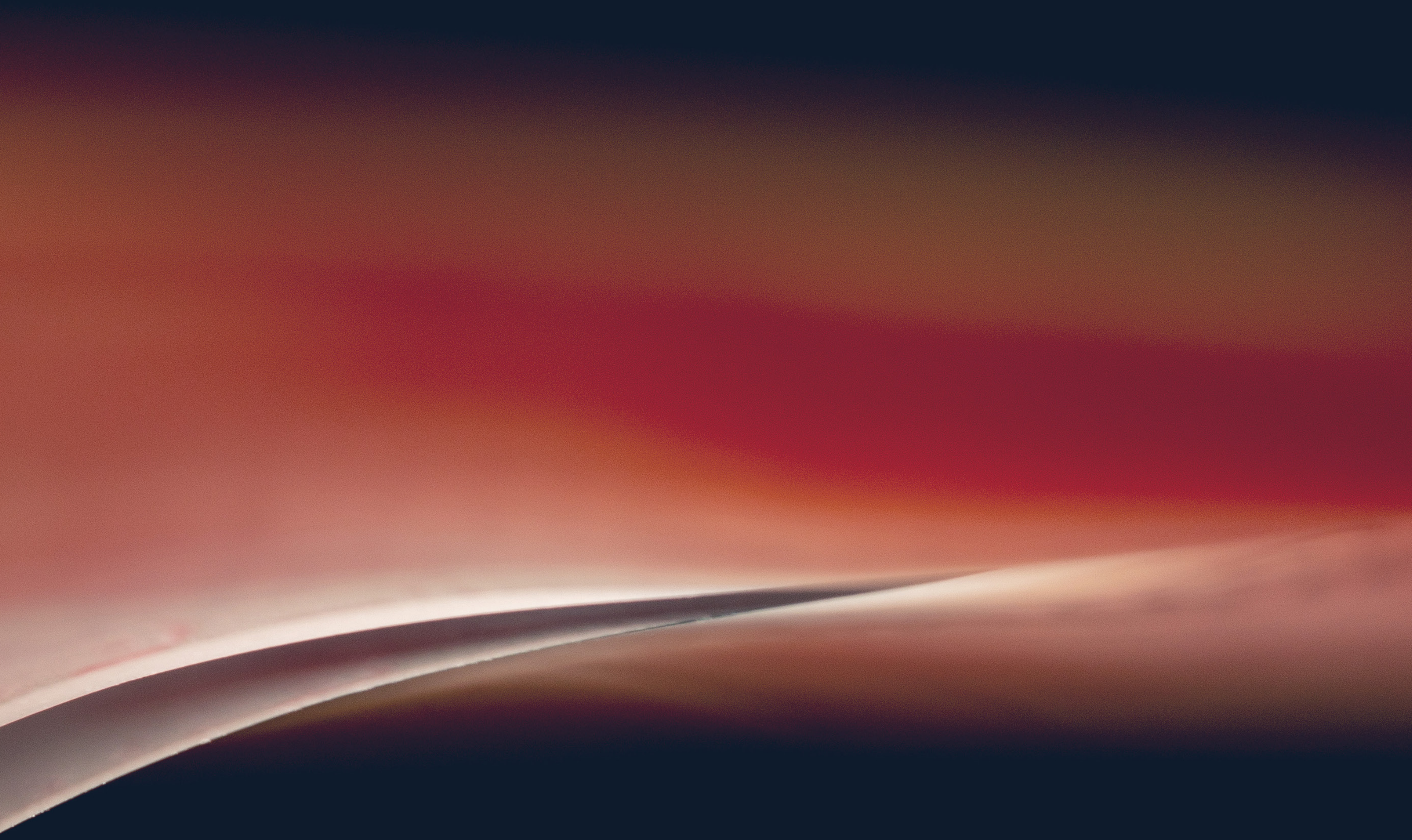

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Our mission is to promote the good of the people of the United Kingdom by maintaining monetary and financial stability

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